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Creativity and Business Innovations

Guidance on Teaching Creativity and Business Innovations, Description of Study Programme & Case Studies.

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Vilniaus kolegija/ UAS

CREATIVITY AND BUSINESS INNOVATIONS: Guidance on Teaching Creativity and Business Innovations. Case Studies.

Faculty of Business Management, 2014

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Vilniaus kolegija/University of Applied Sciences has launched a unique joint study programme (JSP) *Creativity and Business Innovations* of national and international significance. Methodological framework of the programme is considered the "Creative Platform" methodology and the Pulse philosophy.

The study programme is a unique example of international cooperation, which in the future, while implementing the Integrated Development Strategy at Vilniaus kolegija/University of Applied Sciences by 2020 and the valorisation plan of the project "Preparation and Implementation of the Joint Study Programme of the Creative Company to Increase the Study System Internationalization at Vilniaus kolegija/University of Applied Sciences" No. VP1-2.2-ŠMM-07-K-02-078 supported by the European Social Fund and the Government of the Republic of Lithuania, should be transferred to other faculties of Vilniaus kolegija/University of Applied Sciences, other classical universities and universities of applied sciences.

Guidance on Teaching Creativity and Business Innovations starts with describtions of the contents of several modules, moves to the examples of how to evaluate creativity in projects, presentations and assignments in higher education and then to the case studies which are an increasingly popular form of teaching and have an important role in developing skills and knowledge in students. The guide includes a number of case studies as well as many assignments based on Creative Platform methodology.

CONTENTS

1 INTRODUCTION TO THE TOPIC

Vilniaus Kolegija / University of Applied Sciences is going to launch a unique joint study programme *Creativity and Business Innovations* of national and international significance. Methodological framework of the programme is based on the "Creative Platform" methodology and the Pulse philosophy.

Guidance on Teaching Creativity and Business Innovations is a unique tool for joint study programme teaching at Vilniaus Kolegija /University of Applied Sciences as well as at Porto Polytechnic Institute and Estonian Entrepreneurship University. It starts with guidelines on teaching of the most innovative modules of the joint study programme: Personal Insight and Development, Creativity as Scientific Field of Study, Enhancing Creativity, Individual Creativity and Organizational Creativity as well as the profound explanation how students' creativity could be measured and evaluated in projects, presentations and assignments across all modules of the joint programme. Next the Guidance includes a number of case studies adapted for Creativity and Business Innovations joint study programme and many assignments based on Creative Platform and Pulse and aimed to the teaching at the modules of the critical importance: Management, Sustainable Development, Enterprise Financial Management, Finance, Entrepreneurial Behavior and Characteristics, Fundamentals of Business, Economics, Communication, Individual Creativity and Sales and Market Mechanisms but also transferrable to other modules. The unique integration of case method with Creative Platform and Pulse is not only a must for the successful implementation of the joint study programme Creativity and Business Innovations. The Guidance has a strong potential for adapted transfer to other English taught study programmes and to other European Union programmes which co finance development and/or adaptation of methodologies for business and/or creativity teaching in all sectors of education because both creativity development and cases methods are an increasingly popular form of teaching and have an important role in developing skills and knowledge in students. This compendium also ensures the long term sustainability of the joint study programme Creativity and Business Innovations because new teachers could rely both on the guidelines and adapted cases with practical tasks developed by more experienced colleagues. It should be also emphasized that the Guidance is going to be the integral part of the joint study programme Creativity and Business Innovations teaching and open to continuous improvement as well as the overall study programme. The feedback of the joint study programme students, social partners and experts of higher education quality assurance and accreditation agencies of Lithuania, Portugal and Estonia will be in particular important for the regular review of the joint study programme and the Guidance.

The Guidance as well as the joint study programme Creativity and Business Innovations has been developed in the framework of the project "Kūrybiškos įmonės jungtinės studijų programos parengimas ir įgyvendinimas Vilniaus kolegijos studijų sistemos tarptautiškumui padidinti" No. VP1-2.2-ŠMM-07-K-02-078. The project is cofinanced by European social fund and the Republic of Lithuania from state budget funds according to Operational Programme for the Development of Human Resources for 2007–2013.

2 PERSONAL INSIGHT AND DEVELOPMENT

Teachers guide for self-development

The document start with a short describes the content of the module: personal insight & development. It is a 10 ECTS-points module containing two subjects: Personal Leadership (5 ECTS-points) and Self-development (5-ECTS). In this document the focus will be on Self-development that is a 5 ECTS-point subject in module.

The results of self-development consist of: a) understanding oneself in the context of the contemporary society, b) the student's personal goals, c) Self-reflection & deep inner peace, d) Govern oneself and e) Developing entrepreneurial personalities. It is quite obvious that since these results are produced though the same subject (Self-development) they are interconnected but some of them are also coupled. Since we are dealing with an education in creativity and business innovation we consider b) the students' personal goals and e) developing entrepreneurial personalities as coupled and therefore we will deal with both themes under the same headline. Since govern oneself require self-reflection we consider c) self-reflection and d) Govern oneself as interconnected and in the following text we will deal with both aspect under same headline.

a) Understanding oneself in the context of the contemporary society

Obviously understanding oneself in the context of the contemporary society could mean almost anything. Therefore it is probably important to stretch that we here in this part of the subject (Self-development) focus on the content we define as the essential perception of human body and mind in contemporary society. It is relevant to introduce themes such as: cognition, phenomenology of the body, perception theory, psychology, neology, creativity and neurolinguistics, religion etc. The theme we consider the most important theme is the one the American linguists George Lakoff (1987, 1999 & 2002) has entitled: the embodied mind which is the idea that the human body and mind both influence and shape each other. Thereby we mean that it is impossible to understand human thoughts independently from the human body. Human reasoning is basically a result of and shaped by the human body. A great part of the human reasoning is unconscious and therefore something we are not aware of. Human being categorizes in a certain way as a consequence of the human mind and body and as a result of the way human beings interact in the world. In other words we argue that the human body shapes human reasoning since reasoning requires concepts that activate the neural structures of the human brain. The brain contains 100 billion neurons and each neuron is connected to an average of thousands of other neurons. This actually means about 100 trillion connections. The neurons and their connections (axons, dendrites and synapsis) are biological structure based on chemistry. The structure or architecture of the brain determines the concepts one can have and thereby what kind of reasoning one can create. Concepts are

neural structures that allow humans to mentally characterize its categories and to reason with them. But reason also influences the structures of the brain – by this Lakoff (2012) states that when a frame is used e.g. a discussion of a specific issues it will activate and strengthen the circuitry for that frame in ones brain.

There are several different reasons for teaching students the essential perception of the human body and mind. Most important is probably that understanding the embodied mind is an assumption for understanding creativity. Beside from this we want to challenge the students understanding of themselves and their own capacity. Getting ones understanding of oneself and ones own capacity challenged makes it possible of one to evaluate and decide for changes if necessary. We also want to develop the student's empathy since empathy is a way to achieve engagement, teamwork and co-operation. Empathy in this field means being able to use ones newfound self-awareness to understanding e.g. staff members, colleagues, co-operators, business angles etc. Understanding others makes it possible to know how get along, how to achieve support and how to create results through others. Actually to create results through others means to be able to take leadership in organizations. Another important reason for introducing the students to the essential perception of the human body and mind is to provide the students a basic understanding of epistemology. The introduction to epistemology enable the students to understand their own and others opportunities and limitations as knowledge producers and knowledge resources. This is both important for students while they are enrolled at our universities of applied science and for them as future professionals in the field of creativity and business innovation.

Since the perception of the human body and mind in contemporary society is a mixture of approaches created in past, present and future it is important not to limit the introduction to what we would imagine being modern in our time. Instead we also need to offer the students an introduction to approaches of produced in the past and (if possible) the silhouette of approaches to come in the future. Studying the perception of the human body and mind in the right historical context provide the students an understanding of what it basically means to be human being. Providing the students such an understanding basically means to provide the students an understanding of the options and limitations in different approaches towards the human body and mind. This understanding is important since we want our students to be able to handle own and others self-development. In other words we basically think that students being taught about the perception of the human body and mind will be able to challenge both their own and others understanding of their own opportunities and limitations.

It is important to notice that the essential perception of the human body and mind consist of 10 (contact hours) lessons and 5 hours of self-study. Basically this means that we are only dealing with a total of two days teaching and self-study. This in mind we need to be effective while teaching the students. The content could include essential themes such as: introduction to cognition, phenomenology of the body, perception theory, psychology, neology, creativity and neurolinguistics, religion etc. The embodied mind consists of 10 lessons (contact hours) and 10 hours of self-study. Since some of our universities of applied science include departments of health it might be an idea to involve colleagues being experts in e.g. neology, perception theory etc. otherwise it is important to create a connection between the many

different themes the students are being introduced to. At the end of lectures the students write and are examined in a short essay they write about their new newfound self-awareness developed through their study of the perception of the human body and mind.

b) The student's personal goals & e) Developing entrepreneurial personalities

There is absolutely no purpose in doing what one use to do but there is neither any reason for changing or abandons successful practises. Since our universities have long records of teaching business we trust that experience can be of great relevance here. Good methods or ways of developing the student's personal goals and entrepreneurial personalities should probably be included it here. The following is a description on how we suggest supporting the students in their development of their personal goals and the student's entrepreneurial personalities.

The all-over purpose working with the student's personal goals is obviously to support their personal development and thereby help them developing an entrepreneurial personality. Students must understand that it may be necessary to break with the obvious and with the conventions (that 2 +2 is 4) in order to create "miracles" in the form of the unique business idea. Students acquire the ability to take a break from everyday life - in order to get physical and mental space in part to relate reflexively to themselves, i.e. reflect on themselves and their own self-understanding, and partly to make deep reflections on their surroundings and contemporary. This involves both the students' ability to explore the different, unknown and the students' ability to engage in dialogue with themselves - in order to get the inner peace and balance, which is the prerequisite to be able to make important decisions. Students must not only be able to make decisions, but also be able to be loyal to the decisions their make - even in situations where logical calculations cannot predict the "right" decision or predict the outcome of a given action. During beginning of the semester the students create a plan for their personal development and the development of entrepreneurial personalities. If in any way possible the plan should probably be review every semester after individual coaching conversations between the students and teachers. This must necessary include some sessions or workshops where the students get the opportunity to create dreams for their future but it must also include some teaching in how to create successful plans for reaching ones goals. Beside from that we need to encourage the students to believe in their dreams and to strive for them goals.

Creating dreams is in our understanding basically a question about the ability to write ones future life story – in other words storytelling is an important aspect of creating dreams for the future. Introducing the students to storytelling is not only a brilliant idea in connection to support them developing their personal goals it is also an important quality in the entrepreneurial personality. There are probably an infinite number of books about storytelling and life-stories but we expect Bruner (2002 and 1993) for a good introduction to this field. Nevertheless the important thing is to create a workshop where the students get inspiration to create the story of their future.

In order to help the students create a balanced future dream it might be a good idea to offer them different kind of psychological tests e.g. insights (insights.com). In case the university college already has an agreement with a private company about using a certain test there is probably no reason for exchanging that test with another. No matter what kind of test one uses it's important to notice that every test is limited e.g. by offering a picture of the present, as a consequence of its theoretical heritage (e.g. insights theoretical heritage is Jung) and as a consequence of a nomothetic approach. In other words test is mainly useful as a tool for conversation with the students and it shouldn't be used without considerable ethical considerations.

The students create a plan for their performance and development, which must be aproved by the director of the education. By the end of each semester the student will participate in personal coaching which might lead to the review and change in his/her plan for performance and development. On the basis of the experience the students gain from their own development they will during the final semesters be tought how to facilitate change and development for individuals and groups/organizations.

c) Self-reflection & deep inner peace + d) Govern oneself

The reason for placing self-reflection and deep inner peace as part of the same theme is that they are at the same times both contradicting and interconnected concepts. In everyday life most people probably experience self-reflection and deep inner peace as two opposite and very different states of moods. They are contradicting concepts since deep inner peace is a certain metal state obtained though different kinds of meditation and meditative exercises e.g. with purpose of obtaining a state of mindfulness in order to handle everyday stress and obtain energy during the day. Self-reflection is a process enabling the students to describe, analyse and thereby understand own inner processes and actions. The reason for including govern oneself here is that self-reflection and deep inner peace is worth very little if one is unable to lead or govern oneself in getting the most out of ones potential, resources and skills. In other words govern oneself is e.g. about self-control and self-adjustment. Introducing our students to the fields of and techniques from self-reflection, deep inner peace and govern oneself help our students to fully apply their potentials, resources and opportunities in the field of creativity and business innovation.

The mental state of deep inner peace is of vital importance for our future bachelors that will face very long hours and hard working days. They must have the ability to handle challenges in their work life balance. We suggest offering the students 27 lessons (contact hours) organized, as workshops on themes like: Tai Chi, yoga, mindfulness and meditation throughout the semester. The students have 21 hours of self-study in this field and according to curriculum we can offer 6 consultation hours as well. It is quite obvious that it might be quite challenging for the students to reach the level of experts just by participating in our workshops and therefore we should probably encourage the students to use part of their spare time as well. Organizing workshops where students are taught e.g. Tai Chi, yoga, mindfulness and meditation as methods to gain a deep inner peace cannot develop to an

attempt to promote a certain religious belief or understanding. Instead the purpose introducing techniques or methods originally being part of a religious universe is to provide the students tools to obtain mindfulness and deep inner peace in order to handle stress and obtain energy during hard days work. But the workshops also help the students gain an inner peace necessary for useful self-reflection. In other words we consider deep inner peace as necessary for creating room for self-reflection.

As stated elsewhere (Hertel & Fast, 2013) managing oneself can be understood as two different but closely interconnected phenomenon. What we (cf. Foucault, 1997, p. 223 ff.) denote self management and what we (cf. Kirkeby, Hede, Mejhede og Larsen, 2011) denote the traditional self-management. Self-management is here understood as a certain leadership developed as a consequence of increasing specialisation among knowledge workers. In case of knowledge workers self-management is a consequence of an increasing specialisation that means that the manager is no longer able to control, coordinate and evaluate the work of the knowledge workers. In this context the self management is of greater importance than management.

Self management brings students from novices (unconsciously incompetent) to experts (unconsciously competent) in self management and the facilitation of their own and others' thinking and development processes. Students are introduced to self management and hedging, through a combination of coaching, exercises/tests and workshops, their own zone of proximal development. According to curriculum we have 6 hours of coaching (consultation hours) and 25 contact hours for workshops with exercises and tests. Finally the students have 21 hours of self-study in this field. Self management is basically about the subject's use of the technologies of the self that shortly described is about the subject's self-monitoring, self-control and self-adjustment. Self management must (cf. Foucault, 1997) require the student's ability to observe own internal as well as external processes and actions. Like everyone else the students are bound to the concrete context he/she is in. This means that the student must reflect on what the situation/context means for the understanding/awareness he or she produce. This is a session where the student directs his/her awareness against him/her-self and though these processes create self-awareness. Self-awareness is a reflective process where the consciousness turns away from its immediate target field and turn attention to the consciousness itself. Though this process it becomes possible to distinguish between focus of awareness and the consciousness itself. Consciousness is here understood as a continuum of lived experiences which has no meaning by itself but gain meaning when the consciousness focus on itself and (cf. Schutz, 1973, 102) and thereby retrospective create meaning with e.g. actions.

This requires time and space in order to execute such observations but it also require the development of a certain kind of reflective discourse which we here will denote: the discourse of the self. It is a kind of self-reflective meditation or discourse that enables the students to describe, analyse and thereby understand own inner processes and actions. It is a kind of meditation which means that the students distancing him- or herself from him- or herself.

It is obviously not enough for the student to create insight in own internal and external processes and actions. The student must also be able to exercise elements from the field of govern oneself: self-discipline and self-control in order to make the necessary on-going adjustments. Self-discipline and self-control require that the student have insight in own potentials, skills and limitations etc. But it also requires a basic understanding of (cf. Mead, 2005) the mutual role and act expectations he/she and others addresses towards the role he/she take in the concrete context. Social control is (cf. Mead, 2002) here understood as an expression of self-control based on the generalized other (internalized mutual role- and act expectations) and thereby as the subjects ability to control own impulses, processes and actions. The student is obviously not determined by the mutual expectations towards role- and actions. He/she is able to create and reflect on new acts.

Exam

The subject (self-development) is examined though 4 different exams producing the final mark. Teaching in a) Understanding oneself in the context of the contemporary society is examined (X1) though a written paper which accounts for 20% of the final mark. Teaching in b) the student's personal goals & e) Developing entrepreneurial personalities is examined (X2) though the student's development plan and portfolio that accounts for 20% of the final mark. Teaching in c) Self-reflection & deep inner peace + d) Govern oneself is examined (X3) though a paper describing the students outcome of the workshop. This paper accounts for 10% of the final mark. The final exam (X4) is a written paper describing the student's outcome of the subject (self-development) and presentation of both the paper and one or two exercises after own choice in e.g. techniques from Tai Chi, yoga, mindfulness or meditation. This part of the exam accounts for 50% of the final mark.

Literature:

1. Bruner, J. (2002). Making stories. New York: Harvard University press.
2. Bruner, J. (1993). Acts of meaning. New York: Harward University press.
3. Feldman, J. A (2008). From molecule to metaphor. Massachusetts: MIT press.
4. Foucault, M. (1997). Ethics. Wiltshire: Penguin books.
5. Hertel, F. & Fast, M. (2013). Et signalement af ledelse. In Academic Quarter, Vol. 6, spring 2013.
6. Kirkeby, O. F., Hede, T. D., Mejhede, M. & Larsen, J. 2011. Protrepik. Gylling: Samfundslitteratur.
7. Lakoff, G. (1987). Women, fire and dangerous things. Chicago: Chicago University Press.
8. Lakoff, G. (1999). Philosophy in the flesh. New York: Basic Books.
9. Lakoff, G. (2002). Moral politics. Chicago: Chicago University Press.
10. Lakoff, G. & Wehling, E. (2012). The little blue book. New York: Free Press.
11. Mead, G. H. 2002. The philosophy of the present. New York: Prometheus Books.

12. Schutz, A. (1973). Some leading concepts of phenomenology. I"Collected papers" I: "The problem of social reality", Haag: Matinus Nijhoff.

13. Varela, F. J., Thompson, Rosch, E. (1993). Massachusetts: MIT press.

3 CREATIVITY AS A SCIENTIFIC FIELD OF STUDY

General introduction to the teachers guide

In this document you will find a teachers guide for the 5 ECTS module called "individual creativity". The teachers guide is not meant to be a strict model for teaching creativity courses on the bachelor program. It is rather developed as inspiration and a help for the teachers to design their own courses on creativity. Therefore you may use the guide in any way you want in order to design a good course.

The guide contains of a number of sessions. For each session I have suggested one or more of the following:

- Focus of teaching
- Outcome for students
- Classroom exercises
- Classroom caes
- Powerpoint slides
- Literature
- Written assignments
- Assignments with oral presentation
- Other

My suggestions are based on general and specific theory on creativity, my personal experiences in teaching creativity and inspiration from other courses on creativity. The intention is not that the entire course is prepared in this teachers guide. You will have to design those parts of the course that are not developed in this guide. In most cases this means that you have to prepare the theoretical presentations, but there might be others parts of the course you need to develop.

Please notice that you ONLY give the students information on literature for this module after each session. It is important that the students do not read prior to the each lecture. They should use the literature in as reflection on the lectures or as part of assignments when it says in the slides.

You are welcome to contact me on post@christianbyrge.com if you need help in your preparation.

Session 1. A conceptual defining of creativity in relation to the person, the product, the process and the press (environment). Contemporary and historical theories of creativity.

The conceptual defining of creativity session can be placed at any time during the semester. If it is placed in the beginning it will function as an introduction, and if it is placed in the end it will function as a summing up and perspective on what has happened.

The general introduction to creativity provides the students with a philosophical understanding of some important fundamental concepts about creativity. They have been working with each of these concepts in the other courses and now they will learn about what they are on a philosophical level and how they interrelate. This includes the following perspectives:

- person: what is a creative person and what is its role in the bigger picture of creativity
- product: what is a creative product (idea) and what is its role in the bigger picture of creativity
- process: what is a creative process and what is its role in the bigger picture of creativity
- press: what is a creative press (environment) and what is its role in the bigger picture of creativity

For an introduction to these concepts please see Rhodes (1961/1987).

This defining of creativity on a philosophical level will the students understands how all the different elements of creativity are not just individual tools, methods, process, theories and models - they all all interrelated and affect each other. In order to work effectively with creativity it is necessary to be able to work across all the concepts of creativity.

This session is a conceptual/philosophical input to the students to provide the overall picture of creativity. Firstly, you will present the four P's of creativity. Secondly you will instruct the students to write an independent assignment. The assignment should contain two parts: firstly the students should present how he/she prefer defining creativity in a number of self-chosen different contexts (kindergarten, product development, classroom, etc); secondly the student should discuss how creativity may be seen as a product of the everyday processes that humans take part in, the press (environment) humans lives in, the products (ideas) humans produce in the everyday as well as the person humans are today, yesterday, long ago and since birth. As such the students should write an assignment trying to explain all the factors involved in general human creativity.

There are no slides for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Kozbelt, A., Beghetto, R. A. & Runco, M. A. (2010). Theories of creativity. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

2. Runco, M. A. & Albert, R. S. (2010). Creativity Research: A historical view. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

3. Kim, K. H., Cramond, B. & VanTassel-Baska,J. (2010). The relationship between creativity and intelligence. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

4. Hansen, S. & Byrge, C. (2013/2014). Creativity as unlimited application of knowledge

5. Sternberg, R. J. & Kaufman, J. C (2010). Constraints on creativity: Obvious and not so obvious. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

Session 2. General research methods in creativity. Psychodynamic, psychometric, pragmatic, cognitive, social, personality and holistic perspectives.

This session starts after session 1 on "A conceptual defining of creativity in relation to the person, the product, the process and the press (environment). Contemporary and historical theories of creativity" and should be before session 3.

The session provides the students with understanding of the methods applied in the studies of creativity. Hereby the students will be able to understand the back group for some of the theories, models, methods, processes, and techniques presented in the creativity modules Also the students will learn how to make their own studies of creativity. This will help them in their future management of business by understanding whether and where creativity takes place in the organization, in teams, across teams and in networks outside of the organization. The session introduces the students to theory and practice of a number of research methods applied in creativity studies.

The session is a mix of theoretical input and exercises. Firstly, you give a short introduction to the most applied research methods such as psychodynamic, psychometric, pragmatic, cognitive, social, personality and holistic perspectives. Secondly, you divide the students into pairs. You give them the task to develop a deep understanding of one research methods per pair. You will make sure that they do not all pick the same research methods. Each pair prepare a presentation of their method. Thirdly, the students make their presentation in class. For each method presented the class and the teacher discusses the pros and cons of this particular method.

There are no slides for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Kaufman, J. C. & Sternberg, R. J. (2010), Assessment of creativity. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

Session 3. A practical introduction to the analysis of scientific work.

This session starts after session 2 on "General research methods in creativity."

The session provides the students with a hand-on practical introduction to analyzing scientific work. They will learn how to translate scientific written papers/chapters into practical application. Hereby they will be able to continue their development of knowledge and understanding about the subject of creativity after they have graduated from the bachelor program.

The session uses a "students as teachers" based teaching. Firstly, you give the students an assignment to identify a scientific paper or chapter about creativity. The focus of the paper/chapter should be of interest to the student and should give a new perspective on a theme that has already been covered in another creativity module - or it should bring a new theme into the modules on creativity. In this work you should assist the students on searching for paper/chapter. The student should read the paper and prepare a maximum 10 minutes presentation for the class. The presentation should present the key learnings from the paper/chapter as well as how they learnings affect the practice of creativity: either the creative process, creativity techniques, identifying and assessing creativity, organizing and facilitating creativity or another practical area of creativity

There are no slides for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Kaufman, J. C. & Sternberg, R. J. (2010), Assessment of creativity. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

Session 4. Roles of creativity for individuals, groups, organizations, regions, cities and society as a whole.

This session can be placed at any time during the semester.

The session provides the students with an hands-on understanding of how creativity plays a role in different societal setting like individuals, groups, organizations, regions, cities and societies as a while. The students will learn how creativity play a unique role at different societal level. This is important because the student as a candidate may end up working at any of these levels. Also it is important that the student develops a sense of how important creativity is in a number of settings.

The session is a mix of student assignment and theoretical input. Firstly, you give the students theoretical introduction to the roles of creativity in different societal settings. Secondly, you divide your students into pairs. Instruct each pair to identify the following:

- One random individual you find on the high street (one you don't know)

- One organizational department working with innovation

- One shop in a shopping street (grocery store, a travel agency, supermarket, clothes store, etc)

- One traditional production company (one that does not have a development department)

- One regional office (regional office with development, social security, farming, etc)

- One city municipality department (traffic, education, elderly care, etc)

Thirdly, now you instruct them to interview one or more from each organization as well as the individual on the high street. They should interview them on how they see the role of creativity in their life and work. The students should prepare a presentation for the class, including pictures, videos, etc to share the different perspectives on the role of creativity.

There are no slides for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Seana, M. (2010). The roles of creativity in society. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

Session 5. International perspective on the role and understanding of creativity.

This session should be placed after session 4 on "Roles of creativity for individuals, groups, organizations, regions, cities and society as a whole".

The session provides the students with an extended understanding of the role of creativity in an international perspective. This should include perspectives on differences between cultural understanding and national understandings (such as west, east, south, north, religion, culture, collaboration around the clock (day in Europe while night in China, etc), distance, etc.

The session is a mix of student assignment and theoretical input. Firstly, you give the students theoretical introduction to international perspectives on creativity. Secondly, you divide the students into pairs. Then you instruct them to write an assignment on how they would deal with creativity in a highly international, intercultural and interdisciplinary organization. They should imagine being managers/leaders of this organization. They should discuss a suitable organizational model, they should discuss suitable facilitation of teams, they should discuss suitable rewards and how to talk about creativity in this organization. They should try to discuss all the aspects relevant to creativity in relation to this highly international, intercultural and interdisciplinary organization.

There are no slides for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Lubart, T. (2010), Cross-cultural perspectives on creativity. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

4 ENHANCING CREATIVITY

General introduction to the teachers guide

In this document you will find a teachers guide for the 5 ECTS module called "individual creativity". The teachers guide is not meant to be a strict model for teaching creativity courses on the bachelor program. It is rather developed as inspiration and a help for the teachers to design their own courses on creativity. Therefore you may use the guide in any way you want in order to design a good course.

The guide contains of a number of sessions. For each session I have suggested one or more of the following:

- Focus of teaching
- Outcome for students
- Classroom exercises
- Classroom cases
- Powerpoint slides
- Literature
- Written assignments
- Assignments with oral presentation
- Other

My suggestions are based on general and specific theory on creativity, my personal experiences in teaching creativity and inspiration from other courses on creativity. The intention is not that the entire course is prepared in this teachers guide. You will have to design those parts of the course that are not developed in this guide. In most cases this means that you have to prepare the theoretical presentations, but there might be others parts of the course you need to develop.

Please notice that you ONLY give the students information on literature for this module after each session. It is important that the students do not read prior to the each lecture. They should use the literature in as reflection on the lectures or as part of assignments when it says in the slides.

You are welcome to contact me on post@christianbyrge.com if you need help in your preparation.

Session 1. Creativity enhancement. Various methods for the enhancement of creativity and their potential usage for groups and for individuals.

This session should be placed in the first two weeks of the semester. Preferable it should start on the first or the second day of studies. This session takes between 12 - 18.5 hours excluding

breaks and it should be performed in continuity either 6 hours a day for three days or 24 hours in a row (no other study activities in between).

The session is a camp experience based on The Creative Platform. It provides the students with an experience on a high number of creativity tools, techniques, methods as well as a creative process model. These are going to be used all the way through the bachelor program as part of assignment work, project work and others study activities. The camp experience also creates a class culture that is based on creative thinking and behavior. This will support any other study activity that requires creative thinking and behavior during the program.

The camp experience is an intensive creative process based on the theory and practice of The Creative Platform. The first parts are focused on idea generation. The latter parts are focused on idea development and presentation of ideas. At the end of the camp experience the students are guided through an individual reflection report produced using creative writing (power-writing). The students will finish this report at home and hand it in 1 week after the camp experience. The camp starts and ends with short speeches on the role of the camp experience, creativity tools, and creativity theory and creativity fitness for the development of creative skills.

The slides for this session is found in the file: "Camp Experience.ppt". The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Hansen, S. & Byrge, C. (2013/2014). Creativity as unlimited application of knowledge (this will be available in English through Christian Byrge)

Session 2. Creativity training. Historical importance in the field of creativity.

The creativity training session starts about one week after the camp experience. This session takes 10-15 hours excluding breaks.

The session consists of two main elements: creativity fitness and an introduction to theory on creativity training. The creativity fitness provides the students with an embodied training that make the students *become* more creative. The camp experience was the initiation of an embodied training program and the creativity fitness is the continuation of this. The notion is that the embodied training is the foundation for a real improvement in the level of creativity of the students work in studies, in private and in work. The creativity fitness also helps sustain the creative culture in the class. Your students will be more open minded, more energetic and generally more creative in other classes as well. Each creativity fitness part takes 30 minutes and it should be performed on separate days (preferable 30-60 minutes per week). It should preferable be placed in the morning before other classes (e.g. from 09.00 - 9.30). The other element is the introduction to theory on creativity training. The students are

introduced to the notion of creativity training with a particular focus on the embodied creativity training. This will help the students to design and perform their own creativity training in their future studies, life and work. As such they will be able to design and perform their own life-long training in order to sustain and develop their creative abilities. This session also makes them reflect on the creativity training they have received: both the embodied and the reflective training. The creativity training session should be placed after the creativity fitness session. Preferable it should start in the week following the last part of the creativity fitness.

The creativity fitness consists of a number of embodied training exercises based on the theory and practice of the Training Program for New Thinking, the 3D didactic and The Creative Platform. The exercises are focused on training in originality, flexibility, fluency, elaboration, task focus, no-experienced judgement, parallel thinking and horizontal thinking. The creativity fitness program is instructed by the teacher and performed in class. The creativity training is a mixed theory and practice oriented workshop based on the theory and practice of the Training Program for New Thinking as well as other theories on creativity training. In the first part of the session you will present the students to theory of creativity training. In the latter part you facilitate the students while they are developing their own private individually/group creativity training exercises. The students will prepare and present their exercises and why they believe exactly their exercises makes sense for them in their development of creative skills.

The slides for this session is found in the file: "Creativity Training.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Birdi, K., Leach, D. & Magadley, W. (2012). Evaluating the impact of TRIZ creativity training: an organizational field study, R&D Management, 42, 4, 315-326.

2. Cunningham, J. B. & MacGregor, J. N. (2008). Training insightful problem solving: Effects of realistic and puzzle-like contexts, Creativity Research Journal, 20, 3, 291-296.

3. Epstein, R. (2011). Exercises. In Mark A. Runco & Steven R. Pritzker, Encyclopedia of Creativity (Second edition), Elsevier, 480-487.

4. Eubanks, D. L., Murphy, S. T. & Mumford, M. D. (2010). Intuition as an influence on creative problem-solving: The effects of intuition, positive affect, and training, Creativity Research Journal, 22, 2, 170-184.

5. Hennessey, B. A., Amabile, T. M. & Martinage, M. (1989). Immunizing children against the negative effects of reward, Comtemporary Educational Psychology, 14, 212-227.

6. Kabanoff, B. & Bottger, P. (1991). Effectiveness of creativity training and its relation to selected personality factors, 12, 235-248.

7. Karakelle, S. (2009). Enhancing fluent and flexible thinking through the creative drama process, Thinking Skills and Creativity, 4, 124-129.

8. Karwowski, M. & Soszynski, M. (2008). How to develop creative imagination? Assumptions, aims and effectiveness of role playing training in creativity (RPTC), Thinking Skills and Creativity, 3, 163-171.

9. Lalemi, A. N. B. (1991). The role of imagery training on Tohono O'odham children's creativity scores, Journal of American Indian Education, 30, 3.

10. Miller, B. J., Gibson, D. R. & Hall, Al. E. (1970). Effects of free association training, retraining, and information on creativity, Journal of Experiemental Psychology, 84, 2, 226-229.

11. Robbins, T. L. & Kegley, K. (2010). Playing with thinkertoys to build creative abilities through online instruction, Thinking Skills and Creativity, 5, 40-48.

12. Scott, G., Leritz, L. E. & Mumford, M. D. (2004). The effectiveness of creativity training: A quantitative review, Creativity Research Journal, 16, 4, 361-388.

13. Speedie, S. M., Treffinger, D. J. & Feldhusen, J. F. (1971). Evaluation of components of the purdue creativity thinking program: A longitudinal study, Psychological Reports, 29, 395-398.

14. Zachopoulou, E., Trevlas, E. & Konstadinidou, E. (2006). The design and implementation of a physical education program to promote children's creativity in the early years, International Jounal of Early Years Education, 14, 3, 279-294.

15. Hansen, S. & Byrge, C. (2013/2014). Creativity as unlimited application of knowledge (this will be available in english through Christian Byrge)

16. How to develop creative imagination? Assumptions, aims and effectiveness of role playing training in creativity (RPTC)

Session 3. Creative process. Phases of creative processes including the abilities for participating in a creative process and the abilities for planning and facilitating a creative process

The creativity process session starts after the camp experience. There should be at least one week between the camp experience and this session, but it could be more. This session takes 2-5 hours excluding breaks and it should be performed in continuity (no other study activities in between).

The session provides the students with theory and model of The Creative Platform and other models. From this the students develop their own process model for creativity to use in their studies, their life and their work.

The creative process is a theoretical input to the students that relates to their practical experiences on the camp experience. You will present the 6-phase model for the creative platform. You will go into detail about each phase: preparation, red carpet, presenting the problem, idea generation and development, professional input and blue carpet. You will show how each phase is important for new thinking. As part of the session the students will develop their own creative process model.

The students will make an individual assignments about their creative process model. The students will prepare a short presentation on their ideas for a private process model and present it one week prior to the date for handing in the assignment. They will receive feedback in on the presentation and will use this in their final assignment.

The slides for this session are found in the file: "Creative Process.ppt". The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I have made a video, where you can see me presenting the creative platform model (very short). You can use this as inspiration for your presentation. You can find the video on this link:

> http://people.plan.aau.dk/~sh/DKP/3DcaseVIDEOER/3D%20engelsk/6%20phase%20 process.wmv

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Hansen, S. & Byrge, C. (2013/2014). Creativity as unlimited application of knowledge (this will be available in english through Christian Byrge)

2. Osborn, A. F. (1963). Applied imagination: Principles and procedures of creative problem solving (third edition). New York. Charles Schribner's Sons, chapter seven.

Session 4. Creativity techniques. Potential usage of techniques in different situations and on different problems.

The creativity techniques session starts after the camp experience. There should be at least one week between the camp experience and this session, but it could be more. This session takes 25 hours excluding breaks and it should be performed in continuity (no other study activities in between).

The session provides the students with theory and practice of a number of creativity techniques. This becomes inspiration for a toolbox for the students to use in their studies, their life and their work.

The session is a theoretical input to the students that relates to their practical experiences on the camp experience. You will present some of the following and maybe more tools: random input (word and pictures), challenge, provocation, synectics (analogy) and TRIZ. As part of the session the students will develop their creativity toolbox. You will facilitate the process for their development. You will also function as a supervisor to help them transform parts from the camp experience and this session into their own toolbox.

The students will make an individual assignment about their creativity toolbox. The students will prepare a short presentation on their ideas for a private toolbox and present it one week prior to the date for handing in the assignment. They will receive feedback in on the presentation and will use this in their final assignment. Their assignment should reflect their private toolbox in relation to relevant theory in the literature curriculum.

The slides for this session is found in the file: "Creativity Techniques.ppt". The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Johansson, F. (2006). The Medici effect: Breakthough insights at the intersection of ideas, concepts, and cultures, Harvard Business School Press, chapter one and two.

2. Dart, D. (2013). The creative brain: How insights works, BBC. (Video)

3. Ross, V. R. (2006). A model of inventive ideation, Thinking Skills and Creativity, 1, 120-129.

Session 5. Identification and assessment of creativity. Analysis and intuition needed in the process of identifying and assessing creative output.

The identification and assessment of creativity session should be placed after the camp experience session. Preferable it should be placed immediately after the creative process and creativity techniques sessions. The identification and assessment of creativity session takes 4-8 hours excluding breaks and it should be performed in continuity (no other study activities in between).

The identification and assessment of creativity session introduces the students to a conceptual framework for analyzing an output on a number of scales for creativity. The scales include variables such as originality, flexibility, usability, elaboration. Also the students will be introduced to and gain practical experience with tools that can be used in the analyzes of

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creative output. These tools are trained in exercises. This will help the students in their pursuit for the generation, development and selection of creative production. In other words: it will help them make sure they can choose the most creative ideas and can make the most creative decisions in creative work. Finally it will help the students to develop their intuition for creativity.

The identification and assessment of creativity session is a mixed theoretical and practical oriented workshop based on the theory and practice of a number of methods for identification and assessment of creativity. The students will develop their own private method for identification and assessment of creativity on final ideas and products (final results). The students will prepare and present their own private method and why they believe exactly their exercises makes sense for them in their development of creative skills.

The slides for this session are found in the file: "Identification and Assessment of Creativity.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Cropley, D. & Cropley, A. (2010). Functional creativity: "Products" and the generation of effective novelty. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press, 301-320.

2. Haller, C. S., Courvoisier, D. S. & Cropley, D. H. (2011). Perhaps there is accounting for taste: Evaluating the creativity of products, Creativity Research Journal, 23, 2, 99-108.

Session 6. The role of play, motivation, knowledge, manipulation and groups related to a creative process. Creative process as a cognitive and group concept.

This session session may be placed at any time during the semester, but it might be easier for the students to perform the assignment towards the end of the semester. It takes 4-8 hours excluding breaks and it should be performed in continuity (no other study activities in between).

The session introduces the students to perspectives on creativity that are highly relevant in the enhancement of creativity for individual and team work. These perspectives include the role of play, motivation, knowledge, manipulation and group. It presents creativity as a complex process that is both driven by individual work, group work and a mix hereof. This session will make a philosophical reflection on all the other sessions in this module.

The session is a mixed theoretical and practical oriented assignment. The students will be introduced to the roles of play, motivation, knowledge, manipulation and groups and will develop their own concepts of how they determine creativity for individuals and groups.

The slides for this session are found in the file: "The Role of Play and More.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Hansen, S. & Byrge, C. (2013/2014). Creativity as unlimited application of knowledge (this will be available in english through Christian Byrge)

2. Fox, J. M. & Fox, R. L. (2011). Exploring the nature of creativity (second edition), Kendall Hunt Publishing Company, chapter three.

3. Hong, E. (2010). Creative thinking ability: Domain generality and specificity, Creativity Research Journal, 22, 3, 272-287.

4. Paulus, P. B. and Yang, H. (2000): Idea generation in groups: A basis for creativity in organizations. Organizational Behavior and Human Decision Processes, 82, 76-87.

5. Sawyer, R. K. (2010). Individual and group creativity. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press, 367-380.

6. Djikic, M., Oatley, K. & Moldoveanu, M. C. (2013). Opening the closed mind: The effect of exposure to literature on the need for closure, Creativity Research Journal, 25, 2, 149-154.

7. Brown, T. (2008). Tales of creativity and play, TEDTalks. (Video)

8. Pannells, T. C. & Claxton, A. F. (2008). Hapiness, creative ideation, and locus of control, Creativity Research Journal, 20, 1, 67-71.

9. Smith, S. M., Ward, T. B. & Schumacker, J. S. (1993). Constraining effects of examples in a creative generation task, Memory & Cognition, 21, 6, 837-845.

10. Zenasni, F. & Lubart, T. (2011). Pleasantness of creative tasks and creative performance, Thinking Skills and Creativity, 6, 49-56

5 INDIVIDUAL CREATIVITY

General introduction to the teachers guide

In this document you will find a teachers guide for the 5 ECTS module called "individual creativity". The teachers guide is not meant to be a strict model for teaching creativity courses on the bachelor program. It is rather developed as inspiration and a help for the teachers to design their own courses on creativity. Therefore you may use the guide in any way you want in order to design a good course.

The guide contains of a number of sessions. For each session I have suggested one or more of the following:

- Focus of teaching
- Outcome for students
- Classroom exercises
- Classroom cases
- Powerpoint slides
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- Written assignments
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My suggestions are based on general and specific theory on creativity, my personal experiences in teaching creativity and inspiration from other courses on creativity. The intention is not that the entire course is prepared in this teachers guide. You will have to design those parts of the course that are not developed in this guide. In most cases this means that you have to prepare the theoretical presentations, but there might be others parts of the course you need to develop.

Please notice that you ONLY give the students information on literature for this module after each session. It is important that the students do not read prior to the each lecture. They should use the literature in as reflection on the lectures or as part of assignments when it says in the slides.

You are welcome to contact me on post@christianbyrge.com if you need help in your preparation.

Session 1. Introduction to various personality traits and how they can affect creativity on an individual level.

This session can be placed any time during the semester.

The session consists of three main elements: a theoretical introduction to personalities of creative people; a personality test and scoring hereof; and workshop activity. The session provides the students with an understanding of the personality dimension of creativity. This dimension suggests that creativity may be dependent on the type of personality a person has. It also suggests that since personalities are relatively stable over time the same may be the case for creativity of individuals. The session also suggests that it may be possible to change your own personality by continuous and determined development and as such also change the level of creativity.

The session is a mix of theory, exercise and workshop. Firstly, you make the students take a personality test in class. Secondly you introduce the students to theory on personality of creative people. Thirdly, you evaluate the personality tests in class so that the students know the results of their own test. Lastly you facilitate a 2-step workshop: in the first step the students are asked to identify which personality traits they would like to develop for them selves; in the second step the students are aced to develop a strategy for developing the personality traits they have identified in the first step.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Personality Traits.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Feist, G. J. (2010). The function of personality in creativity: The nature and nurture of the creative personality. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press, 113-130.

2. Runco, M.A. & Pritzker, S.R. (1999). Encyclopedia of creativity, Volume 1 & 2, Academic Press

3. Sen, A. (2005). Why exactly is commitment important for rationality, Economics and Philosophy, volume 21, pp. 5–13

Session 2. Nurture vs nature in relation to creativity.

This session can be placed at any time during the semester. It takes between 2-5 hours excluding breaks.

The session introduces the 2000+ year old discussion on whether creativity is something humans are born with (by nature) or something humans gain/loose during life. The nature perspective involves primarily themes such as genetics, sex, belief (religion) and design by good. The nurture perspective involves primarily themes such as family, education, society, childhood/adolescent, own will/choice as well as time of history (ideas comes naturally in a chronological order in history). It provides the students with an understanding of the extend and limitations of developing creativity by nurture. It also provides the students with an understanding of the historical account and contemporary scientific beliefs in nurture vs nature (older theories believe more in nature, while more modern theories believe more in nurture). This session also introduces ethics to the subject of creativity: how to be creative and ethical at the same time. Not all ideas are good for yourself and the world and the students must understand that with increased abilities in creativity comes an increased ethical responsibility.

The nurture vs nature session is based on philosophical and theoretical input and discussion. Firstly, you introduce the students to the discussion on nurture vs nature. Secondly you introduce to the ethics of creativity and make them take responsibility for being ethical in their creativity.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Nurture vs Nature.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Feist, G. J. (2010). The function of personality in creativity: The nature and nurture of the creative personality. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press, 113-130.

2. Simonton, D. K. (1995). Exceptional personal influence: An integrative paradigm, Creativity Research Journal, 8, 4, 371-376.

3. Simonton, D. K. (1994). Greatness: Who makes history and why, The Guilford Press, selected chapters.

4. Simonton, D. K. (2010). Creativity in highly eminent individuals. In James C. Kaufman & Robert J. Sternberg, R.J. (2009). Handbook of creativity, twelve printing, Cambridge University Press

Session 3. Different barriers to creativity. Where and why they arise.

This session can be placed any time during the semester.

The session introduces the notion of barriers to creativity. It specifically takes a focus on where and why they arise. There are lots of barriers to creativity, some of them being universal while others are personal. This session will give the students knowledge about the potential barriers that exists at home, at work, at study, individually, in social settings, etc.

The session is a mix of theory and exercise. Firstly, you make the students collect data about their own barriers to creativity: where and why they arise. Secondly, you introduce the students to theory on barriers to creativity. You will need to either hand out a voice recorder to each student or make them use their voice recorders on their mobile phones (the best would be to hand out voice recorders because it makes the task more serious).

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Barriers to Creativity.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Ward, T. B. & Kolomyts, Y. (2010). Cognition and creativity. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press, 93-112.

2. Richards, R. (2010). Everyday Creativity: Process and way of life - Four key issues. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press, 189-215.

Session 4. Creative flow. Elements needed to achieve creative flow.

This session should be placed after session 3 on "Different barriers to creativity. Where and why they arise."

The session introduces the concept of creative flow and the elements that are needed to achieve creative flow. Creative flow is one (of many) solutions for avoiding barriers to creativity and engage in creative production. It functions as a kind of opposite to session 3, where the barriers where in focus. This session will give the students an understanding of a practical method to get into a creative flow as an individual at home, at work, at study, etc.

The session is a mix of theory and exercise. Firstly, you introduce the students to creative flow. Secondly, you make the students each define one physical and mental place where they would expect good conditions for creative flow. They also each define one physical and mental place where they would expect bad conditions for creative flow. Then they try each of these places while solving a problem. Thirdly, they prepare and present at a seminar how they have developed and executed strategies to secure development of creativity in relation to creative flow.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Creative Flow.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Csikszentmihalyi, M. (1997). Creativity: Flow and the psychology of discovery and invention, first Edition

2. Csikszentmihalyi, M. (1988). Optimal experience, psychological studies of flow in consciousness, Cambridge University Press

3. Amabile, T.M. and Gitomer, J. (1984). Children´s artistic creativity: Effects of choice in task materials, Personality and Social Psychology Bulletin, Volume 10(2), pp. 209-215

Session 5. Testing creativity. Ways of measuring creativity of the individual.

This session may be placed at any time during the semester.

The session introduces a test that measures creativity of the individual. Specifically it introduces the most worldwide known test called Torrance Test for Creative Thinking by Paul Torrance. The test is used in research, human resource management, as part of self development programs and other places. It provides the currently most reliable insight into how creative a human being is. It consists of a paper and pencil test including figural (drawing) tasks and oral (written) tasks. It also consists of an extensive guide for scoring the test. This session will give the students an understanding of their own level of creativity as well as knowledge and experience about the use of tests for measuring creativity.

The session is a mix of theory and exercise. Firstly, you guide the students thought a test (they should fill out the test individually and in silence). Secondly you present one variable for measurement (fluency, flexibility, elaboration, originality, etc) at a time as described in the Torrance Test Manual. For each variable you present the students will score their the tests. At the end they will have a fully scored test and will know their results. Thirdly, they share the results in class anonymously. All results are put on the whiteboard but without names on. Hereby they can get a relative comparing of their own score.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Testing Creativity.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Torrance, E. P. (1974). Manual for Scoring and Interpreting Results, Scholastic Testing Service.

2. Torrance, E. P. (1974). Torrance Test for Creative Thinking, Scholastic Testing Service.

Session 6. Issues that arise when measuring creativity.

This session should be placed directly or shortly after session 5 on "Testing creativity. Ways of measuring creativity of the individual"

The session takes a critical perspective on the tests developed for measuring creativity of the individual. How is it even possible to test for creativity when it is of such a complex nature - however, on the other hand we have tested for intelligence (IQ test) and tested for all kinds of disciplines (at university exams) for centuries? The session presents the issues and downfalls when measuring creativity. It also creates a debate on the subjects of using tests in general management, innovation management, creativity management and human resource management. This session will give the students a critical understanding of the potentials and limitations of measuring creativity of individuals in tests.

The session is a mix of theory, discussion and exercise. Firstly, introduce the limitations of the Torrance Test. Secondly; you guide the students to develop their own test for measuring individual creativity. Finally, you make them develop strategies for how and in which situation to use this test themselves.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Issues of Measuring Creativity.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Torrance, E. P. (1974). Manual for Scoring and Interpreting Results, Scholastic Testing Service.

2. Torrance, E. P. (1974). Torrance Test for Creative Thinking, Scholastic Testing Service.

Session 7. Individual and contextual factors that affect creativity. Knowledge, perception and motivation

This session should be initiated at the beginning of the semester and finished in the end of the semester.

The session reflects on all the other sessions in relation to individual knowledge, individual perception and individual motivation.

The session is a mix of assignment work and classroom seminar. Firstly you give the students an assignment to demonstrate, analyze and reflect on their individual personality and development of creativity. The students should use data from the creativity test, write diaries, experiences, anecdotes and other in order to create a clear picture of how their own creativity is functioning. The assignment should end up presenting a "new" private model for explaining the creativity of this particular student. The assignment should reflect the "new" model in relation to relevant literature on knowledge, perception, motivation and other related to individual and contextual factors that affect the student's creativity. Finally the assignment should discuss how this new model will be applied in future life, work and study to understand and further develop own creativity. Secondly, you make the students present their model in class one week before deadline of handing in the assignment. During this presentation all students and the teacher will be responsible for giving constructive feedback to the presenter. The assignment should be handed in as the last part of the semester in order to allow the students to use as much of the learning from the other sessions and modules as possible.

As part of the session the students are asked to write their ongoing reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

There is no slideshow for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Zampetakis, L. A., Bouranta, N. & Moustakis, V. S. (2010). On the relationship between individual creativity and time management, Thinking Skills and Creativity, 5, 23-32.

2. Zhang, L. Sternberg, R. J. (2011). Revisiting the investment theory of creativity, Creativity Research Journal, 23, 3, 229-238.

3. Gilbert, E. (2009). Your elusive creative genius, TEDTalks. (Video)

4. Amabile, T. M.; Conti, R.; Coon, H.; Lazenby, J.; Herron, M. (1996). Assiessing the Work Environment for Creativity, The Academy of Management Journal, Volume 39(5) Oct, pp. 1154-1184

6 ORGANIZATIONAL CREATIVITY

General introduction to the teachers guide

In this document you will find a teachers guide for the 5 ECTS module called "individual creativity". The teachers guide is not meant to be a strict model for teaching creativity courses on the bachelor program. It is rather developed as inspiration and a help for the teachers to design their own courses on creativity. Therefore you may use the guide in any way you want in order to design a good course.

The guide contains of a number of sessions. For each session I have suggested one or more of the following:

- Focus of teaching
- Outcome for students
- Classroom exercises
- Classroom cases
- Powerpoint slides
- Literature
- Written assignments
- Assignments with oral presentation
- Other

My suggestions are based on general and specific theory on creativity, my personal experiences in teaching creativity and inspiration from other courses on creativity. The intention is not that the entire course is prepared in this teachers guide. You will have to design those parts of the course that are not developed in this guide. In most cases this means that you have to prepare the theoretical presentations, but there might be others parts of the course you need to develop.

Please notice that you ONLY give the students information on literature for this module after each session. It is important that the students do not read prior to the each lecture. They should use the literature in as reflection on the lectures or as part of assignments when it says in the slides.

You are welcome to contact me on post@christianbyrge.com if you need help in your preparation.

Session 1. Creative mode in organizations. Differences between creative flow and creative mode.

This session should be placed in the first two weeks of the semester. Preferable it should start on the first or the second day of studies. This session takes between 12 - 18 hours excluding

breaks and it should be performed in continuity either 6 hours a day for three days or 24 hours in a row (no other study activities in between).

The session is a camp experience based on the IDEO method. It provides the students with an experience on a specific methods used by one of the world leading innovation firms to creative creativity and innovation (design thinking). The method includes the following (or more) steps:

1. Putting the students into groups of 4-6 that they work in during the entire camp.

2. Presenting the students with a problem like "develop the umbrella of the future"

3. Understanding the problem by listing all features about the problem (sharing what we know)

4. Observe the world using the umbrella by identifying real experts (different kinds of users, those who never use it, those who sell it, those who produce it, those who dispose it, etc) and using ethnographic observation and interviewing of these experts.

5. Sharing points of view by making a model and presenting what you have learned from the real experts.

6. Visualize ideas by using deep dive brainstorming producing sketches (first prototypes); presenting these ideas; and selecting original and useful ideas (selection by voting).

7. Prototyping by further development, using focus areas and producing physical examples of the ideas.

8. Test and Reiterate by presenting prototypes to potential users and receiving feedback, and go back some steps to implement the feedback into the prototypes.

I suggest you read about the IDEO methods and watch the following video on youtube in order to get an overview of how the process looks like:

http://www.youtube.com/watch?v=2Dtrkrz0yoU

The students will be introduced and try a world famous method (often referred to as design thinking) for creativity and innovation. This method is different from The Creative Platform in many ways, primarily because it takes a user-centric approach, because it can be implemented on existing groups, because it has strong focus on prototyping and no use of creativity techniques as well as no use of 3D cases to train creativity. This camp experience will also develop a special classroom environment that is positive for creative and innovative thinking. Finally the students will develop a sense that they can develop new ideas that are easy to implement in the world.

At the end of the session the students (in the groups they have worked using the IDEO method) will be given an assignment to present, analyze, demonstrate and discuss their creative production during the camp. The assignment should present "all" the issues they identified related to the problems (umbrella) in step 3, 4 and 5. The assignment should analyze the process of idea generation and idea development in 6 and 7 (including an overview of "all" idea developed). The assignment should demonstrate and discuss originality and appropriateness of generated and developed ideas by including peer raters and/or laymen raters.

As part of the session the students are asked to write their assignment on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

I have developed no slides for this session. In case you would like to develop slides for this, I suggest you get inspiration from the slides for the session on "Camp Experience.ppt". Do not use these slides directly because they are based on the theory of The Creative Platform, which is different from the IDEO method.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Smith, J. (1999). The deep dive, ABC News Productions. (Video)

2. Byrge, C. & Hansen, S. (2009). The creative platform: a didactic approach for unlimited application of knowledge in interdisciplinary and intercultural groups, European Journal of Engineering Education, volume 34(3) Jun, pp 235-250

Session 2. Elements that can actively and passively affect creative mode in organizations.

This session should be placed after session 3 on "Different organizational barriers to creativity. Social relations, group competencies, motivation, leadership styles, thinking styles, the physical and psychological environment".

The session introduces the concept of creative mode and the elements that are needed to achieve creative mode. Creative mode is a shared state of mind in a group context, where the effect of barriers to creativity have been lessened or overcome, and the focus of the group is fully devoted to creativity. While creative flow is primarily a philosophy for individuals, the creative mode is useful in organizational and team settings. It functions as a kind of opposite to session 3, where the barriers are in focus. This session will give the students an understanding of theoretical and practical approaches to manage/facilitate an organization or a team into a creative mode.

The session is a mix of theory and exercise. You introduce the students to creative mode while they are developing their own models of organizational creativity and a model of team creativity.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Creative Mode in Organizations.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Cleese, J. Creativity in management, Video Arts. (Video)

2. Puccio, G. J. & Cabra, J. F. (2010). Organizational creativity: A systems approach.

Session 3. Different organizational barriers to creativity. Social relations, group competencies, motivation, leadership styles, thinking styles, the physical and psychological environment.

This session can be placed any time during the semester (but should be placed before session 2).

The session introduces the notion of organizational barriers to creativity. There are lots of organizational barriers to creativity related to bureaucracy, resources, team competencies, motivation, social relations, and leadership styles, thinking styles, the physical and psychological environment. This session will give the students knowledge about the potential barriers that exists in organizations.

The session is a mix of theory and exercise. You introduce theory on the organizational barriers while they are trying to make a model.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Organizational Barriers to Creativity.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are

training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Amabile, T. M.; Hennessey, B. A.; Grossman, B. S. (1986). Social influences on creativity: The effects of contracted-for reward, Journal of Personality and Social Psychology, Volume 50(1) Jan, pp. 14-23
2. Hennessey, B. A. (2010). The creativity-motivation connection. In James C. Kaufman & Robert J.Runco, M.A. & Pritzker, S.R. (1999). Encyclopedia of creativity, Volume 1 & 2, Academic Press
3. Sternberg, R.J. (2009). Handbook of creativity, twelve printing, Cambridge University Press
4. Sternberg, R. J. & Kaufman, J. C (2010). Constraints on creativity: Obvious and not so obvious. In James C. Kaufman & Robert J. Sternberg, The Cambridge Handbook of Creativity, Cambridge University Press

Session 4. Overcoming organisational barriers to creativity. Increasing creativity in organisations.

This session should be placed as the last activity in the semester.

The session puts the students into an organizational context in order to develop an advanced understanding of how to overcome organizational barriers to creativity. They will function as consultants for local or international firms to help them increase creativity on an organizational level (not process perspective and not individual perspective) this will provide the students with practical experiences on the complicity of working with creativity in organizations.

The session is a based on a group assignment and classroom seminar. You give the students their assignment when all the other sessions in this module have finished. The students will work in pairs collaborating with a public or private organization to observe and assess critical organizational barriers to creativity. Based on the findings the student will identify potential solutions for overcoming or lessening the barriers to creativity and present them to the organization for feedbacks. This assignment will develop the students' ability to perceive an organization relatively objectively and develop their knowledge of creativity as well as experience the challenges that can arise when creativity theory is being applied to real life in an organization. Based on the assignment each group will prepare and make an oral presentation in class. Based on the assignment and the oral presentation, the group will receive further feedback from the class and lecturers.

As part of the session the students are asked to write their reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

The slides for this session is found in the file: "Overcoming Organizational Barriers to Creativity.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Schein, E.H. (1992). How can organizations learn faster? The problem of entering the green room, Working paper, M.I.T. Sloan School of Management

Session 5. Identification and assessment of creativity potential in organizations.

This session can be placed at any time during the semester.

The session gives the students knowledge and experience on identifying creativity in organizational settings. The will learn to be aware of creativity in organizations and teams. Also they gain the necessary foundation for setting up systems of assessing creativity in organizations and teams.

Firstly, you will give them a group task that takes about 2 hours. During this task the students videotape their group work, their communication and their actions. Secondly, you introduce them to the identification and assessment of creativity in organizations. As part of this introduction they develop their own models of identifying and assessing creativity in organizations. Finally, you give them the task to analyze the video of their group work by using their own models of identifying and assessing creativity in organizations.

The slides for this session is found in the file: "Identification and Assessment of Creativity in Organizations.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Amabile, T. M.; Conti, R.; Coon, H.; Lazenby, J.; Herron, M. (1996). Assessing the Work Environment for Creativity, The Academy of Management Journal, Volume 39(5) Oct, pp. 1154-1184

Session 6. Solutions to heightening the level of creativity in organizations.

This session should be started early in the semester, preferable just after session 1 on "Creative mode in organizations. Differences between creative flow and creative mode" where the IDEO method is introduced.

This session provides the students with two examples of how to heightening the level of creativity in organizations. The examples are called organizational creativity training and facilitation. Therefore this session functions as the management and organizational perspective on creativity training, while "creativity training" in the module on enhancing creativity functioned as the trainee and individual perspective on creativity training. In the "Enhancing Creativity" module the students were trained by the teachers and learned to train themselves. In this session on solutions to heightening the level of creativity in organizations the students learn to train larger groups of people and to facilitate them in this training. This session build up abilities for the students in management and facilitation of creativity training. It will also build up a responsibility among the students for developing and sustaining creativity of colleagues, friends and family.

In this session you will present the 3D Didactic as a method for training creativity in teams and organizations. This includes exercises in facilitation of this training. They will use existing 3D cases to instruct in class in order to practice how to facilitate. Afterwards the students will develop a number of new exercises and will be in charge of facilitation the class for morning training during the semester. You make a schedule for the morning training where each pair of students will be responsible for the morning training and the facilitation.

Following the links below you find a slideshow and instruction videos of how I have conducted parts of this module.

- http://vbn.aau.dk/files/52517234/3D_didactic.wmv

- http://vbn.aau.dk/files/52517688/Develop_a_new_3D_case.wmv

If it is possible I suggest you let the students train another class that has not been having creativity classes. It could be a class studying on another program. This will give them experience on training people they do not know very well. However, if this is not possible then you let them train each other as planned above.

The slides for this session is found in the file: "Solutions to Heightening Creativity in Organizations.ppt". In order to finish the development of these slides I suggest you use the slideshows from "Creative Process" and/or "Creativity Techniques" as Inspiration. The hidden slides are training exercises as well as other instructions for you as a teacher. The

students should not see these hidden slides. You should instruct/perform the content of these slides without showing the slides for the students.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Kelley, D. (2012). How to build your creative confidence, TEDTalks.

2. Hansen, S. & Byrge, C. (2013/2014). Creativity as unlimited application of knowledge (this will be available in english through Christian Byrge)

Session 7. Testing creativity in group settings and the challenges it involves.

This session should be placed after session 1 on "Creative mode in organizations. Differences between creative flow and creative mode".

The session gives the students an experience of testing out creativity in a group setting and the challenges it involves. This happens while the students are working on a real life problem from a public or private company.

The session is a mix of assignment work and classroom seminar. Firstly, you divide your students into groups of 5. Secondly, you give the students an assignment to find a company that is interested in collaborating on this assignment. The students define a problem in collaboration with the company (it should be a problem the company would really like to solve). Then the students should solve this problem using the IDEO method. After you have solved the problem you should present your process and your ideas to the company. Then you prepare a presentation where you demonstrate, analyze and reflect on your process, the problem, your ideas as well as the feedback from the company. Finally, the students present all this in class and receives feedback from all students and the teacher.

As part of the session the students are asked to write their ongoing reflections on the online forum. This assignment will make it possible for the students to show their understanding of the topic. The reflections are mandatory to pass the course and will be part of their grade.

There is no slideshow for this session.

I suggest the following literature for this session (you will find the full list of literature, titles and publishing house in the study guide):

1. Smith, J. (1999). The deep dive, ABC News Productions. (Video)

7 EVALUATING CREATIVITY

This document gives an example of how to evaluate creativity in projects, presentations and assignments in higher education.

What is the evaluation of creativity?

It is possible to evaluate creativity in almost any kind of project, presentation, assignments or other work produced by a student. The evaluation of creativity may refer to the production of new knowledge, the production of a problem formulation, the design of a method, the collection of data, the analysis, the thoughts presented in a reflection, the solution to a problem or similar. In this document I will refer to the creative production as an "idea" no matter if it is the idea for the structure of the project, the method or anything else.

Who is the evaluator?

The evaluation of creativity is subjective (like most evaluation in educational systems). Therefore the teacher/examiner is usually the judge. However, in case you have the possibility it is a good idea to use more judges for evaluating creativity. A general rule is that the more judges you have the more reliable is the result. Another dimension to the judging is about the background of the judge. In some cases in education you will need an expert in the field (teacher) to evaluate weather the idea has been seen before or if it is new to the field (for example if the problem is about the price elasticity of wind turbine components or the life expectancy of a specific mosquito). However, in lots of cases you may use laymen instead. Laymen can be used if the problem in the project, presentation or assignment if based on general knowledge that layman would know about (for example if the problem is about improving the experience of shopping or improving a dining table).

How to evaluate?

It is a good idea to separate the evaluation of creativity of the project, the presentation or the assignment into specific parts. This can be done by using the formal structure produced by the students such as chapters, themes, and sections or similar. In that way you will be evaluating creativity for each chapter independently (how creative is chapter one, how creative is chapter two, etc.). You may instead choose to define the parts yourself using general terms such as method, introduction, analysis, data collection, reflection, conclusion or specific terms from your discipline. In that way you evaluate creativity for each part independently (how creative is the introduction, how creative is the method, how creative is the data collection, etc.). For each part you will use the following variables for evaluating creativity.

    A.   Originality
    B.   Elaboration
    C.   Fluency
    D.   General Creative Ability

A. Originality

This variable evaluates the student's ability to produce unique, novel and useful ideas. You are going to evaluate how original are the ideas produced by the student. In order to do this you use a scale from 0 to 3 as shown in the following.

1.   You give 0 points for originality if this part has no unique or novel ideas that are useful at all. The student has produced ideas that you have seen many times before or you consider that most other students would be capable of coming up with the same ideas.

2.   You give 1 point for originality if this part has few aspects or elements that are unique or novel and useful. The student has produced ideas that you consider that not all students will be able to come up with.

3.   You give 2 points for originality if this part has many aspects or elements that are unique or novel and useful. The student has produced many ideas that you consider that not all students will be able to come up with.

4.   You give 3 points for originality if this part has one or more aspects or elements that are surprisingly unique or novel and useful. The student has produced one or more ideas that you consider that only few students will be able to come up with.

Therefore you have to ask yourself the question "On a scale from 0-3 how original is this part of the project/presentation/assignment". Remember you are the judge – there is only you to judge this.

Each part of the project will receive a score for originality. In order to compare the score across students you will have to calculate a mean of all scores on originality for each student. Therefore each project, presentation or assignment will receive a score between 0-3 for originality.

B. Elaboration

This variable evaluates the student's ability to elaborate on original ideas. You are going to evaluate how elaborated are the original ideas produced by the student. In order to do this you use a scale from 0 to 3 as shown in the following.

1.   You give 0 points for elaboration if no ideas are elaborated. It may be that an original idea is mentioned in a sentence or a few sentenced. The idea(s) are not discussed, tested or extended in any way – they are just mentioned shortly.

2.   You give 1 point for elaboration if one or more ideas are elaborated.

3.   You give 2 points for elaboration if one or more ideas has been highly elaborated using discussion, testing, extra data or literature or similar.

4.   You give 3 points for elaboration if one or more ideas are highly elaborated using BOTH discussion, testing, extra data or literature, etc.

Therefore you have to ask yourself the question "On a scale from 0-3 how elaborated are the ideas in this part of the project/presentation/assignment". Remember you are the judge – there is only you to judge this.

Each part of the project will receive a score for elaboration. In order to compare the score across students you will have to calculate a mean of all scores on elaboration for each student. Therefore each project, presentation or assignment will receive a score between 0-3 for elaboration.

C. Fluency and flexibility

This variable evaluates the student's ability in fluency – how many ideas can the students produce. You are going to evaluate how many ideas the student's presents for each part of the project, assignment or presentation. In order to do this you use a scale from 0-3 as shown in the following.

1.   You give 0 points for fluency if there is only one idea. The student presents one method (or a solution, or a data collection, or a problem formulation, etc.).

2.   You give 1 point for fluency if there are two ideas. The student presents two methods and explains why he/she chooses the one of them instead of the other.

3.   You give 2 points for fluency if there are three or more ideas. The student presents three or more methods and explains why he/she chooses the one of them instead of the others.

4.   You give 3 points for elaboration if there are three or more ideas and these ideas are highly different from each other. The student should clearly show that he/she has been able to change perspective/perception in this part of the paper. He/she presents three or more different methods and explains why he/she chooses the one of them instead of the others.

Therefore you have to ask yourself the question "On a scale from 0-3 how fluent and flexible is this part of the project/presentation/assignment". Remember you are the judge – there is only you to judge this.

Each part of the project will receive a score for fluency and flexibility. In order to compare the score across students you will have to calculate a mean of all scores on fluency and flexibility for each student. Therefore each project, presentation or assignment will receive a score between 0-3 for fluency and flexibility.

D. General Creative Ability

This variable evaluates the student's general creative ability. You are going to evaluate how you generally see the product and the working process performed by the student. In order to do this you use a scale from 0-3. In your scoring you should include such elements as how creative was the working process performed by the student, the creative style of the project, assignment or presentation, the use of creative artefacts like technology or non-technology as well as your general view of the project, assignment or presentation in relation to creativity.

Therefore you have to ask yourself the question "On a scale from 0-3 how is the general creative ability of this student in his/her working process and in his/her production. Remember you are the judge – there is only you to judge this.

You will make one score for the general creative ability for each student. Therefore each project, presentation or assignment will receive a score between 0-3 for general creative ability. If a project, presentation or assignment is made in groups you can either give a common score for the group between 0-3 or give one per group member and calculate the mean of the group.

How to give marks based on your evaluation of creativity?

When you make your evaluation of creativity I suggest you use a table like shown below. You start by making a score for each parts of the project, assignment or presentation. Calculate the mean for the entire project on each variable and put them into the table. Then you add up the score from each variable. For each creativity variable each project, assignment or presentation will have a score between 0-3. Since there are 4 variables projects, assignments or presentations can have between 0 and 12 points for creativity.

Creativity Variable	Part 1	Part 2	Part …	Total
Originality	0-3	0-3	0-3	(mean)
Elaboration	0-3	0-3	0-3	(mean)
Fluency and flexibility	0-3	0-3	0-3	(mean)
General creative ability	0-3	0-3	0-3	(mean)

Total Creativity Score	Total originality + total elaboration + total fluency and flexibility + total general creative ability = 0-12

Once you have calculated the total creativity score you can use this as an evaluation score for creativity. Now you might translate it into a mark or part of a mark using percentage or stages. If you use percentage then creativity could make up 50% of a mark (or more of less). If you use a stage system you might say that 11-12 is a top mark (like A or Excellent), 9-10 is good mark (like B or Good), 6-8 is an average mark (like C or Average), 4-5 is a low mark (like D or Accepted), and 0-3 is failed (like F or Not accepted).

PLEASE NOTICE … that the first times you will evaluate creativity it will take a very long time. However, once you get used to it you will be able to evaluate without using this table and it will come natural to you when you read a project or assignment or hear a presentation.

8 MANAGEMENT

8.1 CASE STUDY 1. MCCAIN: EXTERNAL ENVIRONMENT CHANGES

Introduction to the topic

A business is operating in a fast moving world where changes are becoming challenges to meet market needs. Therefore business has to act and react to what happens outside and inside the company walls, [1] in other words, company has to consider external and internal factors [2]. The factors will affect main business functions, decisions and objectives of the business strategy [1]. For instance, some of the business objectives that might be affected by those factors are: to win the biggest share of the total market, to increase sales, to satisfy customers, to make profit for shareholders, etc. [2].

The main factor that might affect those business objectives is the degree of competition. However, there are many more factors such as [1]:

Social – how consumers, households and communities behave and what are their beliefs. (Changes in attitude towards health, a greater number of pensioners in a population, baby boom, etc.)

Legal – the way in which legislation in society affects the business.

Economic – how the economy affects business in terms of taxation, government spending, general demand, interest rates, exchange rates and European and global economic factors.

Political – how the changes in government policy might affect the business.

Technological – how does the rapid changes in production processes and product innovation affects business.

Ethical – what is regarded as morally right or wrong for a business to do.

Many businesses could profit by systematically caring its environmental analysis that gives implications for the future actions and reactions to be done in order to meet changes in the market and business itself.

The McCain Food business case

McCain Foods Limited is a privately owned company that was founded in 1957 in Florenceville, New Brunswick, Canada by two brothers Wallace and Harrison McCain. Starting with 30 employees and first year sales of $152,678, McCain has grown to be a household name – a multi-billion dollar, multinational leader in frozen food products [3].

McCain has a diversified geographic presence. The company sells its products to both retail outlet and foodservice operators in more than 160 countries across the world. The company's global presence enhances its access to growth pockets among various markets while reducing business risk [4]. Today company is generating 7 billions dollars net annual sales while creating 18 thousands of jobs in 46 manufacturing facilities and 44 sales offices around the globe. Company is partnering with 3,200 growers and 36,700 suppliers [3]. McCain is one of the largest manufacturers of frozen French fries and other potato products in the world. The company was ranked among top 50 most valuable brands in Canada 2013 by an industry source specializing in brand valuation. It was also ranked among top 100 largest selling brands in the Irish grocery industry by another industry source specializing in providing market insights in 2012. The company also has the capacity to process more than one million pounds of potato products per hour and makes one third of all the frozen French fries produced in the world. McCain has established itself as a dominant player in the frozen foods industry [4].

Company has a strong market focus therefore company carries out research to find out what consumers want and need. Then it uses this market information to create products which consumer eagers to buy. Therefore McCain produces not only regular frozen potatoes meals but also specific potato products like Potato Smiles, Crispy Bites and Sumthings (shaped as numbers), which appeal to younger consumers. McCain's business remain broader than just French fries, with a range as wide as frozen potato specialties and frozen light meals such as pizza, appetizers, oven meals, vegetables, and desserts. It provides consumers with a wide variety of cut and seasoned potato products through retailers, like supermarkets and restaurants. These include roast potatoes, potato wedges, hash browns, waffles and potato croquettes [2].

Perfect timing

One of the success factors for business is a good timing. Harrison and Wallace McCain had identified the perfect time to start a frozen food business. They were entering a new industry just when the technology that made the industry possible was being developed, and the 1950s saw a surge of growth in processed and more convenient food options. At that moment the Canadian population was growing rapidly, because of the largest baby boom of the industrialized world and a high rate of immigration [3].

A momentous social change was also underway, one that would fuel the growth of the industry through the 1960s and beyond: the entry of ever-increasing numbers of women in the labour force. With both partners working, families had less time and energy to prepare

meals, therefore frozen French fries was welcomed. Today company is one of the largest French fries producers in the world that employs 2,000 people only in United Kingdom and buys 12% of the British potato crop. [3, 5].

The Leader

The founder of the multi-billion-pound McCain Chips Empire that bears his name has died at the age of 81. Wallace McCain amassed a personal fortune of £1.4billion, but he also donated much of his wealth to good causes, once saying: 'I liked making money, but I love giving it away more.' Former Canadian Prime Minister Paul Martin paid tribute to the frozen food mogul in a statement saying: 'what he built in business is now part of our history. But what should be known as well was his infectious sense of humour, his compassion and his generosity to so many causes dedicated to making the lives of Canadians better.' In 1994, Wallace was forced out as joint chief of the company he founded after a bitter public feud with his brother, who died in 1994. Wallace became an Officer of the Order of Canada in 1995, one of the nation's highest honours [5].

The potato

At the very beginning of this business, the problem in meeting demand was that the potatoes grown in New Brunswick, the home of McCain, while perfect table and seed potatoes, were not suitable for processing French fries. To make good fries they needed a long potato consistently comprised of at least 20% solids – a potato such as the Russet Burbank, a variety prominent in the U.S. Pacific Northwest, which produces a long, crisp French fry. But the Russet Burbank is a long-season variety, and New Brunswick enjoys only a short six months of growing season each year [3].

Not only were the potatoes less than ideal, but also the local farmers were not accustomed to handling processing potatoes. Potatoes produced for the fresh table and seed market require different storage and handling. The growers needed to be educated on how to grow, store and handle potatoes destined for food processing. This took years, but in the long run, having to struggle to obtain the kind of potatoes it needed benefited McCain by forcing it to acquire expertise in agronomy. This expertise enabled the company to operate successfully wherever it went around the globe. And in fact, the knowledge that McCain Foods began to acquire in Florenceville in 1957 is being applied today in locations as far flung as China and India [3].

"Healthy food"

Social trends are one of the key factors affecting a business. Consumer buying patterns are determined by trends. Just as the demand for some popular clothes are determined by fashion, demand for food products is determined by eating patterns. Eating habits are always changing. Currently one in four of all British potatoes consumed are eaten as French fries [2, 6].

One of the biggest issues to the McCain in 2005/6 was the growing concern about obesity, particularly in children. McCain's view was and still is that its French fires can and do play a role in a healthy balanced diet and it is continually finding ways to ensure McCain products are as healthy as possible [2, 6]. The company consistently focuses on offering healthy food products that are low in calories, low in salt, trans-fat free and low in saturated fat. The company maintains specific standards defining the exact amount of salt, fat and other ingredients in all its health food range. McCain aims to introduce about 50% of its products that meet these health standards. In response to consumer demand for non-fried potato products, the company introduced its first range of fresh-frozen convenience potato products in 2009. The company also focuses on reducing sodium and oil in its products. Since 2007, the company's branded potato products have been trans-fat free, with saturated fats reduced by 46%. The company has reduced sodium across its entire product range by 20% in Great Britain since 2001. McCain aims to reduce the salt level in its branded products by 10% per year until these products meet consumer preference thresholds [4].

McCain was trying to get the message over that its French fries are not unhealthy. Therefore, the message that it communicates through public relations campaigns and advertising was that all McCain potato products are made from simple ingredients such as whole potatoes and sunflower oil. The solution to use sunflower oil was to reduce saturated fats by 70% across the whole potato product range. To help guide its research and innovation efforts, the company has built strong relationships with the nutrition and medical health communities and their health and wellness advisory groups [4]. Food technologists know that by working with real potatoes they are dealing with a product that has a very strong nutritional pedigree [2].

It is a little known fact that potatoes are a major source of vitamin C. As a product, potatoes are the second most important staple food in the world today (rice is the first), providing essential carbohydrates that help us to generate energy [2]. To strengthen potatoes as important food, the company also partners with external organizations to promote healthier eating and physical activity in schools, such as the Alliance for a Healthier Generation in the US [4].

Potatoes also have tremendous future potential. In 1995 the potato became the first vegetable to be grown in space. NASA worked with top scientists to develop super-nutritious and versatile potatoes. These can be used to feed astronauts on long space voyages and NASA hopes one day that these will feed space colonies [2].

McCain's healthy foods are likely to get wide acceptance as consumers are becoming increasingly health-conscious and the demand for low-calorie food is growing. Therefore, the company's focus on offering healthy foods enables it to tap the growing consumer preference for healthy foods that, in turn, will increase its sales [4].

Regulations

As a manufacturer and marketer of food products, McCain must work in accordance with all regulations and meet requirements to this market. Therefore, the company is a subject to many federal institutions in the countries where it operates and produces its products.

In United States, MacCain is a subject to US Federal Food, Drug and Cosmetic Act and regulations promulgated by the US Food and Drug Administration (FDA). This comprehensive regulatory framework governs the marketing and distribution (including composition and ingredients), labelling, packaging and safety of food in the US. In addition, the FDA enforces the Public Health Service Act and regulations to prevent the introduction, transmission or spread of communicable diseases. According to Centers for Disease Control and Prevention, nearly 48 million Americans fall sick, 128,000 are hospitalized, and 3,000 from foodborne diseases each year due to consumption of contaminated produce [4].

The company's failure or inability to comply with the regulatory requirements could subject the company to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which may impact the business of the company. Any changes in these regulations may increase the company's compliance cost structure. McCain may have to make additional investments to be in compliance with the operational changes required by the regulations, which may affect the company's cost structure [4].

In United Kingdom McCain has to be aware of the government's Food Standards Agency recommendations that introduced 'traffic light' labels which have to be put on food packages to help people understand what they are buying and to help them make the right choices. There are three colours of labels:

McCain

- Red represents high levels of ingredients such as fats and salts.

- Amber represents medium levels

- Green represents low levels [2, 7].

All of McCain's potato products are able to display the green label for saturated fat and none of its products show a red label [2].

Also featured on the labels are Guideline Daily Amounts (GDAs) that show how much fat, saturated fat, sugar and salt each product contains. This helps the consumer to achieve a consistently balanced diet [2].

In the UK, a voluntary body within the advertising industry, called the Advertising Standards Authority (ASA), supervises advertising of products. McCain makes sure that all its advertising sticks rigidly within the requirements of the ASA. The ASA sets out that all adverts must be: legal, decent, honest and truthful [2, 8].

Moreover, the UK government has increased the pressure on food suppliers by publicizing and supporting healthy eating and creating initiatives such as 'Healthy Schools'. This toolkit is designed to encourage children and young people to think about the choices they make when choosing what to eat [9]. McCain supports the government's initiative. It believes that the foods that it provides, including potato-based products, are nutritious provided that they are prepared in a healthy and simple way [2].

McCain takes all legal responsibilities very seriously. Company finds to build a reputation for honesty and fair play to be important. As a result, McCain's products comply with a range of other laws and regulations, including: The Food Safety Act, covering the way in which food is prepared and served; The Trades Descriptions Act, which states that goods and services must be exactly as described; The Weights and Measures Act governing such aspects as giving the right weight on packs. For example, McCain's oven chips come in packs of 454g, 907g, 1kg, 1.5kg, and 1.8kg [2].

Product failures

McCain has recalled many products recently. In June 2011, McCain Foods Australia recalled 20,000 of pizzas from supermarket shelves across the country due to possible metal contamination. Earlier in 2010, McCain Foods (GB) Ltd recalled all batches of sweet potato with rosemary and garlic due to possible contamination with pieces of grit. In the same year, McCain Foods USA announced a voluntary recall of the McCain All American Roaster frozen potato product as it could be contaminated with salmonella. A year earlier, McCain Foods Australia/New Zealand recalled McCain Foods Healthy Choice Apricot Chicken meals. The company announced that the product batches identified with a best before date of August 24, 2010 may contain high levels of bacteria and are not safe for consumption. Product recalls affect the customer confidence and could erode the demand for McCain products [4].

Sustainability

The company participates in several sustainability initiatives to reduce its environment footprint as well as to ensure effective utilization of resources. McCain mainly focuses on reducing its greenhouse gas (GHG) emissions, energy consumption, and recycling systems. Since 2005, the company has been recording its emissions resulting from energy use throughout its manufacturing facilities. In order to reduce energy consumption, the company's Global Energy Work Group introduced The Search for Joules program in 2008 to integrate McCain's energy initiatives into a systematic approach. This program was implemented across all facilities to reduce energy consumption. McCain's Water Work Group launched a comprehensive global water reduction program called Search for Pools. This program was rolled out in all of its facilities in late 2008 and is designed to identify gaps between a facility's genuine water use and McCain best practice. Moreover, 81% of the company's water intake is returned to the receiving stream following extensive treatment. Furthermore, in 2009, the company recycled 95% of the estimated 800,260 tons of waste generated. Focus on

sustainability initiatives helps the company to reduce its operating cost as well as to increase its profitability [4].

Acquisitions and closures

McCain has been expanding its operations significantly through strategic acquisitions. In February 2013, McCain Foods Australia/New Zealand acquired Kitchens of Sara Lee (KOSL) Australia from Hillshire Brands. This acquisition will expand McCain's range of products across desserts, meals and snack occasions. In October 2012, McCain and PinguinLutosa Food Group (Pinguin), a manufacturer of deep-frozen vegetables, potatoes and canned goods signed a share purchase agreement for the sale of Pinguin's Lutosa division to McCain. In July 2012, McCain Foods Holland announced plans to acquire 100% of the shares of CelaVita, a European chilled potato producer and a subsidiary of Bieze Food Group. This acquisition will further broaden McCain's product portfolio to supply to large retail customers. Earlier in 2010, TDRTG acquired Ottaway Motor Express Limited and Cross Dock Express, two privately owned trucking companies based in Woodstock, Ontario. This acquisition strengthened and expanded the company's transportation and distribution services. Acquisitions such as these will help McCain to generate incremental revenues as well as contribute for future growth [4].

Despite all acquisitions, company has made decisions for closure as well. McCain Foods has closed its potato-processing plant in Penola, South Australia by December 20, 2013, with a total of 59 permanent employees that were offered redundancy packages. McCain Foods' regional president Australia, New Zealand and South Africa, Louis Wolthers, said that continuously rising input costs, such as labour and electricity, and high raw material costs coupled with a surplus capacity, contributed to the closure decision. Wolthers has claimed that the imports of cheaper processed potatoes had risen from 10,000 tonnes in 2002 to 130,000 tonnes at the end of last year [10].

"At the same time, Australia has one of the highest raw material costs in the world, which is unsustainable in the long term," he said. "Cheaper potato imports are seriously threatening the future of the processing industry in Australia and will place further cost pressures on Australia's growers. This step is not a reflection on the performance of the workforce, but is influenced by the rising costs of manufacturing in Australia." McCain Foods had been in Australia since 1976 and was committed to continuing its operations in Victoria, Tasmania and NSW, where the company recently acquired Sara Lee. McCain Foods will continue to process potatoes only at plants in Smithton, Tasmania, and Ballarat in Australia [10].

Market growth

The global frozen food market has been witnessing steady growth in recent times. According to MarketLine, the global frozen food market grew by 3.2% in 2011 to reach a value of $117.5 billion. In 2011, frozen ready meal was the largest segment of the global frozen food market, accounting for 24.2% of the market's total value. By 2016, the global frozen food

market is expected to reach a value of $137.4 billion, an increase of 16.9% since 2011 [4]. Only in UK by 2016, frozen food market is forecasted to have value of $7,1 billion, as an increase of 12,7% since 2011 [11]. By leveraging its product offerings and brand portfolio, McCain can benefit from the growth trend in the frozen food market [4].

Price fluctuations

One of the business challenges is price fluctuation. McCain is vulnerable to price fluctuations of the basic ingredients for the frozen food industry: flour and vegetable oils. The sunflower oil price was $1,553.41 per metric ton in January 2012. This decreased to $1,441 per metric ton in February 2012 and largely remained close to that price until June 2012. It further increased to $1,505.54 per metric ton in July 2012 and then declined to $1,483.03 per metric ton in November 2012. The price of sunflower oil stood at $1,462.01 per metric ton in March 2013. If McCain is unable to pass on the increase in raw material prices to its customers, it will have an adverse impact on its operating margins [4].

Income changes

Economic factors include changes in buying patterns as people's incomes rise. For example, as incomes go up people prefer to buy what they see as superior varieties of a product type. This might be seen with the development of ready prepared foods [2].

As people become cash-rich and time-poor they prefer to switch to ready meals and simple to prepare foodstuffs that they can quickly heat in an oven or microwave. Rather than buying potatoes and making chips at home or taking the time to go to a fish and chip shop, it may be seen as more desirable to buy oven chips. Of course, it may be cheaper to make your own chips by peeling and cutting up potatoes. However, with growing affluence people prefer ready prepared oven chips [2].

Responsible eating and healthy exercise encourages everyone's health and well-being. McCain has raised to this challenge by creating a range of varieties e.g. McCain's Straight Cut Oven Chips, Home Fries, roast potatoes and wedges, to appeal to a variety of customers [2].

Food technology

Food technology is one of the most dynamic technologies in the modern economy. Food technology involves researching and developing new techniques for making products as diverse as ice cream, probiotic yoghurt, frozen oven chips and muesli bars [2].

Each of these products involves finding technical solutions to problems such as how [2]:

- to freeze while retaining flavour;

- to maximize natural nutritional characteristics;

- to turn a frozen product into an oven heated product.

McCain is continually being faced by new challenges from technological factors. It should be no surprise that McCain's food technologists were happy to rise to the challenge of making its potato products even healthier. McCain needed a solution that not only reduced fat and salt, but also kept the sort of flavour that would delight customers [2].

Conclusions

Challenges to the business come from a number of environment factors. Change is the one constant in the business environment. The most important factor is customers' ability to buy. This factor is uniting all information need for the company to satisfy its customers including income changes, market trends, changes of customer eating habits, etc. Because McCain is a market-focused company, it recognizes that it has to respond to what its consumers want and need, and of course what are the trends of the market. There are clear indicators that today's consumers want to live a healthier lifestyle. Consumers are increasingly aware of food content and food issues. More and more people look at food labelling and read information in the press about what is good for them. They are asking for advices from teachers and nutritionists. Therefore, McCain Company is challenging its researches and food technologists to develop new ways of preparing potatoes to meet healthy food standards [2].

The other important challenge for the company is and always was to keep the company operating. Therefore, company must meet not only healthy food standards, but also to meet all regulations and laws, market changes, price fluctuations, etc. Important factor of the resent business trend is to keep being social responsible, which will summarize all external and internal business environment factors affecting MaCain business to keep being the leader in the world's market.

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PRACTICAL ASSIGNMENTS

Assignment #1

This assignment is to be conducted before reading the case. The *goal* of this assignment is to recall already known information about external business environment. The students should use one picture card (one card per student). Students must choose one picture in the card and decide what business it will describe - whether it is a product or a service related with the product (E.g. Lamp: lamp production or lamp repairing service). In 10-15 min students individually have to write down as many factors as possible that might affect his/her chosen business. In the next 5-10 min students in pairs (preferably groups are made according chosen business type "production" or "service") are discussing and helping each other to develop more ideas on those factors. In the next 10-15 min 3-4 students group (there business type for group forming have no matter) have to share their ideas and categorize them considering common aspects of the factor. Then the group is presenting what categories they came up with. The *result* of this assignment: after 25-40 min must deliver the major external (and internal - optional) environment factors that are affecting business.

Assignment #2

The *goal* of this assignment is to identify external factors that are/were affecting McCain company business. Students working in groups of 2-3 firstly have to identify all situations described in the text that made influence to change McCain business activities. The lecturer, after 10-15 min of students' individual work, have to help students by giving pictures on the screen of the situation described in the text, to stimulate understanding of the task. Secondly, students need to classify founded situations on the main external business environment categories: Social, Legal, Economical, Technological, and Ethical. The *result* of this assignment: students learn and are able to identify major external business environment factors.

Assignment #3

The *goal* of this assignment is learn how look at the business from the different customer perspective. Students, using "People" cards and working in pairs, need to discuss why they would/would not buy McCain's frozen French fries looking from the perspective of a profession given in the card. What influence those profession people would do to this company if they would have the power in the market? The *result* of this assignment: students are able to look critically at the business from different perspectives.

Assignment #4

The *goal* of this assignment is to conduct PEST analysis and provide solutions to the current business situation. Students working in pairs need to prepare PEST analysis, prepare report on the possible solutions for the current business issues. The students are able to use any kind of stimuli cards. Students have to provide not only solutions on the issues described in the text, but also on the arising problems using information from the current market situation. The *result* of this assignment: students are able to prepare PEST analysis, critically look on the changes in external business environment.

Assignment #5

The *goal* of this assignment is to learn how to prepare SWOT analysis on given information. Students working in groups of 2-3 people have to use the given text to prepare SWOT analysis using mixed cards as stimuli. Students also have to discuss whether the McCain company cope correctly with the difficulties in business and how internal business environment would support disadvantages convert to advantages. The *result* of this assignment: students are able to identify strengths, weaknesses, opportunities and threats of the business and to provide business improvement tools.

8.2 CASE STUDY 2. TESCO: ORGANIZATIONAL VALUES AND LEADERSHIP

Introduction to the topic

The organizational values are often discussed in the management literature as an important key for a business success. Many scientists would agree that to possess strong and inspiring values of the organization also means that company considers them as a key quality factors to recognize their most successful leaders. This way of thinking also leads to the understanding that organizational values contribute to the culture and ultimate success of the organization [1].

Therefore top managers strive to communicate their organizational values to employees, since influence is shaped by the beliefs of social players and since the successful use of values may form identity and aspirations, converting employees into morally engaged supporters of the organization. For this purpose organizational values need to reach and connect with employees including leaders. However, since values are more complicated to communicate and implement than the rules and routines, top managers have to prepare organization socially, and they have to be trained to understand what organization is expecting with those values [2].

To communicate organizational values effectively, leaders also have to choose the best way for the delivering the right message through organizational structure. The biggest issue is that even the best leaders choose different leadership styles that are not supporting good communication. For instance, charismatic and human-oriented leaders are communicative, while task-oriented leaders are significantly less communicative. The communication styles are also depended on knowledge sharing behaviors, perceived leader performance, satisfaction with the leader title and subordinate's team commitment [3].

As a result organizational values and leadership are inseparable subjects to discuss especially when analyzing business performance and its success in the global market.

Tesco PLC business case

Tesco PLC was founded in 1919 by Jack Cohen from a market stall in London's East End. Over the years business has grown and now operates in 12 countries around the world: United Kingdom, South Korea, Ireland, Turkey, Thailand, Poland, India, Czech Republic, Slovakia, Malaysia, Hungry and China. Tesco employs over 530,000 people in 6,784 stores and serves 75 millions of customers every week. Company generates £70,9 billions group sales from which £2,3 billions is group profit before tax [4, 5].

1 figure. Tesco PLC logo [5]

Tesco PLC is multinational grocery and general merchandise retailer. It is a customer-orientated business that aims to offer products that provide value for money for its customers and to deliver high-quality service. Tesco wants to attract new customers, but it also wants to keep its existing customers happy. Building customer loyalty is a cost-effective strategy to grow the business. This is because satisfied customers are a good advert for the business [5, 6].

Tesco has more than a 30% market share of the UK grocery market; nearly double that of its nearest rival. In its 2009/2010 financial year, Tesco earned revenues of £38.6 billion in the UK and employed more than 280,000 people. Tesco PLC seeks to keep at the top of this game and to maintain its number one spot in the market. The company needs skilled staff at all levels and in all roles to provide the best shopping experience. Therefore company continues to focus on doing the right thing for the customers, colleagues and the communities they serve [5].

Core purpose and values

Tesco PLC has defined the new core purpose for the company "we make what matter better, together". This core purpose is reflecting how much society has changed in recent years. There is more skepticism about corporations, more desire to see business demonstrate that it has a purpose beyond profit, a sense that large companies should be contributing more to tackling some of the big challenges. The world has changed from a culture of 'more is better' to 'making what matters better' [5].

2 figure. Tesco PLC core purpose [5].

New core purpose reflects the way Tesco think and behave as a business. This brand is more than simply function; it's about the way of work, the values to live by, and the leaving legacy. Company understands that nobody can solve the world's

problems but it tries to show that they want to always do the right thing, to inspire and to earn trust and loyalty from all of the stakeholders [5].

The core purpose is applied in three dimensions: customers, employees and scale for good. Company is seeking to understand the customer, to be first to meet their needs and act responsibly for the communities. For this they are using club cards and social media to collect information about what matters to the customer and then acts by changing and innovating to meet their needs. On the employees dimension, company promoting team work, trust and respect each other, listen and support, and to share knowledge and experience. Tesco believes that those core values are essential to the company success and in return employees will try their hardest for customers. Scale for good Tesco defines as a guarantee to provide affordable and high-quality food for people, create value for customers and society as whole. This is achieved by creating jobs for young people; helping and encouraging colleagues and customers to live healthier through helping to tackle the global obesity crisis; and reducing food waste globally [5].

Tesco Organizational structure

Being a global corporation Tesco needs to develop organizational structure based on different levels authority and responsibility. The proper business structure let's to delegate tasks and to clarify responsibilities to each member. It also allows carrying out good leadership and effective communication inside the company. Well-developed organizational structure also helps managers to achieve efficient distribution and engagement of company values and core purpose through each member of the Tesco team [7].
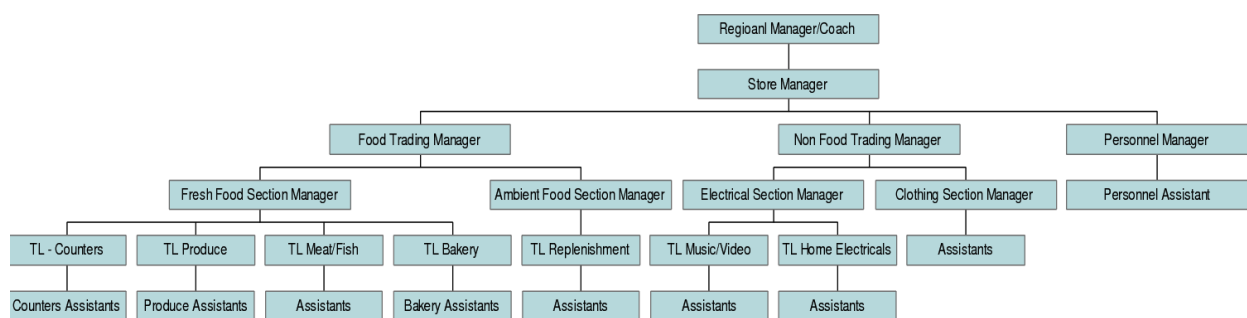
3 picture. Tesco PLC regional organizational structure [8].

Roles in Tesco

Roles in Tesco range from business development, supply chain management and marketing to finance, store operations and personnel management. Each area of expertise requires leadership and management skills. Tesco aims to develop the leadership qualities of its people throughout the organization, from administrators and customer assistants to the board

of directors. [6]. Tesco aims to invest in leadership development within the business to support not only companies but also national and global growth. Therefore, they are investing around £3m per year to train leadership skills in Tesco Academy. Peta Hay, Director of the Tesco Academy, commented: "We believe it is more important than ever to invest in our people as Tesco continues to expand both geographically and into new business sectors. Tesco has a proven track record of both nurturing internal talent and successfully attracting external senior executives. Our investment in leadership development represents the largest of its kind in the retail sector. The Tesco Academy aims to develop leaders who have a vision that they can align the business behind and who live our values. This will ensure that, as the business continues to expand, our leaders have the capability to deliver the stretching targets set" [9]. As a result, Tesco adopts a similar approach to leadership development for staff at all levels ranging from store managers to directors and chief executives [6, 9]. This is in line with Tesco's employment philosophy: 'We believe in treating each other with respect, with everyone having an equal opportunity to get on, ensuring Tesco is a great place to work.'[6].

Management and leadership

Management and leadership are two inseparable but different definitions. Management is about getting things done: managers organize human and physical resources to achieve business aims and objectives. Leadership is about influencing, motivating and inspiring people. It is about coaching and developing people, treating them with respect but challenging them. Leaders seek to create strong teams, with people committed to the organization's overall goals [6]. Anyhow, both management and leadership roles have a common goal and are concerned with the overall success of the business [10].

The process of managing starts with the target or objective to be achieved. A manager must decide on the appropriate approach for reaching that target. The manager then needs to communicate this approach clearly to his or her team and to allocate tasks to each team member. Task allocation and delegation of responsibility is part of the management function [6]. However most of the management tasks overlap with leadership

4 figure. Tesco PLC values [5].

[10]. There are also other factors such as the task in hand, the skills and the style of leadership that will have an influence on whether the target is achieved [6].

Leadership styles

The style of leadership can vary depending on the task or on the management level whether leader is senior or first-level manager [11]. Some managers allow teams to take charge of their own decision-making for many tasks. Team leaders will set the objectives but empower team members to decide how these objectives are achieved [6]. Difference in leadership at organizational levels hides in contingent reward, intellectual stimulation and inspirational motivation. [11]. It helps to motivate individuals in the team and it draws on the expertise of the members of the team [6].

There are three main leadership styles discovered already in 1939 by the psychologist K. Lewin: autocratic, democratic and 'laissez-faire'. Autocratic leaders provide clear expectations for the task reducing creativity and creating clear division between the leader and the follower [12]. However, an autocratic approach is appropriate in some situations. It is valuable when the business faces a crisis or when an urgent problem arises that requires an immediate response [6]. Democratic leader offers guidance to the followers for the task and also participates in the group work. This leader encourages group work but remain the final word for decision-making process. The third style of leadership "lasses-faire" is the least productive in group work. This leader offers little or no guidance and leaves decision making up to its group. [12].

Tesco's leadership framework sets out not just the skills and competencies but also the personal characteristics and behaviors it expects of its leaders. Tesco looks for managers who are positive, confident and genuine, with the capacity to inspire and encourage their teams. A key part of Tesco's program for building leaders is encouraging self-review and reflection. This allows staff to assess their strengths and find ways of demonstrating the characteristics that are vital to the long-term development of the business [6].

Berian - a bakery manager

Berian manages a team of 17 in a Tesco in-store bakery. One of the key challenges of Berian's job is to ensure his team produces the right products to meet demand at key times. His usual management approach is to allow the team to take responsibility for achieving the desired result. In this way, the team not only buys into the activity, but also develops new skills. For example, when the bakery expanded its product range and Berian needed to ensure that all the products would be on the shelves by 8.00 am, rather than enforce a solution, he turned to the team for ideas. The team solved the problem by agreeing to split break times so that productivity could be maintained. Berian's approach produced a positive outcome and increased team motivation [6].

Stephen - a Tesco store manager

Stephen is the manager of a medium-sized Tesco store. He has been with the company for over 10 years and his first job was filling shelves in the dairy section. He is currently working

towards the Tesco foundation degree. Stephen directly manages a team of around 20 departmental managers, who between them are responsible for almost 300 people. Stephen is usually allowing his managers to make most operational decisions. However, if, for example, an accident occurs in the store, Stephen may take control to ensure a prompt and coordinated response [6].

Stephen's preferred leadership style is to take a democratic approach. He consults widely as he feels that staff responds better to this approach. For example, when planning a major stock reduction program, he encourages his managers to put forward ideas and develop plans. This increases team motivation and encourages creativity. Some mistakes may be made, but they are used as a learning experience. However, as a store manager, Stephen deals with many different situations. Some may be business critical and it is important that he responds to these in the most appropriate way. In such situations, Stephen may need to adapt his leadership approach and exert more authority [6].

Martin – a Tesco's Program Manager for Education and Skills

Martin is Tesco's Program Manager for Education and Skills in the UK. He has a range of responsibilities associated with people, processes and standards. Martin may use a democratic approach when setting training budgets. Managers can suggest ideas to make cost savings and they can jointly discuss their proposals with Martin. By empowering his managers, he gets them to take ownership of the final agreed budget [6].

However, Martin sometimes could take a role of "lassez-faire" leader. For example, he might leave an experienced departmental manager to develop a budget. This could be because he trusts that the manager has a good knowledge of the needs of the department and of the business [6].

Factors influencing leadership style

People at each level of responsibility in Tesco, from administrators and customer assistants to directors, face different types of decisions. Each comes with its own responsibilities and timescales. These will influence the most appropriate leadership style for a particular piece of work or for a given project or audience [6].

Tesco managers have responsibilities for 'front of house' (customer-facing) staff as well as 'behind the scenes' employees, such as office staff. Before making a decision, the manager will consider the task in hand, the people involved and those who will be affected (such as customers). Various internal and external factors may also affect the choice of leadership style used [6].

Internal factors include the levels of skill that employees have. Large teams may have members with varying levels of skill. This may require the manager to adopt a more directive style, providing clear communication so that everyone knows what to do to achieve goals and tasks. On the other hand, team leaders may take a more consultative approach with other

managers of equal standing in order to get their co-operation for a project. External factors may arise when dealing with customers. For example, Berian may need to use a persuasive style to convince a customer to accept a replacement product for an item that is temporarily out of stock [6].

Although each person will have their own preferred leadership style, the most effective leaders adopt a style appropriate for the situation. The researches consider several factors in deciding which style for leader to use [13]:

- *Leader's personality*. It is important for a leader to act naturally, and not to pretend some values that are not acceptable for the leader himself.

- *Group maturity*. It is measure of group growth and development. At the beginning group is expecting guidance from the leader, but as it develops through time and experience, group becomes more independent from the leader.

- *Time available*. If time is critical as an emergence, the decision-making process is faster without group involvement.

- *Power*. The power of leaders over followers is largely dictated by the circumstances of the group. The leader has considerably more power when he or she can eliminate the member from the group, reduce his status or decrease his benefits.

- *Concern for member satisfaction*. Having satisfied members is important to the health of most groups, particularly non-profit community groups. The only rewards most community groups can offer their members are acceptance and satisfaction from pursuing worthwhile goals.

Tesco employees are changing their leadership style according to the situation. For example, Martin uses a more authoritarian style if something needs achieving in a particular way or in a very quick timeframe. Sometimes budgets need to be reduced quickly in order to make cost savings. Martin will tell managers what needs to be done and by when, so that they can then resubmit their budgets in line with expectations [6].

Stephen regards inspiring, guiding and influencing his staff as an important part of his role. Sometimes he may need to inform his teams about a new in-store innovation or corporate initiative. He tries to ensure that staff understands why it is necessary. If his people are able to give their opinions, it is more likely that they will readily support the initiative [6].

Managers have to be aware of the possible consequences of using the wrong style in a particular situation. For example, Berian would not adopt a laissez-faire approach with a new member of the bakery team. If the employee is not given proper instruction before operating the baking equipment, the bread might be overcooked. Employees might also injure themselves if they don't use the equipment properly. In this situation, it is essential to adopt a autocratic approach [6].

Tesco critical success factors

In order to build a sustainable and robust business, Tesco has set out critical success factors. These are linked at all levels to its business goals. Some critical success factors are to be applied to all employees. These are [6]:

- Customer focus – to ensure delivery of 'every little helps'

- Personal integrity – to build trust and respect

- Drive –to achieve results, even when the going gets tough

- Team working – to ensure positive relationships in and across teams

- Developing self/others – to motivate and inspire others.

Others are specific to the level of responsibility the person or role has and covers [6]:

- Analyzing and decision making

- Managing performance

- Managing change

- Gaining commitment.

By meeting the requirements of these critical success factors Tesco managers can build their leadership skills and contribute to the growth of the business [6].

Conclusion

Tesco as multinational company have developed a lot of business values and business operating purpose. Those values are constantly updated to the market trends and employees also customers' personal values changes. Company believes that those values will assist in achieving the company, national and global growth. It believes that correct values will inspire employees to work harder and transfer those values to the customers and the Tesco society.

Therefore Tesco leaders need to be inspirational, creative and innovative, ready to embrace change and with a long-term vision for achievement. Effective leaders manage their teams corresponding business values and applying good practice as an example. It requires leaders who can motivate, solve problem and build great teams. Tesco employs people in a wide range of roles and provides a career structure, which allows employees to progress through the organization. Tesco believes that they can develop new leaders generation therefore they are employing graduates with the same values as the company has and gives them an opportunity to develop themselves as team leaders. Even if someone starts as working in store filling shelves – as did Stephen – they can progress through the organization into positions of authority and responsibility.

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PRACTICAL ASSIGNMENTS

Assignment #1

This *assignment* is to be conducted before reading the case. The goal of this assignment is to understand the values as a stimulus for an organizational or personal performance. The students in 10 minutes must write down as much personal values as they can. In the next 5 min, lecturer must give some stimuli pictures to help students to remember their values. In the next 20 students together with the lecturer must discuss how a personal value guides them in the personal life. Use value/consequence approach. The *result* if this assignment: after 35 min students understand why there are organizational values created and presented to the market.

Assignment #2

The *goal* of this assignment is to analyze the organizational values and develop possible outcomes for the organization. In 20 minutes students must read the above case and identify all values of the company and prepare to discuss how those values should reflect in company's performance. (E.g. value: employee trust for each other; it may bring company to the quick and efficient response to the customer needs and problem solutions, as employees communicate the right information and share tasks evenly). Lecturer must react on the students' creativity; if it is necessary the stimuli pictures or key words may be used. The *result* of this assignment: students understand and critically think what are the purpose and consequences of organizational values implementation.

Assignment #3

The *goal* of this assignment is to understand the relationship between organizational values and leadership. The students in pairs must find how Tesco leaders are communicating company's values through their leadership in the text. Then, students need to identify exact values that were already discussed in the assignment #2. For the values that were not found in the leadership descriptions, discuss how they could be used in the manager's performance. For the work in pairs students must be given 20 min. Then lecturer must bring a discussion to the audience: how does Tesco's value correspond to the Tesco's managers' leadership. What improvements might be done? The *result* of this assignment: students may identify and critically relationship between organizational values and leadership in the company.

Assignment #4

The *goal* of this assignment is to learn and identify the differences of leadership styles. Students using the "People" cards have to discuss in pairs how they imagine different profession specialist written in the cards in terms of leadership; how do they look as leaders? Are they "telling" or "suggesting" to their team members? Discussion has to be conducted about 10 min. After discussion students in pairs need to choose one or two of the professions to play a role of this profession specialist being a democratic, autocratic and "laissez-faire" styles leaders. For the preparation students must be given 10 minutes. The *result* of this assignment: students understand and can identify the difference of the three main leadership styles, as well as are able to adapt leadership styles in various situations.

Assignment #5

The *goal* of this assignment is to develop ability to form leadership style according to the situation. The students in pairs must read each (Berian, Stephen, and Martin) Tesco leaders work situations described in the text as stimuli. Then, they must imagine and describe the workday of those leaders. After, they need to present three situations when those leaders might use different styles (autocratic, democratic, and "laissez-faire") of leadership. On what factors it depends? For all task students must be given 25 minutes. The *result* of this assignment: students understand leadership dependence on the different situation elements.

8.3 CASE STUDY 3. ROYAL MAIL: CHANGE MANAGEMENT

Introduction to the topic

Changes as a challenges are the constant in today's fast moving business world. Ages ago when the markets were either closed or undeveloped to achieve predictable earnings growth company executives had only to modify strategic plan. Market transparency, labor mobility, global capital flows, and instantaneous communications have blown that comfortable scenario to smithereens. In most industries — and in almost all companies, from giants on down — heightened global competition has concentrated management's collective mind on something that, in the past, it happily avoided: change. Today most senior executives are with unfamiliar challenge [1]. Change management requires separate and careful managers and executives attention. However, to improve the likelihood of success and return of investment it is important to consider that change management and project management are two critical disciplines to a variety of organizational changes [2].

While project management focuses on the tasks to achieve the project requirements, change management focuses on the people impacted by the change. Change management is the process, tools and techniques to manage the people-side of change to achieve the required business outcome. Change management incorporates the organizational tools that can be utilized to help individuals make successful personal transitions resulting in the adoption and realization of change [2]. Executives must also consider people culture, values and behaviors to encourage desired results [1].

Change management support moving an organization from a current state (how things are done today), through a transition state to a desired future state (the new processes, systems, organization structures or job roles defined by 'the change') [2].
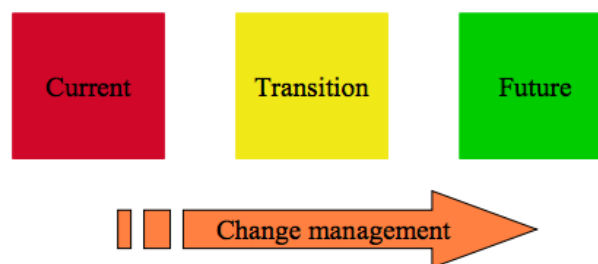
1 figure. Change management transition [2]

Change management is always applied for one of the four parts of how organization operates: Process, Systems, and Organizational Structure or Job roles. Change typically results as a reaction to specific problems or opportunities the organization is facing based on internal or external stimuli. While the notion of 'becoming more competitive' or 'becoming closer to the customer' or 'becoming more efficient' can be the motivation to change, at some point these goals must be transformed into the specific impacts on processes, systems, organization structures or job roles. Change management evolved as a discipline and as other disciplines provides processes and tools needed to realize change successfully [2].

Change management processes:

- Planning for change
- Managing change
- Reinforcing change

Change management tools:

- Individual change model
- Communications
- Sponsorship
- Coaching
- Training
- Resistance management

Change management outlines the steps needed to help the individuals impacted by the change adopt it and do their jobs in the new way, for instance, people transitioning from fulfilling function 'a' to function 'b'. The goal is to help each individual impacted by the change to make a successful transition, given what is required by the solution [2].

Change management as a long-term structural transformation has four characteristics: scale (the change affects all or most of the organization), magnitude (it involves significant alterations of the status quo), duration (it lasts for months, if not years), and strategic importance. Yet companies will reap the rewards only when change occurs at the level of the individual employee. No single methodology for the change management fits every company, but there is a set of practices, tools, and techniques that can be adapted to a variety of situations. What follows is a "Top 10" list of guiding principles for change management [1].

10 principles of Change management:

1. *Address the "human side" systematically*. A formal approach for managing change — beginning with the leadership team and then engaging key stakeholders and leaders — should be developed early, and adapted often as change moves through the organization. This demands as much data collection and analysis, planning, and implementation discipline, as does a redesign of strategy, systems, or processes.
2. *Start at the top.* The leaders themselves must embrace the new approaches first, both to challenge and to motivate the rest of the institution. They must speak with one voice and model the desired behaviors. The executive team also needs to understand that, although its public face may be one of unity, it, too, is composed of individuals who are going through stressful times and need to be supported.
3. *Involve every layer*. Change efforts must include plans for identifying leaders throughout the company and pushing responsibility for design and implementation down, so that change "cascades" through the organization. At each layer of the organization, the leaders who are identified and trained must be aligned to the company's vision, equipped to execute their specific mission, and motivated to make change happen.
4. *Make the formal case.* The articulation of a formal case for change and the creation of a written vision statement are invaluable opportunities to create or compel leadership-team alignment. Three steps should be followed in developing the case: First, confront reality and articulate a convincing need for change. Second, demonstrate faith that the company has a viable future and the leadership to get there. Finally, provide a road map to guide behavior and decision-making. Leaders must then customize this

message for various internal audiences, describing the pending change in terms that matter to the individuals.

5. *Create ownership.* Leaders of large change programs must over perform during the transformation and be the zealots who create a critical mass among the work force in favor of change. This requires more than mere buy-in or passive agreement that the direction of change is acceptable. It demands ownership by leaders willing to accept responsibility for making change happen in all of the areas they influence or control. Ownership is often best created by involving people in identifying problems and crafting solutions. It is reinforced by incentives and rewards. These can be tangible (for example, financial compensation) or psychological (for example, camaraderie and a sense of shared destiny).

6. *Communicate the message.* The best change programs reinforce core messages through regular, timely advice that is both inspirational and practicable. Communications flow in from the bottom and out from the top, and are targeted to provide employees the right information at the right time and to solicit their input and feedback. Often this will require over communication through multiple, redundant channels.

7. *Assess the cultural landscape.* Thorough cultural diagnostics can assess organizational readiness to change, bring major problems to the surface, identify conflicts, and define factors that can recognize and influence sources of leadership and resistance. These diagnostics identify the core values, beliefs, behaviors, and perceptions that must be taken into account for successful change to occur.

8. *Address culture explicitly.* Leaders should be explicit about the culture and underlying behaviors that will best support the new way of doing business, and find opportunities to model and reward those behaviors. This requires developing a baseline, defining an explicit end-state or desired culture, and devising detailed plans to make the transition.

9. *Prepare for the unexpected.* Effectively managing change requires continual reassessment of its impact and the organization's willingness and ability to adopt the next wave of transformation. Fed by real data from the field and supported by information and solid decision-making processes, change leaders can then make the adjustments necessary to maintain momentum and drive results.

10. *Speak to the individual.* Team leaders should be as honest and explicit as possible. They need to explain individuals how their work will change, what is expected of them during and after the change program, how they will be measured, and what success or failure will mean for them and those around them. Anyhow, people will react to what they see and hear around them, and need to be involved in the change process. Highly visible rewards, such as promotion, recognition, and bonuses, should be provided as dramatic reinforcement for embracing change. Sanction or removal of people standing in the way of change will reinforce the institution's commitment.

Using these 10 principles as a systematic, comprehensive framework, executives can understand what to expect, how to manage their own personal change, and how to engage the entire organization in the process [1].

Royal Mail business case

Royal Mail is a postal service company in the United Kingdom. Royal Mail was established in 1516. The company's subsidiary, Royal Mail Group Limited, operates the brands Royal Mail and Parcelforce Worldwide. The profit (operating profit after transformation costs) for the half-year ended 29 September 2013 was £283 million. Company's vision is to be recognized as the best delivery company in the UK and across Europe [3].

Royal Mail strategy aims to maintain their market leading positions and target new segments and channels where they can grow. Company also focuses on being a more efficient and flexible organization. The ongoing transformation program – one of the largest of its kind in the UK – continues. Standardization, consistency in execution and tight cost control are key. Also it is a greater focus on anticipating customers' needs and responding flexibly

2 figure. Royal Mail logo [4]

to them. Underpinning that focus is a major emphasis on technology – renewing or replacing legacy systems and investing in new IT architecture, providing barcoding and tracking for parcels, and greater connectivity with the customers [4].

Employees

Royal Mail employs over 150,000 people in UK. Company appreciates its employees and is making efforts to create and improve better and easier workplaces. For this initiative Royal Mail has established many initiatives and had invested 50,000 days of formal training to 31,000 employees only in 2013. For the training were offered three apprenticeship programs in Engineering, Motor Vehicle and Operational Management leading to national vocational qualifications [4].

One of the programs is World Class Mail, which helps to drive standards throughout the company. This program is structured in 10 pillars is dedicated for continuous improvement involves employees using both innovative and well-established techniques for improving safety, customer service, productivity and quality. At the heart of World Class Mail is the embedding of certain common values across Royal Mail's operations, including the treatment of high performance as standard, opportunities for enhancing employees' training and skills, and the generation of a sense of pride and opportunity in the workplace [4].

Royal Mail also developed transformation program in which company committed to involve all employees. Company is doing this through an employee engagement program in consultation with their unions as well as via a regular program of internal communications. They deliver wide-reaching communications to keep people abreast of their business future and reasons for change [4]:

1. *On-site engagement:* The senior managers deliver over 600 face-to-face briefing sessions per year to answer questions and get feedback.

2. *Town halls:* Hosted by members of the Executive Leadership team, including Moya Greene, the CEO, theses events address up to 1,000 colleagues at a time.
3. *Conferences:* The annual Operations and Modernization conference is attended by around 2,600 managers and union representatives. Company also runs regular senior management forums with an average of 800 people attending each one.
4. *Work Time Listening and Learning:* weekly updates by managers to team members.
5. *Employee newspaper:* A monthly staff newspaper delivered direct to colleagues' homes.
6. *RMTV:* A weekly TV program broadcast on internal screens and via the intranet.

Changes and Challenges

Over 500 years that company operates, there were many market changes. The markets – by category and geography – in which Royal Mail operates are changing quickly. E-retail is driving growth in parcels. Royal Mail is well positioned to benefit from domestic and cross-border growth. There is growing competition in parcels delivery. In the UK, where Royal Mail is a market leader, competitors are improving their service levels; some e-retailers are providing their own delivery solutions. Market capacity has increased; there is growing price pressure too. Consumers now have many choices, including alternatives to the Post Office. Disruptive technologies, long a feature of those markets, are on the increase. Items traditionally delivered physically as parcels (such as books, CDs and DVDs) are in competition with downloads and streaming. In letters, e-substitution is a major structural factor underpinning continued volume decline [4].
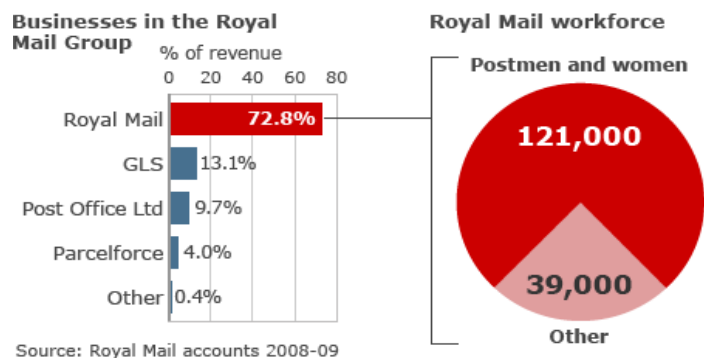
3 figure. Business in the Royal Mail 2008 [5].

The resent market changes challenged Royal Mail to not only develop new business strategy, but also clearly prioritize their objectives for a successful performance. Three main priorities: capitalizing on growth in online retailing to grow parcels businesses; continuing to mitigate structural decline in the letters market by maximizing the value of mail; and by being customer-focused [6].

At the moment Royal Mail recognizes the following achievements for their vision based on three priorities [6]:

1. Being a successful parcels business.

- The UK parcels market has shown continued growth, thanks to the increase in online retailing. More than half the money Royal Mail earn comes from parcels businesses.

- Royal Mail is investing in their parcels networks and their tracking technology to meet customer needs. A long-term investment program in their UK network will ensure they have the capability they need to accommodate the changing traffic mix from letters to parcels.

2. Managing the decline in addressed letter volumes.

- Royal Mail has already transformed how they sort letters, automating the handling process in Mail Centers.

- Royal Mail is continuing with their program of delivery revisions, changing the way they deliver to more than 29 million addresses across the UK. This also allows them to effectively manage growth in parcel volumes and at the same time improve their productivity.

- Changes to the regulatory framework in 2012 have given them greater commercial freedoms. These enable them to respond better to market changes. Royal Mail has already taken steps to simplify and improve many of their propositions.

- Marketing mail is one of the most successful ways to reach out to customers. Royal Mail launched MarketReach in 2012 to transform their direct marketing offering. They are now developing ways to help their customers derive more value from all the mail they send, like Mailmark, which combines a new barcode with innovative optical technology and digital performance reporting.

3. Being customer focused.

- In this competitive market, Royal Mail customers have a choice. Company is developing the services offers to ensure they meet customers' needs.

- Royal Mail is investing in technology to provide the tracking services that customers expect. They are working with customers to anticipate times of peak demand and ensure they can deliver the high quality service that customers need.

Moya Greene leading changes

Moya Greene is a Canada native first women and first non-Britain Chief Executive Officer (CEO) to head Royal Mail. In 2010 when Moya arrived to head the Royal Mail, company was mired in trouble: it faced a rapid decline in revenue from letters, the service's historic mainstay; a huge pension deficit; union opposition to government plans for privatization; and an unworkable regulatory framework that discouraged the business from introducing new products and prevented it from setting its own prices. But Greene, a veteran Canadian civil servant, came well prepared. In her previous job as head of Canada Post, she increased profits and streamlined operations ahead of talk of privatization. In her two years at Royal Mail, Greene has succeeded in reversing declines in revenues and profit and has built goodwill with regulators and the postal unions—even as she leads a strategic overhaul of the service's business model [7].

Revenue by business and market (£m) (adjusted 52 weeks 2013)

Business segment/product	Parcels	Marketing mail	Letters & other mail[1]	Total
UK Parcels, International & Letters (UKPIL)	2,933	1,118	3,582	**7,633**
General Logistics Systems (GLS)	1,498	–	–	**1,498**
Other	–	–	15	**15**
Group	**4,431**	**1,118**	**3,597**	**9,146**

Percentage of revenue by market (adjusted 52 weeks 2013)

	Group revenue (%)
Parcels	48
Letters & other mail[1]	40
Marketing mail	12

4 figure. Business of the Royal Mail 2013 [8].

Working in a public sector Moya understood how easily sound policies can be derailed by small, symbolic things. It may not matter that the policy change is the product of fantastic analytics or years of brilliant stakeholder management; the tiniest little spark can become a flash fire—something that takes hold and transforms perceptions. Work in the public sector teaches the value of developing antennae for popular perceptions and keeping them finely tuned [7].

To keep related to the employees she tries to spend time in the field communicating with postal workers and their families, that's nearly 500,000 people. CEO also is trying to help them understand how good company is at what they do. "They are the most powerful ambassadors for the brand, and they need to be given accurate information about what we're doing." said Moya. She finds difficulties for communications because of negativism in the media. She believes that good internal communications is a way to punch through the media issues. She tells to her employees: "Here's what's really happening. Stand up and be proud." [7].

When Moya was asked how she struck a balance between he many demands on your time, particularly when driving change, she said:" I try to think about my agenda as divided into big blocks of time that I actively monitor. I recently did a diary analysis, which showed I spend roughly 15 percent of my time managing and understanding our employees. Another 25 percent of my time last year was devoted to changing the fundamentals of the company, notably its unbelievably wrongheaded regulatory model (which stopped us changing a product, a product spec, or a product price). Without wholesale changes to that model, I felt there was no hope for the company. Next, I spent 15 percent of my time seeking to change the conversation inside Royal Mail so that we put the customer much closer to the heart of what we talk about and do. How do we tap into customer sentiments and improve satisfaction? A further 10 percent was taken up with what I call strategic realignment, helping

people understand that we're going to make our money in future in parcels and packets, in media, and by selling our data assets in a more commercial way. That left 35 percent for everything else: organization, recruitment, managing the board, and crisis management." [7].

Business growth

In 2012 October, BBC News announced that Royal Mail is to create 1,000 jobs in the UK over the next four years as part of a £75m investment program for its parcels business. A new parcel processing center was open in Chorley in autumn 2013. Two new depots was open in Cornwall and Hampshire while nine existing depots had been expanded or moved to larger sites over the next four years. At that time, the Communication Workers Union said Royal Mail's workforce would not increase, due to job losses elsewhere. Till 2012 Royal Mail has cut about 65,000 jobs since 2002 as it attempts to modernize. "Our strategy is to convert the rise in parcel volumes into profitable growth. That means becoming a much more customer-focused company being run on commercial lines and investing in new, vital technology," said Moya Greene, Royal Mail chief executive in 2012 October [9].

One month later, in 2012 November, Royal Mail has reported a big rise in half-year operating profits, helped by growth at its parcels delivery business as more people shop online. Operating profits for the six months to 23 September rose to £144m, up from £12m a year earlier. Its core UK letters and parcels unit reported an operating profit of £99m, compared with a £41m loss last year. Royal Mail chief executive Moya Greene said the "turnaround of the UK business is well under way". Revenues from UK parcel deliveries were up by 13%, while parcels now account for 47% of revenue across the group. The rise in parcel deliveries is helping to offset the decline in the number of letters being sent. Letter volumes were down 9%, although revenues rose 2% after stamp prices were increased earlier this year. "Royal Mail has experienced the negative impact of e-substitution, which is driving the structural decline in the traditional letters market," Moya Greene said. "Conversely, we are seeing the positive impact that online retailing is having on our parcel volumes." Royal Mail said that "preparations are now underway" for the firm's sale, adding that the "structure and timing of a transaction is a matter for the government". Earlier this year, the European Commission approved the nationalization of the Royal Mail's pension scheme. The decision was seen as a key step towards selling some of the business to private investors, as it meant it would not be weighed down by its huge pension scheme liabilities [10].

Changing to be awarded

Royal Mail business is strategically planned. Company seeks recognition in the market, therefore it is important to participate in initiative programs where company may show business performance to the public and be recognized. Royal Mail each year are developing and improving the business according to the new business trends. To prove their success they have applied for business awards and as a result company has registered many awards in various categories in two resent years (see table 1 below). The biggest improvement company

has made in the Corporate Social Responsibility and had been granted gold position for best reports. Significant awards were granted for the woman labor and working mums [4]. In 2012 there was a big concern on women unemployment and the statistics had showed that women were losing their jobs at a disproportionately greater rate than men. Of the 2.67 million people who were unemployed, 1.12 million were women – the highest number for 25 years [11]. To respond to this big concern, Royal Mail as an employer, has offered more flexible working policies to suit family life and that's had a marked impact on the number of women who are able to work.

Table 1. Royal Mail awards [4].

2014 Awards	
International CSR Opens in new window Excellence Awards	Gold Winner - CSR Reports.
Chartered Institute of Public Relations (CIPR) Excellence Awards	Internal Communications Campaign for Employee Share Offer.
Business in the Community Corporate Responsibility Index	4 star ranking and achieved a place in the top 10.
RobecoSAM Corporate Sustainability Assessment	Silver Award. The foundation of the Dow Jones Sustainability Index Royal Mail ranks amongst the top four companies globally in their sector: Transportation and Transportation Infrastructure.
Times Top 50 Employers for Women	
2013 Awards	
Chartered Institute of Purchasing and Supply (CIPS)	Platinum Certification – we were the first company to achieve platinum status.
National Payroll Giving Excellence Awards	Most Successful Sustained Scheme and Best Overall Campaign.
Working Mums Top Employer Awards	Career Progression Award.
Women in Logistics Awards	Company of the Year.
The British Excellence in Sales & Marketing Awards	Sales Support Team of the Year.
Payroll Giving Quality Mark Excellence Awards	Platinum ranking.
Business in the Community Opens in new window Corporate Responsibility Index	Platinum ranking.
Business in the Community Opens in new window Top 10 Private Sector Organizations for Gender	Gold standard.
Chartered Institute of Public Relations (CIPR)	Best Consumer Relations Campaign for Gold Postboxes. Best Internal Publication for Courier.

PR Week Awards	Best Integrated Campaign for Gold Post Boxes.
Association of Project Managers Awards	Transformation of our operations in London.
European Excellence Awards	Best PR Campaign.
CorpComms Awards	Communications Professional of the Year - Shane O'Riordain. Best Communications Campaign. Grand Prix for Gold Medal Stamps and Gold Post Boxes.
The Institute of Internal Communication	News or Event for 2012 Olympic Games coverage. Newspaper for Courier.
2012 Awards	
International Customer Management Institute	First place for email responses. Top 50 Call Centers for Customer Service for our Door-to-Door service.
Chartered Institute of Purchasing and Supply (CIPS)	Gold Certification, a status shared with only 15 other organizations worldwide.
Payroll Giving Quality Mark Excellence Awards	Platinum standard.
Guinness World Record Opens in new window	Most amount of money raised at a company quiz.
Guinness World Record Opens in new window	Most charities supported through a payroll giving scheme.
Business Charity Awards Challenge	Highly commended. Event category.
Personnel Today Awards	'Health at Work'.
European Excellence Awards	Best Campaign for Gold Medal Stamps.

Conclusion

As many business analysts highlight - changes are the constant of the business performance. Each day in business there are changes with different nature: personnel, market, government regulations, new business management theories, etc. Every growing and developing company needs to respond to them accurately and professionally. To manage changes in the company is hard and stressful work, most responsibility relies on the executives but it also includes all employees. Evidence and business awards show that through recent years Royal Mail successfully managed changes from the new executive in the company, decrease of letters sending volume, to women unemployment and concern of corporate social responsibility. As changes mostly are a headache to managing board, Royal Mail has successfully survived with the new chief executive Moya Greene. She has showed strong leadership position, hard work and huge trust of employees. She brought company back to second life generating revenue each accounting year, developed new opportunities for business growth and achieving awards for business performance.

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PRACTICAL ASSIGNMENTS

Assignment #1

The *goal* of this assignment is to identify and understand project and change management concepts. Students have to read the text about change management theory. Then using picture stimuli cards chose one of the pictures and create a project (Eg., producing toothpaste: create new formula and packaging, produce them, create advertising campaign, etc.). Then students must turn this project into the change management process and describe change management tools by the steps given in the text. Students are given 25 min to finish this assignment. The *result* of this assignment: students clearly identify project and change management differences, are able to give steps of change management.

Assignment #2

The *goal* of this assignment is to understand and critically think of the best change management principles. Students have to recognize all top change management principles presented at the first part of the case study, in the described Royal Mail business performance. Students must be given 20 min to finish this assignment. The *result*: students are able to identify change management principles in the real business performance.

Assignment #3

The *goal* of this assignment is to critically think of the changes as challenges in the business. Students reading the description about Royal Mail must identify at least 15 changes that Royal Mail has met. They need to not only identify changes, but also provide the solution that Royal Mail has found or evidence of overcoming the change. This assignment has to be finished in 25-30 min. The *result* of this assignment: students are able to think critically identifying cause and consequence of changes in the real business.

Assignment #4

The *goal* of this assignment is to learn to respond to the business changes. Students using people stimuli cards and working in pairs split two roles: attacker and responder. Attacker creates a business challenge, responder using the profession from the card, explains how this profession person would respond to this challenge. Students have to swop the role after each answer. Assignment has to be conducted at least 20 min. The *result* of this assignment: students are able to adapt knowledge of change management from the different business industries perspectives.

Assignment #5

The *goal* of this assignment is to develop most crazy ideas how the business might change and how to respond to it. Firstly students in pairs in 5 min have in few sentences described typical Royal Mail business performance: how does parcel unit work and looks like, how letter unit work and looks like (as most realistic as possible). Then, concerning typical Royal Mail performance as a starting point, students in pairs are telling the story "What happened next?". First student present the business performance to his colleague, then this colleague challenges business by creating a change. For instance, government forbids using logistic centers to store parcels. When the first student is challenged, he/she has to give a solution what the company would do to respond to this challenge. For instance: company would buy more airplanes and would store parcels in the airplane. Then the conversation starts again with the next challenge. The ideas might be very crazy, most important is to keep creating story, give challenge and solution. For this task students might use any of the stimuli cards. Time for the assignment 25 min. (Student after some time might swop the roles). The *result* of this assignment: students are able to create and think of the solutions for the unexpected challenges.

9 SUSTAINABLE DEVELOPMENT

9.1 CASE STUDY 1. IKEA'S SOCIAL AND ENVIRONMENTAL RESPONSIBILITY INITIATIVES

Introduction. IKEA is a leader in setting high environmental standards for its product. That means employing strict manufacturing methods and suppy processes so that materials, technologies and transportation have the least damaging effects on the environment [4].

IKEA is the world's largest furniture retailer that specializes in stylish but inexpensive Scandinavian designed furniture. IKEA'success is attributed to its vast experience in the furniture retail market, its product differentation and cost leadership. The company's furniture was sol din kits to be assembled by its customers at home. In addition to furniture, it also sold utility items such as utensils, hooks, clips, stands and more. IKEA's founder Ingvar Kamprad had built an international furniture chain in Europe, Africa, Asia and US. (Griseri) As of August 31, 2012, the IKEA group had operations in 44 countries, including 30 service trading offices in 25 countries. Also had 33 distribution centres and 11 customer distribution centres. The IKEA Group had a total of 298 stores in 26 countries [3].

Sweden has a long tradition of combining beauty and function in home furnishing. But when company started business, design was not something very many people could afford. So mission has always been to give people with thin wallets a chance to furnish their homes in a beautiful and functional way. It call "democratic design". Business was started out in Småland, a region in southern Sweden known for its stony landscape, expansive forests and hard-working people. Here, practical solutions to every-day life challenges are as important as economising with resources. Common sense values such as simplicity, cost-consciousness, humbleness and will power have been the basis for everything – and still are. Company have made a lot out of very little for more than 60 years now [3].

Kamprad established IKEA in 1943 at age of seventeen. He came up with the name IKEA by combining the first letters of his name (Ingvar Kamparad), followed by the first letters of the farm and village he grew up in (Elmtaryd and Agunnaryd). IKEA began in a shed that was just two square meters in size. Kaprad started his business by buying pens. Chrismas cards, matches, cigarete lighters, nylon stockings and other items in bulk. He sold these items to the residents of Smaland at a reasonable price, but still made healthy profits. To save more money, Kamprad would piggyback his packages on milk delivery trucks. IKEA soon started making money. In 1945, Kamprad started promoting business through mail order catalogues as conducting individual sales calls became impossible [4].

Furniture was introduced in IKEA's product portfolio in the year 1947. By 1951, the furniture sales had increased so much that Kamprad decided to discontinue all other products and concentrate solely on selling furniture that was stylish but low priced. In the same year, the first IKEA furniture catalogue was issued and the first IKEA furniture shop was opened in 1953 at Almhult in Sweden. The first IKEA showroom was opened at Almhult in 1958. The

opening of the showroom was an important milestone in the growth of IKEA as customers could, for the first time, see and touch the furniture before placing and order. By visiting the showroom, customers could review three dimensions of its products-function, quality and low price before making their purchases. IKEA began its overseas foray in 1963 with the opening of its store in Norway. In the same year, IKEA designed the MTP bookcase that went on to become a classic. In building this and other wood products, IKEA forged good relations with Polish suppliers in the 1950 and 1960. These relationships provided a basis for maintaining prices at level that the majority of people could afford. With the success of the Norway store, IKEA began venturing into other neighboring countries like Denmark in 1969 and Switzerland in 1973 [4].

IKEA did not have its own manufacturing facilities. Instead, it used subcontracted manufacturers all over the world for supplies. All research and development activities were, however, centralized in Sweden. No matter how beautiful a design, it would not be put up for sale if it could not be made affordable. To achieve this affordability, IKEA engaged 12 designers at Almhult in Sweden, along with 80 freelancers to work in tandem with the production teams to identify materials and suppliers.

IKEA's corporate social responsibility (CSR) initiatives began in the 1970. The company increased its focus on social and environmental issues in the early 1980. IKEA's CSR involved three main areas – children, better living and the environment. According to IKEA, it focused on children, as they were the future. The company wanted to give children an opportunity to learn, develop in a safe environment and to be educated. In the early 1980, IKEA was criticized for using toxic chemicals such as formaldehyde, polyvinyl chloride (PVC) and PBDE. In 1981, the Dutch Government found that some of the IKEA furniture contained more than the stipulated amount of formaldehyde. The matter was immediately referred to Head of Quality for IKEA who said, "If people see IKEA as a company that is polluting the environment, creating wastes or emissions or wasting resources, then we are not living upto our mission. That's a very strong matter. We are meeting customers face-to-face everyday. As a company built on the mission to create a better everyday life for the majority of people, of course we must take environmental issues seriously". IKEA then decided to work towards eliminating the usage of all toxic chemicals that were harmful to the environment, its customers and its employees. However, instead of looking for short term solutions, the company sought long term solutions to this problem. IKEA started out by conducting seminars for the top management and focused on the company's relationship and commitment to the environment. The company also associated with environmental groups such as Greenpeace to identify and address environmental issues. By working with such organizations, IKEA successfully reduced the usage of formaldehyde, and other harmful chemicals in its products. IKEA also adhered to the German standards of quality requirements for its products which were the most stringent in the world.

IKEA has been especially concerned about child labor being used by some of its suppliers in some countries. The company stepped up its action against child labor after 1995, when a 12 year old boy Iqbal Masih, a child laborer working for one of IKEA's suppliers in Pakistan was murdered. Iqbal had been sold into bonded labor to a carpet manufacturer, at the age of

four by his parents, for the repayment of a loan. Iqbal was made to work 12 hours a day. He was finally rescued by the Bonded Labor Liberation Front of Pakistan. Boy even traveled to the US and Europe to tell his story. He went on to become a crusader against child slavery. He also received international recognition and awards such as the Reebok Human Rights Award for his brave efforts. However, in 1995 he was shot and killed in his village while riding his bicycle. Although his assassin was never caught, it was widely believed that Iqbal had been murdered by the Pakistani carpet mafia to silence him from speaking out against child slavery. This incident brought to light the deplorable conditions under which people worked for manufacturers. In response, IKEA resolved to work more strenuously towards eradicating the problem and also to ensure that it never again did business with manufacturers who exploited their employees [4].

One of the biggest challenges in the 21st century is how to tackle the expected shortage of resources and climate change, while providing a good quality of life for people around the world. IKEA'S new sustainability strategy, People & Planet Positive, builds on many years of working with environmental and social issues and explains how will play part in meeting those challenges. To meet future customer needs and address the higher price of raw materials and energy, while driving down emissions and maintaining low prices, is need to transform business. Simply working towards being less bad will not get us where we need to be – we need transformational change – which means changing old ways and embracing the new, being bold, innovative and committed to taking action. IKEA's strong values of togetherness and enthusiasm, a constant desire for renewal and commitment to make goals a reality will support us in taking the many steps, both large and small. Company's plans are described in People & Planet Positive [6].

Sustainability is one of the four cornerstones of the Growing IKEA Together business direction. People & Planet Positive will help to grow within the limits of one planet. Ensure sustainability is part of everyday work. Many people want to live more sustainably – to recycle more, to use less energy and water and to cut down on waste. But customers often need advice on what steps to take and can't afford to spend more time or money. We can inspire and support our customers to live more sustainably – and save money too – by using less energy and water, and reducing waste. By offering products and solutions that are affordable and simple to use, we can make it easier to live a more sustainable life at home. This has been a priority for IKEA for a long time. Now with the launch of our new sustainability strategy, we plan to go further in developing and promoting products that enable customers to live more sustainably. Goal is to have achieved more than a fourfold increase in sales from these products and solutions.Around a quarter of our carbon footprint comes from customers using IKEA products in their homes [3].

So enabling customers to live more sustainably will make a significant difference, and with 690 million visitors to IKEA Group stores worldwide, even small changes will add up to a big impact. IKEA has already launched many products and solutions that enable customers to live more sustainably, and many more are in development. To achieve these goals, company will communicate clearly with customers and measure progress. Company defined what mean by a sustainable life at home product. It must enable customers to either [3]:

- Save energy,
- Reduce waste,
- Recycle more,
- Save water.

Save Energy. Climate change is a huge threat, and it's mostly caused by CO_2 emissions from fossil fuels. To fight it, we need to use less energy wherever we can. Almost 20% of global electricity consumption comes from lighting, so shifting lighting to LED technology is a cost-effective way to get change at scale. IKEA converting its lighting range to LED will have a real impact in reducing energy use in many households.

Energy-consuming products include lighting, televisions and appliances such as hobs, fridges, ovens and washing machines. Improving efficiency can bring big energy savings for our customers. And we can have a real impact by offering efficient products at a low price so that all our customers can afford them. Energy consuming products were 32% more efficient than those installed on the market in 2008.

For example, FOLKILIG induction hob. IKEA induction hobs use magnetic field technology to heat the pan, not the rest of the hob or surrounding air. This reduces cooking time by up to 60% and energy use by up to 40%. ENASTÅENDE dishwasher. This dishwasher range is currently between 22% and 51% more efficient than products on the market in 2008.

In Europe, all company's fridges, freezers, ovens, dishwashers and washing machines now have an A, A+ or A++ energy rating. This means they are among the most efficient products according to the EU energy rating system, which rates products from A+++ to D. Lighting uses 20% of energy in the home. All lighting will be LED, the most efficient lighting technology.

ISANDE fridge/freezer, has a A++ rating for energy efficiency. All fridges and freezers are now between 23% and 54% more energy efficient than the average installed on the market in 2008, reducing customer energy bills. Company have also improved insulation and storage features, making it easier for customers to keep food fresh for longer and reduce food waste [3].

IKEA consumed a huge amount of energy for electricity, heating and air conditioning of its stores and warehouses. The company was trying to consciously reduce its energy consumption. In 2003, IKEA launched a 'Kill-a-Watt-Energy Saving Competition. The competition was open to all IKEA stores across the world. IKEA aimed to achieve reduction in energy consumption and also to create awareness among employees regarding electricity costs. By the end of the competition, IKEA had saved energy equivalent to providing electricity to 2,000 households, or two IKEA stores for a year. The competition was won by the IKEA store at Ho Chi Minn City in Vietnam. This store reduced its electricity consumption by 33%. It did so by installing a system that automatically switched off electrical appliances and shut down air conditioning systems after working hours. IKEA also made use of alternative energy sources to obtain electricity. The store in Pittsburgh, US had

solar electric panels on the roof [4]. IKEA „Goes Renewable" means that company will produce more renewable energy than consume throughout IKEA buildings and operations. Installing solar panels on 120 of our stores and warehouses. In addition, have wind farms in six countries. The solar panels and the wind farms currently in operation or construction generate the equivalent to 27% of the electricity needed to run operations; and IKEA has only just begun. Company also want to use less energy and compared to 2005, the energy efficiency of stores has improved by 10%, and distribution centres by 33% (6). Be energy independent by being a leader in renewable energy and becoming more energy efficient throughout our operations and supply chain. By the end of 2015, we will produce renewable energy equivalent to at least 70% of our energy consumption and by the end of 2020 we, on Group level, will produce as much renewable energy as we consume. Take a lead in renewable energy and energy efficiency via our long-term commitment for own operations - "IKEA Goes Renewable". Work together with our suppliers to develop and roll-out a new programme, "Suppliers Go Renewable", setting clear milestones on share of renewable energy in the supply chain during 2013. Create tailored renewable energy solutions for individual buildings, facilities and transport in own operations and at suppliers. Become 20% more energy efficient in our own operations by the end of 2015, and encourage and enable our direct suppliers to achieve the same by the end of 2017. By the end of 2015, reduce carbon emissions from our own operations by 50% and those of our suppliers by 20% [4].

Waste Management. Reducing the waste it generated and the management of that waste were important issues for IKEA. The company has been moving towards these goals by recycling wastes, repairing damaged products and reusing packaging material. This helped not just in saving resources, but also bringing in considerable monetary savings for the company. Each IKEA store had an 'environmental coordinator' who worked towards waste recycling and energy conservation, and also trained employees on environmental aspects. In addition, the environmental coordinator organized educational programs for IKEA customers to understand the importance of the environment and to showcase IKEA's contribution in this area. Each IKEA store had a separate compactor for collecting non-recyclable waste such as cardboard and plastic. Once these wastes were segregated, they were sent to the production department to see how they could be reused [4].

Recycling reduces waste to landfill and creates new sources of materials that can be used again. But waste can be bulky and sorting it in the home can be difficult when space is tight. New solutions make recycling easier and more efficient for customers, and with our food storage and waste sorting products, customers can reduce food waste too [3].

We are turning waste into resources and less than 15% of the waste generated in our storės gone to landfill. In our industry group, we take waste wood that would have been burnt or gone to landfill and turn it into new board for wardrobes or bookshelves. We source raw materials with care, and are one of the world's biggest buyers of certified wood from well-managed forests, more than a quarter of our cotton is from more sustainable sources and we offer responsibly sourced and organic food options in our restaurants [6].

We will take a lead in turning waste into resources. We will develop key resource chains securing recycled materials, ensure key parts of our range are easily recycled and take a stand

for closed loop society. By the end of 2015 all main home furnishing materials, including packaging, will be either made from renewable, recyclable or recycled materials. Target key raw materials with dedicated "resource chain" projects to establish new flows of recycled materials. By the end of 2017, 50% of the non-renewable materials used in our home furnishing products will be recycled. By 2020, 30% of the wood used by the industry group will be recycled. Enable customers to have clear and simple options for the reuse and recycling of appropriate categories of IKEA products, e.g. attresses, sofas, appliances and light bulbs. Strive for zero waste to landfill wherever possible, with a minimum of 90% of the waste from our stores and other IKEA operations sorted for recycling by the end of 2015. Prevent and minimose food waste generated in store operations and from customers left-over food. By 2013, no food waste shall end up in landfill or incineration. IKEA 365+ food containers enable customers to store left-overs and reduce food waste. All containers can be used in the fridge, freezer and microwave. The smaller containers have a vent in the lid that makes heating in the microwave more efficient and the larger containers have a removable grid that helps keep vegetables stored in the container fresher for longer [3].

IKEA GreenTech is investing in innovative technologies relating to energy, water, waste, advanced materials and future sustainable homes. Its goal: to support projects that will enable IKEA to offer innovative new products that contribute to a more sustainable life at home. IKEA GreenTech started in 2008. It is an investment company, fully owned by the IKEA Group with SEK 500 million (approximately €60 million) of capital. It has already invested and committed €12 million in companies working with clean technology, energy management and vegetarian food as well as a clean technology venture capital fund [3].

Not being wasteful and making more from less goes back to company roots. IKEA wants to economise with resources and this influences every day. Company has decided to become resource and energy independent which means that can continue to create the products customers want at a low price. By using resources more sustainably, IKEA can be part of global efforts to protect the environment and tackle climate change. Becoming more energy efficient and generating own renewable energy. And working with suppliers to inspire them to do the same. Thanks to the size of business and longstanding commitments, company can have a significant impact – for example, by playing our part in making materials such as more sustainable cotton and wood common materials and influencing behaviours in whole markets in areas such as energy-efficient lighting. (report). By sourcing raw materials responsibly, using them carefully and seeking out more sustainable supplies, company is able to contribute to continued availability at low prices. Focus on raw materials that are most important to business and those that have the highest potential environmental or social impact: wood, cotton, palm oil, leather and food [3].

According to IKEA, about 75% of the raw materials for its furniture, catalogs and packaging came from timber. Hence, conservation of forests was an important environmental issue. IKEA worked with groups such as Greenpeace to formulate policies for sustainable forestry. IKEA was also a member of the Forest Stewardship Council (FSC). As a result of consultations with these organizations, IKEA banned the usage of timber from intact natural

forests, except those forests that had been certified by the FSC in its products, in November 1999. IKEA's ultimate aim was to source all its timber from well-managed forests [4].

Wood is one of our most important materials, used in many of our products. Company continually look for ways to get the most out of the wood we use by designing our products to minimise the mount of material needed and increasing the efficiency of manufacturing. For many years it have worked with others to increase the supply of wood from responsibly managed forests. IKEA is one of the founding members of the Forest Stewardship Council and now have 19 foresters working to ensure that all wood is sourced in compliance with forestry standards and to increase the share of certified wood in supply chain. Work with responsible forest management helps to safeguard wood supplies for the future of our business and to protect biodiversity, prevent deforestation and support the livelihoods of communities in forest regions. Well-managed forests can play an important role in mitigating climate change. All wood used in products is sourced from suppliers that meet IWAY Forestry Standard, designed to ensure that wood is logged legally and does not have a negative impact on the environment. Wood makes up around 60% of all materials used in products. In 2012, company used 13.56 million m_3 of solid wood and wood-based board materials (not including paper and packaging). This is around 0.7% of the total wood used commercially around the world, making one of the largest users of wood in the retail sector. Secure a long-term supply of wood by [3] :

- Making sure the wood use meets the IWAY Forestry Standard, part of IWAY, supplier code of conduct. Use audits to check compliance.
- Using more wood from preferred sources (recycled wood and wood from forests certified as responsibly managed by the Forest Stewardship Council). Aim to source 50% of wood from preferred sources by 2017.
- Using wood more efficiently – creating designs that minimise the use of wood or use recycled wood .
- Working with other businesses, NGOs and governments to tackle illegal logging, support legislation that protects forests, promote biodiversity and increase the availability of wood from responsibly managed forests.

Water stress and scarcity around the world are making water an increasingly important business issue. In 2012, total water use in IKEA buildings increased by 8% compared with 2011, although distribution centres slightly reduced water use. Swedspan's water use increased by 53% because it opened a new factory for manufacturing HDF boards in 2012. Swedwood's water use increased by 6%, and it is introducing water reduction strategies, which are in place at 80% of its sites so far [3]. IKEA depended heavily on transportation through trucks and trailers for the distribution of its products to its stores and also for delivering furniture from stores to its customers' homes. The company's transportation and distribution activities thus had a significant impact on the environment through emission of gases like carbon dioxide into the atmosphere. One of the first initiatives IKEA took to reduce environmental impact of transportation was to introduce smart packaging. Packing

more products into a single trailer was not easy. IKEA had a global web of 2,000 suppliers spread across 55 countries. To further its commitment towards the environment and society, IKEA launched 'The IKEA Way on Purchasing Home Furnishing Products (IWAY)' in September 2000. The IWAY established the 'code of conduct' for IKEA's suppliers to adhere to. The IWAY focused on legal compliance, working conditions of employees and environmental compliance [4].

Alternative solutions. For most of human history the world was sparsely populated and resources, from forests to fisheries, seemed unlimited. We started the 20th century with 1.65 billion people in the world, a population not much greater than that of China or India today. Society used resources and generated waste with little restraint and few concerns. While this helped drive growth and improve the livelihoods of many millions of people, it was a long way from a sustainable society. The global population has now reached seven billion, resources are increasingly scarce and climate change is a reality. The world is on track to warm by four degrees Celsius by the end of this century, which will have a severe effect on weather patterns, water availability and agriculture. We have already lost half the world's forests and degraded an estimated 60% of the world's ecosystems. Today's global economy is almost five times the size it was 50 years ago and is set to triple again by mid-century. There were just 12 cities with a population above one million people in 1900, while today there are more than four hundred and the world's urban population swells by more than one million people every week [6]. Billions of people are expected to enter the consumer society in the coming decades. This is cause for celebration, in part, as many people are coming out of poverty. However, not all will have prosperous lives, with billions remaining poor and continuing to struggle to provide for themselves and their families coming out of poverty [6].

When it comes to the environment, society is currently using resources at a rate that requires 1.5 planets. Global carbon emissions continue to rise at a time when they need to peak and then decline rapidly. Recycling rates have increased around the world, but the majority of valuable processed materials are still thrown away rather than reused, leaving room for significant improvements and opportunities. Rising energy and raw material costs are putting pressure on businesses and families across the world. When it comes to the IKEA business, unless it act boldly, price increases for energy, wood, textiles, metals and plastics will affect costs and force price increases for customers. Even if concerns about sustainability or climate change are put to one side, being careful with resources, managing costs for the future, controlling energy use and looking after your people is good for business [6].

As a consequence of general economic growth, progress in all areas of economic and social life, the human being came today to have the technical means improved so that consuming huge quantities of renewable and non-renewable natural resources, exploiting the ever increasing and changing the environmental factors nature at a rapid rate. The human being leaves free way harshness of economic disequilibrium with negative effects on quality of life, but also on the evolution of the biosphere, but not require adequate control over his actions and aware. It was created the image that the human being endowed with power and intelligence to dominate modern technology and then to transform nature, placing it so

entirely at his service. The modern technology estranges the human being from nature to such an extent that he acts more and more against it, unfortunately contributing to degradation. Thus, nature can be irreversibly affected (2).

A sustainable world that provides a great quality of life for many people and protects the environment is possible. We can provide economic opportunities and empower people so they are able to better provide for themselves and their families. We can utilise the massive potential of renewable energy; we can develop exciting new products and services that help people live a more sustainable life at home; we can transform waste into resources; and protect our forests, farmlands, seas and rivers for future generations. IKEA can be a small, but significant, force in helping to create this more sustainable world. A sustainable world that provides a great quality of life for many people and protects the environment is possible. We can provide economic opportunities and empower people so they are able to better provide for themselves and their families. We can utilise the massive potential of renewable energy, we can develop exciting new products and services that help people live a more sustainable life at home; we can transform waste into resources; and protect our forests, farmlands, seas and rivers for future generations. IKEA can be a small, but significant, force in helping to create this more sustainable world. There are also many other new opportunities ahead of us. Over the coming decades hundred of millions homes around the world will shift to smart home energy manage-ment and will produce their own power. The market for solar electric power is set to be worth $130 billion per year for the next decade, close to the value of the global furniture industry. The global recycling industry is growing rapidly with even greater revenues of $160 billion per year. Tens of billions of lancandescent light bulbs and hundreds of millions of out-dated appliances exist in homes around the world today, wasting money and energy, and should be replaced with highly efficent, modern solutions that benefit customers and the environment [6].

The sustainable business concept is far more determinate than social enterprise. A sustainable business expounds its purposes using the tripartite (3-P) model of "People, Profit, Planet" which corresponds to ensuring a fair sočiety, living within environmental limits, and [c]reating a sustainable business." It assesses its performance using a triple bottom line of economic, social, and environmental outcomes [5].

The main goal of enterprises is to maximize their profits and to minimize their costs.They have to do this for their competitive positioning, but by doing so they often cause negative externalities (social and environmental costs). Some enterprises seem to forget that they are dependent on the ecosystem. For the production of goods and services (for consumer's satisfaction of needs) they use environmental resources, such as water, and produce waste (see Figure 1). Gaseous waste is dissipated into the air, solid and liquid waste into the ground. Resources come from sources and waste is put into sinks; both sources and sinks are located in the ecosystem. How much waste can planet earth absorb? The ecosystem has the unique ability to regenerate. Natural resources can be renewed, but over what period of time? Every production process impacts on the environment by extracting resources from and inserting waste into the ecosystem. A minimum impact on the environment is inevitable when driving business processes, because almost all production lines need resources and produce waste [1].
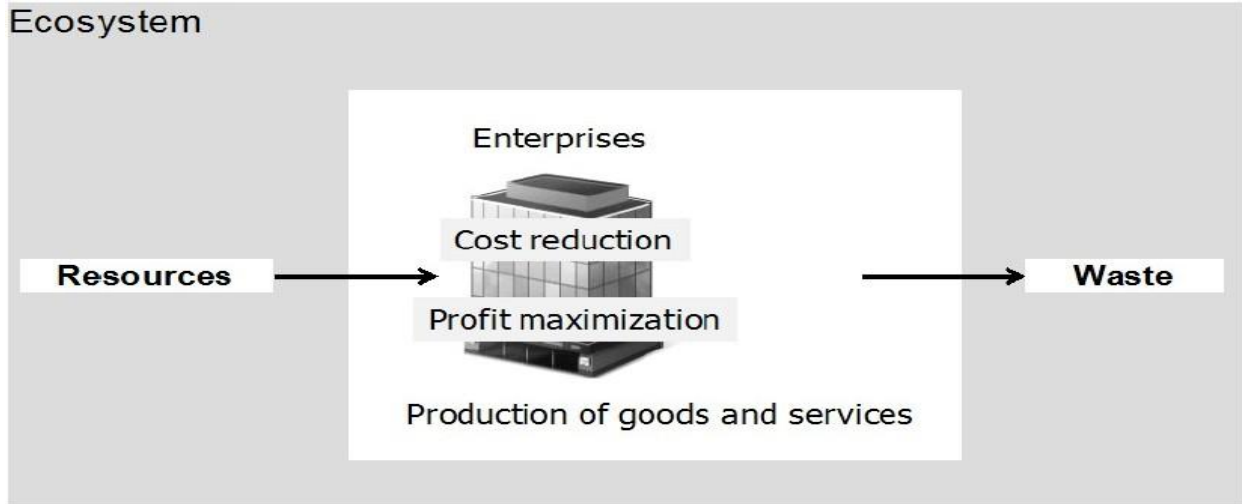
Figure 1. Interdependences between enterprises and the ecosystem [1].

The economic system is completely dependent on the ecosystem; therefore it is considered a subsystem of the environmental system. The environmental system has its limits. The question is: Can a subsystem grow when the main system has its limits? Many services are provided by the ecosystem and most of them at no cost. Common and Stagl (2005) mention the following interdependences between the ecosystem and the economic system (see Figure 2):

• The environment is the source of inputs of natural resources to production,

• the receptacle for the wastes arising in production and consumption,

• a source of amenity services to consumption.
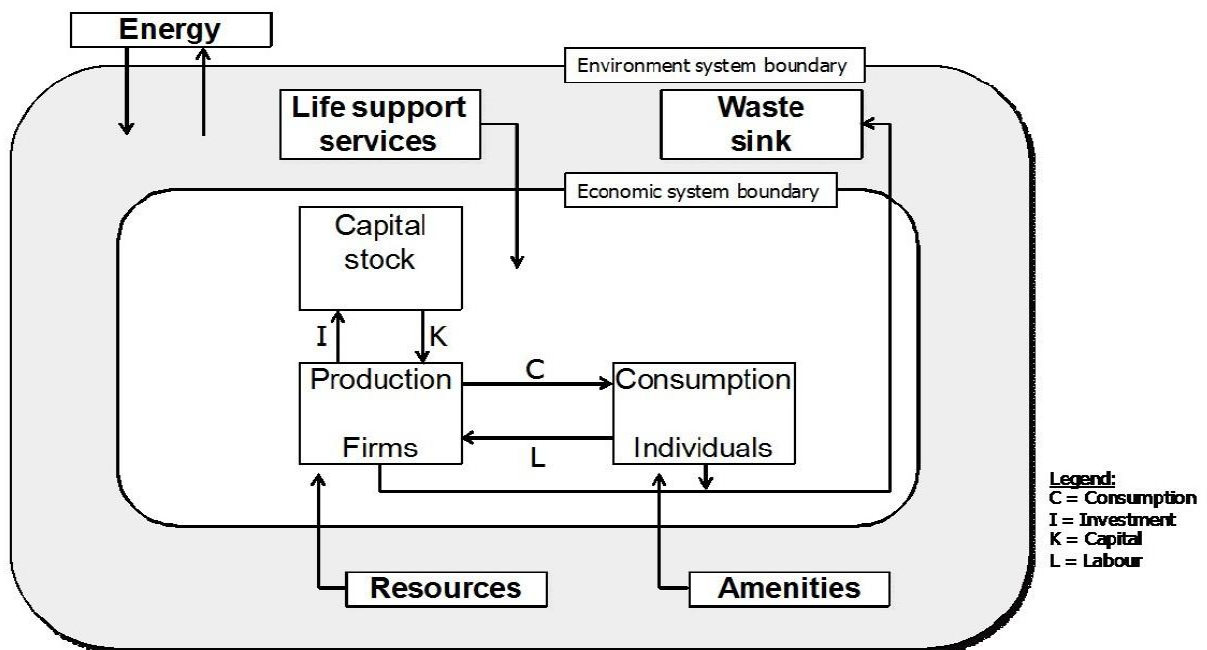
Figure 2. Interdependences between the ecosystem and the economic system [1].

For-profit corporations also do not require sustainability for their own sake. If a corporation's purpose is to maximize profits, there may well be situations when closing is the fiscally wise course of action. How can a hybrid organization achieve financial or operational sustainability? An organization that can capture benefits that would ordinarily be externalized, or devotes resources to a social mission, likely must take those resources from somewhere else. There are several potential sources, and all of them are donors in a sense. Consumers may be willing to pay more, employees or investors may be willing to accept less, but someone is contributing. There appear to be very few social enterprise is that do not depend at least in some form or another on this kind of cross-subsidy.

Alternatively, and there are few clearly successful models out there, financial and operational sustainability is achieved through a business model that by its very nature also advances the social or environmental mission. For these organizations that do not depend on cross-subsidization, there is little for new law to do [5].

Conclusion. IKEA has a long history of working with sustainability, focusing on creating more from less, striving for the highest ethical standards and being a good partner in society. IKEA is a founding member of both the Forest Stewardship Council and the Better Cotton Initiative, and has maintained successful partnerships with UNICEF, Save the Children for a decade or more. The IKEA code of conduct for suppliers, IWAY, was launched in 2000 - to date, more than 165,000 environmental and social improvements have been recorded, making a difference to people's lives and the environment around the world. Sustainability is part of IKEA culture and value base, and is integrated in every part of business. (Strategy) IKEA can grow in a way that creates opportunities and improves lives. As IKEA grows, and want to strengthen positive impact and help meet the needs and aspirations of more families and households around the world. By 2020, around 500 IKEA Group stores will welcome an estimated 1.5 billion visitors per year, employ more than 200,000 co-workers, potentially generating 45-50 billion euro in turnover. However, while that growth brings many great opportunities, if company continue with a business as usual approach, use of wood will almost double and carbon emissions will increase from today's 30 million tons to 50-60 million tons. Simply working towards being less bad will not get us where we need to be - we need transformational change - which means challenging old ways and embracing the new, being bold, innovative and committed to taking action. It means taking many steps, both large and small, that, together, will have transformational impact. Simply put, to be able to fulfill future customer needs, address the higher price of raw materials and energy, while driving down emissions and maintaining our low-prices, we need to transform our business. We can no longer use 20th century approaches to meet 21st century demands. Being socially and environmentally responsible made good business sense too - as Anders Dahlvig, President of IKEA Group said "Done in a sensible way, social and environmental work is good for business. It is good for business because our customers will feel reassured that they are doing business with a company that shares their views and values. And it is good for business because it can also support cost efficiency. Using resources and raw material efficiently, saving energy, improving working conditions at our suppliers and through that getting more motivated people, will have a positive effect on costs and therefore support our business objectives" [3].

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to explain sustainable development concept in business. Pick up a post- it notes and pen. Please sit down comfortable. This is an individual task. Close your eyes. Identify what you are thinking about IKEA now and write down the thoughts on the notes (5 minutes). One thought per note. All thoughts are to be written down. Continue writing down any thought that appear. If you have no thoughts, then start by writting "I have no thoughts".

Demonstration: What does it mean to be sustainable company? What does it mean sustainable business? Make oral presentation about company's sustainable approach.

Assignment #2

The goal of the assignment is to identify ecological issues in terms of sustainability. Take the post- it notes and a pen. Get up and come into the middle of the floor. Close your eyes and think of a toy from a girl's room (20 seconds). Open your eyes and find a person who thought of the same thing as you. Together generate ideas for all the things that are ecological. Write them down on the post- it notes. One idea per note. Hang them on the wall. If you have no thoughts, use Picture Card. Demonstration: How does the IKEA Group approach environmental issues?

(http://www.ikea.com/ms/en_JP/customer_service/faq/help/about_ikea/social_environment.html#2)

Assignment #3

The goal of the assignment is to identify social issues in terms of sustainability. Take the post- it notes and a pen. Get up and come into the middle of the floor. Close your eyes and think of a fruit (20 seconds). Open your eyes and find a person who thought of the same fruit as you. You are now unemployed and haven't money to buy anything to eat. Generate ideas for the consequences of this. Write them down on the post –it notes. One idea per note. Hang them on the wall. Demonstration: transform business - making it more sustainable, driving growth, discovering new business opportunities and helping to create a better everyday life for many people.

Assignment #4

The goal of the assignment is to explain the causes of sustainable development necessity. Get up and come into the middle of the floor. Close your eyes and think on how many times you have gone shopping in the past week (20 seconds). Open your eyes and find the person who has gone shopping the same number of times as you. Hand out Person Training Cards - one to each trainee. Imagine that there are no more non renewable resources (gas, oil, coal, wood) on the Earth. Generate ideas for what possibilities this would give to company. Start by emptying the head for ideas. When you run out of ideas you use the person analogies on the card one by one as inspiration for more ideas. Demonstration: The person analogies are scientist, farmer, manager, astronaut, and customer.

Assignment #5

The goal of the assignment is to explain negative non-sustainable economic development ecological and social phenomena. Get up and come into the middle of the floor. Close your eyes and think about one business sector (20 seconds). Open your eyes and find the person who thought of the same business sector as you. You are to think of: "What if" sentences with regard to all kinds of resources. For examples "What if….there were no drinkable water?, "What if….there were no air to breath?? or "What if …..there was no electricity"? Every time you generate a "what if" sentence, you must try to answer it by developing 1-2 ideas for what might actually happen in such a situation. Demonstration: How could economic interests balance with social and environmental incentives?

9.2 CASE STUDY 2. UAB PAKMARKAS SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Introduction. PakMarkas is one of strongest and leadingedge companies in Lithuania offering packing and marking solutions. In 1994 PakMarkas is registered in companys' registry list. During the activity period of 20 years in the market of packaging, company has developed the process of label/packaging production, implemented modern technologies, built the team of qualified professionals, which ensures accuracy and speed of services, environmentally friendly production and high-quality of print [7]. The United Nations (UN) „Global Compact" is the largest global corporate social responsibility initiative having over 10,000 members from 140 countries. It was established in 2000 in order to promote the responsible attitude on a global scale. The central idea of this compact is to align operations and strategies with the ten universally accepted principles in the areas of human rights, labour, environment protection and anti-corruption. The participating organisations are obliged to publish their annual corporate social responsibility reports. PakMarkas has been the member of the UN „Global Compact" since June 2005. Following the 10 principles of the Global Compact, the company submits annual social progress reports, thus, emphasizing its care about the welfare of the persons related to company's activity, preservation of clean environment and promotion of transparency in the business environment. In 2005, PakMarkas also joined the National Responsible Business Network (NRBN), which unifies Lithuanian companies that are the members of the UN Global Compact. The central mission of the network is to promote the development of responsible business in Lithuania as a condition of sustainable development. By participating in the network's activity, the companies have an opportunity to share their knowledge, experience and innovations, to conduct joint trainings, improve corporate business strategies, co-implement projects that are beneficial to the society and, thus, contribute to the sustainable development in Lithuania. [4].

PakMarkas has the following certificates [7]**:**

1. Quality management system ISO 9001 – since 2002,
2. Environment protection management system ISO 14001 – since 2003,
3. Social responsibility management system SA 8000 - since 2012,
4. Good manufacturing practice (GMP) – since 2009,
5. Efficient manufacturing based on LEAN and TOC principles - since 2010.

PakMarkas main acitivities [7]**:**

- self-adhesive label printing;
- packing and marking equipment trade;
- packing materials trade;
- gears and industrial automation systems trade.

The management of UAB PakMarkas made a resolution stating that the protection of the ambient environment is no less important than the high quality of products and services. Guided PakMarkas introduced the environmental management system in compliance with the requirements of an international standard ISO 14001.

Since the very establishment of the company, thought has been given to having the raw materials and resources efficient production, safe transport, waste disposal and, first and foremost, stable product quality. Company also has respect to the use of the recyclable materials. The environmental management system will facilitate the identification and control of the real and potential effect that improve the way the customers' needs are met and services provided, UAB PakMarkas developed and introduced a quality management system in accordance with the international standard ISO 9001:2000. On September 19, 2002, an international certification institution Bureau Veritas Quality International (BVQI) awarded a certificate evidencing that the quality management system of PakMarkas is in compliance with the requirements of the standard. The certificate is just a start leading to the real quality, evidencing that from now company shall systematically work towards the improvement of organization and perfecting the quality of production. All the management and employees of company take continuous care of the production quality, this having become the natural part of activities. Besides, apply the same quality requirements to suppliers and subcontractors, therefore carefully select and regularly control them. It may be caused by the activities, products and services of PakMarkas [4].

PakMarkas Mission [7]

To become the leaders in the Baltic States by offering the advanced solutions to customers in the sphere of packaging and commodity marking as well as to improve the welfare of company shareholders, employees and business partners.

PakMarkas values [7]

- **Regard to the customer.** Take care of customers on a regular basis and in an attentive manner, being aware that customer's welfare means company welfare.

- **Continuous improvement and competence.** Regular knowledge updating and its application help to come out on top even under the most complicated changing conditions.

- **Team work.** Company believe that pulling together contributes to the faster achievement of the common goal.

- **Respect to employees and business partners.** Company understand that respect guarantees long-term and reliable relations.

- **Willingness to gain tha lead.** This is company driving force making strive for new heights.

The essence of the social responsibility is to develop business processes in such a way that they serve the interests of employees and society and also environmental protection. Social responsibility activity of the company PakMarkas is a constant process of business development for the good of the sustainable society, in order to create a harmonic bond between people and nature and to foster value added [4]. Company strives to ensure fair and honest treatment of all employees. And strongly believe that the dialogue between the employer and employee significantly contributes to the sustainable success of the company and its employees. Company also expect suppliers and subcontractors as well as a succeeding supply chain to base their activity on policy on ethical employment and working conditions [5]. PakMarkas, trying to be responsible, declares that company will not offers, promises or gives, directly or indirectly, any financial or other advantages to any government official, politician, political party or any private person for the purposes of obtaining or retaining business or a business advantage. If any of UAB "PakMarkas" employees offers or requires a reward for business decisions, they can inform by phone +370 5 205 46 05 or by email kokybe@pakmarkas.lt. [7].

Body of the analysis. Company is one of the largest and most experienced companies in the area of product packaging and marking in Lithuania. The company is engaged in three main areas of activity: label printing, trade in packaging and marking equipment and trade in spare parts. During the 20 years of activity have strongly developed the processes of production and expanded the range of goods and services. Therefore, today clients are the manufacturers and trade institutions from various areas of industry (food, beverages, cosmetics, chemistry, pharmacy, etc.).

PakMarkas products and servines [4]:

- Flexographic roll print: adhesive, shrink and banding labels, single-colour label printing, blanks of adhesive labels.
- Trade in packaging materials: packaging films, containers, vacuum bags, bands.
- Packaging and marking equipment: packaging, marking, transportation and control equipment for various purposes of use; design and manufacture of packaging lines.
- Spare parts: electric motors, reducers, frequency converters, couplings, etc.

PakMarkas started its activity in 1994. The main activity of the company is pursued in Lithuania, in a building of the area of 7,000 sq. metres, equipped with modern facilities and located in Nemėžis Eldership, Vilnius District. A branch in Riga (Latvia) was opened in 1997. The main company's indices:

Table 1. The main company's indices [4]

Sales income (thousand LTL)	2010	2011	2012
Lithuania	49,84	50,45	60,06
Latvia	9,04	10,40	11,9
Total	53,06	54,52	67,05

Number of employees	2010	2011	2012
Lithuania	159	154	161
Latvia	22	22	23
Total	181	176	184

PakMarkas sees social responsibility as an improvement of company's activity processes by

aligning them with the interests of company's employees and community and preservation of the quality of environment. Company understand economic and social responsibility and the influence of company's activity on the environment. Thus, when adopting the solutions, consider the expectations of concerned parties and willingly contribute to the enhancement of the common welfare.

The long-term success of PakMarkas is conditioned by harmonious team of managers, specialists and workers; therefore, make every in the creation of safe and motivating working place. PakMarkas tries to be an attractive employer by involving, helping to improve and keeping qualified persons in a professional working environment [4].

Company maintain the international human rights and respect the dignity of all their employees as it is defined in the Universal Declaration of Human Rights, the principles of the United Nations Organisation and PakMarkas'Policy of Ethical Employment and Working Conditions [5]:

- Do not use and do not support children, prisoners' or forced labour,
- Do not practice and do not support discrimination or persecution in respect of age, race, religion, sexual orientation, marital status or political views,
- Respect the right of employees to join trade unions,
- Ensure a fair wage system and social guarantees.

The improving national economic situation led to the further growth of company and created favourable conditions to welcome new members into team. On 31 December 2012, there were 161 employees in company (in 2011 — 154 employees).

On 9 January 2013, company implemented the Social Responsibility Standard SA 8000 and obtained a confirmation certificate. The document certifies that company cares for the social welfare of its employees, does not apply child and forced labour, follows health and safety requirements, does not tolerate psychological pressure and discrimination, ensures equal career and wage opportunities, encourages the suppliers to follow standard requirements, follows all laws regulating the working conditions. In 2012, company realized the requirements applicable to the company grounding its activity on this standard [5]. :

- We created and wrote down the Policy of Ethical Employment and Working Conditions stipulating the company's attitude towards the human rights and freedoms and practice of harmonious employment.
- We selected the representative of management – a person who ensures the fulfilment of the requirements of this standard.
- We selected the representatives of employees for information exchange with the management in the area of social responsibility issues.
- We approved the minimum wage, which exceeds the minimum wage stipulated by the law of the Republic of Lithuania.
- We created and wrote down the procedure on the basis of which each employee has an opportunity to notify on the violations of employee rights anonymously and confidentially: we installed complaint/suggestion boxes and created a special e-mail address.
- We identified the main SR indices which are filled in the SR activity monitoring programme twice per year (employee turnover, change in the number of accidents at work, distribution of the number of employees in terms of sex, age and other indices).
- We started to carry out the management analysis twice per year.
- We periodically carry out the intermediate evaluation of social responsibility or our suppliers.

The growth of company is directly related to the employee competencies and individual attitude towards the client. Thus, company is highly focused on the development of employee skills – the personnel participate in seminars, various exhibitions, internships and business mission.

Today, competitiveness and sustainability are complementary definitions. The companies that

maintain harmonious relations with inner and outer environment are more likely to survive in the market. In the business environment, company follow the laws of the Republic of Lithuania and principles of the ethical and fair business. Respect clients and preserve the company's reputation, therefore, do not tolerate any forms of corruption. Company publicly declare anti-corruption attitude on company's website (http://en.pakmarkas.lt/social-responsibility-policy.html), where it is stated that trying to be responsible the company will not offer, promise or give, directly or indirectly, any financial or other advantages to any

government official, politician, political party or any private person for the purposes of obtaining or retaining business or a business advantage. Also provide the contact information that can be used by business partners to inform in case of observation of any corruptive actions of company's employees [4].

Company also promote social responsibility among suppliers. In 2012, sent main suppliers a questionnaire by signing which the companies confirmed the compliance with the main principles of social responsibility within the scope of their activity. Complemented the list of indices of economic evaluation of the quality of supplier's activity with the index of social responsibility and planning to carry out the evaluation of social responsibility of selected suppliers from 2013.

PakMarkas is obliged for constant improvement of product and service quality. Company has implemented and now work in accordance with the quality management system complying with the requirements of standard ISO 9001 and operate in accordance with the requirements of the Good Manufacturing Practice and constantly improve the production organisation process in accordance with the LEAN system. Company maintain constant contact with their clients and search for effective and win-win solutions. Each year, PakMarkas carry out client surveys that encourage meaningful discussions how to improve the satisfaction of clients with the provided servises.

When act responsibly and fairly in any marketing, communication and advertising activity – company follow the provisions of the laws on advertising, electronic communications and personal data protection of the Republic of Lithuania. PakMarkas believe that fairly provided information creates and strengthens the relations.

Company is certain that being responsible in the economic, social and environmental area can also encourage their business partners to be more responsible. In 2012, the company's executive Virginijus Gumbaragis read the presentation in the seventh conference of the National Responsible Business Network – „Economical Benefit of Corporate Social Responsibility: What is the Return of Investment into Corporate Social Responsibility?". The participants of conference were familiarized with the results of PakMarkas' research of economic benefit and long-term influence of social responsibility on business. The research which was initiated by the audit company „Ernst&Young" aimed at evaluation of direct and indirect value to the company and familiarization of business representatives with the results.

Restricted or slowly renewing natural resources stimulate the thinking about what situation in their yard company will see when stepping outside after ten, five years or even earlier and about how actually want it to look like. Therefore, PakMarkas support all environmental initiatives that encourage the environmental care and protection. And believe that company can contribute to the preservation of clean and healthy environment.

PakMarkas organize company's activity processes pursuant to the environmental management standard ISO 14001 and company's environmental policy . The Quality Assurance Department is responsible for the compliance with the environmental procedures. And have identified and constantly monitor the following environmental indices:

Table 2. Environmental indices [4]

Indices			2012
Electricity			
1	Consumption of electricity	KW/h	1,942,116
2	Saved electricity due to the application of measures stimulating the effectiveness	KW/h	3,000,000
Sources of pollution			
3	Volumes of emissions	kg	131 (waste) 3,725 (gas)
4	Pollution tax (fines)	LTL	-
Raw-materials and waste			
5	Consumed packaging materials		12,127,473
6	Waste (by type)	m2	1,952,350 (labels) 694,917 (sleeves) 376 (photo-polymers)
7	Waste delivered for recycling (by type)	kg	Cardboard - 6,440 kg Cellulose (office paper, magazines, etc.) - 70 kg BOPP - 5,337 kg PE - 1,998 kg PVC - 18,220 kg
Water			
8	Consumed water	m3	311

Safe and healthy working environment is company's central obligation towards employees. Thus, company is pleased to inform that in 2012 managed to reduce the number of accidents at work to 0 (Number of accidents at work 2010 – 3, 2011 – 2, 2012 – 0). Company achieved this result by applying and highly focusing on various preventive actions [4] :

- We revised and updated the occupational and fire-safety guidelines.
- We enhanced the introductory trainings to our new employees in the area of general health and safety issues.
- We organized training in the area of safe usage of chemical substances for production employees that were followed by the examinations of each employee.
- We invited several fire-safety and occupational safety specialists to carry out the audit in the company, to monitor the working personnel and to record all notes that must be addressed.

Due to operational specifics, there are more men than women working in PakMarkas there are more men working in the factory, where a physical toughness is usually required, as well as in the engineering department – this profession is traditionally more popular among men. Company is oriented into long-term working relations. Fixed-term employment contracts are concluded under certain circumstances only. The increase in the number of employees working under fixed-term employment contracts in 2012 was conditioned by the following circumstances: recruitment of personnel temporarily replacing the employees at maternity/paternity leave, seasonal work and temporary project.

All employees are provided with additional benefits: they are provided with vacianation against flu, benefits in case of death of parents, children, spouses, bonuses on wedding occasions; benefit for employees attaining the pension age and leaving the company. Additional benefits in respect of the nature of work include a vehicle, a mobile phone, a stationary or portable computer, trainings and qualification enhancements. In 2012, company started the implementation of project of improvement of company's organisational structure and wage system. The aim of project is to ensure the fairness of inside wages by keeping clear links between a wage and results of activity as well as the place of position in the organizational structure [4].

Company is closely cooperating with various educational and scientific institutions, therefore, it is increasingly difficult to image without curious looks of the young ones observing the operation of printing machines, or without students, who carry out the traineeship and enrich their knowledge baggage with practical skills. In 2012, same as every year, company had a visit from the kindergarten and school. 7 students were admitted for traineeship and 3 of them stayed at company.

Company was invited and kindly accepted the invitation to sponsor the National Artworks Competition Dizmeiker'is 2012, which is annually organized by the students of Kaunas University of Technology. The event stimulates creativeness and development of thoughts of young persons. Company expect to become constant sponsors of this event and, thus, symbolically contribute to the artistic expression of students and encouragement of the search for original solutions. In summer 2012, PakMarkas provided assistance to the neighbouring animal shelter „SOS gyvūnai" (SOS animals) and decorated the environment of shelter so that the people who came here to take a new pet would be welcomed by a nice surrounding [4].

Company's fundamental aim is to develop long-term relations with the community looking for the new forms of cooperation and to remain socially active and responsible.

To be sensitive is one of the most important values and company apply it in everyday activity by willingly and openly discussing with the representatives of the community and by supporting social initiatives.

Alternative solutions. The main provisions of sustainable development were formulated at the World Summit in Rio de Janeiro in 1992. Sustainable development was endorsed as the main long-term ideology of societal development. The concept of sustainable development is based upon three pillars of equal importance: environmental protection, economic development and social development. Agenda 21, an action programme for the implementation of sustainable development, and declaration were adopted in Rio de Janeiro. It sets out the main principles of sustainable development. The priorities of the revised EU Sustainable Development Strategy are the following: climate change and clean energy production (i.e. when pollutant release, including greenhouse gases, into the environment is limited), sustainable transport, sustainable consumption and production, protection and management of natural resources, public health, social inclusion, demography and migration, world poverty and sustainable development challenges. Bearing in mind the aforementioned priorities of the revised EU Sustainable Development Strategy, two new priorities were added to the Strategy: sustainable consumption and development cooperation, which correspond to the priority "Global poverty and sustainable development challenges", reflecting Lithuania's obligations for global peace as well as for reduction of disparities between developed and developing states [6].

The human species inhabits a unique planet – planet earth. The earth has existed for about 4.6 billion years. Humans have inhabited this planet for perhaps only 3 million years. With our technology we are able to destroy the environment, but we also have the capability to improve the living conditions for present and future generations. For about 200 years now, man has been aware that he is overexploiting nature and its resources. Our world is the only planet in the solar system, as far as we know, that supports life and has the right living conditions for several different species and living organisms, humans included. What makes planet earth so unique for humans? We have the right distance of approximately 150 million kilometres from the sun and thus the right temperature, not too cold and not too hot. According to NASA the global average temperature on earth is about 15°C. Temperatures on earth are suitable for life unlike anywhere else in our solar system. Venus, closer to the sun, reaches temperatures of more than 400°C, while Mars – further away from sun– drops to temperatures of -63°C. Not only the temperature, but also the existence of water, the atmosphere with just the right gases surrounding the earth, the fertile soil and the ozone layer make human life comfortable. We are absolutely dependent on planet earth and on the environment with its complex and dynamic processes. We call the whole system "ecosystem" or "environmental system" or "ecological system". Planet earth is a closed system. A closed system exchanges energy only within its own environment. This means that neither matter nor energy can be created or destroyed (First Law of Thermodynamics). The First Law of

Thermodynamics is one of the absolute physical laws of the universe. No exceptions or contradictions to this law have ever been observed. Oceans and planets and solar systems all operate under the control of the First Law of Thermodynamics. Applying the thermodynamic theory to the economic system there is a transformation from usable matter/energy (resources) to unusable matter/energy (waste). Enterprises produce goods for satisfying human needs. The economic system is thoroughly dependent on the usable matter/energy from the ecological system. Without these conditions the economic system couldn't function, e.g. produce goods and services. In the context of achieving sustainable development it is essential that the economic system produces goods and services without consuming too much of the environment's usable matter/energy [1].

Natural resources are in one sense free to all. This is obvious in the case of the open seas or the air we breathe. Activity of individuals or corporations impacts on the ecosphere, on these natural resources. A key issue is who should be responsible for ensuring the protection of these resources. One can identify several positions, including [3] :

- Governments should take the lead in protecting the environment by legislating to provide a sound regulatory framework. The responsibility of corporations is to follow such framework, working within them.
- Corporations should take initiatives to protect the environment, working with governments and other bodies such as NGOs to develop appropriate framework.
- Individuals and corporations should take responsibility for what they own and governments should only intervene with respect to impact on common resources.

To produce in a sustainable manner and to be a sustainable enterprise means to understand the relationship between human needs and the natural environment. Currently the world population is over 7 billion people. All these people need food, shelter, mobility and energy. How can enterprises satisfy the needs of a growing world population. First of all there is the need to understand the system called earth on which the human race is dependent. Human beings are dependent on five natural elements: water, soil, air, the ozone layer and the sun [1].

Soil: Our world has a limited surface area. Arable land for agriculture and cultivation is limited. Our earth can produce a limited amount of food. Only 29 % of the earth's surface is soil as 71 % is water. According to the Food and Agriculture Organization of the United Nations (FAO), 14 million km2 (11 %) of land are used for agriculture, 26 % is pasture land and 32 % forests. The remaining 31 % is grazing land, desert, cities etc. The soil used for agriculture is limited because not all soils are arable. With our technology we are able to improve and increase productivity.

Water: 99.5 % of our biosphere and 71 % of the earth's surface consist of water. Humans need water for various usages. Only 3 ‰ of the water on earth is potable. We have enough water for everyone; the problem is the availability of drinkable water.

Air: There is enough air for all living beings. Pollution is the main reason for diminishing air quality. What are the consequences? Regions with high air pollution cause harm and discomfort to humans and other living organisms.Air has the capacity to regenerate.

Ozone layer: The ozone layer is a layer in the earth's atmosphere which contains relatively high concentrations of ozone. This layer absorbs 97-99 % of the sun's high frequency ultraviolet light, which is damaging to life on earth. So the ozone layer makes life possible. It can be depleted by various greenhouse gases (such as, carbon dioxide, methane, water vapour).

Sun: The sun is the star at the centre of the solar system. The energy of sunlight supports almost all life on earth and drives earth's climate and weather. The sun is the only natural element that cannot be influenced by man.

The triple bottom line (TBL) is a model which evaluates success using three criteria: Economic (Profit), Social (People) and Environmental (Planet). Balance of these three domains theoretically results in sustainable development. The concept is built on three pillars: Economic, Social and Environmental. Nowadays the economic pillar has still the most importance. Change in the other two pillars (social and environmental) is necessary to allow them to grow and have the same degree of importance as the economic pillar. This model is also known as the triple bottom line (TBL), designed to recognize not only the importance of economic values in an enterprise but also to target social and environmental performance.ustainable development [1].

The sustainability of a system can be measured as its lasting impact on the social, cultural and natural environment. For profit, sustainable business models allow organization to earn profits in the face of uncertainty and rational utility maximizing. Behavior by actors in the model, while having minimal long lasting impact. In an entrepreneurial context, the odds of business survival and the rate of growth may be more pertinent rather than profit. Interestingly, in the most desirable of sustainable business models the lasting impact of the business model often contributes to the organization's profits, growth and survival in for profit organizations,instead of detracting from commercial concerns. In the case of non profit organizations these may directly be the objectives of the organization. Every key business model decision is predicated on choices the organization has made earlier. In other words, it has chosen to offer a set of products or services, and those choices drive what substantive matters the business model must address [2].

Conclusion. The concept of sustainable development can contribute to find strategies, principles and policies for sustainable enterprises. Economic incentives are as important as ecological and social incentives. Humans (such as employees, customer, supplier) play an essential role. Enterprises have to integrate their "green" thinking in the whole manufacturing process. Sustainable enterprises implement strategies and tools for their plant and product lifecycle management and integrate them in their supply chain management, customer relationship management and enterprise resource planning. They strive for long-term solutions and long-lasting products [1].

Executive of UAB PakMarkas Virginijus Gumbaragis said "highly important role is largely entrusted to the overall performance of the company, profit of a specific period, return on investment and capital. The company should be managed in such a manner so as to possess

sufficient resources for the development, to remove any doubt concerning the continuity of activities, and that clear projections would include a not-too-distant future. In addition to the aforementioned, no less important role is played by our socially responsible business initiatives. Everyone of us has been in a situation where we faced difficulties or when expenses exceeded performance results. Despite the fact that such circumstances are uneasy to go though, let us not give up the already started social projects, let us not suppress socially responsible practices. After all, social groups supported by our projects find themselves even in worse conditions" [4].

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APPENDICES

United Nations „Global Compact" principles and activity [4].

Human rights

Principle 1:
Businesses should support and respect the protection of internationally proclaimed human rights.
Principle 2:
Businesses should make sure they are not complicit in human rights abuses.

Labour

Principle 3:
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
Principle 4:
Businesses should uphold the elimination of all forms of forced and compulsory labour.
Principle 5:
Businesses should uphold the effective abolition of child labour.
Principle 6:
Businesses should uphold the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7:
Businesses should support a precautionary approach to environmental challenges.
Principle 8:
Businesses should undertake initiatives to promote greater environmental responsibility.
Principle 9:
Businesses should encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10:
Businesses should work against corruption in all its forms, including extortion and bribery.

PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to explain the causes of sustainable development necessity. Get up and come into the middle of the floor. Close your eyes and think of a thing from the garden (20 seconds). Open your eyes and find the person who thought of the same thing as you. Hand out Word Cards. The one of you is the manager and is to be interviewed by the other. The partner is interviewer. The interviewer want to know how can enterprises satisfy the needs of a growing world population without damaging the natural environment which they live in? What are the main influences on the natural elements? The interviewer read the first word on the cards and uses the first thought that comes into mind to generate an idea for a original question concerning the manager. The manager looks at the next word on the card, and uses the first thought that comes into mind to provide a logical answer to the question. You continue with new questions and new answers. You are told when to switch roles. Make a demonstration like „The first word is chemicals. Dear manager. I am happy that you had time for an inerview. I would like to know how company use chemicals in manufacture process? The next words are plastic, innovation, water, electricity, food". The one who has the darknest eyes is an manager. Please start now (Instruct the traines to switch roles after 3 minutes).

Assignment #2

The goal of the assignment is to explain sustainability criteria. Please stand up. Find together two and two with a parter who was born in the same month as youself. Stretch your arms above your head and say: Yes, we made a mistake (make them do it 3-4 times). Now select a category (e.g. environment) – take turns to fill out the category (e.g. animals, plant, flowers etc.) When one of you fails to continue filling out the category within 2 seconds you as a team have made a mistake. Now you both celebrate by shouting: Yes, we made a mistake. Demonstrate in front of the participants. The one with the longest hair start by making a category. Stop the exercise after about 6 minutes. Discuss: What kinds of measures of environmental responsibility would you suggest PakMarkas to use. What would be the strengths and the drawbacks of these measures you have indicated?

Assignment #3

The goal of the assignment is to integrate CSR principles into enterprise activity. Take post-it notes and a pen and come out into the middle of the floor. This is an individual exercise. Generate as many ideas as possible related with words Profit, People, Planet. Write down the ideas on a note – one idea per note. Demonstration: explain the triple bottom line model and evaluate PakMarkas success under three criteria: Economic, Social and Environmental.

Assignment #4

The goal of the assignment is to explain sustainable development concept in business. Get up and come into the middle of the floor. Close your eyes and think of the number of lamps in your home (20 seconds). Open your eyes and find the person who has the same number of lamps at home as you. Identify two random objects from the room. Generate ideas for new products by combining principles/functionalities from the two objects. Continue the exercise by identifying two other objects. Demonstration: the first things identified are lamp and a computer: A lamp shaped like a computer. Or a computer thats hangs from the sealing like a dinner table lamp. Remember a definition of sustainable development was given by The World Commission on Environment and Development in 1987: "Sustainable development is development that meets the needs of the current generation without compromising the needs of future generations." How can we allocate resources between the present and future generations if latter ones are not represented in the decision-making processes today?

Assignment #5

The goal of the assignment is to integrate CSR principles into enterprise activity. Get up and come into the middle of the floor. Close your eyes and think of the colour of your jacket (20 seconds). Open your eyes and find the person with a jacket the same colour as yours. Hand out Picture Training Cards –one to each trainee. Use the pictures on the card one by one as inspiration for ideas on how an enterprises drive their processes in the future. Generate as many ideas as possible. Demonstration: How can enterprises drive their processes in a socially and environmentally friendly manner? The pictures are of a plastic bag, label, sweet, paint, poverty.

9.3 CASE STUDY 3. STARBUCKS BEST PRACTICES IN SUSTAINABILITY

Introduction. Since first store in 1971, Starbucks has felt a responsibility to make a positive impact one person, one cup and one neighborhood at a time. As company has grown to now more than 18,000 stores in over 60 countries, it recognize that commitment to corporate citizenship is also a business imperatyve [5]. Starbucks Corporation is one of the world's largest specialty coffee retailer. Starbucks was founded in 1971 when three academics English teacher Jerry Baldwin, history teacher Zev Siegel, and writer Gordon Bowker opened a store called "Starbucks Coffee, Tea. and Spice" in Seattle. The partners named the company in honor of Starbuck, the coffee-loving first mate in Herman Melville's Moby Dick. The company's logo is a two-tailed mermaid encircled by the store's name. By the early 1980s, the company had four Starbucks stores in the Seattle area and had showed profit-ability every year since opening. However, the roles of the founders underwent major changes. Zev Siegel left the company, Jerry Baldwin took over day-to-day management and functioned as CEO, and Gordon Bowker remained involved as owner while devoting most of his time to other business ventures. In 1982, Baldwin recruited Howard Schultz, vice president and general manager of U.S. operations for Hammarplast, a Swedish maker of stylish kitchen equipment and housewares, as head marketing and retail stores supervisor. Schultz's biggest idea for the future of Starbucks came during the spring of 1983 when the company sent him to Milan, Italy, to attend an international housewares show. While walking from his hotel to the convention center, Schultz spotted an espresso bar and went inside to look around. The cashier beside the door nodded and smiled. The barista (counter worker) greeted Howard cheerfully, then gracefully pulled a shot of espresso for one customer and handcrafted a foamy cappuccino for another, all the while conversing merrily with those standing at the counter. On Schultz's return from Italy, he shared his revelation and ideas for modifying the format of Starbucks stores with Baldwin and Bowker. But instead of winning their approval, Schultz encountered strong resistance. After many failed efforts trying to persuade Baldwin and Bowker, Schultz decided to leave Starbucks and planned to open espresso bars in high-traffic downtown locations that would emulate the friendly, energetic atmosphere he had encountered in Italy. Schultz left Starbucks in late 1985 to open his first II Giornale store a year later. In March 1987, Jerry Baldwin and Gordon Bowker decided to sell the whole Starbucks operation in Seattle the stores, the roasting plant, and the Starbucks name. Schultz raised capital and immediately bought the company. The new name of the combined companies was Starbucks Corporation. Howard Schultz, at the age of 34, became Starbucks' president and CEO. In 2005, Starbucks had more than 10,200 company operated & licensed stores in more than 35 countries. The stores offered coffee drinks and food items, as well as beans, coffee accessories, teas, and music. Starbucks operated more than 5,200 stores in ten countries (80 percent in the U.S.), while licensees operated more than 2,800 units in 28 countries. U.S. licensed stores were located primarily in shopping centers and airports. The company also owned and licensed the Seattle's Best Coffee and Torrefazione Italia chains in the U.S. (more than 100 shops). In addition, Starbucks marketed its coffee through grocery stores and licensed its brand for other food and beverage products. Coffee beans could come from all over the world about 50 percent came from Latin America, 35 percent from the Paci

fic Rim, and 15 percent from East Africa. Most of the coffee producers were small to medium-sized family-owned farms. Some farms were able to process their coffee beans, but most sold their outputs to processors through local markets (mills, exporters or cooperatives). The processors turned coffee "cherry" into parchment or green coffee, and then sold it to suppliers who were exporters or distributors. These suppliers provided many services to processors and farmers, such as marketing, dry milling, technical coffee expertise, financing, and export logistics. Starbucks also purchased coffee through agents from individual estates and producer associations in addition to suppliers, or directly from the processors [4]. Starbucks is a member of the Global Social Compliance Program, a business-driven effort to promote the continuous improvement of environmental and working conditions of global supply chains. At the coffee company's 2013 shareholder meeting, CEO Howard Schultz described the company's efforts to engage with suppliers and local communities where they operate, accelerate investments in sustainable farming and reach Starbucks' goal of ethically sourcing 100% of its coffee beans by 2015 [5]

Corporation has taken a holistic approach to ethically sourcing its products from the coffee serve customers to the green aprons worn by baristas. Company strive to cultivate lasting relationships with the people who grow products and create manufactured goods as work together to produce high-quality, ethically sourced products. Starbucks approach includes responsible purchasing practices, farmer support efforts, social responsibility standards for suppliers, and environmental programs. Corporation know that supply chain is vast, and have an opportunity to use its scale to make positive changes industry-wide [4].

Starbucks is committed to buying and serving high-quality coffee that is responsibly grown and ethically traded. Company honor this commitment through responsible coffee purchasing practices, farmer support centers, loan programs and forest conservation efforts. When corporation buy coffee this way, believe that it helps foster a better future for farmers and helps mitigate the impacts of climate change for the planet [5].

The cornerstone of company approach is Coffee and Farmer Equity (C.A.F.E.) Practices, comprehensive coffee-buying program that ensures coffee quality while promoting social, economic and environmental standards. C.A.F.E. Practices, which is developed in collaboration with Conservation International (CI) a decade ago, has created significant social and economic impacts for more than one million workers, and environmental improvements on the thousands of participating farms [5].

Farms and mills are evaluated using a comprehensive scorecard of more than 200 indicators by third-party verification organizations, which are overseen by SCS Global Services. In 2012, 90% of our coffee was C.A.F.E. Practices verified. Purchasing third-party certified or verified coffees not only meets customers' expectations, but can also help protect the environment and the livelihood of farmers in coffee-growing regions [3]. Company has offered Fairtrade coffee since 2000, and remain one of the largest purchasers of Fairtrade certified coffee in the world. In 2012, 44.4 million pounds (8.1 %) of coffee purchases were Fairtrade certified. Also purchased 8.7 million pounds (1.6%) of certified organic coffee in 2012. In 2012, 93 % of coffee was ethically sourced through C.A.F.E. Practices, Fairtrade and/or other externally verified or certified programs, with some coffees receiving multiple

verifications or certifications. It is goal that by 2015, 100 % of coffee will be sourced this way. Another important component of approach is a green coffee pricing model that aims to pay the prices premium quality commands, while fostering price stability and mutually beneficial relationships with suppliers. Starbucks sourced 545 million pounds of premium quality green (unroasted) coffee from 29 countries in 2012, and paid an average price of $2.56 per pound. In 2012, 98% of contracts included an economic transparency clause. In a similar way company approach responsible coffee sourcing, are committed to a long-term strategy of ethical tea sourcing, which includes helping support farmers and their communities throughout tea supply chain. Starbucks haas been working with the Ethical Tea Partnership (ETP) since 2005 to collaborate with others in the tea industry, and to make sure that tea is produced in a socially responsible way. In 2012, strategically sourced from estates that are a part of the ETP program and subject to third-party independent audit on the social and environmental criteria outlined in the ETP Global Standard. Work with ETP is complemented by our support of the CHAI (Community Health and Advancement Initiative) project with Mercy Corps. In 2012 celebrated the 10-year anniversary of CHAI. Since 2003 CHAI has directly impacted 75,000 people and their families in more than 200 farming communities in India and Guatemala [6].

Approach to buying Coca is also based on a commitment to ensuring a long-term supply of high-quality, ethically sourced cocoa while contributing positively to the environment and to cocoa-farming communities. Cocoa Practices program seeks to verify the supply chain for the cocoa beans used in beverages, with inspections performed by independent verifiers overseen by SCS Global Services. Company are also committed to social responsibility standards for the merchandise, furniture and other items found in our stores. Set strong standards for suppliers and offer them assistance when corrections need to be made to their business practices. Adherence to those standards informs sourcing decisions and ensures working with suppliers who share commitment to ethical sourcing. Buyers work directly with suppliers, negotiating contracts for the products need in operations or sell to customers.

In 2012 corporation assessed 128 factories and found that 36 of them failed zero-tolerance standards. Even though approach is to work with suppliers to correct the issues, there are times when halt business due to the nature of the issues and until adequate resolution takes place. While were able to implement improvement plans with almost half of these factories, discontinued working with 15 factories as suppliers for standards issues. Since starting the program in 2006, company has engaged in more than 500 factory assessments and continue to work with more than 70 factories on programs to improve standards [5].

Despite its domination of the specialty coffee industry, Starbucks did not use its purchasing power as a way to squeeze its coffee suppliers in order to improve margins. Instead, the company decided to use its market power as a way to implement social change within its supply chain through C.A.F.E. Practices was a way for Starbucks to ensure a sustainable supply of high quality coffee beans, which was an essential component of Starbucks' business. The initiative built mutually beneficial relationships with coffee farmers and their communities. It also helped to counteract the oversupply of low-grade coffee on the world's market, which

suppressed prices making it difficult for farmers to cover the cost of production. When Starbucks implemented C.A.F.E. Practices, it had six objectives in mind [4]:

- Increase economic, social, and environmental sustainability in the specialty coffee industry, including conservation of biodiversity.
- Encourage Starbucks suppliers to implement C.A.F.E. Practices through economic incentives and preferential buying status.
- Purchase the majority of Starbucks coffee under C.A.F.E. Practices guidelaines.
- Negotiate mutually beneficial long-term contracts with suppliers to support Starbucks' growth.
- Build mutually beneficial and increasingly direct relationships with suppliers.
- Promote transparency and economic fairness within the coffee supply chain.

C.A.F.E. Practices was a set of coffee buying gudelines designed to support coffee buyers and coffee farmers, ensure high quality coffee and promote equitable relationships with farmers, workers, and communities, as well as to protect the environment It was not a code of conduct or a compliance program. Instead, it was a way of doing business that was aimed at ensuring sustainability and fairness in the coffee supply chain. This sustainability and fairness was achieved through a set of global guidelines for Starbucks suppliers and a set of incentives to reward farmers and suppliers who followed those guidelines.This guidelines consisted first of a set of prerequisites, which had to be met in order to be considered for the C.A.F.E. Practices initiative. These prerequisites set a minimum standard for Starbucks suppliers, including coffee quality and economic transparency. The transparency prerequisite meant that suppliers were expected to illustrate economic transparency on the amount of money that was ultimately paid to farmers [4].

After the initial prerequisites had been met, suppliers were graded based on a set of environmental and social criteria. All suppliers were evaluated not just on their performance, but also on their supply networks of farms. Farmers were rewarded for coffee growing and processing practices that contributed positively to the conservation of soil, water, energy, and biological diversity, and had minimal impact on the environment. Also, C.A.F.E. Practices encouraged farmers and others to make sure that workers' wages met or exceeded the minimum requirements under local and national laws. Effective measures were required to ensure workers' health and safety and provide them with adequate living conditions. Based on their performance, as measured against the environmental and social criteria, suppliers might earn up to 100 percentage points in C.A.F.E. Practices. Under C.A.F.E. Practices, farms, mills, and suppliers had to illustrate equitable payments to those who worked for them or sold to them. They had to demonstrate economic accountability and document their hiring and employment practices. Scores were audited by an independent verifier, and licensed by Scientific Certification Systems, a third party certification company that provided independent analysis and certification of a wide range of environment sustainability and food safety achievements. Since the verifier was independent of Starbucks, the cost of the verification had to be negotiated between the supplier and the verifier. However, there was no cost to the supplier to submit a C.A.F.E. Practices application to Starbucks. In order to qualify for C.A.F.E. Practices supplier status, suppliers had to be independently verified and meet minimum Social

Responsibility criteria. Points above 60 percent increased the status of the supplier. For scores above 60 percent, the supplier qualified as a Preferred supplier and would gain preference in future Starbucks coffee purchases. Additionally, suppliers who earned scores above 80 percent would qualify as Strategic suppliers and would earn a Sustainability Conversion Premium of $0.05 per pound of coffee for one year. In order to encourage continued improvement, Starbucks also offered an additional Sustainability Performance Premium of $0.05 per pound of coffee to suppliers who were able to achieve a 10-point increase above 80 percent over the course of a year. Besides the price premium for Strategic Suppliers, C.A.F.E. Practices allowed Starbucks to buy from preferred suppliers first, paying high prices and offering preferential contract terms to those with the highest scores. The premium prices helped coffee farmers make profits and support their families, despite a global glut in the coffee bean industry [3]. Additionally, Starbucks provided access to affordable credit to coffee farmers through various loan funds. They invested in social development in coffee producing countries and collaborated with farmers through the Farmer Support Center in Costa Rica to provide technical support and training. If a supplier failed to meet C.A.F.E. Practices criteria, Starbucks sponsored information sessions in coffee growing regions for farmers. Even though the direct benefits of C.A.F.E. Practices helped suppliers and farmers, Starbucks received significant indirect benefits from the program. The program strengthened Starbucks' supply base, improved its marketing ability, and increased its visibility into the supply chain. Therefore, the benefits of C.A.F.E. Practices extended all the way through the supply chain, from the farm to the end consumer [4]. On the supply base side, the program served to lock in strategic and high quality suppliers. This consistent, quality supply could provide Starbucks with a competitive advantage over other coffee roasters in the industry. Since suppliers would have invested resources in complying with Starbucks programs, they would have an incentive to remain with Starbucks and would face switching costs should they try to demonstrate their excellence to another coffee roaster. The large pool of high quality suppliers would also smooth supply fluctuations by providing a base supply of high quality growers. Since Starbucks' long purchase cycle included signing purchase agreements before the crop had even been harvested, any reduction in supply uncertainties and fluctuations could lead to better planning of future supply in the form of faster procurement. C.A.F.E. Practices could also improve Starbucks' reputation among suppliers, which would make it easier to expand into purchasing in different countries or locations. In order to combat price and supply volatility, the C.A.F.E. Practices initiative induced longer-term supply relationships with a consistent set of suppliers. Starbucks was hopeful that this program would reduce its susceptibility to price and supply volatility in the global coffee market. On the marketing side, C.A.F.E. Practices supported Starbucks' socially responsible goals. While C.A.F.E. Practices were not yet widespread and were not directly marketed to customers, an increased awareness of Starbucks corporate social responsibility (CSR) practices could help justify Starbucks' premium prices. C.A.F.E. Practices would allow Starbucks to market its coffee as procured through a highly selective process that ensured only the highest quality beans. Awareness of this program might encourage other coffee roasters to join in the C.A.F.E. Practices program; however, Starbucks would be known as the inventor of the program. They might also be able to brand their practices and sell the know-how to other roasters that were looking to implement similar initiatives. Such widespread expansion of the program would simply serve to extend its benefits towards creating a base of high quality

coffee beans. With each improvement in the supply of beans, Starbucks achieved more flexibility in being able to charge premium prices at its stores. C.A.F.E. Practices also improved employee morale by creating an atmosphere of social responsibility that they could be proud of.[4].

Finally, C.A.F.E. Practices increased the visibility of Starbucks' supply chain by demanding documented and verified product and financial flows through its suppliers' supply chains. In the past, Starbucks had very poor visibility into their supply base, as coffee farmers and processors were not very technologically sophisticated or mature in their business processes. By increasing the transparency of their supply base, Starbucks would be able to gain a better understanding of the needs and the conditions of their suppliers. The increased visibility would also allow Starbucks to improve its relationships with growers, who before had been isolated from them due to intermediaries coffee exporters and distributors that came between the two sides. On a more practical note, increased visibility in the supply chain could allow Starbucks to better predict supply shortages as they arose. Since the majority of Starbucks coffee was grown in developing countries in Latin America, Africa, South America, and Southeast Asia, Starbucks had a significant risk of supply shortage due to regional instability. Without visibility into the supply base, Starbucks did not have a good way to predict the impact of regional instability to its coffee supply. With increased visibility, an outbreak of regional instability could be linked to a particular quantity of expected coffee supply, giving Starbucks advance notice of the need to find alternate sources of coffee. This could allow Starbucks to be proactive in managing supply disruptions even before they arose. Starbucks provided various resources to promote and help farmers comply with the guidelines of C.A.F.E. Practices and ensure sustainability. In January 2004, the company opened a farmer support center called the Starbucks Coffee Agronomy Company in Costa Rica. This helped build long-term and strategic relationships with members in the supply chain who were committed to the sustainable production of high-quality coffee. They also administered C.A.F.E. Practices, oversaw regional social programs, and engaged with local government on sustainability issues [4].

Starbucks know its success as a company is linked to the success of the thousands of farmers who grow coffee. Starting in 2004 with first farmer support center in Costa Rica, Starbucks agronomists collaborate directly with coffee farmers to encourage responsible growing practices and improve the quality and size of their harvests. Continued to expand the program, and share coffee knowledge with farming communities through satellite office in Guatemala City and additional farmer support centers in Kigali, Rwanda, and Mbeya, Tanzania. In 2012 corporation opened new centers in Manizales, Colombia, and Yunnan Province, China. Ultimately, these efforts can help farmers earn better prices and become more resilient, long-term producers. Corporation's goal is to invest in farmers and their communities by increasing farmer loans to $20 million by 2015 [5].

Starbucks also bought certified or eco-labeled coffees that had been grown and sold in ways that helped preserve the natural environment and/or promote economic sustainability. There were three such types of environmentally sustainable coffee purchased by Starbucks [4] :

- *Conservation coffee* (shade-grown): Starbucks, through its partnership with CI (a nonprofit organization dedicated to protecting global biodiversity), encouraged coffee farmers to use traditional and sustainable cultivation methods. The basic aim was to protect shade trees, which were often stripped away and replaced with tight rows of coffee trees on large coffee plantations. This not only destroyed the habitats of numerous species but also resulted in lower coffee production.
- *Certified organic coffee:* This coffee was grown without the use of synthetic pesticides, herbicides, or chemical fertilizers to help maintain healthy soil and groundwater.
- *Fair trade certified coffee:* Through a licensing agreement with TransFair USA, Starbucks tried to ensure that coffee farmers were fairly compensated for their crops. The Fair Trade Certified Coffee label certified that the coffee met Fair Trade criteria. These criteria focused primarily on price and other sustainable needs. Fair Trade Certified coffees only came from democratically owned cooperatives, not large farms or coffee pulled across supply channels.

In order to improve farmers' access to financing, Starbucks provided loan funds to several organizations to ensure that farmers could obtain affordable loans and to help them gain some financial ability to improve their agriculture techniques. Starbucks worked with local farmers to understand the greatest needs of their rural communities, which often lacked basic necessities such as adequate housing, health clinics, schools, good roads, and fresh drinking water. Starbucks collaborated with these farmers to develop projects that helped meet their needs, especially in areas where the company bought large volumes of coffee [4].

Providing access to credit at reasonable terms is a critical aspect of farmer support model. Corporation's goal is to invest in farmers and their communities by increasing farmer loans to $20 million by 2015. In 2012, increased total commitment to $15.9 million, including an additional $1.3 million placed in the Fair Trade Access Fund set up by Incofin Investment Management, Grameen Foundation and Fairtrade International. The fund provides financial and technical assistance to address the needs of smallholder farmers by investing in Fairtrade producer organizations and cooperatives. The fund represents a unique collaboration between a social investment firm and two global nonprofits that focus on helping rural communities in developing countries. The fund launched in Latin America in 2012 with farmers in multiple coffee-growing countries. By investing in programs that provide access to credit, we're helping farmers manage risk and strengthen their businesses. Looking forward, company are exploring innovative relationships to help better leverage the loans in concert with technical support, social development investments and coffee purchases. The fund will also expand into the Africa and Asia-Pacific farming regions [5].

There were two main challenges facing C.A.F.E. Practices implementation that could potentially be addressed with better integrated information technologies. First, since some members of the supply chain had very poor information systems, it could be very difficult to gain economic transparencya key goal of C.A.F.E. Practices from these members. Second, as C.A.F.E. Practices were updated and refined, it became a daunting job to effectively communicate the revised requirements and practices to farmers, suppliers, and other members of the industry. In addition, it had been a very labor-intensive and slow process to evaluate

farmers for scores in the C.A.F.E. program. Auditors had no choice but to travel to the farms, which were often located in barely accessible areas. The company was in the process of developing an internal system to track compliance with C.A.F.E. Practices, and link such data to support procurement. The plan was to integrate the C.A.F.E. Practices data, at the time stored in spreadsheets, with the more versatile database, and to then link the data with its procurement system, together with other information systems on quality data. To Starbucks, it seemed that a more comprehensive information system was needed to support a large-scale implementation of C.A.F.E. Practices. If Starbucks was able to overcome the implementation issues that it faced, C.A.F.E. Practices could go a long way towards improving the sustainability of its coffee supply chain while at the same time improving Starbucks' image as a socially responsible corporation [4].

Comprehensive approach to reducing environmental impact means looking at all aspects of business, how they intersect, and how can integrate new solutions to create meaningful and sustained change. Beyond the proactive efforts within control, the realities of climate change are a growing challenge, and felt the impact during 2012 the hottest year on record. From coffee-growing conditions in Costa Rica to the increased electricity needed to power stores, we need to consider the global impact of actions. By building more energy-efficient stores and facilities, conserving the energy and water company use and purchasing renewable energy credits, are pushing ourselves to reduce the environmental footprint of business operations [5].

Working in critical areas of supply chain to mitigate impacts and adapt to a changing climate. This is to ensure the long-term sustainability of business and the health of the communities touch. But it's about more than just operations and supply chain. Working to shrink environmental footprint and meet the expectations of customers by reducing the waste associated with cups, increasing recycling and incorporating green design into stores. Coprporation also know that the magnitude and complexity of addressing climate change requires its to think beyond the actions of own company. As a result are committed to continue using the power of voice to champion progressive climate policies in partnership with other like-minded businesses and organizations [6].

Corporation know that more than 80% of direct and indirect greenhouse gas emissions come from the energy used to power stores, offices and roasting plants. Company are intently focused on improving the environmental performance of facilities and more than 18,000 stores with green store design and energy and water conservation strategies.

Starbucks has been a leader for more than a decade in the development and implementation of a scalable green building program for retail companies like ours. We joined the U.S. Green Building Council (USGBC) in 2001 and collaborated with them to help develop the LEED (Leadership in Energy and Environmental Design) for Retail rating system, an effort that incorporated retail business strategies into the LEED for New Construction and Commercial Interiors rating systems. We opened our first LEED-certified store in 2005. In 2009 Starbucks became one of the first retailers to join USGBC's LEED Volume Certification pilot program.

As the first retail company to take this building approach globally, Starbucks has experienced success in some geographic areas and challenges in others. In 2012, built 69 percent of new global company-owned stores to achieve LEED, but had difficulty applying LEED in regions where the program is not as established. Going forward, company will explore additional strategies to bring 100% of stores to a sustainable building standard.

In 2008, company set a goal to reduce electricity use by 25% in company-owned stores by 2015. Since then, its has implemented a number of energy initiatives and have seen electricity use decrease by a total of 6.5%. Despite these efforts, electricity use in 2012 increased 1.1% compared to 2011, mainly due to record-breaking temperatures in the U.S. that caused stores' air conditioners to run more than usual. Last year was one focused on testing and validating new, effective energy conservation solutions for stores. In the next two years we'll be bringing those proven strategies to scale to meet goals. One example: installing energy management systems and hybrid water heaters to heat water and cool stores. Water is a key ingredient in beverages and a necessity for operating stores. Company has identified a number of opportunities to use this precious resource more wisely and have spent the last few years testing and validating these solutions. In 2008 set a goal to reduce water consumption by 25% in company-owned stores by 2015. Over the past four years, cut water consumption by 17.7% through several measures, including the use of efficient fixtures, actively seeking out and repairing stores with leaks and the elimination of a continuously running faucet that rinsed utensils. In 2011 company began implementing an improved process for enhancing the quality and consistency of handcrafted beverages. While these changes required more water, company is able to maintain the water conservation gains had made over the past four years by deploying new, more efficient water filtration systems in stores. By the second half of 2012, corporation began to see significant gains from this new technology, and hope we'll continue to track toward 2015 goal [5].

In addition to reducing energy use, increasingly focused on advancing renewable energy sources through purchasing practices. Company is hoping to help transform the energy landscape by supporting the development of the renewable power market. The Renewable Energy Credits (RECs) purchase encourage the development of new clean-energy sources by providing wind-farm owners with additional revenue. In turn, that helps sell electricity at prices competitive with power plants that use fossil fuels. In 2011 company began working toward a goal to purchase RECs equivalent to 100% of the electricity used in company-owned stores globally by 2015. For two years running, we have purchased renewable energy equivalent to more than 50% of the electricity used in company-owned stores worldwide [6].

Providing recycling in stores and ensuring the recyclability of cups is a foremost priority for Starbucks and its customers. Company has offered a cup with 10% post-consumer recycled paper fiber since 2006. And keep working to decrease the materials used in packaging, find new ways to encourage reusables and implement recycling solutions for cups. Approach is to not only provide customers with cup choices for their beverages, but to also collaborate with others to create locally relevant improvements in the recycling infrastructures of communities where operate. Doing that by taking a close look at the materials company use and opportunities for material reuse in the future. In 2012 introduced the EarthSleeve to Starbucks

locations across the United States and Canada. This new hot-cup sleeve requires fewer raw materials to make, while increasing the amount of post-consumer content. These adjustments correlate to a savings of nearly 100,000 trees a year and we are working to roll out EarthSleeve globally. Because recycling infrastructure varies widely in countries around the world – even from one city to another – a one-size-fits-all approach does not work for a global business with stores in more than 60 countries. We have proven that our used cups can be accepted in a variety of recycling systems, and we are bringing this to scale in the United States, Canada, the United Kingdom and Germany. We are developing material and infrastructure solutions in additional markets, working toward our goal to provide all customers access to cup recycling by 2015.

By working with nongovernmental organizations, policy makers, competitors and others, company can tackle common challenges. As a member of the Paper Recovery Alliance and the Plastics Recovery Alliance, and others, company are helping advance a number of meaningful food packaging initiatives that will have a significant impact on the entire industry. Although most of customers take their beverages to go, providing front-of-store recycling is an important part of effort to develop comprehensive recycling solutions. In 2008 company set a goal to implement front-of-store recycling in all company-owned locations by 2015. In 2012 24% of company-owned stores in the United States and Canada offered front-of-store recycling. Of these locations, 94% were able to recycle or compost the hot cup. Although still have work to do, are pleased with progress and will build on this momentum while expanding to international markets to reach goal [5].

In 2012 corporation confirmed that markets such as Germany and the United Kingdom have effective recycling solutions in place, even if they do not include front-of-store recycling canisters. For example, in the United Kingdom store waste is separated into three streams in the back of our stores, and then separated later at the waste facility. UK stores are currently diverting approximately 50% of their waste from landfills with this method, and are testing ways to increase this percentage. By leveraging the solutions from our different markets around the world, company can help build capabilities in markets newer to recycling. Back-of-store recycling is also a priority, as most of in-store waste is generated behind the counter. In 2012 78% of the 3,178 stores in the United States and Canada where Starbucks is responsible for providing waste removal services recycled cardboard boxes and other items. Among remaining U.S. and Canada retail locations, the majority were limited by operational impasses, such as a lack of store space for recycling carts or the unavailability of commercial recycling services. Working hard to resolve these barriers. Reusable cups are an important component of overall waste reduction strategy. Since 1985 company has rewarded customers with a discount when they bring in personal tumblers, and have a goal to serve 5% of the beverages made in stores in tumblers and mugs brought in by customers. In 2012 customers brought their own tumblers into stores 35.8 million times, saving more than 1.6 million pounds of paper from landfills. Although customers brought in their personal mugs 1.6 million more times in 2012 over the previous year, the percentage of customers choosing reusable mugs remained flat from last year. In previous years, company calculated the percentage of customer tumbler use over total transactions. In collecting data from stores around the world and analyzing customer behavior, determined that a better measurement of

this goal is to calculate the percentage of times a personal cup/tumbler is used over total beverage sales, which is a more precise measure of the total beverages we sell.

Company will continue to find innovative ways to engage customers to work and to reduce waste, including launching $1 reusable cup in the U.S. and Canada in 2013 with plans to expand to other markets. Company challenge ourselves, its partners in its support centers and stores, to use reusable cups and remain committed to exploring new ways to reduce cup waste.

Corporation are concerned about the impacts of climate change, especially in the sensitive bioregions where coffee is grown. To better understand the risk to farming communities and supply chain, work with Conservation International (CI) and farmers in three unique coffee-producing communities. Together company is working to identify and test effective strategies for improving the sustainability of coffee production processes, the conservation and restoration of natural habitat, and opportunities to facilitate farmer access to forest carbon markets or other forms of assistance. In Chiapas, Mexico, engaged more than 200 farmers in 23 communities and helped them protect 10 species of plants in nearly 500,000 hectares in three protected area reserves. Capturing the carbon value of this investment in tree plantings has helped farmers receive additional income in the form of payments for carbon credits – creating the equivalent of 22 new jobs and representing an average of nearly 27% of a participating farmer's income. [5].

Communities are not just where company has stores. They are every place business touches, from the backyards of customers, to the farms where coffee is grown. Company has a responsibility to make communities stronger – using the scale of business for positive change.

Now, more than ever, communities are looking to the private sector to share resources and create meaningful change. By mobilizing partners (employees) and the communities company serve, is tapping into a passionate network of people eager to be a catalyst for change in their local neighborhoods. In 2012, company brought together customers and partners, civil leaders and nonprofit organizations to contribute more than 613,000 hours of service around the world. During April's Global Month of Service, volunteers made a significant impact in more than 33 countries around the world – with more than 2,100 community service projects completed in just 30 days. As company engage in communities in the present, also planning for the future. We're helping develop the next generation of extraordinary leaders through Youth Action Grants. These investments help young people learn the skills required for changing global economy, such as business save, social conscience and collaborative communication. When company created the Youth Action program in 2008, set an ambitious goal of engaging 50,000 young people by 2015. For each of the past three years, company have exceeded this goal. These youth leaders in turn mobilized more than 1.8 million hours of community service in 2012 and created ripples of change in communities around the world. As look to the future with Youth Leadership grants, company hope to help the next generation of leaders to build successful and socially responsible businesses and nonprofit organizations.

Corporation ise exploring new ways it can be more directly involved with the communities it serve. Community Stores are helping create engaged citizens through an innovative business model and partnerships. Community Stores serve as the hub of community service and training programs that promote leadership and job and life-skill development. During fiscal 2012 wcompany opened our first two Community Stores in Harlem, New York, and the Crenshaw community of Los Angeles. Company opened a third store in Houston, Texas, in early fiscal 2013. In the first 12 months of the Community Store program, this effort generated $245,000 for holistic community- revitalization programs focused on education, safety, housing, health and employment. As celebrate the first year of Community Stores, company are pleased with the personal and financial impacts they have made in these neighborhoods. These stores have shed light on the role stores can play in creating community connection [7].

Commitment to communities extends beyond stores to include the regions that supply coffee, tea and cocoa. Starbucks invests in programs designed to strengthen local economic and social development. Working collaboratively with nongovernmental organizations that have experience and expertise in working with farming communities. In Indonesia's Aceh province, Starbucks has teamed with Save the Children to improve children's health and education in coffee-growing communities through BLEND (Better Living, Education, Nutrition, and Development) In tea-growing regions of India and botanical-farming communities in Guatemala, Starbucks has helped support health and economic development programs through Tazo's Community Health and Advancement Initiative (CHAI) project, a joint partnership with Mercy Corps. Since 2003 Starbucks and Tazo suppliers have contributed $1.1 million for CHAI. We are now involved in a three-year project to impact more than 11,000 people with water and sanitation improvements, youth engagement, education and income generation. Since fiscal 2005, Starbucks has helped support the Guatemala Education Initiative, an effort with Save the Children to bring education programs to remote coffee-producing villages in that country. In 2011 Starbucks launched a three-year project with a $1 million contribution to Save the Children to improve education, health and nutrition for coffee-farming families in Guatemala's Huehuetenango region [5].

Starbucks also supports water, sanitation and hygiene education programs in water-stressed countries through the Starbucks Foundation's Ethos Water Fund. For each bottle of Ethos water purchased, a contribution of $.05US ($.10CN in Canada) is made to the fund. Since 2005 $7.38 million has been granted, benefitting approximately 430,000 people around the world. In 2012 two new grants were made in East Africa, an important coffee-growing region for Starbucks.

 In 2012 Starbucks Corporation gave $6.5 million in cash, including $1.75 million to the Starbucks Foundation. Corporate giving included funding for community-building programs – including the Global Fund through our partnership with (RED) and other efforts and $40 million in in-kind contributions. As company has grown to reach our neighborhoods and communities around the world, diversity and inclusion have become increasingly important to success. Company understand that meeting the needs of the global community requires creativity and innovation. Corporation intend to leverage the diversity of thought that

partners, communities and suppliers bring to it. Company expect to be the leader in diversity and inclusion from partners in the field to senior leadership teams. To ensure that goal is a reality, starting in 2012 company have integrated diversity and inclusion into the core of leadership competencies. Company expect that all leaders within Starbucks practice behaviors that demonstrate inclusion. The new leadership competency reads that, as leaders, company will "reach out to leverage diverse points of view, talents and capabilities. Work and think across teams, functions and businesses; across markets, channels and organizations; across cultures and communities; across physical and digital spaces [5].

Alternative solutions. Sustainability emphasises an anthropocentric point of view. Anthropocentrism means that humans are at the centre of the debate. Sustainability focuses on humans. Humans are absolutely dependent on natural resources and an intact ecological system. Ecological system plays an important role when founding principles for sustainability. Different developments in world countries give the people different chances to secure their survival and the survival of their descendants. Currently one quarter of the world population is using three quarters of the world's resources. Sustainability focuses on humans of all generations, present and future. All generations should have the same access to natural resources and the same chances to satisfy their needs. Sustainability affects all world countries and all human beings. In most cases environmental problems (e.g. enhanced greenhouse effect, holes in the ozone layer) are world problems. An interdisciplinary approach should be taken, because economic theory alone cannot solve existing problems [1].
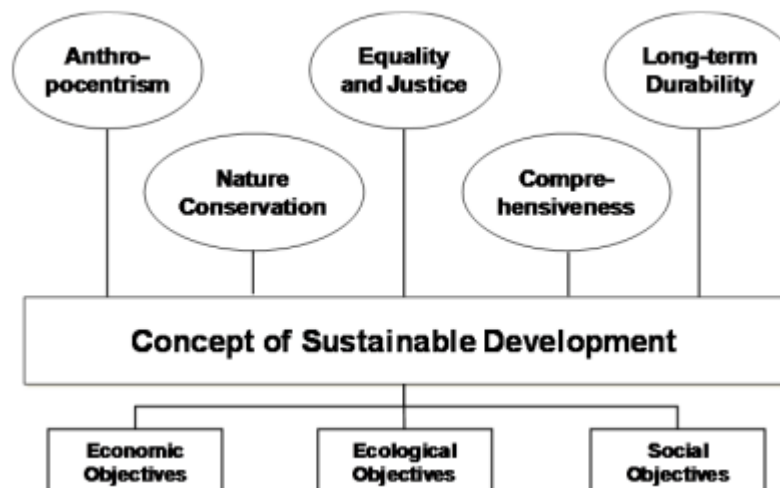
Figure 1. Concept of Sustainable development [1]

CSR can benefit both society and corporations. CSR initiatives might result in no benefits to society, siply hide a social ill, or produce no benefits for the corporation. CRS is not a panacea for environmental and social problems, nor is it an investment with guaranteed returns for corporations. CSR has the potential to reduce harmful environmental and social concerns. Corporations may try to alleviate problems they have created or simply help to

address broader social and environmental concern that require attention. CSR efforts must be properly evaluated to determine whether or not they are helping to make the world a better place. We must know if the CSR initiative is simply some form of "washing" that gives the illusion of addressing a societal concern or if noneconomic stakeholders experience a tangigle benefit from the efforts. We cannot assume that just because a CSR initiative is implemented it produces the promised societal benefits. Moreover, corporations cannot assume that engaging in CSR will produce the many business benefits often associated with CSR. The type of CSR effort undertaken, how it is enacted, and how it is communicated to stakeholders all have significant effects on whether or not a corporation realizes positive returns on its CSR investments [2].

CSR is a concept that companies integrate social and environmental concerns into their business operations and in their interaction with their stakeholders (employees, customers, shareholders, investors, local communities, government) on a voluntary basis. According to Caroll, CSR involves the expectations that society has of business. CSR definition should encompass the entire range of expectations placed on companies, including economic, legal, ethical and philanthropic responsibilities [4]:

- **Economic** - responsibility to earn profit for owners.

- **Legal** - responsibility to comply with the law (society's codification of right and wrong).

- **Ethical** - not acting just for profit but doing what is right, just and fair.

- **Voluntary and philanthropic** - promoting human welfare and goodwill, being a good corporate citizen contributing to the community and the quality of life.

Figure 2. A. Carroll's pyramid of CSR [4]

Critics of idea that stakeholder expectations should drive CSR initiatives maintain that stakeholders will never be sarisfied and will always want more. Once their original demands

are met, they will demand more. CSR is fluid and should change as societal values evolve. The activist stakeholders keep a corporation alert to potential expectation gaps and ways to refine their CSR initiatives [2].

Characteristics of the corpotation will help quide the selection and creation of CSR initiatives. Larger corporations are more likely to be identified by activist groups as companies that could be persuaded to pursue largescale CSR initiatives that could affect entire countries, regions, or the world. Smaller corporations may be best suited to addressing more local issues, although their size alone does not preclude them from participating in CSR efforts that address global problems like poverty and insufficient health education. Stakeholders are likely to assume that larger companies have more to give and are obligated to devote more resources to CSR because of their larger negative impact on the planet. Is important to note that large or small corporations alike should be attentive to locally based stakeholders who expect the corporation to contribute to the community in which it is based. Even the large multinational corporation that addresses social justice issues worldwide should be concerned with social justice issues in its own community. The point is that stakeholders will exoect a corporation to enact CSR initiatives that are commensurate with its size and reach [2].

Conclusion. Modern economies do not give suitable answers to reducing negative externalities, because their main focus lies on the economic issue. Sustainable enterprises reduce not only their economic costs but also their environmental impact and call for social incentives. It is also important not to forget the consumer. Consumer have the choice between buying (maybe more expensive) sustainable products and using conventional (cheaper) and less environmentally friendly products (Barbien). Many examples shows how an enterprise could become a sustainable enterprise and be successful in sustainable competitive positioning. Sustainable enterprises implement strategies and tools for their plant and product lifecycle management and integrate them in their supply chain management, customer relationship management and enterprise resource planning. They strive for long-term solutions and long-lasting products [1].

Starbucks mission: to inspire and nurture the human spirit – one person, one cup and one neighborhood at a time. Company is passionate about ethically sourcing the finest coffee beans, roasting them with great care, and improving the lives of people who grow them. Corporation care deeply about all of this, its work is never done. Company is called partners, because it's not just a job, its passion. Together, embrace diversity to create a place where everyone can be yourselves. Always treat each other with respect and dignity. And hold each other to that standard. When customers feel this sense of belonging, stores become a haven, a break from the worries outside, a place where you can meet with friends. It's about enjoyment at the speed of life – sometimes slow and savored, sometimes faster. Always full of humanity. Every store is part of a community, and company takes its responsibility to be good neighbors seriously. Company wants to be invited in wherever it does business. Company can be a force for positive action – bringing together its partners, customers, and the community to contribute every day. Now is evidence that responsibility – and potential for good – is even larger. The world is looking to Starbucks to set the new standard, yet again.

Company knows that as deliver in each of these areas, it enjoys the kind of success that rewards its shareholders. Company is fully accountable to get each of these elements right so that Starbucks – and everyone it touches – can endure and thrive.

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to assess social responsibility to consumers, business partners, society and environment. Get up and come into the middle of the floor. Close your eyes and think on how many cupboards you have in your home (20 seconds) Open your eyes and find the person who has the same number of cupboards as you. Hand out Picture Training Cards – one to each trainee. Use the pictures on the card one by one as inspiration for ideas related with CSR. Generate as many ideas as possible. The pictures are cup, tea, farmer, school, toilet, and store. Demonstration: what criteria should be used for the identification and assessment of CSR concerns?

Assignment #2

The goal of the assignment is to assess social responsibility to consumers and business partners. Get up and come into the middle of the floor. Close your eyes and think of something in the glove compartment (20 seconds). Open your eyes and find the person who thought of the same thing as you. Hand out Challenge Training Cards – one to each trainee. Use the challenges on the card one by one as inspiration for ideas for how corporation might be comunicate with its stakeholders. Generate as many ideas as possible. Demonstration: the challenges may be "unemployment, separation, starvation, acid rain, recession. What is the potencial for creating a partnership between the corporation and stakeholders? How should the CSR message be communicated to internal and external stakeholder?

Assignment #3

The goal of the assignment is to assess social responsibility to society and environment. Get up and come into the middle of the floor. Close your eyes and think of how many dining room chairs you have in your home (20 seconds). Open your eyes and find the person who has as many dining room chairs as you. Hand out Word Training Cards – one to each trainee. Take the first word from each your cards. Imagine that these two words are opposites of each other. Generate ideas to explain why these two words are opposites. Continue the exercise by taking the next two words from the cards.

Demonstration: the first two words "Africa" and "Denmark", "sweet and stone" and etc. Determine a company's responsibility towards the community and the environment in which it operates?

Assignment #4

This assignment has two parts. The goal of the first part of the assignment is to assess the corporate activity. Get up and come into the middle of the floor. Close your eyes and think of how many cups of liquids (water, coffee) you have drunk in last 24 hours (20 seconds). Open your eyes and find the person who has drunk the same number of cups as you. Hand out Picture Training Cards – one to each trainee. Use the pictures on the card one by one as inspiration for ideas "benefits of the CSR" Demonstration: the pictures are smile, property, wallet, sea, bank, car. Does CSR pay off? What is relation between SD and CSR? Prepare oral presentation.

Assignment #5

The goal of the assignment is to understand implementing CSR ideas in corporate activity. Get up and come into the middle of the floor. Close your eyes and think of something in the freezer (20 seconds). Open your eyes and find the person who thought of the same thing as you. Hand out Word Training Cards – one to each trainee. Generate ideas for all the ways of getting the pulse up. Start by emptying the head for ideas. When you run out of ideas you use the words on the card one by one as inspiration for new ideas. Demonstration: The first word is garage: one can lift up the garage door many times. One can clear and clean up in the garage. One can round the garage several times. The other words: employee, shareholder, customers, diseas, toy. What is the "right amount" of CSR?

10 ENTERPRISE FINANCIAL MANAGEMENT

10.1 CASE STUDY 1. FINANCIAL RISK OF PIENO ZVAIGZDES EVALUATION

Pieno Zvaigzdes established itself as a leading dairy in the Baltic States with primary focus on fresh dairy products and a sound base of export oriented sales. Its strategy is to continually strengthen position in the dairy sector maintaining regular contact with consumers to tackle the needs of tomorrow. Modern processing facilities, rigid quality control (ISO 9001) and innovative marketing strategies backed by professional management team ensure competitive platform for an efficient, sustainable and profitable long term growth. JSC "Pieno Žvaigždės", founded in 1998, is the biggest and the most up-to-date milk-processing company in the Baltic States. At present it consists of the following manufacturing subsidiaries: Kaunas dairy, Panevėžys dairy, Mažeikiai dairy and Pasvalys cheese manufacturing plant.

The company's product sales are made through five regional sales divisions in Vilnius, Kaunas, Klaipėda, Panevėžys and Mažeikiai.The company's central administration is based in Vilnius. Almost 3,000 employees are currently working in the company.

Company moto:

> Provide for the future needs of a modern consumer today.
> Produce natural dairy products of the highest quality for healthier and easier life![1]

Introduction

AB Pieno Žvaigždės was established on 23 December 1998 after merger of independent milk processing companies operating in Lithuania: AB Mažeikių Pieninė and AB Pasvalio Sūrinė. Later, AB Kauno Pienas and in 2004 AB Panevėžio Pienas were also merged into AB Pieno Žvaigždės. The current structure of the Company enables to specialise production in separate branches and reach the highest efficiency as well as even distribution of raw milk collection capacities in the country. [3]. AB Pieno Žvaigždės is the largest milk processing company in Lithuania, which currently produces more than 500 different products. The Company operates not only in the local market but also exports production to Russia, countries of the European Union, CIS and Baltics. Different types of ferment cheese, whey flour and fresh milk products produced by AB Pieno Žvaigždės are the main products produced for export which are well known for their irreproachable quality. The products are awarded with quality certificates. The main activity of the Issuer is processing of milk. The mentioned business is risky due to eventual changes in product and raw materials markets, competition as well as

eventual legal, political, technological and social changes, which are directly or indirectly related to the Issuer's business and may have a negative influence on the Issuer's cash flows and operating results. The main raw material used by the Issuer is milk, the sales quota for processing of which to the EU milk processing companies is limited by national milk quota. Limitations put on supply of raw milk may result in lack of raw milk and an increase in prices for raw milk. These changes may have a negative influence on the cash flows and operating results of the issuer. The Issuer's business (especially collection and transportation of milk) is a labour consuming activity. The lack of human resources and an increase in salary costs may negatively affect the operating results of the Issuer. AB Pieno Žvaigždės has integrated the quality and environment management system as to the requirements of ISO 9001:2008 and ISO 14001:2004. As of March 2012 the Company is implementing the food safety management system as to ISO 22000:2005, which will be integrated into the existing management system. In December 2013, the affiliate Pasvalio Sūrinė received the certificate confirming the implementation of food safety management system complying with requirement of FSSC 22000. Other three affiliates of AB Pieno Žvaigždės plan finalizing implementation of the food management system and receiving certificate according to the requirements of FSSC 22000 already in 2014. Assurance of the quality of dairy products, especially of their safety, i.e. harmlessness to consumers, is one of the major tasks of the Company [5]. The functioning food safety system allows to monitor risk factors and important control points that are related to milk production processes, transportation and consumption and improves the quality control. The Company has prepared, implemented and operate the programs which provide for conditions, measures and behavior rules to prevent biological, chemical, allergic and physical contamination and ensure high quality and safety of the dairy products. During the years 1998–2002 the State Food and Veterinarian Office assigned the affiliates of AB Pieno Žvaigždės with certificates for export to EU, which allow exporting dairy products bearing identification marks to the EU countries. Furthermore, all the branches of the Company are approved for export to Russia and Belarus [1]. A primary certification of the quality management system in the Company's affiliates was performed in 2002. The granted certificates proved that the establishment, documentation and maintenance of the quality management system complied with the ISO 9001 standard. The certification audit in the affiliates and issuance of the certificates was performed by an international certification firm TUV CERT. During 2005–2006, the environment management system complying with the requirements of ISO 14001 standards was integrated into the quality management system, and in February 2007 AB Pieno Žvaigždės received the certificate confirming the integrated quality and environment management system complying with the requirements of ISO 9001 and ISO 14001 standards operates in the Company [6]. Every year, the certifying firm performs supervision audits of the Company, and every 3 years the recertification takes place. AB Pieno Žvaigždės aims to continuous improvement and better efficiency of its operations and processes, thus, for the purpose of more efficient use of external audit results for company improvement, in 2013, AB Pieno Žvaigždės changed the certification firm. As of 2013, external audit of management systems is performed by certifying firm DNV. The Company's affiliates Kauno Pienas and Panevezio Pienas are certified for production of ecological products (ecological yogurts, ecological sour cream, ecological curd and cottage cheese). After each annual review, a public company Ekoagros

issues a new certificate on the Company's compliance with the requirements. Production of ecological dairy products requires adhering to strict requirements set not only for production processes but also for their compound parts. The certified ecological products are marked with the following additional information: certification mark of ecological products, code of the certifying firm, and reference to the growth place of agricultural goods used for production. Certain products of the Company are assigned with specific quality certificates HALAL (whey powder and cream) and KOSHER (whey powder). The Company's management has undertaken to produce safe and high-quality dairy products that satisfy the clients' needs and expectations, with low impact on environment to the maximum extent, all being defined in the Company's policy on the safety and quality of food and environment protection

Main quality management and environmental principles. [1]:

- The quality management system is oriented towards a customer, thus a lot of attention is devoted to fulfilling customers' needs and expectations;

- Principles of cleaner production must be adhered to; the aspects that significantly influence the environment must be identified and managed, and proper preparation for emergency situation must be insured.

- Management of the Company sets united aims and goals. Heads of the Company create environment where all employees take part in order to achieve aims.

- Employees of all levels are involved in Company's work.

- All activities of the Company, as well as the recourses related to them are managed as a process.

- Interconnected processes are defined, understood and managed as a system, and this increases Company's capacity and efficiency.

- Company's target is constant improvement. Improvement activities are integrated with Company's strategy and every worker seeks improvement of a product, process and systems.

- High-scoring solutions are based on data and information analysis.

- A lot of attention is devoted to connections with suppliers.

Enjoyment of the ISO 9001 and ISO 14001 certificates proves that the structure, duties and responsibilities are strictly defined in the Company, processes and procedures set out, major documents controlled and constantly renewed, checked and that management activities are carried out regularly, while the non-conforming ones are identified, analysed and corrected, even more, the prevention of environmental is ensured. The Company's top management annually reviews and confirms food safety, quality and environmental policies. [1]

Shareholders

The most recent data about Company's shareholders dated 31 December 2013. The Company had 3,736 shareholders. The shareholders holding more than 5 per cent of the Company's authorized capital are [2] as

Shareholder	Number of shares, units	Share of the capital %	Share of votes with related persons %
SEB SA Omnibus (funds/inst. clients)	6,959,219	14.20	14.02
UAB Agrolitas Imeks Lesma Laisvės pr 125, Vilnius, j.k. 2191855	6,431,431	12.96	12.96
ŽŪKB Smilgelė J. Tumo Vaižganto 8/27-3. Vilnius, j.k. 2490652	5,673,051	11.43	11.43
Swedfund International Sveavagen 24-26, Box 3286, SE-103 65 Stockholm, Sweden	4,700,000	9.47	9.47
Kvaraciejus Julius	7,085,907	14.28	14.28/31.82
Kvaraciejienė Regina	2,126,959	4.28	4.28/31.82
Klovas Voldemaras	2,842,567	5.73	5.73/31.82
Klovienė Danutė	878,328	2.20	1.77/31.82
Smagin Aleksandr	2,547,123	5.13	5.13/31.82
Gžegož Rogoža	46,150	0.09	0.09/31.82

The managing bodies of the company are as follows: General shareholders' meeting, the Management Board and the General Director. The Supervisory Board is not formed in the Company. The Management Board is a collegial management body comprised of 7 (seven) members. The Board members are elected for the 4 years period. The Board elects the Chairman. The competence of and procedure of announcement of the General shareholders' meeting and all other issues related to the activities of the General shareholders' meeting and their decisions, as well the competence, election, recall and other issues related to the Board [1].

Employees

	31 12 2013	31 12 2012
Average number of employees	**2,023**	**1,988**
With university education	418	412
With college education	535	530
With secondary education	914	896
With not completed secondary education	156	150

	31 12 2013	31 12 2012
Average salary, Litas		
Management	6,450	7,627
Specialists	2,961	2,799
Workers	2,257	2,088

Body of the analysis

The only operating segment of the Company is production of dairy products. Geographical information may be presented as follows (revenue is presented based on the geographical

location of customers, and property, plant and equipment are presented according to their location) [4]:

Year 2013, thousand Litas	Lithuania	Other EU countries	Non EU countries	Total
Revenue	349,031	102,564	307,842	759,437
Property, plant and equipment	205,622	1,633		207,255
Intangible assets and investments available for sale	570			570

The Company has one client from whom revenue in 2013 made over 10% of the total revenue. Revenue earned from this customer amounted to 15% of the Company's total revenue. [6].

Key figures, million LTL	31 12 2013	31 12 2012
Turnover	759,4	769,1
Gross profit	125,5	146,1
Profit before tax, interest and depreciation (EBITDA)	42,5	70,1
Profit (loss) before tax	11,6	34,2
Investment in property, plant and equipment	39,9	45,8
Average number of employees	2 023	1 988
Raw milk purchased (natural milk), thousands tons	356,8	365,0
Milk purchased as to basic ratios, thousands tons	431,6	441,6

Trade receivables

According to agreements with raw milk suppliers, prepayments for milk shall be covered during the period of up to 5 years as milk is delivered. A fixed rate interest, varying from 5% to 8%, is calculated on the outstanding prepayment amount. Written-off receivables recognized in profit and loss for 2013 comprises written-off bad trade receivables amounting to 9 thousand Litas (2012: 58 thousand Litas) identified during 2013.

Credit risk

The Company has established a credit policy and credit risk is being monitored on a continuous basis. The Company as at reporting date had two clients whose receivables accounted for 44% of the total trade receivables balance. Usual payment terms of trade receivables are 1 to 30 days. For one-off sales the Company requires a prepayment. Allowance for receivables is determined based on estimated non-recoverable amounts. Allowance is determined individually for each client considering payments received after reporting period end and until date of financial statements preparation. The carrying amount of financial assets shows the maximum credit risk, which was as follows at the date of the statement of financial position [5].:

thousand Litas	Carrying amount	
	2013	2012
Long-term receivable amounts	998	-
Short-term receivable amounts	41,581	75,137
Cash and cash equivalents	2,355	4,528
	44,934	79,665

The maximum credit risk related to amounts receivable at the reporting date could be distributed per geographic zones in the following way [1]:

thousand Litas	Carrying amount	
	2013	2012
Lithuania	29,867	30,964
European Union countries	8,778	9,761
Russia	676	32,562
Other countries	2,260	1,850
	41,581	75,137

Foreign currency exchange risk

The Company is exposed to foreign currency exchange risk, related to sales, purchases and borrowings denominated in other currencies than Litas or EUR (Litas has been pegged to the EUR at a fixed exchange rate of 3.4528 LTL / EUR and would only be expected to change as a result of government macroeconomic policy). [2].. The Company has no material sales and purchases in other currencies than Litas and EUR, therefore currency exchange risk is not significant. The Company does not use any financial instruments for hedging currency exchange risk.

Liquidity risk

The Company's policy is to have sufficient liquidity to meet current operating settlements including repayment of financial liabilities [1].

thousand Litas	Carrying amount	Contrac-tual cash flows	6 months or less	6–12 months	2–5 years	More than 5 years
Financial liabilities						
Loans and other financial liabilities	121,518	126,197	22,353	39,367	64,477	-
Derivatives	1,530	1,498	383	323	792	-
Trade and other payables	49,945	49,945	49,945	-	-	-
	172,993	177,640	72,681	39,690	65,269	-

Derivatives

In order to hedge the risk of cash flow with variable interest rate in 2011 the Company has entered into an interest rate swap agreement with a bank, by which it partly hedges from significant interest rate fluctuations. Notional amount for interest rate swap reduces in proportion to main credit facility. The maturity date of the contract is 26 July 2016. The fair value of the interest rate swap amounts to 768 thousand Litas as at 31 December 2013 (2012: 1,530 thousand Litas). Change in fair value during 2013 amounting to 762 thousand Litas (2012: 1,383 thousand Litas) is recognized in the profit and loss under finance expenses [4].

Conclusion

31 12 2013 Removal of import restrictions imposed on AB Pieno Žvaigzdės by the Russian Federation Russian Federal service on customers' rights protection and human well-being surveillance Rospotrebnadzor announced on 2013 December 31 the decision to remove the restrictions on dairy company Pieno Žvaigzdės production import to Russian Federation. Pieno Žvaigzdės will start the export to Russian Federation as soon as possible.

Unaudited financial results for the first nine months of 2013 of AB Pieno Žvaigzdės Based on preliminary unaudited results, the Company's sales over first nine months of 2013 accounted to LTL 608.4 million (EUR 176.2 million) or 7.3% higher compared to a year ago. Sales resulted over nine months of 2012 were LTL 567.0 million (EUR 164.2 million) [5].

Sales increased in both domestic and export markets. Export volumes increased by 10% and domestic sales increased by 4%.

Over the nine months of the year the Company's EBITDA accounted to LTL 40.6 million (EUR 11.8 million) and decreased by 19.8% to compare with EBITDA of LTL 50.7 million (EUR 14.7 million) a year ago.

The Company earned a net profit of LTL 15.5 million (EUR 4.5 million) or 21.6% less to compare with a net profit of LTL 19.7 million (EUR 5.7 million) over same period in 2012.

Based on expected worse results for the fourth quarter Company's management reduces initially forecasted results for 2013 [1]:

- Expected sales close to LTL 750 million (close to 217 million EUR);
- Expected EBITDA profitability around 6%;
- Expected net margin around 2%.

Company's sales over first six months in 2013 accounted to LTL 399.1 million (EUR 115.6 million), 10.6% higher compared to a year ago.

Sales resulted for six months in 2012 were LTL 360.9 million (EUR 104.5 million). Sales increased in both domestic and export markets. Export volumes increased by 15% and domestic sales increased by 5% [1].

Over the six months of the year, the Company's EBITDA accounted to LTL 26.2 million (EUR 7.6 million) and increased by 4.2% compared with EBITDA of LTL 25.1 million (EUR 7.3 million) a year ago.

Company earned a net profit of LTL 9.9 million (EUR 2.9 million) compared with a net profit of LTL 6.6 million (EUR 1.9 million) over same period in 2012.
Financial results of AB Pieno Žvaigzdės for the first three months of 2013 the Company's sales over three months in 2013 accounted to LTL 186.4 million (EUR 54.0 million), 18% higher compared to a year ago [2].

Sales results for three months in 2012 were LTL 157.9 million (EUR 45.7 million). Sales increased in both domestic and export markets. Export sales volumes increased by 29% and domestic sales increased by 7%.

Over the three months of the year Company's EBITDA accounted to LTL 15.4 million (EUR 4.5 million) and increased by 11.9% compare with EBITDA of LTL 13.8 million (EUR 4.0 million) a year ago.

The Company earned a net profit of LTL 6.9 million (EUR 2.0 million) or 60% more compared to a net profit of LTL 4.3 million (EUR 1.2 million) over same period in 2012.

As at 31 December 2013 the authorized capital comprised 49,634,419 ordinary shares at par value of 1 Litas each. The Company in 2012 has decreased its authorized capital by cancelling treasury shares. All shares are fully paid [1].

Holders of ordinary shares have one voting right per share at the shareholders meeting and the right to dividends when they are declared, as well as the right to capital repayment in case of a decrease of share capital. There are no controlling entities or individuals among the shareholders of AB Pieno Žvaigzdės.

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PRACTICAL ASSIGNMENTS

The assignments presented herein are designed to help students learn how to assess the company's overall operations and its current financial standing in the industry through individual and teamwork and state of the art computer technology.

Students will work on the assignment individually and collaboratively in groups.

The purpose of these assignments is to provide students with the opportunity to:

- retrieve real time financial data via the Web;
- analyze the financial performances;
- adopt and combine existing knowledge in new ways.
- develop a lot of ideas on command.
- develop a variety of ideas that are diverse from each other (not similar ideas).
- produce ideas that are different from other ideas just developed.

Assignment #1

Get up and come out into the middle on the floor. Close your eyes and think of your favorite color (20 seconds). Open your eyes and find the 3 persons who thought of the same as you.

This assignment has two parts. The goal of the first part of the assignment is to find 4 key company competitors in Baltic market and abroad

Second part of the assignment is to present latest competitors' information and main events related to the industry.

STIMULI:

Assignment #2

This assignment has two parts. The first part is individual, the second – in groups.

You must search all your knowledge for answers.

The goal of the first part of the assignment is:

- measure the extent to which the company's assets are financed with debt;
- measure the company's ability to pay its bills;
- measure the company's ability to generate earnings;
- measure the company's ability to utilize its assets;
- measure the market perception about the company's future prospects.

Stimuli:

Pieno žvaigždės (PZV1L)		[2014-07-28]
Fundamental Ratios		

Financials		2014-1	2013-4
Overview	**Market ratios**		
Incomes	Share Price	1.81	1.87
Balance	Capitalization (K)	89 838	92 820
	EPS: Earnings Per Share	0.03	0.06
Cash Flow	P/E: Price to Earnings Ratio	57.55	32.40
Ratios	P/S: Price to Sales Ratio	0.39	0.42

The goal of the second part of the assignment is present weakest sides of company financial management. You must find 3 persons who think of the same as you and draw the 8 different ways of company financial improvement.

Assignment #3

This assignment has two parts. The first part is individual, the second – in groups.

The goal of the first part of the assignment is to find via internet and evaluate main competitors' ability to generate earnings and to pay its bills.

Stimuli:

Same industry companies

Ticker	Name	Price	Change %	Month %	P/E	PM %	MCap. K
AVG1L	Agrowill Group	0.260	▼2.26	▼8.77	-	-1.62	22 053
BRV1R	Brīvais vilnis	0.600	-	▲5.45	2.82	4.68	1 860
GRZ1R	Grobiņa	11.200	-	▼13.85	7.14	21.06	5 600

The goal of the second part is generate ideas how to improve earnings of main activities of the company.

Close your eyes and think of your favorite meal (20 seconds).

Open your eyes and find the one who thought of the same as you.

You will get training Cards - one to each trainee- one to each trainee.

You must generate ideas how to improve earnings of main activities of the company.

You must use the person analogies on the card one by one to as inspiration for ideas.

Generate as many ideas as possible.

Assignment #4

This assignment has two parts. The goal of the first assignment is to analyze company group operating expenses and compare with main competitors. You must identify 3 open questions and answers and put on the wall.

Second part of the assignment is to present five possibilities of improvement managing operational expenses within group and put on the wall. You must listen to colleagues and develop alternative ways of putting things on the wall.

Assignment #5

This assignment has two parts. The goal of the first assignment is to identify and explain 3 open questions which were not answered in company financial report.

Second part of the assignment is to specify and present 5 strategic issues in financial management.

You must present your individual ideas for colleagues and put things on the wall.

You must listen to colleagues and develop alternative ways of putting things on the wall.
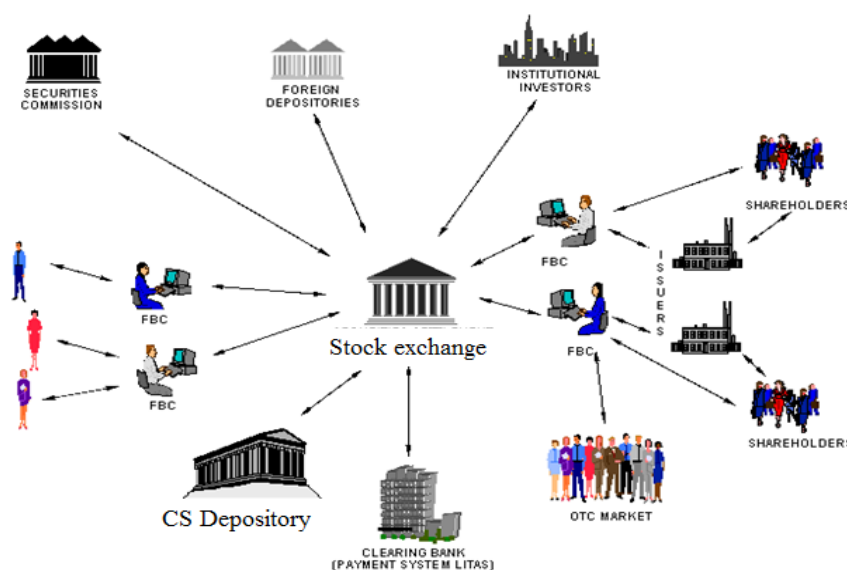
Assignment #6

Get up and come out into the middle on the floor.Close your eyes and think of your favorite flower (20 seconds). Open your eyes and find the 3 persons who thought of the same as you.

This assignment has two parts. The goal of the first assignment is to evaluate the company's financial performance against its key competitors, the company-to- company comparison report. To explain the variation in the company's financial ratios over time, the industry comparative analysis must be performed along with the trend analysis.

The financial ratios in each of the performance areas are then analyzed across companies in the industry/group. Students compare their company's financial ratios with those of its key competitors and determine whether managerial or environmental factors cause the trend of the company's financial performance. To further assess the company's financial standing in its primary industry, the company to industry comparison report is retrieved. The company's weak and/or strong areas of performance must be identified and 5 creative recommendations for improvement presented.

Second part of assignment is to reinforce the teamwork effort; each group must submit a written report summarizing the ratio analyses of the companies in their industry. Students will work together and produce a group report that is concise and similar in style to an executive summary with no more than four typed pages plus exhibits. Each group will also give an oral presentation to brief the class on their analyses and their creative recommendations. Charts and tables are required in the Power Point presentation.

APPENDICES

Sales and administrative costs

thousand Litas	2013	2012
Staff costs	(39,150)	(37,599)
Marketing and advertising	(12,070)	(12,192)
Depreciation and amortization	(8,184)	(8,187)
Fuel	(8,077)	(8,247)
Production delivery costs	(6,180)	(6,537)
Materials and spare parts	(4,106)	(4,275)
Utilities	(3,323)	(3,236)
Repair	(2,739)	(2,470)
Support	(2,489)	(2,750)
Taxes, except income tax	(2,479)	(2,246)
Insurance	(2,079)	(813)
Security costs	(1,865)	(1,782)
Operating lease	(1,621)	(1,543)
Payments to board members	(700)	(540)
Communications	(675)	(699)
Transport	(288)	(215)
Other	(16,528)	(14,236)
	(112,553)	**(107,567)**
Sales costs	(66,847)	(67,016)
Administrative costs	(45,706)	(40,551)
	(112,553)	**(107,567)**

Finance income

thousand Litas	2013	2012
Change in fair value of interest rate swap	762	-
Penalties and fines	428	276
Interest	37	58
Other	12	11
Total finance income	**1,239**	**345**

Interest bearing loans and borrowings [1].

The Company's loans and borrowings are as follows (in thousand Litas):

Creditor	Ref.	Maturity	Currency	31-12-2013	31-12-2012
AB DNB bank	a)	June 2014	LTL	876	-
AB SEB Bank	b)	June 2014	LTL	7,007	-
Factoring	c)	April 2014	LTL	11,167	11,133
AB SEB, AB DNB banks	d)	April 2014	EUR	92,253	86,545
AB SEB, AB DNB banks	e)	April 2015	EUR	34,873	23,824
AB SEB Bank	f)	Repaid in 2013	EUR	-	16
Total liabilities				**146,176**	**121,518**
Less: current part				(33,811)	(60,975)
Total non-current part				**112,365**	**60,543**

Property, plant and equipment [1].

thousand Litas	Land and buildings	Machinery and equipment	Other assets	Construction in progress	Total
Cost/revaluation					
Balance at 1 January 2012	103,183	260,687	73,677	1,966	439,513
Revaluation	(21,899)	-	-	-	(21,899)
Acquisitions	200	29,181	10,729	5,578	45,688
Disposals and write-offs	(24)	(2,390)	(2,134)	-	(4,548)
Re-classification	5,091	1,202	68	(6,361)	0
Adjustments	(463)	-	-	-	(463)
Balance at 31 December 2012	**86,088**	**288,680**	**82,340**	**1,183**	**458,291**
Balance at 1 January 2013	86,088	288,680	82,340	1,183	458,291
Revaluation	-	-	-	-	-
Acquisitions	130	21,661	6,319	11,706	39,816
Disposals and write-offs	(697)	(5,584)	(2,868)	-	(9,149)
Re-classification	-	10,246	68	(10,314)	0
Adjustments	-	-	-	-	-
Balance at 31 December 2013	**85,521**	**315,003**	**85,859**	**2,575**	**488,958**

Statement of financial position at 31 December

thousand Litas	Note	2013	2012
Assets			
Property, plant and equipment	8	207,255	197,273
Intangible assets	9	294	714
Investments available for sale	10	276	276
Long-term receivables	12	998	-
Total non-current assets		**208,823**	**198,263,**
Inventories	11	98,385	55,142
Income tax		3,083	-
Receivables	12	51,594	79,788
Cash and cash equivalents	13	2,355	4,528
Total current assets		**155,417**	**139,458**
Total assets		**364,240**	**337,721**
Equity			
Share capital		49,634	49,634
Share premium		27,246	27,246
Reserves		32,730	33,559
Retained earnings		22,082	38,060
Total equity	14	**131,692**	**148,499**
Liabilities			
Government grants	15	5,663	3,187
Interest-bearing loans and borrowings	16	112,365	60,543
Employee benefits	17	1,737	-
Deferred tax	18	1,704	1,862
Total non-current liabilities		**121,469**	**65,592**
Derivatives	20	768	1,530
Interest-bearing loans and borrowings	16	33,811	60,975
Income tax payable		-	956
Trade and other amounts payable	19	76,500	60,169
Total current liabilities		**111,079**	**123,630**
Total liabilities		**232,548**	**189,222**
Total equity and liabilities		**364,240**	**337,721**

Statement of comprehensive income for the year ended 31 December

thousand Litas	Note	2013	2012
Revenue	1	759,437	769,089
Cost of sales		(633,893)	(622,964)
Gross profit		**125,544**	**146,125**
Other operating income	2	1,943	1,601
Other operating expenses	2	(963)	(918)
Sales expenses	3	(66,847)	(67,016)
Administrative expenses	3	(45,706)	(40,551)
Operating profit		**13,971**	**39,241**
Finance income	4	1,239	345
Finance expenses	5	(3,660)	(5,418)
Finance expenses, net		**(2,421)**	**(5,073)**
Profit before taxes		**11,550**	**34,168**
Income tax expenses	6	(1,658)	(5,102)
Profit for the year		**9,892**	**29,066**

10.2 CASE STUDY 2. FINANCIAL RESULTS OF APRANGA GROUP EVALUATION

Apranga Group is a distinct leader of clothing retail in the Baltic States. Apranga Group develops its own retail concepts: Apranga, Aprangos galerija, City, Mados Linija. Group also operates stores in Lithuania, Latvia and Estonia under the franchising agreements with Zara, Hugo Boss, Emporio Armani, Ermenegildo Zegna, Max Mara, Mango, Bershka, Pull and Bear, Stradivarius, Mexx, s.Oliver, Promod. Total sales area operated by Apranga Group by the end of 2010 was more than 63.000 sq. m. In 2011, franchise agreement regarding development of Massimo Dutti chain in the Baltic States was signed. The history of the company started in 1945 as a clothing and footwear wholesaler. In 1993 the retail chain was established. Apranga Group entered Latvia beginning of 2003. In 2004, company expanded to Estonia. In 2004, Apranga group became a partner of Inditex Group in the Baltic States. Presently, the Apranga group consists of the parent company Apranga APB and 15 subsidiaries.

In the middle of 2011, the Apranga group employed over 1200 people [3].

Introduction

APB Apranga, (hereinafter "the Company"), was incorporated and commenced its operations in March 1993 in Lithuania. The Company has legal form of public limited liability company under the Law on Companies of Republic of Lithuania. The principal activity of the Company and its subsidiaries (hereinafter "the Group") is retail trade of apparel [1].

BUSINESS PHILOSOPHY

- We work and strive to work only with the fastest-growing, commercially the most successful global brands and chains operating in different markets and acceptable to our market;
- We never make compromises in the selection of the best locations for stores ("Location – more important than money", "We have to be where we can not not to be";
- We aim to install stores according to the highest European design and technology requirements;
- We strive to use in best the power of the obvious market leader, as well as rapid development opportunities in

At 31 December the Company's shareholders were [5] :

	2013		2012	
	Number of shares	% of total ownership	Number of shares	% of total ownership
UAB MG Baltic investment	29 677 397	53,7	29 677 397	53,7
Swedbank AS (Estonia) clients	6 794 270	12,3	7 606 400	13,8
UAB Minvista	5 522 729	10,0	4 314 604	7,8
Other	13 297 564	24,0	13 693 559	24,8
Total	**55 291 960**	**100,0**	**55 291 960**	**100,0**

At 31 December the Group's number of stores was [2] :

Country	Total number of shops		Shops, where premises are owned by Group	
	2013	2012	2013	2012
Lithuania	92	89	7	7
Latvia	41	33	-	-
Estonia	15	12	-	-
Total	**148**	**134**	**7**	**7**

At 31 December 2013 the Group and the Company employed 1 725 and 722 people respectively (2012: 1 567 and 693 people respectively).

At the end of 2013, the Group consisted of 17 companies.
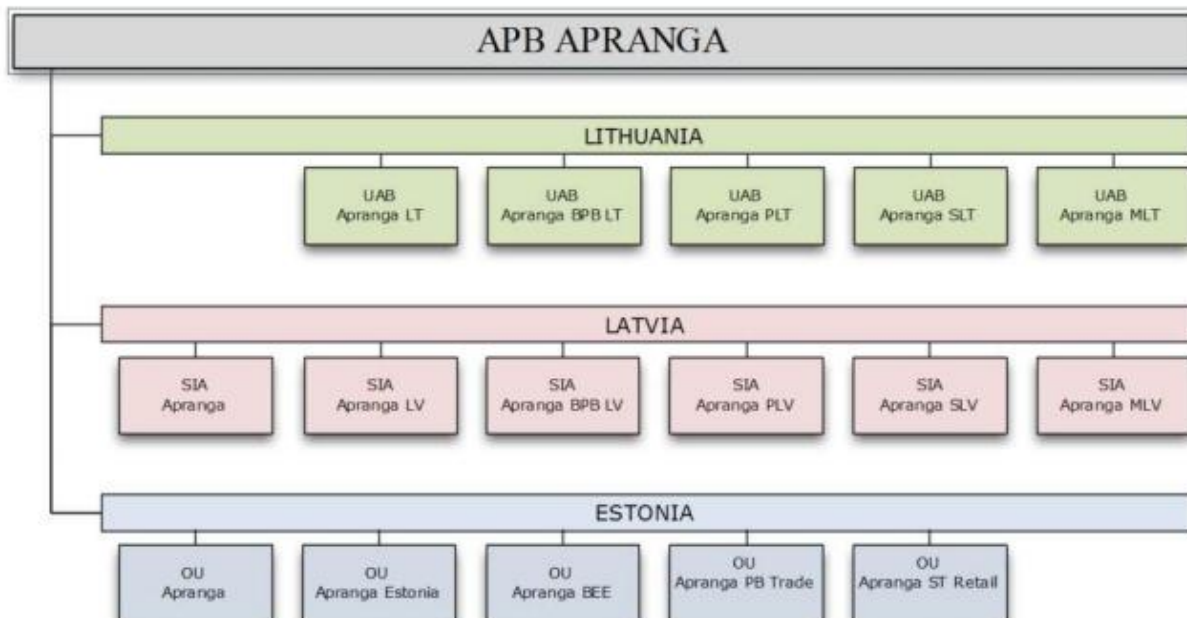
In 2013, facing a significant increase in competition, Apranga group focused on maintenance of record results achieved last year, further development and modernization of the retail chain, increase in sales, strengthening the competitiveness of the Group. The Group has managed

not only to increase sales and profits in 2013, but also to accelerate the pace of development and modernization retail chain.

Body of the analysis

RETAIL MARKET OVERVIEW

The turnover of the retail chain operated by Apranga Group has made LTL 583.9 million (incl. VAT) in 2013, and increased by 10.2% comparing to the year 2012. Only because of the unusually adverse weather conditions (cold spring, warm autumn-winter season) the Group was just by 0.9% short of the planned volumes of retail trade turnover. Over the past two years, the Group has achieved an impressive for the market leader 36% turnover growth. Although during last year the total retail turnover of the Baltic countries has not yet reached year 2008 pre-crisis levels, the Group in 2013 exceeded the pre-crisis level of retail trade turnover by almost 15% (in 2008, turnover of modernization of the retail chain the Group amounted to LTL 509.2 million).

The retail turnover of the Group's stores by countries during the 3 months 2014 was (LTL thousand, VAT included) [5]:

Chain	2013	2012	2011	2013/2012, %	2013/2011, %
Lithuania	366 613	337 744	273 388	8,5%	34,1%
Latvia	145 165	125 737	100 501	15,5%	44,4%
Estonia	72 146	66 176	55 340	9,0%	30,4%
Total:	**583 924**	**529 657**	**429 229**	**10,2%**	**36,0%**

 The turnover of the retail chain operated by Apranga Group amounted to LTL 366.6 million in the main domestic market of Lithuania, or by 8.5% more than in 2012. The share of Lithuanian chain turnover comprised 62.8%, or by 1.0 point less than in 2012. [2]. The retail turnover of the Apranga Group chain in foreign markets (Latvia and Estonia) reached LTL 217.3 million in 2013, or by 13.2% more, than in 2012. The foreign turnover share in total Group's turnover has increased from 36.2% to 37.2% during the year. The retail turnover of the Apranga Group chain in Latvia has made LTL 145.2 million in 2013 and has increased by 15.5% during the year. The retail turnover of the Apranga Group chain in Estonia amounted to LTL 72.1 million and has increased by 9.0% in comparison to 2012. The highest growth rates in 2013 was in Latvia (+15.5%). High growth rates in Latvia were mainly influenced by the relatively high number of stores opened in this country in 2013 - there were opened six new stores in 2013 (closed 1 Outlet store) and took over 3 "Mango" stores.

The retail turnover of Apranga Group in all quarters of 2013 maintained steady high growth rate [1]:

	Q1	Q2	Q3	Q4	Year
2013	118 240	133 830	167 840	164 014	583 924
2012	108 262	118 188	153 532	149 675	529 657
Total change, %	9,2%	13,2%	9,3%	9,6%	10,2%

The retail turnover (including VAT) of Apranga Group amounted to LTL 132.9 million in 1st quarter 2014 or by 12.3% more than in 2013. The highest growth rates were recorded in Latvia (28.5%), the lowest – in Lithuania (7.3%). According to EUROSTAT data, the retail trade (except of motor vehicles and motorcycles) in Baltic States during the 3 months 2014 grew the most in Lithuania and Estonia (+5%). Meanwhile, in Latvia retail sales experienced a growth of ab Economy – clothes to whole family (Apranga) [6].

In 2013 the Group consistently developed 5 different store chains:

- Business wear (City, Massimo Dutti, Strellson,
- Marella, Pennyblack, Coccinelle)
- Youth clothes (Aprangos galerija, Moskito, Mango, Bershka, Pull & Bear, Stradivarius, ALDO, Mexx, Promod, Desigual, Tom
- Tailor, s.Oliver)
- Prestige – luxury fashion (Burberry, Emporio Armani, Hugo Boss, Ermenegildo Zegna, MaxMara, Marina Rinaldi, Tommy
- Hilfiger, Mados linija, Nude)
- Zara franchise stores

The Group also runs 7 outlets as at 31 December 2013.

Retail turnover of Group's stores by chains (LTL thousand, VAT included) was as follows [4]:

Chain	2013	2012	2011	2013/2012, %	2013/2011, %
Economy	57 642	55 838	48 241	3,2%	19,5%
Youth	197 361	178 959	153 014	10,3%	29,0%
Business	84 910	61 262	36 950	38,6%	129,8%
Luxury	69 788	57 544	50 156	21,3%	39,1%
Zara	152 799	154 481	123 664	-1,1%	23,6%
Outlets	21 424	21 573	17 204	-0,7%	24,5%
Total	**583 924**	**529 657**	**429 229**	**10,2%**	**36,0%**

In 2013 as in 2012, the turnover of Business and Luxury chains increased mostly. Over the last two years the common turnover of Business and Luxury chains increased by almost 78%. This was mostly influenced by main direction of new investments towards these segments and overall strategy of the Group. During 2011-2013 periods the Group managed to achieve not less than one-fifth higher sales in all of its segments [1].

Main Group Indicators	2013	2012	2011	2010	2009
Net sales, LTL thousand	466 673	423 441	340 781	301 319	314 912
Net sales in foreign markets, LTL thousand	175 312	155 626	125 598	109 608	106 964
Like-to-like sales, %	1,7%	17,0%	10,7%	-2,4%	-30,3%
Gross profit, LTL thousand	218 971	198 481	159 961	133 804	129 506
Gross margin, %	46,9%	46,9%	46,9%	44,4%	41,1%
Operating profit, LTL thousand	45 473	44 083	29 968	16 908	(16 607)
Operating profit margin, %	9,7%	10,4%	8,8%	5,6%	-5,3%
EBT, LTL thousand	45 346	44 019	29 749	16 043	(19 734)
EBT margin, %	9,7%	10,4%	8,7%	5,3%	-6,3%
Profit (loss) for the period, LTL thousand	38 128	36 897	24 814	13 337	(16 905)
Profit (loss) for the period margin, %	8,2%	8,7%	7,3%	4,4%	-5,4%
EBITDA, LTL thousand	64 093	61 412	47 612	36 815	6 158
EBITDA margin, %	13,7%	14,5%	14,0%	12,2%	2,0%
Earnings (losses) per share (EPS), LTL	0,69	0,67	0,45	0,24	(0,36)
Price-to-Earnings ratio (P/E), times	12,8	11,0	11,2	29,6	(7,6)
Dividend / Profit for the period*, %	72,5%	82,4%	82,4%	103,6%	-
Return on equity (end of the period), %	25,9%	26,4%	20,2%	11,9%	-17,2%
Return on assets (end of the period), %	18,7%	18,9%	15,4%	9,3%	-9,7%
Net debt to equity**, %	-2,2%	-6,3%	-5,6%	0,0%	37,7%
Current ratio, times	2,3	2,2	2,6	2,1	1,0

* The year 2013 dividends not aproved
** (Interest bearing liabilities less cash) / Equity

DEVELOPMENT AND MODERNIZATION OF THE RETAIL CHAIN

In order to strengthen the company's competitiveness and to exploit the favourable growth trends in clothing sector in 2013, the Group sought to speed up the process of development and modernization of the chain.

In 2010-2013 the dynamics of the number of stores and sales area was as follows [2]:

	2011 01 01	2012 01 01	2013 01 01	2014 01 01
The number of stores	114	121	134	148
Stores area (thousand sq. m.)	63,0	64,7	66,3	69,7

During the year 2013 the Group opened 11, took over 5 "Mango" stores, reconstructed 11 and closed 2 stores. The total sales area operated by the Group during the year 2013 increased by 5.1%. The total area of stores by countries was as follows (thousand sq. m) [1]:

Country	31 12 2013	31 12 2012	Change
Lithuania	43,2	42,5	1,4%
Latvia	19,7	17,9	10,3%
Estonia	6,9	5,9	15,7%
Total:	**69,7**	**66,3**	**5,1%**

In 2013, the Group opened 11 new stores, including three Desigual, two Massimo Dutti, two ALDO, one of each Ermenegildo Zegna, Nude, Mexx and Marella stores. Most of the new projects realized in Latvia (6 new stores).

In the spring of 2013, the Group started to develop a new chain in Latvia and Lithuania - another very successful Spanish brand Desigual stores. In August 2013, the Group opened 335 sq.m. size Nude store, which introduced the famous luxury brands Gucci, Dolce & Gabbana, DSquared2, Ralph Lauren, and has entered into a so-called "first-line" clothes business. In October 2013, the Group finalised the transaction of taking over 5 Mango stores in Estonia and Latvia. Within this transaction the overall area of stores increased by 1.4

thousand sq.m.. Mango chain in the Baltic countries has grown to 13 stores. In order to maintain a high level of technology and the competitiveness of the chain, the Group has continued the program of retailchains'modernization. [2].

In 2013, 4 stores were completely reconstructed in the most successful in the Baltics trade center – Vilnius Akropolis (Zara, Pull&Bear, Bershka, Mexx), as well as 3 luxury stores in Vilnius Old Town (Emporio Armani, Ermenegildo Zegna, Mados linija), 2 stores in Klaipeda Akropolis (Apranga, City). The Group concentrated resources on the renovation of most important and most successful stores. In 2013, only to reconstruction of the stores LTL 12 million were invested [1].

Main Group Indicators	2013	2012	Change
Net sales, LTL thousand	466 673	423 441	10,2%
Net sales in foreign markets, LTL thousand	175 312	155 626	12,6%
Gross profit, LTL thousand	218 971	198 481	10,3%
Operating expenses	(173 498)	(154 398)	12,4%
Operating profit, LTL thousand	45 473	44 083	3,2%
EBT, LTL thousand	45 346	44 019	3,0%
Net profit (losses), LTL thousand	38 128	36 897	3,3%
EBITDA, LTL thousand	64 093	61 412	4,4%

At 31 December the number of stores by chains was as follows [1].:

Chain	31 12 2013	31 12 2012	Change
Economy	12	12	0,0%
Youth	79	68	16,2%
Business	21	18	16,7%
Luxury	19	18	5,6%
Zara	10	10	0,0%

Total investments into development of the chain amounted to LTL 22.8 million in 2013 (i.e., investments were about the same amount as in 2012). Investments (acquisitions) by assets type are presented in Note 12 ("Property, plant and equipment") and Note 13 ("Intangible assets") of Notes to consolidated and Company's financial statements. Investments (acquisitions) by segments are disclosed in Note 4 ("Segment information"). The Group is not engaged in activities related to research and experimental development, except to the extent of process improvement.

PERSONNEL

The average monthly salary in the Group has increased by 1.3% during the year. During the 2013 the number of employees in the Group and the Company has increased by 158 (+10.1%) and 29 (+4.2%) people, respectively. [5].

Employee category	Number of employees		Average monthly salary, LTL	
	Group	Company	Group	Company
Administration	140	91	6 979	8 813
Stores' personnel	1 531	577	1 768	1 881
Logistics	54	54	2 244	2 244
Total	**1 725**	**722**	**2 479**	**2 774**

EXPENSES BY NATURE

For the year ended 31 December cost of sales consisted of the following:

	Group		Company	
	2013	**2012**	**2013**	**2012**
Cost of goods sold	247 040	225 017	122 314	107 124
Write-down of inventories to net realisable value	3 462	2 800	2 717	2 103
Reversal of prior year write-down of inventories to net realisable value	(2 800)	(2 857)	(2 103)	(2 192)
Total cost of sales	**247 702**	**224 960**	**122 928**	**107 035**

For the year ended 31 December selling costs consisted of the following [1]:

	Group		Company	
	2013	**2012**	**2013**	**2012**
Rent and utilities	53 449	48 813	21 218	20 016
Remuneration	38 306	33 412	14 971	13 540
Social security contributions	10 955	9 388	4 367	3 862
Depreciation and amortization (Note 12, 13)	18 620	17 329	8 130	8 823
Impairment charge (Note 12)	302	297	47	296
Advertising and marketing	5 668	5 097	2 773	2 621
Franchise expenses	10 444	9 086	356	210
Bank commissions	4 414	3 501	1 552	1 482
Labelling, packing and repairing	2 567	2 422	1 162	1 230
Logistics and distribution	664	496	306	225
Business trips	1 721	1 535	1 182	1 083
Total selling costs	**147 110**	**131 376**	**56 064**	**53 388**

For the year ended 31 December general and administrative expenses consisted of the following [1]:

	Group		Company	
	2013	**2012**	**2013**	**2012**
Remuneration	9 972	9 609	9 853	9 488
Social security contributions	3 147	3 014	3 107	2 975
IT and communications	1 713	1 286	907	641
Repair and maintenance	5 715	4 741	2 493	2 508
Taxes (excluding income tax)	463	357	389	313
Consulting and audit expense	1 871	1 523	1 591	1 237
Other expenses	5 441	4 189	3 245	2 179
Total general and administrative expenses	**28 322**	**24 719**	**21 585**	**19 341**

BORROWINGS

At 31 December the carrying amounts of the borrowings consisted of the following [1]:

	Group		Company	
	2013	**2012**	**2013**	**2012**
Bank overdrafts	4 994	-	4 994	-
Borrowings from subsidiaries	-	-	18 630	23 639
Total	**4 994**	**-**	**23 624**	**23 639**

Exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates fall into period of 6 month or less.

Interest rate of majority of the borrowings is based on market interest rate, therefore, in the opinion of the management, carrying amount of borrowings approximates to their fair value.

Group's and Company's borrowing facilities contracted but undrawn as at the date of the balance sheet were LTL 44 800 thousand.

Conclusion

Despite last year's high comparative base, unfavorable weather conditions and increased competition, the Group managed to maintain a general level of Gross profitability and the same volumes of Earnings before taxes.

The Group has earned LTL 45.3 million of profit before income tax in 2013, while profit before taxes was LTL 44.0 million during 2012, an increase of 3.0%. EBITDA of the Group totalled LTL 64.1 million during 2013, and it was LTL 61.4 million in corresponding previous year period. EBITDA margin has decreased from 14.5% to 13.7% during the year. ROE and ROA ratios reached 25.9% and 18.7% correspondently.

In 2013 and in 2012, the Group managed to operate profitably in all three countries. Gross profitability of the Group was around 47% in 2013 and remained at the same level as in 2012. In 2013, Lithuanian gross margin decreased slightly, but operating expenses grew not so rapidly as sales. Therefore profitability before taxes, compared with the previous period, has remained at the same level.

Latvian gross margin increased during the reporting period (which was mostly due to closed outlet store at the beginning of 2013 and opened new stores during non-sales period).

Estonia's gross margin in 2013 compared to the 2012, has not changed (comparing to other countries, Estonian higher gross profitability is influenced by outlet stores absent in this country). Operating profitability in 2013 in all countries amounted to 9-11%.

The total non-current assets other than financial instruments and deferred tax assets located in Lithuania is LTL 60 529 thousand (2012: LTL 57 403 thousand), and the total of these non-current assets located in other countries is LTL 23 135 thousand (2011: LTL 22 295 thousand).

The Group's level of inventories during the year grew by 17.8% (the increase from LTL 75.2 million to LTL 88.7 million). Company's inventories grew by 18.9%. Slightly more significant growth of inventories was driven by new stores opening. It was also influenced by increased quantity of winter season items due to unusually warm weather.

At 31 December 2013 inventories of the Group and the Company have been pledged as security for outstanding loans from financial institutions (Note 24). The total carrying amount of Group's pledged inventories as at 31 December 2012 and 2013 was LTL 27 264 thousand, Company's - LTL 19 664 thousand.

The operating expenses of the Group totalled LTL 173.5 million during 2013 and increased by 12.4%, comparing to the same period 2012 (while sales increased by 10.2% during this period).

The finance costs of the Group totalled LTL 127 thousand during 2013 and increased 2 times, comparing to the same period 2012. Despite the increase of finance costs they still account for less than 0.1% of the total cost of the Group. Total finance debts of the Group totaled LTL 5.0 million at 31 December 2013 (no financial debts at 31 December 2012).

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PRACTICAL ASSIGNMENTS

The assignments presented herein are designed to help students learn how to assess the company's overall operations and its current financial standing in the industry through individual and teamwork and state of the art computer technology.

Students will work on the assignment individually and collaboratively in groups.

The purpose of these assignments is to provide students with the opportunity to:

- retrieve real time financial data via the Web;
- analyze the financial performances;
- adopt and combine existing knowledge in new ways.
- develop a lot of ideas on command.
- develop a variety of ideas that are diverse from each other (not similar
- ideas).
- produce ideas that are different from other ideas just developed.
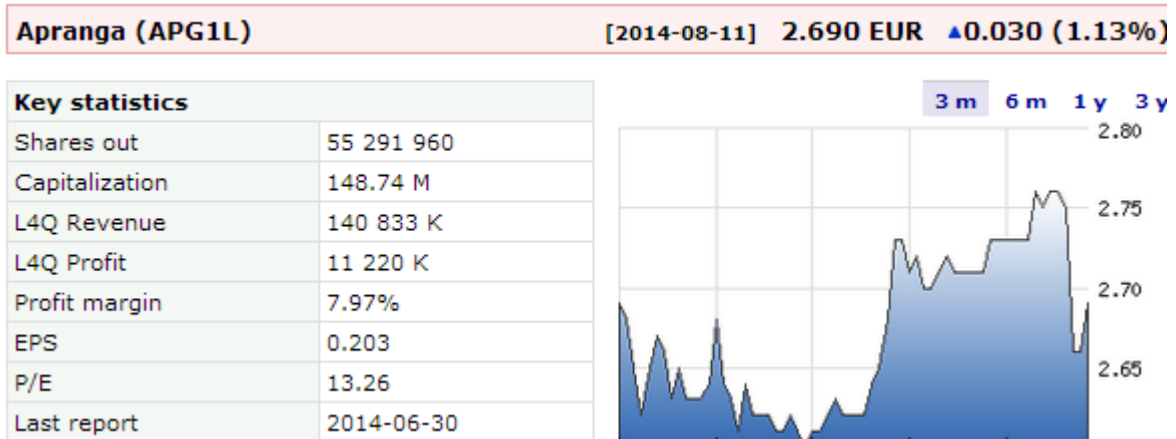
Assignment #1

This assignment has two parts. The first part is individual, the second – in groups.

You must search all your knowledge for answers.

The goal of the first part of the assignment is:

- measure the extent to which the company's assets are financed with debt;
- measure the company's ability to pay its bills;
- measure the company's ability to generate earnings;
- measure the company's ability to utilize its assets;
- measure the market perception about the company's future prospects.

Stimuli:

The goal of the second part of the assignment is present weakest sides of company financial management. Get up and come out into the middle on the floor. Close your eyes and think of what did you eat in the breakfast (20 seconds). You must find 3 persons who think of the same as you and present the 8 different ways of company financial improvement.
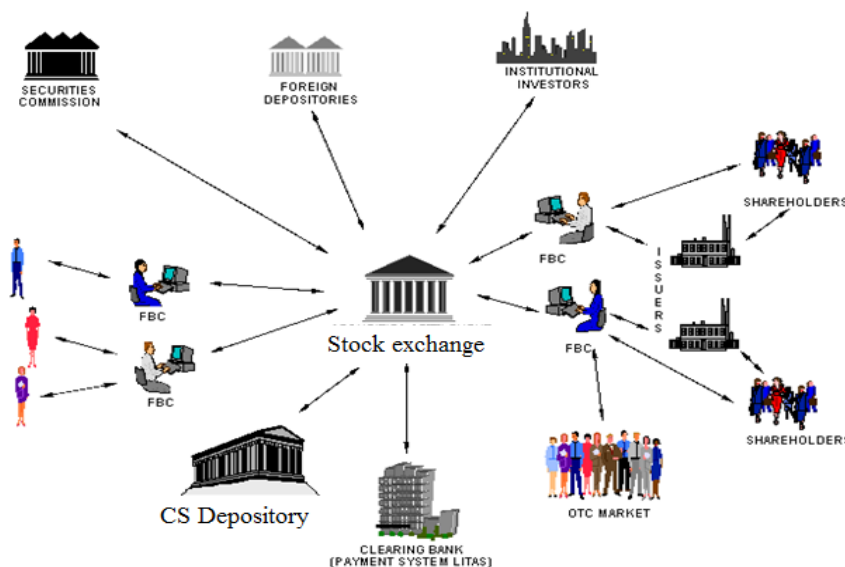
Assignment #2

Get up and come out into the middle on the floor. Close your eyes and think of your favorite color (20 seconds). Open your eyes and find the 3 persons who thought of the same as you.

This assignment has two parts. The goal of the first part of the assignment is to find 4 key company competitors in Baltic market and abroad.

Second part of the assignment is to present latest competitors' information and main events related to the industry.

STIMULI:

Assignment #3

This assignment has two parts. The first part is individual, the second – in groups.

The goal of the first part of the assignment is to find via internet and evaluate main competitors' ability to generate earnings and to pay its bills.

Stimuli:

Same industry companies

Ticker	Name	Price	Change %	Month %	P/E	PM %	MCap. K
APG1L	Apranga	2.670	▼0.74	▼1.11	13.16	7.97	147 630
SFG1T	Silvano Fashion Group	1.680	▶0.00	▼12.50	7.82	7.90	66 360

The goal of the second part is generate ideas how to improve earnings of main activities of the company.

Close your eyes and think of your favorite meal (20 seconds). Open your eyes and find the one who thought of the same as you. You will get training Cards - one to each trainee- one to each trainee. You must generate ideas how to improve earnings of main activities of the company. You must use the person analogies on the card one by one to as inspiration for ideas.

Generate as many ideas as possible.

Assignment #4

This assignment has two parts. The goal of the first assignment is to identify and explain 3 open questions which were not answered in company financial report.

Second part of the assignment is to specify and present 5 strategic issues in financial management.

You must present your individual ideas for colleagues and put things on the wall.

You must listen colleagues and develop alternative ways of putting things on the wall.

Assignment #5

This assignment has two parts. The goal of the first assignment is to analyze company group operating expenses and compare with main competitors. You must identify 3 open questions and answers and put on the wall.

Second part of the assignment is to present five possibilities of improvement managing operational expenses within group and put on the wall. You must listen colleagues and develop alternative ways of putting things on the wall.

Assignment #6

Get up and come out into the middle on the floor. Close your eyes and think of your favorite flower (20 seconds). Open your eyes and find the 3 persons who thought of the same as you.

This assignment has two parts. The goal of the first assignment is to evaluate the company's financial performance against its key competitors, the company-to- company comparison report. To explain the variation in the company's financial ratios over time, the industry comparative analysis must be performed along with the trend analysis.

The financial ratios in each of the performance areas are then analyzed across companies in the industry/group. Students compare their company's financial ratios with those of its key competitors and determine whether managerial or environmental factors cause the trend of the company's financial performance. To further assess the company's financial standing in its primary industry, the company to industry comparison report is retrieved. The company's weak and/or strong areas of performance must be identified and 5 creative recommendations for improvement presented.

Second part of assignment is to reinforce the teamwork effort; each group must submit a written report summarizing the ratio analyses of the companies in their industry. Students will work together and produce a group report that is concise and similar in style to an executive summary with no more than four typed pages plus exhibits. Each group will also give an oral presentation to brief the class on their analyses and their creative recommendations. Charts and tables are required in the Power Point presentation.

APPENDICES

BALANCE SHEET

	Note	Group As at 31 December		Company As at 31 December	
		2013	2012	2013	2012
ASSETS					
Non-current assets					
Property, plant and equipment	12	80 852	78 356	51 363	50 376
Intangible assets	13	1 507	330	238	244
Investments in subsidiaries	14	-	-	16 101	16 101
Prepayments	17	1 201	899	296	202
Trade and other receivables	20	104	113	104	113
		83 664	79 698	68 102	67 036
Current assets					
Inventories	15	88 652	75 232	48 573	40 846
Available for sale financial assets	18	16 271	16 239	16 271	16 239
Non-current assets held for sale	16	1 118	1 118	1 118	1 118
Prepayments	17	3 010	3 319	2 665	1 929
Trade and other receivables	20	2 799	10 447	27 533	29 697
Cash and cash equivalents	21	8 275	8 804	1 293	1 999
		120 125	115 159	97 453	91 828
TOTAL ASSETS		203 789	194 857	165 555	158 864

	Note	Group As at 31 December		Company As at 31 December	
		2013	2012	2013	2012
EQUITY AND LIABILITIES					
Equity					
Ordinary shares	22	55 292	55 292	55 292	55 292
Legal reserve	23	5 529	4 612	5 529	4 612
Translation difference		(188)	(45)	-	-
Retained earnings		86 526	79 748	57 688	51 216
		147 159	139 607	118 509	111 120
Non-current liabilities					
Deferred tax liabilities	9	3 364	3 540	1 044	1 205
Other liabilities		503	339	503	339
		3 867	3 879	1 547	1 544
Current liabilities					
Borrowings	24	4 994	-	23 624	23 639
Current income tax liability		2 830	4 727	1 586	1 910
Trade and other payables	25	44 939	46 644	20 289	20 651
		52 763	51 371	45 499	46 200
Total liabilities		56 630	55 250	47 046	47 744
TOTAL EQUITY AND LIABILITIES		203 789	194 857	165 555	158 864

STATEMENT OF COMPREHENSIVE INCOME

	Note	Group Year ended 31 December		Company Year ended 31 December	
		2013	2012	2013	2012
Revenue	4	466 673	423 441	201 484	180 002
Cost of sales	5	(247 702)	(224 960)	(122 928)	(107 035)
Gross profit		**218 971**	**198 481**	**78 556**	**72 967**
Selling costs	5	(147 110)	(131 377)	(56 064)	(53 388)
General and administrative expenses	5	(28 322)	(24 719)	(21 585)	(19 341)
Other income	6	1 963	1 608	38 975	31 197
Net foreign exchange gain (loss)		(29)	90	(26)	84
Operating profit (loss)		**45 473**	**44 083**	**39 856**	**31 519**
Finance costs	7	(127)	(64)	(198)	(212)
Profit (loss) before income tax		**45 346**	**44 019**	**39 658**	**31 307**
Income tax credit (expense)	8	(7 218)	(7 122)	(1 859)	(1 774)
Profit (loss) for the year	11	**38 128**	**36 897**	**37 799**	**29 533**

11 FINANCE

11.1 CASE STUDY 1. EXTERNAL ENVIRONMENT CHANGES FINANCIAL MANAGEMENT OF LINAS AGRO GROUP

The Group is the leading exporter of grains and secondary products of food industry in the Baltic countries and one of the leaders in supplies of agricultural inputs (such as certified seeds, fertilisers and agricultural machinery) in Lithuania. Also the Group is a major grain and milk producer in Lithuania owns and further expands an extensive network of grain storage facilities.

Introduction

AB Linas Agro Group together with its subsidiaries and associate is a Group of 30 companies, founded in 1991 and operating in four countries – Lithuania, Latvia, Estonia and Denmark. As at 30 June, 2013 the total headcount of the Group amounted to 1,039 employees. The financial year of the Group companies begin on 1 July. [4]

The Group's activities are subdivided into four basic operating segments: Grain and Feedstuff Handling and Merchandising, Products and Services for Farming, Agricultural Production and Other. Division into separate segments is dictated by different types of products and character of related activities; however, activities of the segments are often interconnected. The Company performs only the management function and is not involved in any trading or production activities. The Group carries out its trading operations mostly through subsidiaries AB Linas Agro (Lithuania) and Linas Agro A/S (Denmark). Both companies enhance the international reputation, are European Good Trading Practice (GTP) certified companies and ensure their position among the key players of the European market. [1]

The long-term goal of the Company is to develop in the markets of the Baltic countries and neighbouring markets, becoming the leader of the agribusiness in the Baltic countries. The development is implemented by expanding the available market shares and acquiring promising companies and recruiting best specialists in their respective fields. The Company implements its management model on the subsidiaries and other controlled companies which is based on decentralised management, advanced internal culture and professionalism. The main emphasis is placed on the quality of services in order to ensure that our key customers continue to cooperate with us and that such cooperation would be carried out on a long-term and win-win basis.
 The Company consolidated twenty nine companies in Lithuania, Latvia, Estonia and Denmark as at 30 June 2013. [1]
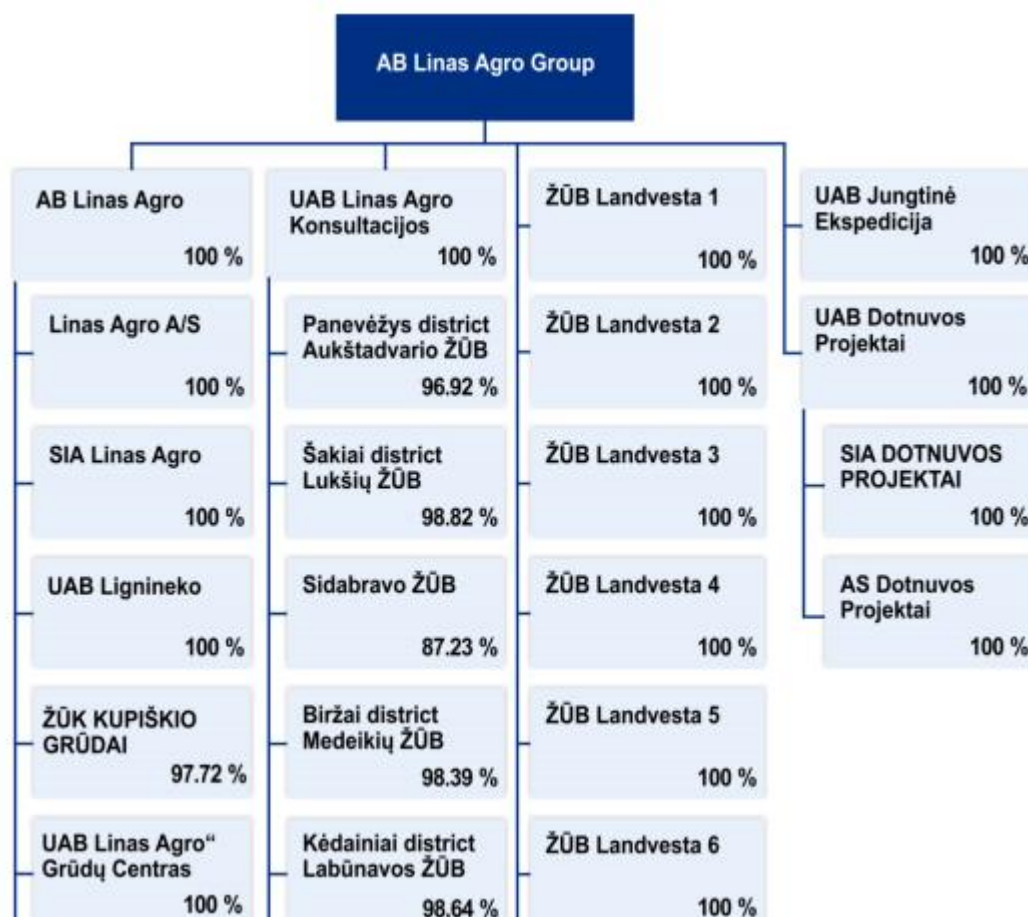
Body of the analysis

Consolidated revenue of AB Linas Agro Group amounted to LTL 2,043 million in 2012/2013 financial year and was 53% more as compared to the corresponding period of the previous year
 (LTL 1,338 million). The Group sold 1.77 million tons of various agricultural products and inputs for farming or 31% more as compared to previous year (1.35 million tons). Gross profit was record high and reached LTL 158 million or 67% more compared to LTL 95 million in 2011/2012 financial year [2]. During the reporting period AB Linas Agro Group acquired farming company Kėdainiai district Labūnavos ŽŪB, logistics company UAB Jungtinė Ekspedicija, also the leading seller of seeds, agricultural machinery and grain storage equipment in Lithuania – UAB Dotnuvos Projektai.

Consolidated revenue of AB Linas Agro Group for the period from July 2012 to June 2013 was record high amounting to LTL 2,043 million. A record high harvest in the Baltic States, increasing grain prices in the international market and the consolidation of the new activities of the Group had the greatest positive impact on revenue growth. The Group's sales volume has increased by 31% and reached 1.8 million (1.3 million tons in 2011/2012 financial year). The Group's performance was succesfull: an increase in grain, oilseed and feedstuff sales was recorded, the revenue of agricultural companies of the Group and volume of services

provided by grain elevators have been growing. Most of the Group's revenue accounted for grain and feedstuff sales making LTL 1,632 million or 80% of the total Group's revenue while products and services for farming earned LTL 397 million (19% of total revenue). The major part of the production is sold abroad, trade with foreign countries accounted for 74% of total sales. The main export regions were European (43%) and Asian (30%) countries; 26% of income gained in Lithuania.

The Group was further strengthening its position in such strategic export markets as Scandinavian countries as well as expanding trade with Iran, Saudi Arabia, Germany and Poland. The Group has exported products to over 20 countries of the world; new export markets included Portugal, Azerbaijan, Uzbekistan and Algeria. Most of the goods were transported through the Baltic Sea ports: 1.4 million tons of freights were shipped through the above ports, including 1.1 million tons through the ports of Lithuania. Goods from Ukraine, Russia, Moldova and Romania have been shipped through the Black Sea ports with the total volume of sales amounting to 115 thousand tons. Approx. 160 thousand tons of products were shipped from West-European sea ports [4].

Due to the record high grain harvest in the Baltic States and the competitive positions of the Group in this region, the volume of grain sales has been growing the most. The Group has sold 0.8 million tons of wheat and 0.12 million tons of rapeseed, which is 139% and 15% more than the previous year. The volume of feedstuff sales has also increased (by 45%), which includes increase in suncake and rapecake sales by 37%, while sugar beet pulp pellets sales increased 2.2 times. Production volume of agricultural products has increased by 71% and amounted to LTL 80 million. Only the volume of sales in the segment of products and services for farming activities decreased and made LTL 397 million, which is 4% less comparing with 2011/2012 financial year (LTL 415 million). Drop in the sales in this business segments is explained by the sale of fertilizer business in Ukraine that took place in 2011/2012 financial year. All of the major business segments of the Group were profitable, therefore Group's gross profit increased from LTL 95 million to LTL 158 million. Gross profit margin increased from 7.09% to 7.75% and exceeded the average for the sector (5.5-6.0%). Grain and feedstuff sale had the greatest impact on the total profitability as it generated over half of gross profit of the Group. The Group's operating profit amounted to LTL 104 million, which is 9% less than for the previous year (LTL 115 million). However, excluding the revenue gained during 2011/2012 financial year from the disposal of Ukrainian fertilizer trading company PJ-SC UKRAGRO NPK, the Group's operating profit increased twice. The Group's earnings before taxes (EBT) amounted to LTL 101 million, which made 13% less than in 2011/2012 financial year (LTL 116 million) [1]. Earnings before interest, taxes, depreciation, and amortization (EBITDA) remained almost unchanged, amounting to LTL 127.2 million (LTL 127.0 million during 2011/2012 financial year). High profitability of the Group shows that the Group managed to take advantage of the favorable market situation in the region: It successfully used its long-term experience and expertise in the domestic and export markets. The Company's net profit attributed to shareholders amounted to nearly LTL 90 million, which is 1% higher than during 2011/2012 financial year (LTL 89 million).

Excluding the impact of the Ukrainian company's sales on the financial results for the previous year, the Group's net profit almost doubled, from LTL 44 million to LTL 90 million.

The gross profit from the main activities of the Group companies AB Linas Agro, Linas Agro A/S and SIA Linas Agro, which is grain, oilseed and feedstuff trading, increased 1.8 times and amounted to LTL 101 million (LTL 56 million during the previous year) [3]. The performance results of these companies determined the overall profitability of the Group. Nearly all of the Group companies were profitable. Cost of the Group's goods sold has increased as a result of increased sales volume and higher market prices of products from LTL 1,243 million to LTL 1,885 million. The cost of inventories has increased from LTL 1,136 million to LTL 1,716 million. Due to increased sales volumes logistics costs also increased, which accounts for up to 7% of total cost of the Group's products and services. They increased by 41% during the reporting period making LTL 126 million (LTL 89 million during 2011/2012 financial year). Group's consolidated operating expenses amounted to LTL 80 million, which is 63% higher compared with the previous corresponding period (LTL 49 million). Increase in costs was mainly influenced by the acquisition of new businesses and their consolidation in the Group. Other operating income amounted to LTL 29 million due to successful acquisitions of subsidiaries – agricultural company Kėdainiai district Labūnavos ŽŪB, UAB Dotnuvos Projektai (LTL 62 million during 2011/2012 financial year). The value of the assets of the companies acquired, compared with the acquisition price, was considerably higher, which had a major impact on other operating revenue. This also shows that the Group's investment policy has been successful, aiming an increase of the long-term value for the shareholders of the Group. The Group has experienced nearly LTL 7.1 million losses from its financial and investment activities. The major share of the financial costs is attributed to the interest expenses, which decreased from LTL 9.8 million to LTL 8.4 million. Having free funds as a result of disposal of subsidiary in Ukraine, the Group successfully invested them in working capital and short-term money market instruments; as a result, despite a doubled increase in the Group's demand for working capital, the Group's interest expenses have decreased. The Group continued to successfully implement its investment program. The main investment directions were focused on the improvement of commercial activities in the Baltic region, the development and modernization of grain elevators, the development of agricultural companies and the purchase of arable lands. The Group has expanded the network of elevators, by increasing the storage capacity up to 194 thousand tons. During 2012/2013 financial year the Group's grain storage facilities were expended by 25.5 thousand tons; up to LTL 18 million was invested in the development of the above elevators in Joniškis and Pasvalys. At the end of 2012, the Company together with partners launched a new grain elevator in Gustonys, Panevėžys district, capable to store almost 17 thousand tons of grain. Farmers' Service Center was purchased in Vilkaviškis, land plot with warehouse was purchased and reconstruction of the elevator was completed in Kupiškis. Inaddition the Group purchased land plot for further development of elevators network, investing the total of LTL 5 million. Expanded warehousing facilities and renewed equipment increased network efficiency and allowed to process larger quantities of grain and rapeseed. Currently, the Group owns one of the largest and modern networks of elevators in Lithuania. In fall 2012 reconstruction of UAB Dotnuvos Projektai Plungė branch, which cost LTL 2

million, was completed. Agricultural land management companies owned by the Group have expanded agricultural land area up to 4.2 thousand hectares by purchasing around 297 hectares of arable land. By means of consistent implementation of the approved market development strategy, the Group acquired one of the most profitable agricultural companies in Lithuania – Kėdainiai district Labūnavos ŽŪB, thereby enlarging the number of the companies managed up to six [1]. All the agricultural companies of the Group are currently cultivating almost 14 thousand hectares land area, altogether harvest approximately 70 thousand tons of various grains. Their consolidated revenue amounts to about LTL 80 million. The Group's agricultural companies continue to be one of the largest milk suppliers in Lithuania, delivering about 16 thousand tons of milk per year. Having purchased the rest 50% of the shares of UAB Dotnuvos projektai, the Group has become one of the strongest suppliers with the widest range of goods and services for Lithuanian farmers, improved its positions in Latvia and entered into Estonian market. Acquisition of UAB Dotnuvos Projektai has increased consolidated revenue the Group by almost LTL 202 million [3].

For management purpose the Group is organized into four operating segments based on their products and services as follows [1]:

- the grain and feedstuff handling and merchandising includes trade in wheat, rapeseed, barley and other grains and oilseeds, suncake and sunmeal, sugar beat pulp, soyameal, vegetable oil, rapecake and other feedstuffs, grain storage and logistics services.
- the products and services for farming segment includes sales of fertilizers, seeds, plant protection products, machinery and equipment, grain storage facilities, spare parts and other equipments to agricultural produce growers and grain storage companies.
- the agricultural production segment includes growing of grains, rapeseed and others as well as sales of harvest, breeding of livestock and sales of milk and livestock. Milk is sold to local dairy companies, other production is partly used internally, partly sold.
- the other products and services segment includes sales of biofuel and other products and services.

Below is the information relating to the geographical segments of the Group [2]:

	Group	
	Financial year ended	
Revenue from external customers	**30 June 2013**	**30 June 2012**
Lithuania	533,255	320,907
Europe (except for Scandinavian countries, CIS and Lithuania)	425,090	299,213
Scandinavian countries	427,310	239,854
Africa	20,336	57,191
Asia	605,426	136,143
CIS	31,723	284,653
	2,043,140	1,337,961

CASH FLOWS AND LIQUIDITY?

The objective of the Group is to have sufficient financial resources, maintain level of liquidity and quality of the balance sheet, and have sufficient flexibility and space for borrowing and satisfying the Group's needs in working capital and investments. As at the balance-sheet date, the Group had LTL 34 million in cash and cash equivalents (in 2011/2012 they were LTL 55 million), its current solvency ratio amounted to 1.8. Debt and equity ratio amounted to 0.47 (0.7 during previous year [6]). The Group's relative net debt to EBITDA ratio remained low, the same as during 2011/2012 financial year and amounting to 1.4. The Group's solvency and liquidity ratios remain on a highly secure level, conditioned by profitable activity of the Group and its ability to manage the commercial risk. The Group's financial debts (excluding financial lease obligations) amounted to a total of approx. LTL 198 million (LTL 226 million during 2011/2012 financial year), 16% of them were long-term debts [6]. The Group's short-term debts, most of which were allocated to finance the working capital, were covered with inventories, accounts receivable, cash, property, plant and equipment, investment property and biological assets. If the Group gets the permit ion of Latvian Competition Authority to purchase Latvian poultry farming companies, long-term loans share in total loans during 2013/2014 financial year may grow because the Group will use long-term loans to finance the acquisition [1]. The Group's cash flow from operating activities before the changes in working capital has increased up to LTL 103 million, compared with LTL 61 million during the corresponding period of the previous year. Cash flows from operating activities after changes in working capital amounted to LTL 108 million (during the respective period of 2011/2012 financial year they amounted to LTL 44 million). The Group's cash flow from investment activities was negative, amounting to LTL 38 million (LTL 12 million during 2011/2012 financial year may grow because the Group will use long-term loans to finance the acquisition [5]. The Group's cash flow from operating activities before the changes in working capital has increased up to LTL 103 million, compared with LTL 61 million during the corresponding period of the previous year. Cash flows from operating activities after changes in working capital amounted to LTL 108 million (during the respective period of 2011/2012 financial year they amounted to LTL 44 million). The Group's cash flow from investment activities was negative, amounting to LTL 38 million (LTL 12 million during 2011/2012 financial year). This is explained by an active investment policy of the Group and acquisition of new companies (Kėdainiai district Labūnavos ŽUB, UAB Jungtinė Ekspedicija and UAB Dotnuvos Projektai). All the companies managed by the Group have been investing as well – network of grain elevators was expanded, purchased [1].

	2012/2013	2011/2012	2010/2011	2009/2010
Grain and feedstuff handling and merchandising	80,723	31,727	(15,851)	29,873
Products and services for farming	26,396	89,202	26,504	9,717
Agricultural production	28,425	8,621	15,475	5,856
Other	(247)	1,540	2,158	3,218

EMPLOYEES

As at 30 June 2013 the number of employees of the Group was 1,039 or 444 employees more as at 30 June 2012 (at that time was 595). This increase was conditioned by acquisition of UAB Dotnuvos Projektai (companies in Lithuania, Latvia, Estonia), Kėdainiai district Labūnavos ŽŪB and UAB Jungtinė Ekspedicija (additionally 398 employees).

Distribution of employees of the Group by positions and average monthly salary before taxes [1]:

	The number of employees at the end of financial year		Average monthly salary before taxes in LTL	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Managers	73	43	8,147	6,713
Specialists	405	184	4,288	3,708
Workers	561	368	2,440	1,913
Total for the Group	**1,039**	**595**		

Conclusion

AB Linas Agro Group is fully capable of funding its own operating and investment activities. The Group finances its working capital in three banks – AB SEB Bankas, BNP PARIBAS (Suisse) SA and ABN AMRO Bank N.V. The total amount of credit facilities of the above banks exceeds LTL 300 million.

Grain and feedstuff handling business segment includes grains, oilseeds and feedstuffs handling, transportation, international trading and wholesale. The Group has been operating in this field since 1991. This activity generates most of the Group's revenue.

Revenue from two largest customers amounted to LTL 288,363 thousand and LTL 264,816 thousand, respectively for the year ended 30 June 2013. Sales are accounted for under grain and feedstuff handling and merchandising caption of business segments.

Investment property of the Company consists of buildings leased out under the operating lease which generates lease income.

On 30 March 2010 AB Linas Agro and AB Klaipėdos jūrų krovinių kompanija (hereinafter – KLASCO) signed a long term cooperation agreement for expansion of a grain terminal. AB Linas Agro participates by partly financing (in total LTL 4,450 thousand) expansion of the grain terminal and will have an exclusive right for five years to use the silage warehouses stowing 40 thousand tons of grain and to use the terminal for loading [2].

The carrying value of the Group's inventories accounted for at net realizable value as at 30 June 2013 amounted to LTL 350 thousand (LTL 188 thousand as at 30 June 2012). The amount of write-down of inventories to net realizable value recognized as an expense in the

year ended 30 June 2013 is LTL 215 thousand (LTL 13 thousand in the year ended 30 June 2012), and is recognized in cost of sales of the statement of comprehensive income.

Trade receivables from other customers are non-interest bearing and are generally collectible on 30–90 days term. Trade receivables from agricultural produce growers are non-interest bearing and are generally settled within 120–360 days by delivering grain to the Group.

As at 30 June 2013 and 30 June 2012 property, plant and equipment, investment property, biological assets, inventories, trade receivables and bank accounts were pledged to banks as collateral for the loans. Also UAB Linas Agro Konsultacijos pledged shares of Biržai district Medeikių ŽŪB, Šakiai district Lukšių ŽŪB, Panevėžys district Aukštadvario ŽŪB, collateral for the loans.

The Group concludes forward agreements (with fixed price) with Lithuanian and Latvian agricultural production growers for purchase/sale of agricultural produce. For part of such agreements the Group does not have agreed sales/purchase contracts with fixed price. As at 30 June 2013 the Group's total amount of such purchase/sale commitments to buy/sell agricultural produce was LTL 52,772 thousand (LTL 55,442 thousand as at 30 June 2012). To hedge the arising risk of price fluctuations, for the total amount of such purchase/sale commitments the Group concluded futures contracts that are traded on NYSE Euronext Paris SA exchange [1].

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PRACTICAL ASSIGNMENTS

Assignment #1

Get up and come out into the middle on the floor. Close your eyes and think of your favorite color (20 seconds). Open your eyes and find the 3 persons who thought of the same as you.

This assignment has two parts. The goal of the first part of the assignment is to find 4 key company competitors in Baltic market and abroad

Second part of the assignment is to present latest competitors' information and main events related to the industry.

STIMULI:

Assignment #2

This assignment has two parts. The first part is individual, the second – in groups.

You must search all your knowledge for answers.

The goal of the first part of the assignment is:

- measure the extent to which the company's assets are financed with debt;
- measure the company's ability to pay its bills;
- measure the company's ability to generate earnings;
- measure the company's ability to utilize its assets;
- measure the market perception about the company's future prospects.

Stimuli:

Linas Agro Group (LNA1L)		[2014-08-12] 0.677 EUR ▲0.002 (0.30%)

Key statistics	
Shares out	158 940 398
Capitalization	107.60 M
L4Q Revenue	569 473 K
L4Q Profit	15 332 K
Profit margin	2.69%
EPS	0.096
P/E	7.02
Last report	2014-09-30

The goal of the second part of the assignment is present weakest sides of company financial management. You must find 3 persons who think of the same as you and draw the 8 different ways of company financial improvement.

Assignment #3

This assignment has two parts. The first part is individual, the second – in groups.

The goal of the first part of the assignment is to find via internet and evaluate main competitors' ability to generate earnings and to pay its bills.

Stimuli:

Same industry companies

Ticker	Name	Price	Change %	Month %	P/E	PM %	MCap. K
AVG1L	Agrowill Group	0.231	▲2.67	▼16.91	-	-1.62	19 594
BRV1R	Brīvais vilnis	0.600	-	▲5.45	2.82	4.68	1 860
GRZ1R	Grobiņa	11.300	▲14.26	▲0.89	7.21	21.06	5 650
KCM1R	Kurzemes CMAS	2.660	-	▲2.31	10.50	10.17	1 165
LNA1L	Linas Agro Group	0.677	▲0.30	▼3.29	7.02	2.69	107 603
PRF1T	Premia Foods	0.690	-	▼1.43	31.14	0.85	26 691

The goal of the second part is generate ideas how to improve earnings of main activities of the company.

Close your eyes and think of your favorite meal (20 seconds). Open your eyes and find the one who thought of the same as you.You will get training Cards - one to each trainee- one to each trainee.You must generate ideas how to improve earnings of main activities of the company.You must use the person analogies on the card one by one to as inspiration for ideas.

Generate as many ideas as possible.

Assignment #4

This assignment has two parts. The goal of the first assignment is to analyze company group operating expenses and compare with main competitors. You must identify 3 open questions and answers and put on the wall.

Second part of the assignment is to present five possibilities of improvement managing operational expenses within group and put on the wall. You must listen colleagues and develop alternative ways of putting things on the wall.

Assignment #5

This assignment has two parts. The goal of the first assignment is to identify and explain 3 open questions which were not answered in company financial report.

Second part of the assignment is to specify and present 5 strategic issues in financial management.

You must present your individual ideas for colleagues and put things on the wall.

You must listen colleagues and develop alternative ways of putting things on the wall.

Assignment #6

Get up and come out into the middle on the floor.

Close your eyes and think of your favorite flower (20 seconds).

Open your eyes and find the 3 persons who thought of the same as you.

This assignment has two parts. The goal of the first assignment is to evaluate the company's financial performance against its key competitors, the company-to- company comparison report. To explain the variation in the company's financial ratios over time, the industry comparative analysis must be performed along with the trend analysis.

The financial ratios in each of the performance areas are then analyzed across companies in the industry/group. Students compare their company's financial ratios with those of its key competitors and determine whether managerial or environmental factors cause the trend of the company's financial performance. To further assess the company's financial standing in its primary industry, the company to industry comparison report is retrieved. The company's weak and/or strong areas of performance must be identified and 5 creative recommendations for improvement presented.

Second part of assignment is to reinforce the teamwork effort; each group must submit a written report summarizing the ratio analyses of the companies in their industry. Students will work together and produce a group report that is concise and similar in style to an executive

summary with no more than four typed pages plus exhibits. Each group will also give an oral presentation to brief the class on their analyses and their creative recommendations. Charts and tables are required in the Power Point presentation.

APPENDICES

OPERATING EXPENSES

	Group		Company	
	Financial year ended			
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Wages and salaries and social security	49,383	31,121	59	56
Change in allowance for and write-offs of receivables and prepayments	3,720	2,286	–	–
Consulting expenses	2,800	2,170	1,143	443
Depreciation and amortization	3,993	1,899	30	30
Advertisement, marketing	2,478	1,008	–	–
Bank fees	2,216	1,516	–	–
Change in impairment of property, plant and equipment (Note 6)	(11)	(32)	–	–
Change in impairment of investments into subsidiaries (Note 3)	–	–	–	(431)
Currency exchange loss	–	–	5	1,498
Other	14,981	8,900	788	112
	79,560	48,868	2,025	1,708

INCOME (EXPENSES) FROM FINANCING ACTIVITIES

	Group		Company	
	Financial year ended		Financial year ended	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
Income from financing activities				
Interest income	1,526	7,783	3,334	2,277
Income from overdue payments	165	247	–	–
	1,691	8,030	3,334	2,277
(Expenses) from financing activities				
Interest expenses	(8,368)	(9,768)	(190)	(278)
Expenses for overdue payments	(385)	(11)	–	–
	(8,753)	(9,779)	(190)	(278)

12 ENTREPRENEURIAL BEHAVIOR AND CHARACTERISTICS

12.1 CASE STUDY 1. VISION AND ENTREPRENEURSHIP

In times of globalization borders in business were almost destroyed. Business success stories often are related with few countries. [4, 89] Business methods which worked in one particular country - find the place in other countries. Popularly to say, that successful business starts from the successful idea. [3, 47]

Disneyland– Mickey story

The Walt Disney Company, Disney Brothers Studio, was founded in 1923 by Walter Elias Disney and his brother. At the beginning Disney created classic well known cartoons: Mickey Mouse, Donald Duck. Later in 1937 they bet the company and created the first full-length animated color film: ''Snow White and the Seven Dwarfs''.

The company was known early on for professional marketing as well as creativity, and continued to make animated movies. It has remained the world leader in animation. Disney added live productions in 1950 with a television programme called Disneyland – one of the pillars for the future success. [1]

In 1995 Disney acquired ABC to become the largest entertainment company in the USA, the year after the revolutionary animated film ''The Lion King'' had extremely good results. Walt had a vision – to create world of fantasy for families, to give the possibility to take themselves to the different world and have fun. The first Disney theme park was established in early 50's in Anaheim, Southern California. Success of the first park was the beginning, other parks followed. By 2005, the Walt Disney Company was a large diversified organization with yearly revenues of more than US$30 billion.

Disney dream was accepted by the society. Animated heroes became the part of XX century, animates movies took a lot of awards, from the classics like Snow White, the Jungle Book and Cindarella, to The Lion King, Beauty and the Beast, the Incredibles. Disney theme parks were making dreams come true. Disney was working in the sphere of services, where the main pillar is the creating of the guest experiences. [2]

Table 1. **The Development of the Walt Disney Company [1]**

> **1923:** The Disney Bros. studio, founded by Walt and his brother Roy Oliver Disney, produces the Alice in Cartoonland series.
>
> **1927:** The Alice series ends; Walt picks up the contract to animate Oswald the Lucky Rabbit.
>
> **1928:** Walt loses of the Oswald series; first Mickey Mouse cartoon: Steamboat Willie.
>
> **1929:** First Silly Siphony: The Skeleton Dance.
>
> **1930:** First appearance of Pluto.
>
> **1932:** First three-strip Technicolor short released: Flowers and Trees; first appearance of Goofy.
>
> **1934:** First appearance of Donald Duck.
>
> **1937:** Studio produces its first feature, Snow White and the Seven Dwarfs.
>
> **1940:** Studio moves to the Burbank, California buildings where it is located to this day.
>
> **1941:** A bitter animators' strike occurs; as the USA enters World War II, the studio begins making morale-boosting propaganda films for the government.
>
> **1944:** The company is short on cash; a theatrical re-lease of Dumbo generates much needed revenue and begins a reissue pattern for the animated feature films.
>
> **1945:** The studio hires its first-ever live actor for a film, James Baskett, to star as Uncle Remus in Song of the South.
>
> **1949:** The studio begins production on its first all-live action feature, Treasure Island; the popular True-Life Adventures series begins.
>
> **1954:** The studio founds Buena Vista International to distribute its feature films; beginning of the Disneyland TV program.
>
> **1955:** Opening of Disneyland in Anaheim, California.
>
> **1961:** The studio licenses the film rights to Winnie-the-Pooh, whose characters continue to be highly profitable to this day; international distribution arm Buena Vista is established.
>
> **1964:** The company starts buying land near Orlando, Florida for Walt Disney World- then known as Disneyworld, or ''The Florida Project''.
>
> **1965:** The regular production of short subjects ceases, as theatres no longer have any demand for them.
>
> **1966:** Walt Disney dies.
>
> **1967:** Construction begins on Walt Disney World; the underlying governmental structure (Reedy Creek Improvement District) is signed into law.
>
> **1971:** Walt Disney World opens in Orlando, Florida; Roy Oliver Disney dies; Donn Tatum becomes chairman and Card Walker becomes CEO and president.
>
> **1977:** Roy Edward Disney, son of Roy and nephew of Walt, resigns from the company citing a decline in overall product quality and issues with management.
>
> **1978:** The studio licenses several minor titles to MCA Discovision for laserdisc release; only TV compilations of cartoons ever see the light of day through this deal.

- **1979:** Don Bluth and a number of his allies leave the animation division; the studio releases its first PG-rated film, The Black Hole.
- **1980:** Tom Wilhite becomes head of the film division with the intent of modernizing studio product; a home video division is created.
- **1981:** Plans for a cable network are announced.
- **1982:** EPCOT Center opens at Walt Disney World; Ron W. Miller succeeds Card Walker as CEO.
- **1983:** As the anthology series is canceled, The Disney Channel begins operation on US cable systems; Tom Wilhite resigns his post; Tokyo Disneyland opens in Japan.
- **1984:** Touchstone Pictures is created; after the studio narrowly escapes a buyout attempt by Saul Steinberg, Roy Edward Disney and his business partner, Stanley Gold, remove the Ron W. Miller as CEO and president, replacing him with Michael Eisner and Frank Wells.
- **1985:** The studio begins making cartoons for television; the home video release of Pinocchio is a best-seller.
- **1986:** The studios first R-rated release comes from Touchstone Pictures; the anthology series is revived; the company's name is changed from Walt Disney Productions to The Walt Disney Company.
- **1989:** Disney offers a deal to buy Jim Henson's Muppets and have the famed puppeteer work with Disney resources; the Disney-MGM Studios open Walt Disney World.
- **1990:** Jim Henson's death sours the deal to buy his holdings; the anthology series canceled for second time.
- **1992:** The controversial Euro Disney opens outside Paris, France.
- **1993:** Disney acquires independent film distributor Miramax Films; Winnie the Pooh merchandise outsells Mickey Mouse merchandise for the first time; the policy of periodic theatrical re-issue of Snow White and the Seven Dwarfs but is augmented for video.
- **1994:** Frank Wells is killed in a helicopter crash; Jeffrey Katzenberg resigns to co-found his own studio, DreamWorks SKG.
- **1995:** In October, the company hires Hollywood superagent Michael Ovitz, to be president.
- **1996:** The company takes on the Disney Enterprises name for non-Walt Disney branded ventures and acquires the Capital Cities/ABC group, renaming it ABC Inc.; in December Michael Ovitz, president of the company, leaves ''by mutual consent''.
- **1997:** The anthology series is revived again; the home video division releases its first DVD's.
- **1998:** Disney's Animal Kingdom opens at Walt Disney World.
- **2000:** Robert Iger becomes president and COO.
- **2001:** Disney-owned TV channels are pulled from Time Warner Cable briefly during a dispute over carriage fees; Disney's California Adventure opens to the

public; Disney begins releasing Walt Disney Treasures DVD box sets for the collector's market.

➤ **2003:** Roy Edward Disney again resigns as head of animation and from the board of directors, citing similar reasons to those that drove him off 26 years earlier; fellow director Stanley Gold resigns with him; they establish ''Save Disney'' (www.savedisney.com) ti apply public pressure to out Michael Eisner.

➤ **2003:** Pirates of the Caribbean: The Curse of the Black Pearl becomes the first film released under the Disney label with a PG-13 rating.

➤ **2004:**

1. The studio breaks off renegotiation talks Pixar (their contract expired in 2006); Disney converted its animation studio to all computer-animated production.

2. Announced the closure of their Florida feature-film animation department.

3. Comcast makes a $66 billion unsolicited bid to buy The Walt Disney Company (Comcast withdraws its bid in April).

4. Disney purchases rights to The Muppets.

5. Company stockholders give Michael Eisner a 43% vote of no confidence. As a result, Eisner is removed from the role as chairman of the board (but maintains his positions as CEO) and George J. Mitchell becomes chairman in his place.

6. After investing $6 million into production of the documentary film Fahrenheit9/11 by Michael Moore, Walt Disney Pictures announced their previously mentioned intentions of not distributing the film, The director and the heads of Miramax arrange an alternate distribution arrangements and the film becomes the most successful documentary film of all time. At $100 million, that film earns more than most of Disney's other film releases that year.

➤ **2005:**

1. Disneyland celebrates its 50th birthday on 17 July.

2. Robert A. Iger, currently president of the company, will replace Michael Eisner as CEO on October 1.

3. Disney starts talks with Steve Jobs about acquisition of Pixar Animation Studios. The $7,4 billion deal was announced in late January 2006. This made Steve Jobs the single largest Disney Shareholder and Jobs also joined Disney's board of directors.

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PRACTICAL ASSIGNMENTS

Assignment #1

Hand out three Word Training Cards. Identify three main reasons of the Walt Disney Company success, relate them to the three words on the cards. [6,113]

Write down the essay of 300 words on the topic „Walt Disney Company Success'', in the essay use as well the three reasons selected before.

Assignment #2

Take one of the mentioned above reasons and adapt it as suggestion for another company (chosen individually). Prepare the 5 min. presentation about adapting Your suggestion in the company. [5,115]

Assignment #3

Hand out three Word Training Cards. Regarding the taken cards generate and write down 10 steps which shall to be taken by Walt Disney Company shall to be taken nowadays to develop the company and fulfill the requirements of the XXI century.

Assignment #4

Together with a partner brainstorm for 5 minutes and write down ideas on the topic: „Walt Disney Company, main changes, which helped to survive in the changing market''. Hang them on the wall. Analyze the ideas and represent them to the rest of the class.

Assignment #5

Hang out five Person Training Cards. Close your eyes and think about the selected persons. Open your eyes and write down what changes for company development could make each of the selected persons. Represent ideas for the class.

12.2 CASE STUDY 2. ENTREPRENEURSHIP – CREATING NEW POSSIBILITIES

One strategic competitive issue confronting the international travel and tourism industry is the emergence of a few dominant airline computer reservation systems (CRS). Such systems control the sale and distribution of a wide array of travel-related services.

ENTREPRENEURSHIP – CREATING NEW POSSIBILITIES

Cardinal Changes in Airline Industry, Which Totally Changed the Tourism Industry

Reservations systems were originally developed by the major carriers in the US to develop their internal ticketing procedures. Today they have emerged to become one of the most powerful strategic tools of the travel, tourism and hospitality industries with a wide range of sales and distribution applications. At the moment, a few giant computer reservations systems developed by major air carriers dominate the CRS industry, giving the airline owners acompetitive advantage over their competitors.

As world-wide growth in passenger aviation has progressed over the past 30 years, ticket sales through travel agencies became an important component of the channel of distribution. By the 1960s, the airline industry had grown to the extent that computers were needed in order to keep track of the massive inventory of available seats. Originally CRS were developed to handle internal airline reservation systems; however, today these powerful tools can be regarded as a competitive weapon in the airlines' industry. [1, 23]

It was in 1962 that American Airlines developed the first internal reservation system, which today has secured a dominant market position. From the early internal systems a natural progression was the expansion of the system to include on line terminals with direct reservation capabilities located in travel agencies. American Airlines realised the potential of CRS technology and first began marketing it extensively in this way immediately following the deregulation of the US airline industry in 1982. American Airline's CRS named ''Sabre'' has assisted the company in capturing a large market share and has been central to its competitive strategy. This deregulation influenced greatly the development and globalisation of CRS, and has led to the creation of other sophisticated systems, for example Amadeus, Galileo, Apollo, Abacus. Meanwhile, CRS have also diversified into many other reservation functions such as car rentals and hotel reservations. [2]

Commercial and regulatory pressures

Four aspects can be identified that have created commercial pressures and that will inevitably lead to regulation. Display bias is the practice of programming the CRS to give the host airline's flights a superior position on the display screen and in some respects can be described as anti-competitive. The display position of an airline's offering has considerable influence on the probability of it being chosen. The halo effect identifies the tendency for travel agents to book flights on the CRS's parent rather than those of competing carriers, and

is at the heart of the CRS debate. Code sharing is another strategy that involves the integration of both the national airlines and regional airlines. These linkages are accomplished either through ownership or the development of *code-sharing agreements*, whereby small airlines use the code letters of bigger partners and link up their flight schedules. Whilst the ownership of a CRS is not a prerequisite for code-sharing agreements, its existence as a vehicle for implementing these arrangements generates advantages for both parties. Commission overrides are extra commission paid to encourage travel agents to sell a particular airline's seats rather than those of another carrier. These incentives are over and above the base rate, and are rewarded to travel agents by airlines in return for an increase in volume or in market share. Market intelligence provided by the CRS allows the tracking of travel patterns, market segments, and travel agent productivity. Not only can airlines use CRS to create new marketing programmes, they can also use the information to make critical strategic decisions, armed with statistical support The success of these information-based strategies pose a serious threat to the competitive structure of the airline industry, particularly with respect to new entrants.The primary concern for the policy makers is the threat of monopoly abuses in both domestic and international travel markets. [1, 25]

Globalisation

Because CRS revenue yields are declining even though booking volumes are increasing, the trend is towards mergers e.g. Galileo International and Covia, 1992, largely for reasons of economies of scale, and to create a global operating base. [6] In addition the operation of a one-site global data centre, reduces significantly its cost base. The trend for mergers will continue although it is expected that product availability will not improve. [2]

Point of sale distribution

It has been estimated that the top ten travel agencies - most of whom specialise in corporate travel, account for 10% of the total travel market. This figure rises to over 15% of the corporate travel market booked through travel agents. The attention of the CRS vendors is now fixed on working closely with their major customers (the multiple agencies). The trend is therefore clear in so much that the CRS vendors' strategy is to secure loyalty through agreement with the major agencies. In addition CRSs policy towards product and service development favours their largest customers and these technological advantages will slowly extend their dominance in both national and cross-border markets. CRS vendors by the end of 1992 had achieved saturation in terms of penetrating business travel agents. The leisure travel market was the next development for the CRS vendors as they developed products aimed at increasing agency access and system usage. Currently in Europe non-business travel relies on Viewdata technology, thus generating enormous potential for penetration into the European leisure agencies. At present over half of the total agency market is equipped with Viewdata technology, which equates to 19,000 agencies. Major equipment changes will have to be made in order to achieve this strategic move; CRS vendors will inevitably price competitively in the early years. Cross-selling strategies are becoming dominant in the European market-

place in order for the agencies to survive. This applies particularly to the sale of hotel accommodation and car rental. [4]

Long term developments are aimed at enhanced customer support and maximising the agents' use of CRS as the primary travel booking tool. The trend is also moving towards contracting third party systems developers in building the non-core CRS modules and specific user group requirements. For example in the hotel sector, management companies will have the option to link into automated products tailored specifically for the European travel markets. Market segmentation is another important development in the distribution network. The European vendors must develop their CRS technology to create a unique difference in costs of servicing their agency customer base. This segmentation of the customer base will enable the European vendors to fully exploit their size and extend their share of the travel market. Clear product segmentation will enable a more efficient targeting to its customer base and the squeezing of suppliers through better purchasing mechanisms. This will enable CRS vendors to put pressure on both the national chains and the less technologically advanced agents, thereby improving their margins whilst maintaining a competitive edge. [3]

The expansion of travel-related sales

In developing hotel booking systems the basic theories of airline CRS have to be applied, namely; the ability to deliver accurate, on-line information regarding availability to ensure maximum yields and usage by agency staff. Paramount to its success is this ability to provide last-room and immediate guaranteed room availability as its core functions. Reservation groups such as Utell International along with its Ultraswitch technology are working closely with proprietary management systems companies to provide access to the hotels' booking database. The booking of hotels through a hotel booking CRS at present represents 1%. Whereas in the case of business travel hotel bookings, this figure increases to 3%. The pattern in Europe and the US is resulting in a mixture of hotel bookings which can be interfaced on all major CRSs systems and national distribution systems. The major CRS vendors thus provide a global communications network and a vehicle whereby other travel related services can be interfaced and distributed on a global scale. The major problem, however, is the investment involved and that it only attracts the international hotel chains. Equally travel agents require the system to provide information on hotels which comprise of both domestic and international hotel chains and provide all aspects of the hotel tariff. For the development of sufficiently comprehensive databases, it is likely that the smaller companies will themselves form alliances to provide travel agents with the appropriate products. As destination databases have been promoted as the appropriate information system to distribute and promote tourist information for both leisure and business markets, it is unlikely that the necessary funds will be raised to create the access required for these systems to be available on the core CRSs. The funds are unlikely to be raised because of the necessary investment in more sophisticated systems and networking infrastructure. [2]

The Framework

The central issue for the CRS vendors in formulating their competitive strategy is in relating the individual system to the environment in which it operates. The state of competition in this particular industry can be related to Porter's five basic competitive forces. It is in focusing on this simple framework that the process of strategic planning can commence.

Economic

The declining business within Europe's airlines linked to the desyncronisation of economic growth within individual European countries has had a significant impact on the CRS vendors' approach towards product development in the 1990s. On a wider basis, the world economies in 1994 were at different stages of the business cycle, with the US, Canada and Australia well into the upturn, the UK, Italy and Japan experiencing gradual recovery, while much of continental Europe remaining in recession. In analysing key macro economic factors such as GDP, Inflation rates, Exchange rates and Oil price movements, an indication of future demand for travel and hence hotel accommodation can be determined which will assist the CRS vendors in determining their competitive strategy.

Competitive/ Regulatory

Whilst the general view within the travel trade is that CRSs are not generating a satisfactory return on investment (perhaps moving into the mature stage of the product life cycle) mergers and continued international alliances are therefore regarded by the vendors as the best option for cost containment. World-wide, the advantages of CRS ownership are diminishing, largely as a result of government monitoring of costs and practices which has resulted in the elimination of bias (both blatant and hidden). CRS ownership patterns in 1994 illustrate that the systems are increasingly being regarded purely as distribution tools. Raising revenues from non-airline shareholders is now restricted by EU attention on competition policy in the CRS sector. This has brought about concern for the CRS vendors about achieving their long term objectives, such as expanding their customer base through system enhancements, and improving their core services to increase the booking volumes on CRS. CRS vendors are expected to focus on their target markets by enhancing existing systems and providing more bespoke systems for specific markets, which in return will expand the customer base and increase booking volumes. [1, 27]

Financial

The change in European Union policy in the 1990s has affected the concept of a total travel booking management CRS in Europe and influenced its break down on financial grounds. All development projects now have to be financially viable for the airline investors before agreements are made. Consequently projects that are not beneficial to the majority of investors will not be funded by the CRS partner airlines but may be funded by the national

distribution companies. Airlines therefore are not in a position to fund system developments which are unlikely to cover costs. The core services will continue to be funded by the CRS vendors, but subsidiary services will not. However, the resources of the national distribution companies are unlikely to be adequate to develop the appropriate travel management products. This in turn is likely to diminish the appeal of CRS as a corporate booking tool. This *back-to-basics* approach conflicts with the initial objectives for the European CRSs based on providing travel agents with total travel management systems. The various market sectors will therefore probably develop distinctly different approaches towards CRS distribution.

Technological

Both Amadeus and Galileo introduced new back office systems during 1993. Sabre's Travelbase back office system was launched in Europe in January 1993 and replaces its back office system called Agency Data System (ADS). Sabre is in sense acting as a software developer for other systems such as Abacus. Longer term, CRS vendors are modifying the US systems for the European market. At present the major travel agencies are developing their own back office systems, which meet their own specifications and are slow to take the back office systems of the CRS vendors. Most corporate travel agencies with a sales turnover of over $ 9m have some form of back office system in place, but the majority is tailor made. In-flight reservation services depend on a new generation of communication links involving the Inmarsat satellite. Most of the world's airlines are now committed to personal passenger communications systems in one way or another. The result will look rather like a PC screen in the aircraft seat back. Travellers of today and the future will be able to phone, fax and send data. For the future, passengers will have direct links into ground-based computer reservations systems which will let them book or change tickets and hotel rooms from their seat. In the near future more CRS systems will begin to open up their information directly to customers, cutting the need for reservations to be made through travel agents. In the US, Sabre has successfully introduced a PC-based on-line software package which gives travellers access to timetables and basic fare information. Galileo, too, is aiming to bring out a consumer application. Each computerised CRS has a direct reference switch which allows all providers to market their products to travel agencies and airlines. Now providers have to update each system individually. This is a very time-consuming process. With direct reference updating software, a hotel chain, for example, with a special offer for Easter, could enter all the information on one screen, and the updating software would automatically format it for each CRS and then transmit it. The use of the direct reference systems within a CRS is very important. A medium sized German hotel chain recently had a connection to Sabre, and had recently been receiving approximately 500 reservations per month. They then started to use the direct reservation system daily to promote their hotel facilities and special offers. In the first month their reservations increased over 80% With the evolution of CD-ROM technology this has allowed the sale of travel related products such as hotels, by assisting the booking agent to sell the property more efficiently because the property and its facilities can shown to the customer. Two example of it application can be seen at the hotel consortia, Utell International and Best Western. Sabre have introduced their visual imaging

product, called Sabrevision, in Europe. In the USA 5000 of Sabre's 12,000 agencies are now linked to the product. Its potential application in the hotel industry is enormous but until the cost of producing new disks drops dramatically, only the multiples and larger agency groups will be able to use this product as a strategic distribution and marketing tool. [5] The industry is also seeing the introduction of bar-coded directories connected to CRS which will allow a travel agent to bar code any hotel listed in such publications as the ABTA world guide, and display on their computer screen all the details and booking conditions of that property. This approach will save time for the booking agent and does not require skilled staff in terms of knowledge. [1]

To conclude, apart from the CRSs themselves, other service providers as well as third party software suppliers are rushing to develop a range of applications. *Pre-trip* audit software, which continually checks already booked airline segments for cheaper fares available under the various airlines' yield management systems, is an interesting example. More significant is the development of integrated multi-media databases by major publisher or tour operators, in co-operation with the CRS companies. One example is the Reed-developed Jaguar system, now branded *Sabrevision.* In its guise as a joint venture with Sabre, Jaguar seeks to function as a highly specific marketing tool, delivering pictures of hotels, cruise ships etc. and their facilities at the point-of-sale, at the same time as price and availability data are displayed.

Todays, CRS is in a sense the *tail wagging the dog* because it has a tremendous effect on the travel industry's competitive structure and will play an important role in the evolution of an increasingly international hospitality industry. [3]

The future will revolve around the three R's of *regulation, rationalisation, and reorganisation.* Regulation in so much that the power of today' CRS to control the international airline industry's sales and distribution process presents tremendous opportunities as well as serious problems for both major airlines, travel tourism marketing intermediaries and government policy makers. Rationalisation so as to address the policies of fair competition, equal opportunities for small airlines, and the provision of services. Reorganisation of both the CRS industry and the airline industry in terms of international alliances. The battle to convert international agencies to a particular CRS is now at the forefront of the strategic development of the airline industry. [1,37]

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PRACTICAL ASSIGNMENTS

Assignment #1

Brainstorm for 5 minutes on the topic,"The main aspects of influence of internet and IT to travel industry''. Put your ideas on the wall. Select 3 best ideas and write an 250 words essay on topic ,"IT started the revolution travel industry''.

Assignment #2

Answer the question regarding the article:

> *What are the principal differences between US-based CRS and the most prominent European CRS?*

Next, compare your answer to the answer of your colleague. Write down the founded differences, explain them to the class.

Assignment #3

Answer the question regarding the article:

> *What analytical needs can be fulfilled with the help of CRS?*

Next, compare your answer to the answer of your colleague. Write down the founded differences, explain them to the class.

Assignment #4

Divide the class to two subgroups. In these two subgroups brainstorm for 3 minutes on the topic:,"Tendencies in the market: how to be the first using them''. After given time compare the answers: a) match the related answers, b) put on the wall the answers which were not matched. Discuss the answers which were not matched.

Assignment #5

Hang out five Person Training Cards. Close your eyes and think about the selected persons. Open your eyes, brainstorm for 3 minutes and write down what revolutionary IT changes, for sphere these persons are working at can do. Represent ideas for the class.

12.3 CASE STUDY 3. SUCCESSFUL ENTREPRENEURIAL STRATEGY

To start with, successful strategy should emphasise something that makes the firm unique as possible and delivers as much value to the customer as possible today, and more importantly tomorrow. Whatever company does, it must do it quickly so as to seize the market opportunity and that means that company cannot be spelt out detail. You need a firm idea of your general direction – Your vision – and the rest of the firm will have the detail on a day-to-day basis. If you want to play the odds, the strategy with the best chance of generating the highest profits is to differentiate with the aim of dominating that market and do it effectively and quickly, then continue to innovate based on your differential advantage. Important element of differentiation in our entrepreneurial firm is the entrepreneurial architecture that will allow it to pursue this strategy successfully and, more importantly, sustain it. [2, 72]

EasyJet

One firm that has successfully followed the low-price strategy is easyJet. It was founded by Stelios Haji-loannou, a graduate of London Business School, in 1995 with £5 million borrowed from his father, a Greek shipping tycoon. Copying similar operations in the USA and Ryanair flying out of Ireland, easy Jet was one of the first low-cost airlines in the UK, flying from Luton to Scotland. He then launched similar low-cost, no-frills services to continental Europe. The company has transformed the European air travel market and has beaten off many rival imitators. EasyJet was floated on the Stock Market in 2000 at 310p a share, making Stelios £280 million profit.

,,You start the business as a dream, you make it your passion for a while and then you get experienced managers to run it because it's not as much fun as starting. I think there's a lot to be said about starting a business and a lot to be said about running a business when its mature'' (Sunday Times, 29 October 2000). [4]

A central strategy of being low-price is being low-cost and that has a number of implications for the way easyJet and its rivals are run. Low costs come from tw driving principles - ,,sweating'' the assets and high operating efficiency. EasyJet flies its Boeing 737s for 11 hours a day, 4 hours longer than British Airways (BA). Their pilots fly 900 hours a year, 50 per cent more than BA pilots.

In terms of operating efficiency, it means:

- Aircraft fly out of low-cost airports. These are normally not the major airport serving any destination and can be some distance from them;
- Aircraft are tightly scheduled. They are allowed only 25 minutes to off-load one set of passengers and load another, less than half the time of its scheduled full-fare rivals;
- Aircraft must leave and arrive on time (they will not wait for passengers), and if there are delays they can have horrendous knock-on consequences for the timetable. Nevertheless punctuality is varied, with the low-cost carriers just as good as full-fare airlines on some routes;

- There is no „slack'' in the system. EasyJet admits to having „one and a half planes'' worth of spare capacity compared with the dozen planes BA has on stand-by at Gatwick and Heathrow airports. If something goes wrong with a plane it can lead to cancellations and long delays;
- There are fewer cabin crews than full-fare rivals and staff rostering is a major logistical problem.

In terms of customer service, it means:

- No „frills'' such as free drinks, meals or assigned seats;
- There is no compensation for delays or lost baggage;
- The low-cost airlines do not guarantee transfers as the plane could be late;
- The low-cost airlines concentrate on point-to-point flights, whereas the full-fare airlines tend to concentrate on hub-and-spoke traffic. [2,122]

EasyJet is aggressive in promoting its brand and running advirtising promotions to get more „bums on seats''. It realizes that its planes must have a high seat occupancy to be economic. To this end it is particularly inventive with pricing, encouraging real bargain hunters onto the less popular flights during the day and promoting early bookings with cheaper fares.

EasyJet has been at the forefront of the use of the internet for virtual ticketing, to the point where it now sells most of its tickets over the web. This means it does not have to pay commission to travel agents and check in can be quicker and more efficient. Its website has been held up as a model for the industry and many have copied it.

However easyJet does have competition and some airlines are cheaper. Whilst easyJet claim an average price of £45 per 600 kilometres, Ryanair claim £34. This compares to British Airways' price of £110. Interestingly Ryanair has so little faith in its timetable that it advises passengers not to book connecting flights. [4]

One of the fears about low-cost airlines is that they will be tempted to compromise on safety for the sake of cutting costs. The British Airlines Pilots Associations has claimed that pilots of low-cost airlines can be tempted to cut corners to achieve flight timetables. Stelios himself has fuelled the safety debate by expressing doubts about Ryanair's use of 20-years-old planes on some of it routes, pointing out that though thet might improve profits in the short term, they put the future of the whole airline at risk in the event of an accident. Ryanair is phasing these planes out and does have an unblemished safety record. But the industry is all too aware that the low-cost US airline, Valuejet, went bankrupt after one of its plane crashed in 1996, killing all 110 people on board. As the *Economist* says (17 August 2002): „the low cost airline business is not for the faint-hearted''. [4]

Only seven years after founding the company, in 2002, and still owning the 29 per cent of easyJet Stelios realized that he was not suited to managing an established public company and was better suited to being a serial entrepreneur, so he resigned as Chairman, aged only 35. He was to be replaced by Sir Colin Chandler, aged 62, part of London's financial

establishment as chairman of Vickers Defence System, deputy chairman of Smiths Group and director of Thales. [7]

,,Running a company that is listed on the Stock Exchange is different from building up and running a private company. The history of the City is littered with entrepreneurs who hold onto their creations for too long, failing to recognize the changing needs of the company. I am a serial entrepreneur… it is all part of growing up. I've built something and now it is time to move on.'' (The Times, 19 April 2002). [4]

Shortly after Stelios' departure easyJet took over Go, the low cost airline set up by British Airways and sold off to its management. Newspaper comment at the time suggested Stelios had been blocking such a deal and this might have been one reason for this departure.

Go had been in fierce price competition with easyJet on certain routes, to the point where tickets were being given away with only airport tax to pay. One of the first things easyJet did was to close the Go flights on these routes and restore prices. As well as eliminating competition, the purchase of Go had other strategic reasoning behind it. easyJet were purchasing market share in a fast-growing market where there are economies of scale. They were also buying new routes and landing rights, which can be difficult to secure. [7]

Stelios still has many other ,,easy'' ventures to grow. These include easyRental – a car rental business, easyEverything – a chain of internet cafes and cinemas, and easyValue – which provides impartial comparisons for online shopping. He still has everything to play for, doing something he enjoys more and possibly does better. [3]

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PRACTICAL ASSIGNMENTS

Assignment #1

Hand out Person Training Card. Based upon the article, analyze the company from the point of view of the selected person in the card and undertake a SWOT analysis on EasyJet Company.

Assignment #2

Hand out 3 Person Training Cards. Close your eyes and for 30 seconds think about selected persons. Open your eyes, create for each of the person suitable idea for development of the easyJet company activities. Write the ideas down and put the ideas on the wall. Represent the ideas for the classmates.

Assignment #3

Hand out 5 Picture Training Cards. Brainstorm for 4 minutes how the objects painted on the cards could be used on the easyJet aircraft board. Write the ideas down and represent to Your classmates.

Assignment #4

Close your eyes and think about low-cost companies you know. Open your eyes and write down the low-cost companies you remember. Put the names of the companies on the wall. Analyze and compare your answers with answers of the rest of the group.

Assignment #5

Hand out 7 Picture Training Cards. Close your eyes and for 30 seconds think about selected pictures. Open your eyes, create for each of the picture the low-cost business idea and write the ideas down. Put the ideas on the wall.

13 FUNDAMENTALS OF BUSINESS

13.1 CASE STUDY 1. CREATIVE BUSINESS ENVIRONMENT AT PIXAR

Why are some organizations consistently good at innovating and adapting while others seem to be blindsided by change? In today's volatile and complex environment, rapid adaptability is fundamental to success. The journey to organizational creativity is along a path that fuels innovation and adaptation [6]. Over the past few decades creativity has become a highly fashionable topic in both the academic and business worlds. That is not to say that creativity did not exist before, but its importance to the continued success of an organisation had yet to be recognised. Many management problems require creative insights in order to find satisfactory solutions. That's why creativity is considered to be a vital asset for any person who is in a leadership role (see the table below for illustrations of how creativity may be used in management) [3].

ILLUSTRATIONS OF HOW CREATIVITY MAY BE USED IN MANAGEMENT
To make more effective use of a manager's time
To improve a product's appeal to customers
To improve motivation amongst staff
To appeal to customers' wants and needs
To cut costs through more efficient/effective production methods
To identify new and profitable product-market opportunities

Located in Emeryville, California, USA, Pixar Animation Studios has created acclaimed animated feature short films for over 25 years. Pixar began its life as an independent company in 1986, when Steve Jobs bought the computer division from Lucasfilm, allowing to pursue the dream of producing computer-animated movies. In the early 1990s known as the leading technological pioneer in the field of computer animation, now Pixar is also home to the RenderMan line of software products. [1, 4]

Timeline of Pixar: [1]

In 1979 Ed Catmull is recruited by George Lucas from The New York Institute of Technology to head Lucasfilm's Computer Division, a group charged with developing state-of-the-art computer technology for the film industry. Lucas wish list: a digital (nonlinear) film editing system, a digital sound editing system, a digital film printer, and further

exploration of computer graphics.

In 1983 John Lasseter is invited to join the graphics group at Lucasfilm's Computer Division, and works on Thomas Porter's 1984 pool ball image as well as the short film *The Adventures of Andre & Wally B*. The following year he is hired full-time, joining the Computer Division as an "Interface Designer".

In 1984 a partially completed version of *The Adventures of Andre & Wally B* premieres at SIGGRAPH. It is the first short film created by the futures animation studio. It features ground-breaking technology such as complex flexible characters, hand-printed textures, and motion blur.

In 1986 Steve Jobs purchases the Computer Graphics Division from George Lucas and establishes an independent company to be christened "Pixar". At this time about 44 people are employed. *Luxo Jr.* is completed. The short film, John Lasseter's directoral debut, is unveiled in August at SIGGRAPH and then screened for general audiences at Los Angeles-area theaters in November. *Luxo Jr.* will be the first three-dimensional computer animated film to be nominated for the Best Animated Short Film Oscar.

In 1987 *Red's Dream* is completed. Its rain effect and complexity of lightening pose new technological challenges for the team and allow a study in creating mood and atmosphere. A portion of the film is rendered entirely on the Pixar Image Computer. Also directed by John Lasseter, the short film has its premiere in July at SIGGRAPH.

In 1988 *Tin Toy* is completed. A partially competed version is screened for SIGGRAPH audiences in August, and the film receives its official premiere later that year at the Ottawa International Film Fest. *Tin Toy* will be the first computer animated film to receive an Academy Award when it is named Best Animated Short Film of 1988. Pixar's new animation system, Menv (short for "modeling environment"), comes online.

In 1989 *Knick Knack* is completed. A work-in-progress version is screened at that year's SIGGRAPH. It is the first of the company's animations to be produced in stereoscopic 3D. The first commercial version of *RenderMan* is released – and will go on to become the industry standard software for rendering computer graphics in film. Pixar begins making commercials – and would later twice win the CLIO Award. Pete Docter and Andrew Slanton join the company.

In 1991 Disney and Pixar announce an agreement "to make and distribute at least one computer-generated animated movie".

In 1995 *Toy Story,* the worlds's first computer animated feature film, is released in theaters in November. *Toy Story* also becomes the highest grossing film of 1995, making $192 million domestically and $362 million worldwide. *Toy Story* will be nominated for Best Original Song, Best Original Score, and Best Original Screenplay by the Academy of Motion Pictures Arts and Sciences. David DiFrancesco receives a Scientific and Engineering Academy Reward for Film Input Scanning. Pixar opens its initial public offering in November. It is the largest IPO of the year.

In 1996 John Lasseter receives a Special Achievement Oscar from the Academy of Motion Picture Arts and Sciences for his "inspired leadership of the Pixar *Toy Story* Team resulting in the feature-length computer animated film". Ed Catmull, Alvy Ray Smith, Thomas Porter and Tom Duff receive the Sciences Scientific and Engineering Academy Reward for their pioneering inventions in digital image compositing.

In 1997 the Walt Disney Studios and Pixar Animation Studios announce an agreement to jointly produce five movies over 10 years. Pixar now employs 375 people. *Geri's Game* is completed. It premieres at Laemmle's Monica Theater in Santa Monica in November. It will be Pixar's second winner of the Best Animated Short Film Academy Reward. William Reeves receives the Scientific and Engineering Academy Award for Particle Systems; Rick Sayre receives the Technical Achievement Academy Reward for Direct Input Device.

In 1998 *A Bug's Life* is released in theaters on November 25, accompanied by the short film Geri's Game. *A Bug's Life* breaks all previous U.S. Thanksgiving weekend box-office records. It will be nominated for the Best Original Musical or Comedy Score Oscar. Eben Ostby, William Reeves, and Tom Duff receive the Scientific and Engineering Academy Award for Marionette 3-D Animation Systems, and Thomas Porter receives The Scientific Academy Award for Digital Painting.

In 1999 *Toy Story 2* is released in theaters in November. It is the first film in history to be entirely created, mastered and exhibited digitally, and is the first animated sequel to gross more than its original. It will be nominated for the Best Original Song Oscar for "When She Loved Me," written by Randy Newman. *Toy Story 2* breaks box-office opening weekend records in United States, United Kingdom and Japan. David DiFrancesco receives the Technical Achievement Academy Award for Laser Film Recording, which is dubbed PICARVISION.

In 2000 *For the Birds* is completed. It premieres at the Annecy International Film Festival in France on June. It will eventually win the Academy Award for Best Animated Short Film. Pixar moves to its new building in Emeryville, California, USA, in November.

In 2001 *Monsters, Inc.* is released in theaters in November, accompanied by *For the Birds*. *Monsters, Inc.*reaches over $100 million in domestic box-office in just 9 days – faster than any animated film in history. It will receive two Academy Award nominations, including Best Song; Randy Newman will take home the Oscar for "If I Didn't Have You," from the *Monsters, Inc.* soundtrack. Rob Cook, Loren Carpenter and Ed Catmull receive an Academy Award of Merit for Significant Advances in the Field of Motion Picture Rendering. Pixar now numbers over 600 employees. Co-founder Ed Catmull is named Pixar's President.

In 2002 *Mike's New Car*, the first ever Pixar short featuring characters from another Pixar film, premieres in September. It is featured as part of the *Monster, Inc.* DVD and VHS release. The short will receive an Academy Award nomination for Best Animated Short Film. "A bug's land" attraction opens in October at Disney California Adventure Park.

In 2003 *Finding Nemo* is released in theaters on May, accompanied by a remastered version of *Knick Knack*. *Finding Nemo* breaks opening weekend box-office records domestically for

an animated feature. *Finding Nemo* will be nominated for four Academy Awards and win the Oscar for the Best Animated Feature. *Boundin'* premieres and will be nominated for the Academy Award as Best Animated Short Film.

In 2004 *The Incredibles* is released in theaters in November. Its first weekend box office of over $70 million breaks all Pixar records. It will be nominated for four Academy Awards, and win two: Best Animated Feature Film and Achievement in Sound Editing. *Finding Nemo* becomes the best-selling DVD of all time, selling more than 24 million copies in North America alone. "Turtle Talk with Crush" opens at Walt Disney World Resort's The Seas with Nemo and Friends Pavilion in November.

In 2005 the world premiere of *One Man Band* takes place at the Annecy International Film Festival. The film will be nominated for the Best Animated Short Film Academy Award. Pixar's first external exhibition of original artwork, *Pixar: 20 Years of Animation*, opens at New York Museum of Modern Art in December.

In 2006 Pixar celebrates its 20th anniversary. *Cars* is released in theaters in June, and will receive Academy Award nominations for Best Animated Feature and Best Original Song. Disney announces its agreement to purchase Pixar. Ed Catmull is named President and John Lasseter is named Chief Creative Officer of Disney and Pixar Animation Studios. *Lifted* premieres at Laemmle's Colorado Theater in September and will be nominated for the Best Animated Short Film Oscar. David Baraff, Michael Kass and Andy Witkin receive the Scientific and Engineering Award for Cloth Simulation. Ed Catmull and Tony DeRose receive the Technical Achievement Academy Award for Subdivision Surfaces.

In 2007 *Ratatouille* is released, nominated for five Academy Awards and win the Oscar for Best Animated Feature. "Finding Nemo Submarine Voyage" opens at Disneyland Resort's Tomorrowland in June.

In 2008 *WALL-E* us released, nominated for six Academy Awards and win the Oscar for Best Animated Feature. *Presto* premieres at the Annecy International Film Festival and is nominated for the Best Animated Short Film Academy Award. *WALL-E* Producer and renowned industry effects veteran Jim Morris is named General Manager of Pixar.

In 2009 *Up* is the first animated feature to open the Cannes Film Festival and debuts in theaters in May with the original short *Partly Cloudy*. *Up* is nominated for five Academy Awards and take home the Oscars for Best Animated Feature Film and Best Original Score. The Academy of Motion Pictures and Sciences honors Ed Catmull with the Gordon E. Sawyer Award.

In 2010 *Toy Story 3* is released in theaters and becomes the highest-grossing animated film of all time, and the first to reach the billion dollar mark. The movie is nominated for five Academy Awards and wins the Oscars for Best Animated Feature Film and Best Original Song. Day and Night debuts at the Annecy International Film Festival and is nominated for the Best Animated Short Film Academy Award. John Lasseter is honored with the Producers Guild of America's 2010 David O. Selznick Achievement Award in Motion Pictures, making him the first producer of animated films to receive this award. Per

Christensen receives the Scientific and Engineering Academy Award for Point-based Rendering for Indirect Ilumination and Ambient Occlusion.

In 2011 Pixar celebrates its 25th Anniversary and completes construction of a new building on its Emeryville campus. *Cars 2* is released, accompanied by the firs Toy Story Toon, *Hawaiian Vacation*. *La Luna* premieres and is nominated for the Academy Award for Best Animated Short Film. David M. Laur receives the Technical Achievement Academy Award for Alfred Render Queue Management System.

In 2012 *Brave* is released in theaters, accompanied by the short *La Luna. Brave* is nominated and wins the Academy Award for Best Animated Feature Film. *Partysaurus Rex, Time Travel Mater, and The Legend of Mor'du* are all released.

In 2013 *Monsters University* is released, accompanied by the short *The Blue Umbrella.* ABC Televised special *Toy Story of Terror* and *Tales From Radiator Springs (Hiccups, Spinning, Bugged)*, are all released.

Ed Catmull, who has led what to came to be known as Pixar since 1979, when it was the computer-graphics division of Lucasfilm, has an outrageous record of success. Each of Pixar's 14 films has debuted at the top of the box-office charts (see the table below). Since 2006, when Disney bought the company for $7.4 billion and put Catmull and his creative partner, John Lasseter, in charge of Disney Animation, that formerly moribund studio has delivered a slew of critical hits, the last three of which – *Tangled, Wreck-It Ralph*, and *Frozen* – have been blockbusters. [2]

14 MOVIES AND 14 NO. 1 BOX-OFFICE HITS

Movie	Released	Box-office total
Toy Story 3	2010	$1.06 billion
Cars 2	2011	$561 million
Brave	2012	$539 million
Monsters University	2013	$745 million
Toy Story	1995	$390 million
A Bug's Life	1998	$362 million
Toy Story 2	1999	$513 million
Monsters, Inc.	2001	$576 million
Finding Nemo	2003	$937 million
The Incredibles	2004	$632 million
Cars	2006	$462 million
Ratatouille	2007	$620 million
Wall-E	2008	$533 million
Up	2009	$735 million
Toy Story 3	2010	$1.06 billion
Cars 2	2011	$561 million
Brave	2012	$539 million
Monsters University	2013	$745 million
Toy Story	1995	$390 million
A Bug's Life	1998	$362 million
Toy Story 2	1999	$513 million
Monsters, Inc.	2001	$576 million

Over the years, Catmull has developed a deeply realistic philosophy of how to best manage a creative organization. Companies often squelch individual expression despite the best intensions. "There is this notion that fewer screwups is always better", Catmull mentioned during discussion with reporter of "Fast Company" magazine. "So the tendency is to say that zero is the optimal number of defects. But in most industries, that is completely false. The notion of zero errors in educating a child is not meaningful. In so many businesses, the

concept is actually detrimental." Managing a creative company entails a constant balancing act between the potentially opposing goals of encouraging creative freedom and ensuring an orderly process and consistent financial results. [5]

Pixar as creative community

Unlike most other studios, Pixar has never bought scripts or movie ideas from the outside – all the stories were and are created by Pixar's community of artists. Catmull states that lasting relationships matter and believe that talent is rare: "Management's job is not to prevent risk but to build the capability to recover when failures occur. It must be safe to tell the truth. We must constantly challenge all of our assumptions and search for the flaws that could destroy our culture." [4]

In filmmaking and many other kinds of complex product development, creativity involves a large number of people from different disciplines working effectively together to solve a great many problems. As Catmull explains, the initial idea for the movie is one step in a long, arduous process that takes four to five years. A movie contains literally tens of thousands of ideas. The director and the other creative leaders of a production do not come up with all the ideas on their own, rather, every single member of the 200 to 250 person production group makes suggestions: "Creativity must be present at every level of every artistic and technical part of the organization." – Catmull explains. [4]

In the movie business, executives are usually led by the instinct to copy successes rather than try to create something brand-new. "That's why you see so many movies that are so much alike. It also explains why a lot of films aren't very good. If you want to be original, you have to accept the uncertainty, even when it's uncomfortable, and have the capability to recover when your organization takes a big risk and fails. What's the key to being able to recover? Talented people!". Trust and respect are needed in order to get talented people to work effectively with one another, as well as environment that nurtures trusting and respectful relationships and unleashes everyone's creativity. "If we get that right, the result is a vibrant community where talented people are loyal to one another and their collective work, everyone feels that they are part of something extraordinary, and their passion and accomplishments make the community a magnet for talented people" – says Catmull.

Pixar's Operating Principles [4]
1. Everyone must have the freedom to communicate with anyone
2. It must be safe for everyone to offer ideas
3. We must stay close to innovations happening in the academic community

Pixar's Braintrust

One of Catmull's key management tools is Pixar Braintrust of filmmakers – a group of directors that offer advice on works in progress on every movie in development at Pixar (but the production's leaders decide what to use and what to ignore from given suggestions) [4]. Even managing the Braintrust can be a delicate feat; in 1997, when Jobs thought Catmull was entertaining an offer from Microsoft, Catmull extorted a promise that his boss would never attend Braintrust meetings. Jobs was too big a personality, says Catmull, and would have thrown off the balance. [5]

Catmull explains the role of Pixar Braintrust in the process of filmmaking *(from Creativity, Inc., by Ed Catmull with Amy Wallance. Copyright 2014 by Edwin Catmull. Published by Random House, a division of Random House LLC) [2]*:

"A hallmark of a healthy creative culture is that its people feel free to share ideas, opinions, and criticisms. Our decision making is better when we draw on the collective knowledge and unvarnished opinions of the group. Candor is the key to collaborating effectively. Lack of candor leads to dysfunctional environments. So how can a manager ensure that his or her working group, department, or company embraces candor? By putting mechanisms in place that explicitly say it is valuable. One of Pixar's key mechanisms is the Braintrust, which we rely on to push us toward excellence and to root out mediocrity. It is our primary delivery system for straight talk. The Braintrust meets every few months or so to assess each movie we're making. Its premise is simple: Put smart, passionate people in a room together, charge them with identifying and solving problems, and encourage them to be candid. The Braintrust is not foolproof, but when we get it right, the results are phenomenal.

While I attend and participate in almost all Braintrust meetings, I see my primary role as making sure that the compact upon which the meetings are based is protected and upheld. This part of our job is never done because you can't totally eliminate the blocks to candor. The fear of saying something stupid and looking bad, of offending someone or being intimidated, of retaliating or being retaliated against-they all have a way of reasserting themselves. And when they do, you must address them squarely.

The Braintrust developed organically out of the rare working relationship among the five men who led and edited the production of Toy Story--John Lasseter, Andrew Stanton, Pete Docter, Lee Unkrich, and Joe Ranft. From Pixar's earliest days, this quintet gave us a solid model of a highly functional working group. They were funny, focused, smart, and relentlessly candid when arguing with each other. Most crucially, they never allowed themselves to be thwarted by the kinds of structural or personal issues that can render meaningful communication in a group impossible. After the release of Toy Story 2 [when the Braintrust helped turn around a film in danger of foundering], the Braintrust evolved from a tight, well-defined group working on a single film into a larger, more fluid group. Over the years, its ranks have grown to include a variety of people--directors, writers, and heads of story--whose only requirement is that they display a knack for storytelling. The one thing that has never changed is the demand for candor.

Candor could not be more crucial to our creative process. Why? Because early on, all of our movies suck. That's a blunt assessment, I know, but I choose that phrasing because saying it in a softer way fails to convey how bad the first versions really are. I'm not trying to be modest or self-effacing. Pixar films are not good at first, and our job is to make them so--to go, as I say, "from suck to not-suck."

Think about how easy it would be for a movie about talking toys to feel derivative, sappy, or overtly merchandise driven. Think about how off-putting a movie about rats preparing food could be, or how risky it must've seemed to start WALL-E with 39 dialogue-free minutes. We dare to attempt these stories, but we don't get them right on the first pass. This is as it should be. Creativity has to start somewhere, and we are true believers in the power of bracing, candid feedback and the iterative process-reworking, reworking, and reworking again, until a flawed story finds its through line or a hollow character finds its soul.

To understand why the Braintrust is so central to Pixar, you have to start with a basic truth: People who take on complicated creative projects become lost at some point in the process. It is the nature of things-in order to create, you must internalize and almost become the project for a while, and that near-fusing with the project is an essential part of its emergence. But it is also confusing. Where once a movie's writer/director had perspective, he or she loses it. Where once he or she could see a forest, now there are only trees.

How do you get a director to address a problem he or she cannot see? The answer depends, of course, on the situation. The director may be right about the potential impact of his central idea, but maybe he simply hasn't set it up well enough for the Braintrust. Maybe he doesn't realize that much of what he thinks is visible on-screen is only visible in his own head. Or maybe the ideas presented in the reels he shows the Braintrust won't ever work, and the only path forward is to blow something up or start over. No matter what, the process of coming to clarity takes patience and candor.

At Pixar, we try to create an environment where people want to hear each other's notes (even when those notes are challenging) and where everyone has a vested interest in one another's success. We give our filmmakers both freedom and responsibility. For example, we believe that the most promising stories are not assigned to filmmakers but emerge from within. With few exceptions, our directors make movies they have conceived of and are burning to make. Then, because we know that this passion will at some point blind them to their movie's inevitable problems, we offer them the counsel of the Braintrust.

You may be thinking, How is the Braintrust different from any other feedback mechanism?

There are two key differences, as I see it. The first is that the Braintrust is made up of people with a deep understanding of storytelling, who usually have been through the process themselves. While the directors welcome critiques from many sources, they particularly prize feedback from fellow storytellers. The second difference is that the Braintrust has no authority. The director does not have to follow any of the specific suggestions. After a Braintrust meeting, it is up to him or her to figure out how to address the feedback. Giving the Braintrust no power to mandate solutions affects the dynamics of the group in ways I believe are essential.

While problems in a film are fairly easy to identify, the sources of those problems are often extraordinarily difficult to assess. A mystifying plot twist or a less-than-credible change of heart in our main character is often caused by subtle, underlying issues elsewhere in the story. Think of it as a patient complaining of knee pain that stems from his fallen arches. If you operated on the knee, it wouldn't just fail to alleviate the pain, it could easily compound it. To alleviate the pain, you have to identify and deal with the root of the problem. The Braintrust's notes, then, are intended to bring the true causes of problems to the surface--not to demand a specific remedy. We don't want the Braintrust to solve a director's problem because we believe that, in all likelihood, our solution won't be as good as the one the director and his or her creative team comes up with.

That doesn't mean it doesn't get tough sometimes. Naturally, every director would prefer to be told that his film is a masterpiece. But because of the way the Braintrust is structured, the pain of being told that flaws are apparent or revisions are needed is minimized. The film--not the filmmaker-is under the microscope. This principle eludes most people, but it is critical: You are not your idea, and if you identify too closely with your ideas, you will take offense when challenged. Andrew Stanton, who has been on the giving or the receiving end of almost every Braintrust meeting we've had, likes to say that if Pixar were a hospital and the movies its patients, then the Braintrust is made up of trusted doctors. It's important to remember that the movie's director and producer are "doctors" too. It's as if they've gathered a panel of consulting experts to help find an accurate diagnosis for an extremely confounding case. But ultimately, it's the filmmakers, and no one else, who will make the final decisions about the wisest course of treatment.

To get a clearer sense of how candor is delivered at Pixar, I want to take you inside a Braintrust meeting. This one followed an early screening of a Pete Docter film, then known as The Untitled Pixar Movie That Takes You Inside the Mind. [It's now called Inside Out, and is scheduled for release in 2015.] As Braintrusts go, this was a crowded one, with about 20 people at the table and 15 more in chairs against the walls. Everyone grabbed plates of food on the way in and, after a little small talk, got down to business.

Earlier, before the screening, Pete had described what they'd come up with so far. "What's inside the mind?" he asked his colleagues. "Your emotions-and we've worked really hard to make these characters look the way those emotions feel. We have our main character, an emotion called Joy, who is effervescent. She literally glows when she's excited. Then we have Fear. He thinks of himself as confident and suave, but he's a little raw nerve and tends to freak out. The other characters are Anger, Sadness-her shape is inspired by teardrops-and Disgust, who basically turns up her nose at everything. And all these guys work at what we call Headquarters."

That got a laugh, as did many scenes in the 10-minute preview that followed. Everyone agreed that the movie had the potential to be, like Pete's previous film Up, among our most original and affecting. But there seemed to be a consensus that one key scene-an argument between two characters about why certain memories fade while others burn bright forever--was too minor to sufficiently connect audiences to the film's profound ideas.

Midway down the table, Brad Bird shifted in his chair. Brad joined Pixar in 2000, after having written and directed The Iron Giant at Warner Bros. His first movie for us was The Incredibles, which opened in 2004. Brad is a born rebel who fights against creative conformity in any guise. So it was no surprise that he was among the first to articulate his worries. "I understand that you want to keep this simple and relatable," he told Pete, "but I think we need something that your audience can get a little more invested in."

Andrew Stanton spoke next. Andrew is fond of saying that people need to be wrong as fast as they can. In a battle, if you're faced with two hills and you're unsure which one to attack, he says, the right course of action is to hurry up and choose. If you find out it's the wrong hill, turn around and attack the other one. Now he seemed to be suggesting that Pete and his team had stormed the wrong hill. "I think you need to spend more time settling on the rules of your imagined world," he said.

Every Pixar movie has its own rules that viewers have to accept, understand, and enjoy understanding. The voices of the toys in the Toy Story films, for example, are never audible to humans. The rats in Ratatouille walk on four paws, like normal vermin, except for Remy, our star, whose upright posture sets him apart. In Pete's film, one of the rules--at least at this point--was that

memories (depicted as glowing glass globes) were stored in the brain by traveling through a maze of chutes into a kind of archive. When retrieved or remembered, they'd roll back down another tangle of chutes, like bowling balls being returned to bowlers at the alley.

That construct was elegant and effective, but Andrew suggested that another rule needed to be clarified: how memories and emotions change over time, as the brain gets older. This was the moment in the film, Andrew said, to establish some key themes. Listening to this, I remembered how in Toy Story 2, the addition of Wheezy helped establish the idea that damaged toys could be discarded, left to sit, unloved, on the shelf. Andrew felt there was a similar opportunity here. "Pete, this movie is about the inevitability of change," he said. "And of growing up."

This set Brad off. "A lot of us in this room have not grown up--and I mean that in the best way," he said. "The conundrum is how to become mature and become reliable while at the same time preserving your childlike wonder. People have come up to me many times, as I'm sure has happened to many people in this room, and said, 'Gee, I wish I could be creative like you. That would be something, to be able to draw.' But I believe that everyone begins with the ability to draw. Kids are instinctively there. But a lot of them unlearn it. Or people tell them they can't or it's impractical. So yes, kids have to grow up, but maybe there's a way to suggest that they could be better off if they held on to some of their childish ideas.

"Pete, I want to give you a huge round of applause: This is a frickin' big idea to try to make a movie about," Brad continued, his voice full of affection. "I've said to you on previous films, 'You're trying to do a triple backflip into a gale force wind, and you're mad at yourself for not sticking the landing. Like, it's amazing you're alive.' This film is the same. So, huge round of applause." Everyone clapped. Then Brad added, "And you're in for a world of hurt."

An important corollary to the assertion that the Braintrust must be candid is that filmmakers must be ready to hear the truth; candor is only valuable if the person on the receiving end is open to it and willing, if necessary, to let go of things that don't work. Jonas Rivera, the producer of Pete's film, tries to make that painful process easier by "headlining" the main points of a Braintrust session--distilling the many observations down to a digestible takeaway. Once this meeting wrapped up, this is what he did for Pete, ticking off the areas that seemed the most problematic, reminding him of the scenes that resonated most. "So what do we blow up?" Jonas asked. "And what do you love? Is what you loved about the film different now than it was when we started?" "The way the movie opens," Pete responded, "I love." Jonas raised his hand in a salute. "Okay, that's the movie, then," he said. "How we set up the story has to handshake with that." "I agree," Pete said. They were on their way.

The most productive Braintrust sessions explore myriad trains of thought, in a way that is additive, not competitive. Take WALL-E, which was known, early on, as Trash Planet. For a long time, that movie ended with our googly-eyed trash-compactor robot saving his beloved droid, EVE, from destruction in a Dumpster. But something about that ending never quite felt right. We had countless discussions about it. The confusing thing was that the romantic plotline seemed right. Of course WALL-E would save EVE--he'd fallen in love with her the moment he saw her. In a sense, that was precisely the flaw. And it was Brad who pointed that out to Andrew in a Braintrust meeting. "You've denied your audience the moment they've been waiting for," he said, "the moment where EVE throws away all her programming and goes all out to save WALL-E. Give it to them. The audience wants it." As soon as Brad said that, it was like: Bing! Andrew went off and wrote an entirely new ending.

Michael Arndt remembers it was Andrew, meanwhile, who gave a Braintrust note on Toy Story 3 that fundamentally altered the end of that movie's second act. At that point in the film, Lotso, the pink

teddy bear and mean-spirited leader of the day-care-center toys, is overthrown after the toys' mutiny. But the mutiny wasn't believable, because the impetus behind it didn't ring true. "In that draft," Michael told me, "I had Woody giving this big, heroic speech about what a mean guy Lotso was, and it changed everyone's mind about Lotso. But in the Braintrust, Andrew said, 'I don't buy it. These toys aren't stupid. They know Lotso isn't a good guy. They've only aligned themselves with him because he's the most powerful.'" This sparked a pitched discussion, until Michael hit on an analogy: If you think of Lotso as Stalin and the other toys as his cowering subjects, then Big Baby, the bald-headed doll with one droopy eye who acts as Lotso's enforcer, was Stalin's army. A fix began to emerge. "If you flip the army, you get rid of Stalin," Michael said. "So the question was, What can Woody do that will turn Big Baby's sympathies against Lotso? That was the problem I faced."

The solution-revealing that Lotso's duplicity had led Big Baby to be abandoned by his little girl owner-was all Michael's, but he never would have found it without the Braintrust.

You don't have to work at Pixar to create a Braintrust. Every creative person can draft into service those around them who exhibit the right mixture of intelligence, insight, and grace. "You can and should make your own solution group," says Andrew, who has made a point of doing this on a smaller scale, separate from the official Braintrust, on each of his films. "Here are the qualifications: The people you choose must (a) make you think smarter and (b) put lots of solutions on the table in a short amount of time. I don't care who it is, the janitor or the intern or one of your most-trusted lieutenants: If they can help you do that, they should be at the table."

Believe me, you don't want to be at a company where there is more candor in the hallways than in the rooms where fundamental ideas or policy are being hashed out. The best inoculation against this fate? Seek out people who are willing to level with you, and when you find them, hold them close."

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to analyse factors influencing business environment. Using the given case study and references identify the factors that influence creative business environment at Pixar. Write as many factors influencing creative business environment at Pixar as you can. Now use *Stimuli cards* and explain, how various factors (people, processes, objects) mentioned in the cards can influence Pixar's business environment positively and negatively.

Assignment #2

The goal of the assignment is to train students to practice making business decisions. Using the given case study and references write down all the processes taking place at Pixar. Now close your eyes and imagine working at Pixar's. Write down as many problems possibly existing at Pixar's as you can. Now using *Stimuli cards* give solutions how these problems could be solved. Draw a conceptual map visually explaining your answers to the task.

Assignment #3

The goal of the assignment is to encourage students to find solutions how to improve business environment at international companies. Write down as many ideas as you can how to foster creative business environment at Pixar. Then use *Stimuli cards* to stimulate new ideas. Make an oral presentation of your ideas.

Assignment #4

The goal of the assignment is to encourage students to create and analyse processes and models existing in business and encourage group work. Students are divided to groups of 3-5 people. Using the given case study and references create a generalised model explaining importance of business environment. Group your ideas and draw conceptual map. The papers are collected and each group is given other group's model. Now you have to add new objects to the given map. *Stimuli cards* are used for generation of new ideas.

Assignment #5

The goal of the assignment is to encourage students to think forward and give ideas for future business development. Get familiar with theoretical models of business development (vertical integration, horizontal integration, etc.). Identify advantages and disadvantages of using them in practice. *Stimuli cards (Challenge cards)* are used for generation of new ideas. Explain which of the models could be used for further development of Pixar.

13.2 CASE STUDY 2. THE GLOBAL DIAMOND INDUSTRY

Diamonds are one of the world's, and specifically Africa's, major natural resources. According to information provided by the World Diamond Council, "an estimated US$13 billion worth of rough diamonds are produced per year, of which approximately US$8.5 billion are from Africa (approximately 65%). The diamond industry directly and indirectly employs approximately ten million people around the world, across a wide spectrum of roles from mining to retail. Global diamond jewellery sales continue to grow, increasing three-fold in the past 25 years, and are currently worth in excess of US$72 billion every year." [5]

Diamonds have two main uses: in jewelry (due to their rarity and beautiful appearance) and in industry (due to their unique molecular properties) [6]. According to Diamond Industry Report 2011, slightly more than 50 percent of the volume of diamonds extracted becomes gemstones for jewelry, yet they account for more than 95 percent of the total value. Polished diamonds have always been considered among the world's most precious gemstones. They account for about 40 percent of all jewelry manufacturing; engagement rings are the largest category of diamond jewelry. Jewelers usually set the diamonds in precious metals such as gold or platinum to emphasize the sparkle of the stones. [1]

Stones not suited for jewelry are used for industrial purposes. Key characteristics that make them valuable for industrial uses include the following [1]:

- *Hardness.* As the hardest natural substance, diamonds can work with other materials without breaking.

- *Thermal conductivity.* Diamonds are among the best conductors of heat and have a melting point of 6,420 degrees Fahrenheit.

- *Optical dispersion.* Diamonds have great capacity to refract light, with a refraction index of 2.42; in comparison the refraction index of glass is 1.52.

Given their hardness and conductivity, diamonds suit a number of industries. According to the information provided in Diamond Industry Report 2011, they serve as drill bits for machinery and as abrasive slurries to cut and polish other materials, they are also used in the production of microchips and computer processors, and they serve as components in lasers. "Today more than 95 percent of industrial diamonds are synthetic - that is, they are mostly produced using high-pressure, high-temperature synthetic processes that mimic conditions deep within the earth's mantle". [1]

Early history of the international diamond trade [1]

Historians believe the international diamond trade began about 1,000 years ago when traders began transporting rough stones from India across Arabia. The stones were cut and polished before being sold on the European continent to royalty and aristocrats. Trade centers emerged in cities such as Venice and Bruges. By the sixteenth century the business had shifted to

Amsterdam and Antwerp, which offered better facilities to conduct trade and had already developed cutting and polishing techniques.

According to information provided by the World Diamond Council, India's diamond supply was largely exhausted by the early eighteenth century, and the diamond trade moved to Brazil, then later to southern Africa. At the same time, London emerged as the world's diamond sorting center, and Amsterdam and Antwerp became influential trade centers as well. Diamonds became an even more popular fashion item, worn by royalty and wealthy women at significant social occasions.

The 1870 discovery of massive diamond deposits near the confluence of the Vaal and Orange rivers in South Africa was a watershed moment, igniting a diamond rush. British-born politician and businessman Cecil Rhodes began buying up the claims of small mining operations, including the farm of two brothers, Diederik and Johannes de Beer.

Rhodes founded the De Beers commercial mining company, which eventually consolidated all the South African mines after it bought out Barnato Diamond Mining, the company owned by his main rival, Barney Barnato, in 1888. By the time Rhodes died, in 1902, De Beers accounted for 90 percent of the world's roughdiamond production and distribution.

Another key figure in the history of the diamond trade was German-born businessman and financier Ernest Oppenheimer. After he established the Anglo American Corporation, he bought De Beers shares whenever they came up for sale. According to information provided by the World Diamond Council, by 1927 he was one of the most significant shareholders of the company; he was later named chairman. Under his leadership De Beers evolved into a global diamond empire. Led by Oppenheimer and his descendants, an interrelated group of companies emerged that dominated the mining, trading, marketing and industrial manufacturing sectors of the diamond business for the majority of the twentieth century and remains a leader today. In late 2011, however, the Oppenheimer family announced its intention to sell its stake in De Beers to Anglo American, which if completed would bring to an end its historic involvement in the diamond industry.

Creation of demand through marketing: "A diamond is forever" [1]

According to information provided by the World Diamond Council, in the 1940s De Beers launched a long-running and renowned campaign around the theme "A diamond is forever. Thanks to this long, successful marketing campaign, diamonds became strongly associated with romantic love, first in the United States and then globally. Over many decades, hundreds of millions of dollars were spent to market the notion that diamonds signify romance and love. As a result of extensive marketing efforts the demand for diamond engagement rings has grown steadily since the 1940s. According to the information provided in Diamond Industry Report 2011, the United States, as the world's largest jewelry market, has seen the share of brides receiving diamond engagement rings grow from 10 percent in 1939 to 80 percent by the end of the twentieth century. Marketing activity in Japan helped replicate that pattern, and

the share of brides in that country with diamond engagement rings grew from 6 percent in the 1960s to nearly 80 percent by the beginning of the 1990s.

Diversification of diamond supply: expansion across four continents [1]

According to the information provided in Diamond Industry Report 2011, "commercial production of diamonds started in South Africa in 1870 and had expanded to four continents by the early 2000s, with 133 million carats produced in 2010". Today most commercially viable deposits are found in Australia, Botswana, Canada, Russia and South Africa. Russia produces nearly one quarter of global diamond output by volume, followed closely by Botswana. [1, 7]

One of the greatest diamond exploration success stories of the twentieth century, according to the information provided in Diamond Industry Report 2011, was that of Russia. Report provides information that in the 1930s Russian explorers recognized geological similarities between the ancient bedrock in Siberia and some diamond-rich parts of southern Africa. They began prospecting in the Sakha region and in 1954 discovered the first kimberlite pipe in the region, called Zarnitsa (Dawn); more than 500 additional kimberlites were discovered during the next two years. Mines were gradually developed, and by the 1970s Russia had become the world's third largest diamond producer by volume, following Congo and South Africa. This major discovery increased the overall supply of rough diamonds on the market. At the same time, the Soviet Union made a deal with De Beers to sell its rough diamonds through the single channel of the CSO in order to better respond to global supply fluctuations.

Botswana has some of the largest and most valuable diamond mines in the world (such as Jwaneng and Orapa, both of which started production in the early 1970s). The Botswana government has a 50 percent share of each mine. Diamond mining has given Botswana a tremendous boost: Botswana today is among the richest in Africa, with diamond-related activities accounting for nearly one-third of the country's gross domestic product [1, 7].

In 1979 geologists discovered the largest diamond deposit in the world by volume, the Argyle pipe, in western Australia. This marked the world's first discovery of economically viable lamproite deposits. In 1994, its peak production year, the Argyle mine produced 43 million carats of diamonds, which at the time represented 40 percent of world production. Canada has become the most recent major region of new diamond discoveries. Significant deposits were found in 1992 at Point Lake in the Northwest Territories. Several major Canadian mines have since opened, among them Ekati and Diavik.

Kimberley Process: a solution for conflict diamonds

In the 1990s the industry faced a controversy over "conflict diamonds": in various politically unstable African countries (Angola, Sierra Leone, Liberia, the Democratic Republic of the Congo), paramilitary or rebel groups had taken control of the diamond mines and were using

the proceeds from diamond sales to finance their operations. Although these diamonds ended up in legitimate channels, they were either directly or indirectly funding violent conflict. [1]

In response to growing international pressure from Global Witness and other NGOs, the major diamond trading and producing countries, representatives of the diamond industry, and NGOs met in Kimberley, South Africa in 2000 to determine how to tackle the blood diamond problem. The meeting, hosted by the South African government, was the start of an often contentious three-year negotiating process which culminated in the establishment of an international diamond certification scheme. The Kimberley Process was endorsed by the United Nations General Assembly and the United Nations Security Council and launched in January 2003. [2]

The Kimberley Process Certification Scheme (KPCS) is an import-export certification scheme which outlines the set of rules each participating country must meet for controlling rough diamond production and trade.. These rules include an agreement to to certify the origin of rough diamonds, put in place controls to prevent conflict stones from entering the supply chain and to provide auditable statistical data on mining, exports and imports of diamonds. Exporting authorities of the trading partners require a certificate to ensure that the exporter meets all KPCS requirements. [1, 2, 3]

The Kimberley Process (KP) has 54 participants, representing 81 countries, with the European Union and its Member States counting as a single participant. KP members account for approximately 99.8% of the global production of rough diamonds. KP is open to all countries that are willing and able to implement its requirements. [3] Responsibility for supervising the Kimberley Process lies with a chairperson, who is elected annually during a plenary meeting, and by the Working Group on Monitoring, which ensures that participants adhere to the rules. KP participating countries and industry and civil society observers gather twice a year at intersessional and plenary meetings, as well as in working groups and committees that meet on a regular basis. Implementation is monitored through 'review visits' and annual reports as well as by regular exchange and analysis of statistical data. [2, 3]

The Kimberley Process was the first example of an industry collectively collaborating with governments and international institutions to address a human rights problem. The Kimberley Process has chalked up some notable achievements in the past ten years, including pioneering a tripartite approach to solving international problems, and helping some of the countries that were worst-hit by diamond-fuelled wars to increase their official diamond revenues. [1, 2]

There are also limits of the Kimberley Process – diamonds are still fuelling violence and human rights abuses, the certification only covers rough, uncut diamonds – meant that industry initiatives were sorely needed to ensure oversight of the entire diamond supply chain, including the trade in polished stones. But twelve years after the blood diamond issue came to international attention, the industry has failed to meaningfully change its practices. [2, 4]

Expansion of rough-diamond sales channels [1]

According to the Diamond Industry Report 2011, in the 1990s major producers began breaking away from the De Beers' CSO (later transformed into the Diamond Trading Company, or DTC) to start selling their diamonds independently on the global market. At the same time producers began to channel an increasing amount of rough diamonds through auctions and spot sales that entail immediate payment and delivery. The latest development occurred in the early 2000s, when, following a three-year antitrust investigation, the European Commission accepted a commitment by De Beers to gradually reduce and eventually end its purchase of rough diamonds from ALROSA, Russia's largest diamond company. Those sales began to slow in 2006 and stopped completely after 2008. Given that ALROSA is now one of the largest diamond producers in the world, the transition away from DTC signified an important industry shift, because no longer was a single player channeling the majority of rough diamond sales to the market.

Impact of the De Beers transformation on the industry [1]

The shifting market trends posed a significant challenge to De Beers' preeminent position. Throughout the 1990s, the company's inventories increased while its sales remained flat. To address this issue De Beers chose a transformational strategy: instead of maintaining its long-standing role as steward of the entire industry, it would become a leader in driving consumer demand. One of the key elements of that transformation was a program called Supplier of Choice. Launched in 2003, the program aimed to shift some of the responsibility for marketing to other players in the industry. According to the information provided in Diamond Industry Report 2011, De Beers would continue to promote the image and prestige of diamonds as a stable and secure asset, but by focusing on its own brand, it would no longer function as a category marketer for all diamonds. At the same time De Beers would move away from its longtime role, through the DTC, of buying and stockpiling the world's rough-diamond supply. Supplier of Choice had a profound impact on the industry. The program focused on three elements:

- **Value addition.** Sightholders – clients of the major diamond producers – began expanding beyond their role as dealers and adding value along other parts of the value chain: cutting and polishing, jewelry manufacturing, and promoting and marketing their own brands. Those companies that expanded their reach in this way were admitted into the Supplier of Choice program, which gave them access to De Beers' rough-diamond supply. In some cases companies that had developed their expertise in jewelry manufacturing and retail joined the ranks of sightholders in order to gain access to the De Beers supply - one example is Tiffany & Co.

- **Marketing and branding.** All players that wanted to ensure stable access to a supply of diamonds were encouraged to promote their own diamonds, while De Beers concentrated on its own "Forever" mark brand.

- **Consumer confidence and trust.** Sightholders were expected to adhere to specific ethical business standards, which elevated the image and reputation of the entire industry. In 2001 De Beers entered the retail sector in a joint venture with French luxury goods company Louis Vuitton Moët Hennessy to create the independently managed De Beers Diamond Jewelers. The first De Beers retail store opened in London, selling high-end jewelry and competing with the likes of Tiffany and Cartier. In 2011 there are 39 De Beers stores in the United States, Asia, Europe and the Middle East.

In De Beers' absence retailers and jewelry manufacturers are now stepping up their efforts to boost consumer demand. According to the information provided in Diamond Industry Report 2011, major players such as Tiffany and Cartier each spend about $50 million a year marketing their own brands of jewelry, an effort that partly compensates for the absence of a generic marketing campaign. The sightholders have also made considerable investments in marketing, in line with their participation in Supplier of Choice or other similar programs from producers. So far no other diamond-producing player has stepped in to drive a generic marketing program, however. The jury is still out on how this absence will affect consumer demand, especially in fast-growth markets with relatively low per capita diamond penetration such as India and China.

Diamond mining: much in common with other mined materials

As a natural resource and investment asset, diamonds are not unique. The diamond-mining industry is part of the global mining sector and subject to the same business and market dynamics as other extractive industries. [1, 2, 6]

The Global Diamond Report 2011 explains that "the diamond industry is not as idiosyncratic as outsiders have generally thought. For example, it is true that diamonds lack homogeneity in their raw form, but so do iron ore and thermal, or steam-generating, coal. Speculative demand in the form of a futures and forwards market for raw diamonds is very small, but the same holds true for copper, nickel, zinc, iron ore and coal. Diamonds produce almost no recycled product and lack a secondary market product, just like iron ore and coal. And diamonds are not the only mined product for which tight relationships between producers and buyers govern the distribution channels; the same is true of iron ore and coal. In all these respects diamond mining shares attributes with many other mined commodities."

While diamond production is relatively small compared with other mining segments, it is profitable based on some commonly accepted industry criteria, including return on capital employed, or ROCE. Considering the price volatility of both rough and polished diamonds, we can see that pricing in the diamond industry is relatively stable compared with the other major commodities.

A virtuous cycle [1]

The Global Diamond Report 2013 explains that successful mining companies distinguish themselves by making optimal use of four key advantages: consistent access to high-quality ore reserves at low cost, scale, diversification and a disciplined management approach that generates returns sufficient to replenish the producing assets. When all four elements are working in concert the result is a virtuous business cycle that sustains continuous high performance.

By definition, mining assets constitute a depleting resource that constantly needs to be renewed as reserves are mined. To grow, companies must replace their resources in excess of the depletion rate. This requirement presents a considerable challenge given that in recent years diamond assets around the world have become harder to find and, when found, tend to be located in remote, inhospitable places that are costly to develop.

Diamond industry business models evolution [1]

In the global mining industry four types of businesses are emerging as dominant organizational models for the future.

First are the **global diversified natural resource conglomerates**, which typically operate in more than three regions of the world and with presence in more than five commodities. They have succeeded in recent years by exploiting their scale, an approach that allows them to take on larger, riskier and more expensive projects in multiple commodities and to pursue those projects simultaneously without facing financial difficulties.

Companies without scale are not able to extend themselves to that extent without confronting trouble when their projects are delayed or saddled with large cost overruns. In recent years the diversified majors have expanded their influence by buying up the smaller, subscale mining companies. One example is BHP Billiton's acquisition of WMC Resources.

Diversified conglomerates clearly lead the industry in stock performance, but, as the Global Diamond Report 2013 shows, single product companies can also perform extremely well. A number of them, including Petra Diamonds, Implats, Mountain Province and Lonmin, have achieved robust stock growth relative to the major stock indices and even to some of the diversified majors.

These **single-product focused majors** constitute the second business model. They concentrate on a single commodity and benefit from a strategically focused approach. The two main examples in the diamond industry are ALROSA and De Beers, which are focused on diamond mining. Barrick, Norilsk Nickel, Alcoa and Goldcorp are examples of product majors that focus on a single raw material in other industries. The third business model consists of **juniors**, which focus on high-risk, early-stage exploration and development.

When they discover a valuable deposit, they are likely to sell their assets to a larger player. Typically the juniors rely on shareholder equity to fund exploration. Examples among the

diamond producers are Firestone Diamonds, Endiama, Stornoway and Hecla. Richemont and UraMin are among the junior producers in other raw-material industries.

The fourth group consists of **optimizers** - companies that look for market opportunities that others may have missed. Frequently they turn to the majors for assets that may be diminishing in production but still have viability. The optimizers purchase the assets, strengthen the business processes, make production enhancements and turn a profit. Some examples are Diamcor Mining and Petra Diamonds, which focus on diamonds, and HudBay Minerals and ARM (African Rainbow Minerals), which produce other minerals and materials.

Access to quality resources is extremely important [1]

The single most important driver in diamond mining is access to top-quality resources—in other words, large deposits of valuable stones. If the volume and quality of a producer's resources are comparatively high as measured in price per carat, then the producer will occupy a leadership position.

In a bid to increase market transparency ALROSA recently disclosed the size of its resources and reserves to be 1.3 billion carats. It is probable that De Beers is not far behind in the size of its reserves, but the company does not publicly disclose those figures. Rio Tinto and BHP Billiton lag significantly, with the estimated size of their reserves and resources at approximately 400 and 115 million carats, respectively.

In this capital-intensive industry, scale is another key success factor. Both De Beers and ALROSA have the resources and capacity to ensure their leadership positions. Both invest significant capital expenditure into development, facility construction, replacement projects and asset improvement—an amount that in both cases is considerably higher than their annual pretax profits. They are not likely to find themselves in an over-extended position.

By contrast the smaller players cannot afford to spend as much on expansion projects, so they are far less likely to attain a leadership position in the foreseeable future.

Overview of key trends along the value chain [6]

According to the Diamond Industry Report 2013, the industry has been on a rollercoaster ride since the global financial crisis of 2008. Prices plummeted in 2008 and 2009, only to rebound with astonishing speed to reach historically high levels in 2010 and 2011. Retail sales of diamond jewelry grew 1.8% from 2011 through 2012 to $72.1 billion, but the upstream and middle-market segments of the value chain came under pressure as overall prices for rough and polished diamonds declined by 14% and 13%, respectively (see picture below).

Diamond prices have recovered to above their pre-crisis levels:

Price index, 2004 = 100
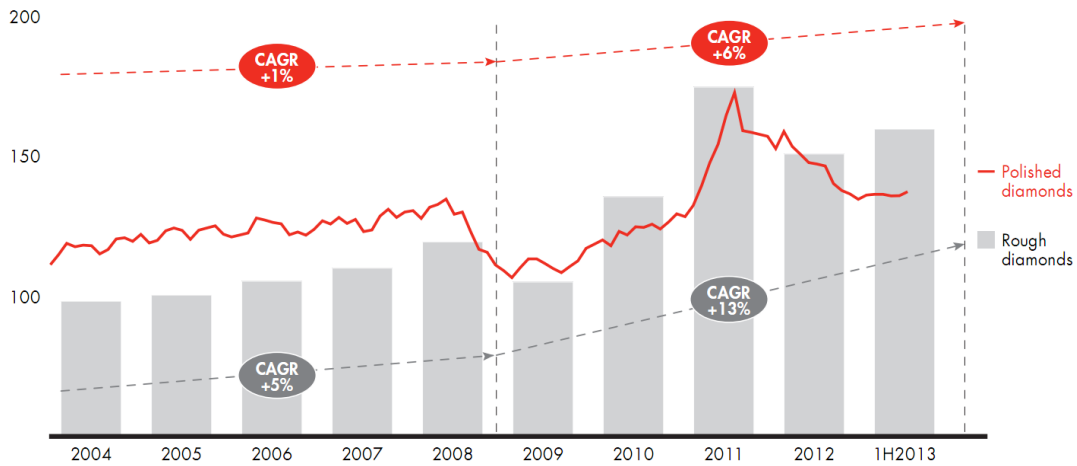
Note: The CAGR for polished-diamond prices is calculated as the growth rate for year-end prices; rough-diamond prices for the first half of 2013 have been estimated based upon ALROSA and De Beers results
Source: General polished-diamonds price index (PolishedPrices.com); Kimberley Process; company data; Bain analysis

Global sales trends [6]

The diamond market's skyrocketing growth in the key developing markets of China and India moderated in 2013 amid a wider economic slowdown. Although Europe's sales suffered because of continuing economic uncertainty, diamond sales in the US and Japan, the largest and third-largest diamond markets in the world, respectively, rose on the strength of accelerating GDP growth and seem poised for continued growth in 2013. Market players in both countries report strong demand for diamonds in the first half of the year.

The diamond value chain [6]

The value of diamonds increases significantly as they travel through the pipeline from the mine to the final market, nearly quintupling over the course of the journey. According to the Diamond Industry Report 2013, the greatest value—$25 billion or more in both cases—is added at the jewelry manufacturing and retail stages. Rough-diamond production generates revenues of $14.8 billion. The revenues grow to $47.2 billion when the diamonds are manufactured into jewelry and grow again to $72.1 billion when the jewelry is sold at retail. Rough-diamond production remains the most attractive point on the value chain, boasting profit margins of 16–20% (see pictures below). The only other segment of the market that generates comparable margins is retail, where large chains such as Tiffany & Co. and Cartier can achieve margins of 11–14%. Other points along the value chain are far less profitable, with players at the cutting and polishing stage generating profit margins of 1–8% (players at the cutting and polishing stage are also frequently involved in other activities along the value chain and able to gain additional margin from those activities).

The greatest add to value comes in jewelry manufacturing and retail sales [6]

Rough diamonds		Polished diamonds		Diamond jewelry	
Exploration and Production	Rough-diamond sales	Cutting and polishing	Polished-diamond sales	Jewelry manufacturing	Retail sales

Global revenues by value chain segment, 2012, $ billions
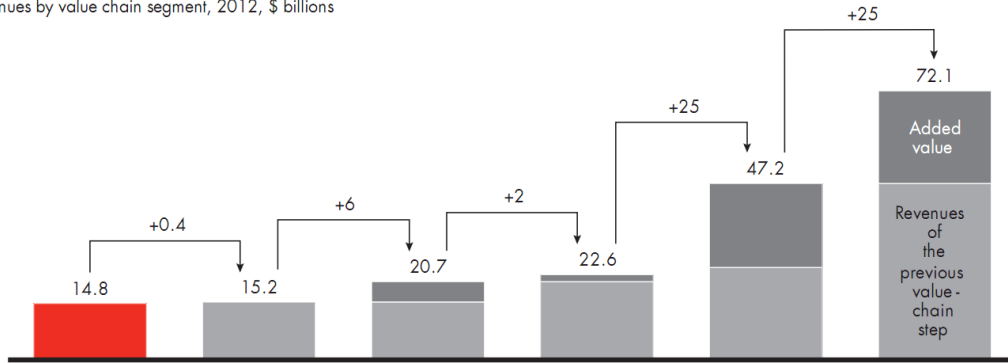
Note: Jewelry manufacturing value is estimated as approximately 65% of retail sales based on the historic average
Source: IDEX, Tacy Ltd. and Chaim Even-Zohar

Diamond mining is the second-largest profit pool and achieves the highest margin [6]

Rough diamonds		Polished diamonds		Diamond jewelry	
Exploration and Production	Rough-diamond sales	Cutting and polishing	Polished-diamond sales	Diamond jewelry manufacturing	Diamond jewelry retail sales

Average operating margin, 2012
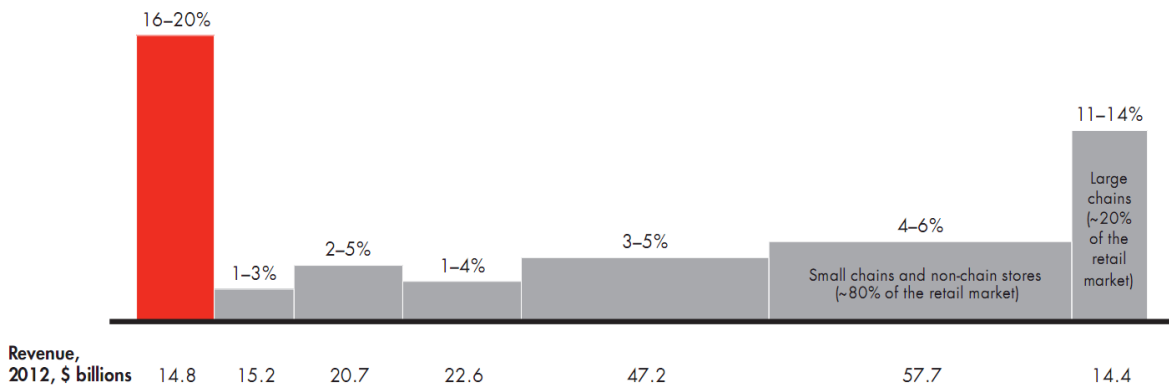
Revenue, 2012, $ billions	14.8	15.2	20.7	22.6	47.2	57.7	14.4

Note: Analysis of exploration and production is based on De Beers, ALROSA, Rio Tinto, BHP Billiton, Dominion Diamond, Petra Diamonds and Gem Diamonds; analysis of large chains is based on data for Tiffany & Co., Signet, Richemont, LVMH, Blue Nile, Harry Winston and Michael Hill
Source: Publication analysis; company reports; DEX, Tacy Ltd. and Chaim Even-Zohar; expert interviews; Bain analysis

The top five now the top four [6]

The top producers defended their leadership positions. ALROSA, the leader in production volume since 2009, turned out 34.4 million carats in 2012, accounting for 27% of worldwide production (see pictures below).

De Beers remained the leader in value terms, posting $5.5 billion in sales, but ALROSA and Harry Winston Diamond (renamed Dominion Diamond in 2013) both increased their shares of rough-diamond sales and are gradually gaining on De Beers (see pictures below).

In 2012, the market remained highly concentrated, with five large players—ALROSA, BHP Billiton, De Beers, Harry Winston Diamond and Rio Tinto—generating 78% of the production sector's revenues. However, also in 2012, Harry Winston Diamond completed its return to pure-play mining by selling its Harry Winston retail unit to Swatch, as the mining segment generated 41% of the company's total revenues and 76% of its profits. Consequently, Harry Winston Diamond was renamed Dominion Diamond. The reshuffing left De Beers as the sole top producer still involved in retail.

Production declined significantly during the crisis and volumes have not yet recovered [7]

Annual production, millions of carats

	CAGR	
	(2006–2012)	(2011–2012)
	-5%	**4%**

	(2006–2012)	(2011–2012)
Others	-8%	25%
Canada	-4%	-3%
Australia	-18%	17%
Russia	-2%	-1%
Zimbabwe	50%	42%
Angola	-2%	0%
South Africa	-12%	0%
DRC	-5%	12%
Botswana	-8%	-10%

176 168 163 120 128 123 128

2006 2007 2008 2009 2010 2011 2012
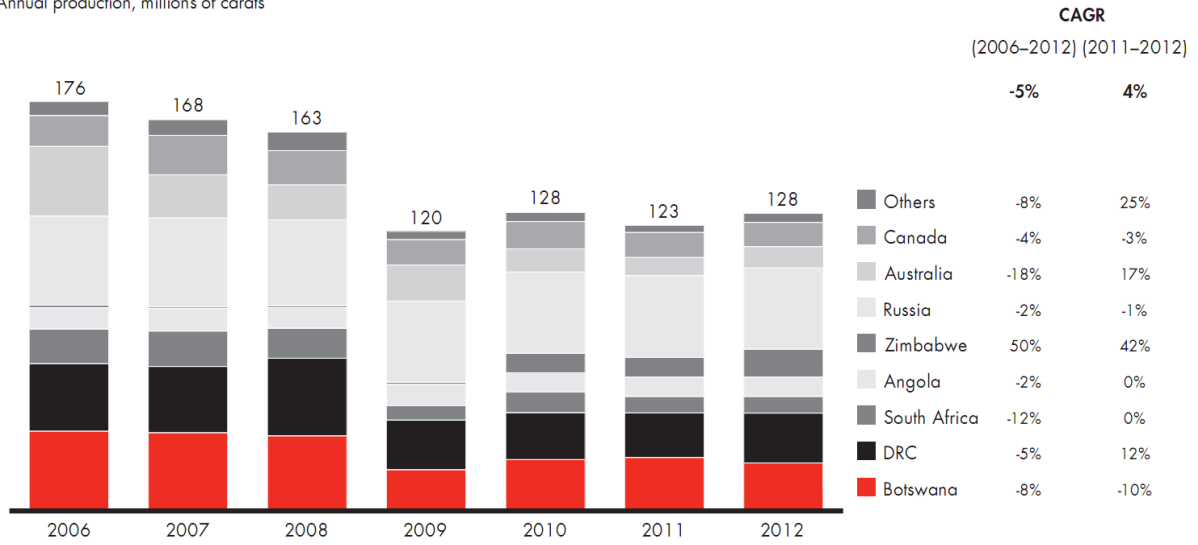
Note: Russia includes ALROSA, Nizhne-Lenskoye (acquired by ALROSA in 2013) and Uralalmaz
Source: Kimberley Process

ALROSA has held volume leadership since 2009 [6]

Annual production, millions of carats

	CAGR	
	(2006–2012)	(2011–2012)
	-5%	**4%**

176 168 163 120 128 123 128

	(2006–2012)	(2011–2012)
	1%	19%
	-5%	8%
	-9%	-30%
	-15%	12%
	-10%	-11%
	-1%	0%

2006 2007 2008 2009 2010 2011 2012
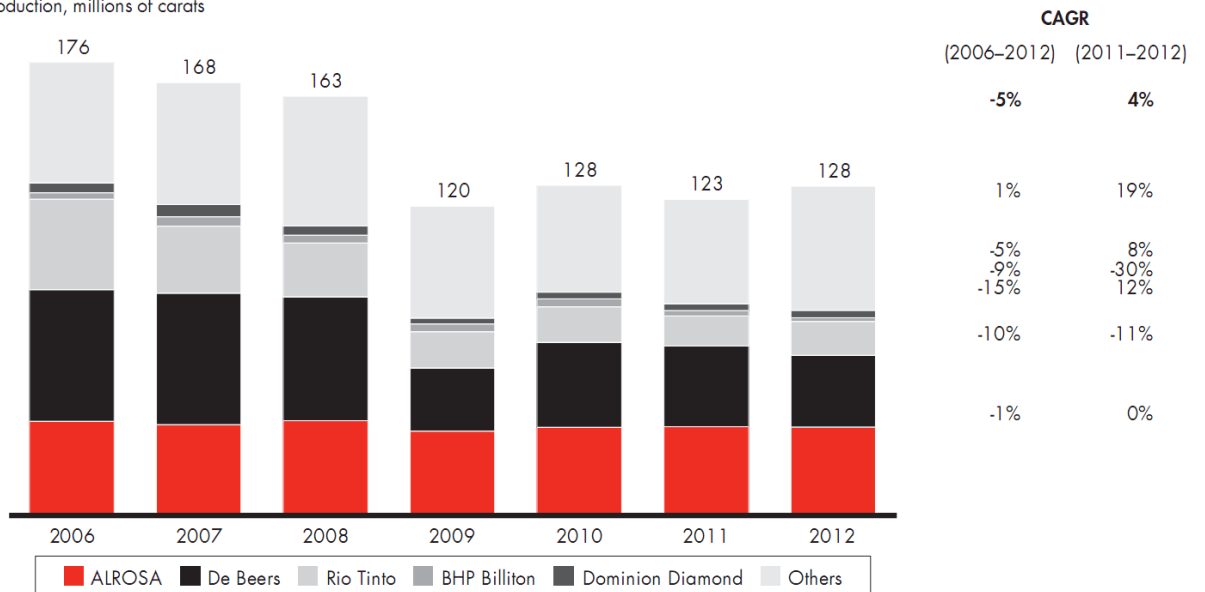
ALROSA   De Beers   Rio Tinto   BHP Billiton   Dominion Diamond   Others

Annual rough-diamond production share, %							
	2006	2007	2008	2009	2010	2011	2012
ALROSA	21%	21%	23%	27%	27%	28%	27%
De Beers	29%	30%	30%	20%	26%	26%	22%
Rio Tinto	20%	15%	13%	12%	11%	10%	10%
BHP Billiton	1%	2%	2%	3%	2%	2%	1%
Dominion Diamond	2%	3%	2%	2%	2%	2%	2%
Others	27%	29%	32%	36%	32%	30%	38%

Note: BHP Billiton's data converted from year-ending in June to year-ending in December, based on company reports for full year ending in June and reports for half year ending in December

Source: Company reports; Kimberley Process; publication analysis; expert interviews; Bain analysis

De Beers remains the leader in sales, although competitors are catching up [7]

Annual rough-diamond sales share, %							
	2006	2007	2008	2009	2010	2011	2012
ALROSA	24%	22%	22%	29%	27%	24%	30%
De Beers	47%	42%	42%	45%	41%	36%	37%
Rio Tinto	6%	7%	6%	6%	6%	4%	5%
BHP Billiton	4%	4%	4%	10%	8%	5%	4%
Dominion Diamond	3%	3%	2%	3%	2%	2%	2%

Note: ALROSA's revenues represent diamond sales only, excluding other businesses; BHP Billiton's data converted from year-ending in June to year-ending in December, based on company reports for full year ending in June and reports for half year ending in December; Rio Tinto, BHP Billiton and Dominion Diamond revenues including diamond mining only, excluding other businesses. Source: Company reports; IDEX, Tacy Ltd. and Chaim Even-Zohar; Bain analysis

The Global Diamond Report 2013 shows that "the top five became the top four when BHP Billiton exited the diamond business in 2012, selling its operations, including the Ekati mine

and its diamond-marketing operation in Antwerp, to Dominion. This deal was part of a wave of mergers and acquisitions (M&A) that further concentrated mining activity among a handful of players. Anglo American consolidated its ownership of De Beers, raising its stake to 85% from 45%. Petra Diamonds announced its intention to sell its Fissures mine, and Gem Diamonds sold its Ellendale mine to Goodrich Resources, as both Petra and Gem focused on improving the quality of their diamond assets. Rio Tinto, for its part, opted to retain its diamond assets, after initially announcing plans to spin them off. All of the activity was solid evidence of a shift of focus among industry heavyweights back to pure-play mining." [6]

Production economics vary widely among the top producers. ALROSA remains the most profitable producer, with the largest operating-income margins per carat and in absolute value. Its 2012 operating margin of 33% represented only a slight decline from 2011's margin and resulted in operating income of $1.6 billion, or $46 per carat. De Beers, meanwhile, remains highly profitable, with a 2012 operating margin of 13%, up from 11% in 2011, good for $800 million in operating income, or $29 per carat (see picture below).

ALROSA and De Beers earned the highest operating income both in absolute value and per carat [6]

EBIT per carat, 2012, $

Total EBIT, $ millions	ALROSA	De Beers	Rio Tinto*	BHP Billiton*	Dominion Diamond*
	1,579	818	-65	-157	48
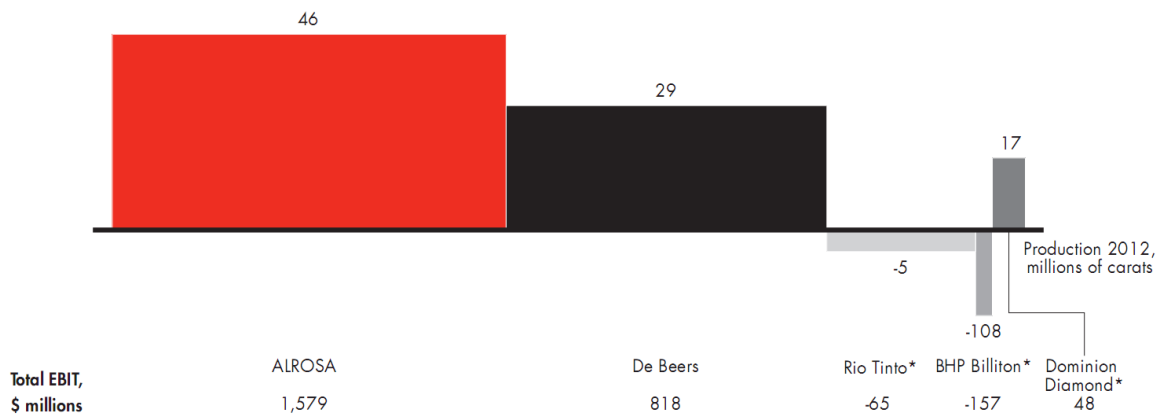
*Rio Tinto, BHP Billiton and Dominion Diamond revenues include diamond mining only, excluding other businesses
Note: BHP Billiton's data converted from year-ending in June to year-ending in December, based on company reports for full year ending in June and reports for half year ending in December
Source: Company reports; Bain analysis

The value chain's three stages [6]

The Global Diamond Report 2013 explains that before a diamond reaches the young couple buying a ring to mark their engagement or the husband presenting his wife with a necklace on their tenth anniversary, it passes through four to eight sets of hands and three distinct stages: "at the upstream stage, the diamond is mined from the ground, sorted and sold by the producer. At that point, the diamond reaches the middle-market stage, where it's cut, polished and assembled into jewelry. The diamond then moves to the downstream stage, where it's sold to the end customer (see picture below). As the diamonds pass through the three stages, the price per carat is constantly increasing, multiplying eightfold or more by the time a diamond is sold at retail."

Three parts of the diamond industry value chain [6]
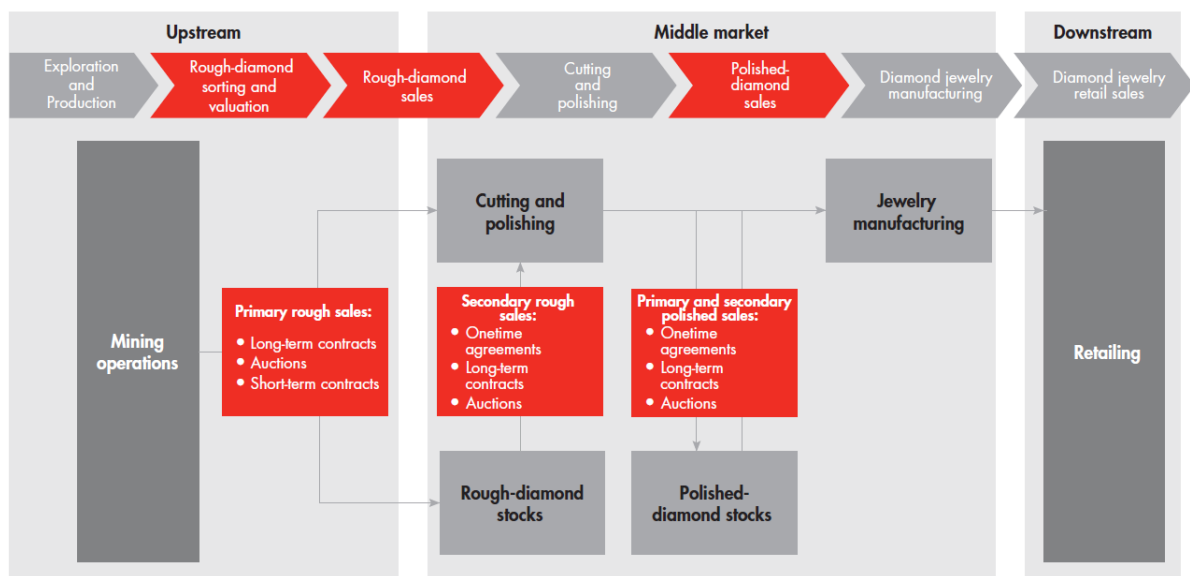
Source: Expert interviews; publication analysis; Bain analysis

The importance of reserves to the future of the industry [6]

Current levels of reserves and resources are important indicators of the industry's long-term ability to produce diamonds. Reserves divided by current production levels indicate the number of years that the current levels of production can be sustained. The Global Diamond Report 2013 shows, at present, the industry has suffcient reserves to sustain production for 18 years.

Global diamond reserves are concentrated in a handful of regions, with 70% of reserves in Africa and Russia (see picture below). African countries account for most of the world's diamond resources. The true level of Africa's reserves and resources may be even higher than indicated, because large sections of the continent that potentially hold diamonds remain unexplored.

The total level of diamond reserves has remained fairly stable in recent years, at 2.3 billion carats, with total global production roughly offsetting additional reserves. The approximate balance between additional reserves and annual production implies strongly that the overall production landscape will not markedly change in the near term. However, most new reserves are incremental and of relatively lower quality than diamonds currently being extracted. The last major mine was discovered in Zimbabwe in 1997.

Reserves concentrated in Russia and Africa [6]

Global diamond reserves, 2012, millions of carats
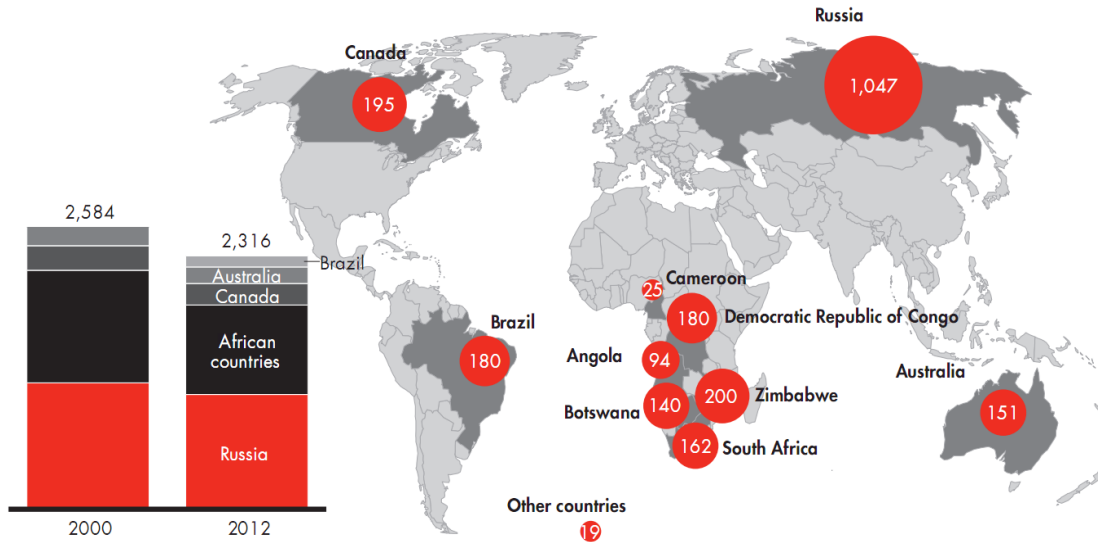
Note: Data for Russian reserves is measured as Balance Reserves A+B+C1 in accordance with GKZ metrics (Russian standards); all other reserves are measured as Proven + Probable in accordance with international standardized system CRIRSCO; other countries include India, Venezuela, Sierra Leone, Liberia, Guinea and Lesotho
Source: Center "Mineral"; Bain analysis

Future evolution of the industry: little change in business models [1]

Given recognized success factors and established industry leadership, experts consider the diamond mining industry highly stable and anticipate no near-term change in existing business models. The Global Diamond Report 2013 explains trends for each of the four models:

The **product majors**, who focus on mining only one type of product, will continue to lead the industry, and their projected growth will remain steady. The two players in this category, De Beers and ALROSA, are expected to maintain their leadership by focusing on high-quality assets, operating efficiencies and a disciplined approach to optimizing their portfolio of assets.

Both De Beers and ALROSA are continually focused on increasing profitability levels. Thus in recent years De Beers has been selling off noncore or unprofitable assets and concentrating on the most profitable mines. Examples include the closing of the Kimberley mine in 2005 and the sale of seven other mines from 2008 to 2011. In addition De Beers is pulling back on early exploration activities and letting others incur much of the development risks. From

2001 to 2009 the company's share of exploration costs in the diamond mining industry dropped from more than 60 percent to less than 25 percent.

So far, for reasons previously stated, ALROSA has not pulled back from exploration; in fact it is investing more. However, in order to focus on its main diamond activities, ALROSA has been spinning off its noncore assets. Given the low probability of discovering significant, commercially viable diamond assets, the **diversified global conglomerates** are not significantly expanding their diamond production business, and their diamond portfolios will likely decline relative to the rest of their business over time. This trend has already started. From 2005 through 2010, Rio Tinto's diamond revenues dropped 27 percent annually and BHP Billiton's revenues fell by 13 percent annually. As the assets of companies in this group deplete (for example, the Ekati mine for BHP Billiton), company market share is likely to decline.

Niche operators, both **juniors** and **optimizers**, will likely pursue the same strategies in the future as they do today. The juniors will keep focusing on exploration and turn to external financing to support their operations. The optimizers will continue to step in as opportunities present themselves and as the majors sell off their assets. For both groups top-line growth will likely increase. The rapid growth of the new players in the diamond industry over the last 20 years creates the potential for the larger ones to acquire significant diamond businesses, if the diversified majors were to decide that diamond mining had become a negligible part of their overall business and choose to get out. However the diversified majors have not publicly indicated they intend to do that.

One more group is worth noting—the small, artisanal surface miners that operate independently in many parts of Africa. Mostly using crude equipment, and sometimes only their bare hands, they collect diamonds that are found on the ground or in riverbeds. As long as political instability undermines the ability of companies or governments to organize into effective mining entities, this small segment will continue to exist.

To sum up, global rough diamond demand may climb more than 6% a year in the decade to 2020, exceeding growth in supply, Bain & Co, a consulting firm in Boston, has forecast. India is expected to grow at a faster rate because more and more young people of marriageable age are entering the middle class. China has emerged as a large market and may overtake the US as the biggest consumer of diamonds by 2015, according to Antwerp-based World Diamond Center. Even so, De Beers remains a formidable competitor. Great companies are marked by their ability to create a strategic advantage and retain it over time. De Beers understood the allure of a diamond and taught the world how to market luxury. Now the giant is aggressively trying to add value to the emotional appeal of diamonds as well as to the regions where diamonds are mined. Put together, it still remains a winning formula. [7]

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to encourage students to analyse various types of industries. Write the purposes that diamonds are usually used for. Now use *Stimuli cards* to get more ideas how diamonds could be used in everyday life. Write as many new ideas as you can.

Assignment #2

The goal of the assignment is to encourage students to analyse value chains of various industries. Students are divided to groups of 3-5 people and asked to draw a model explaining how the diamond industry work practically (what are the main processes and factors). Then students get familiar to the theoretical information about value chain of the diamond industry and, if needed, add additional information to their models. Models are presented publicly and explained.

Assignment #3

The goal of the assignment is to encourage students to evaluate different types of competition and market entry barriers. Identify the existing type of competition at the diamond industry and provide advantages and disadvantages of it. Now write down as many barriers to enter the diamond market. Then, using *Stimuli cards,* identify more barriers.

Assignment #4

The goal of the assignment is to encourage students to make ethical business decisions. Explain importance of ethics in diamond industry, identify main ethical problems that occur in the industry. Use *Stimuli cards* to provide solutions on how the value chain of diamond industry could be.

Assignment #5

The goal of the assignment is to encourage students to foresee key challenges and trends for business in the 21st century. Identify key future success factors for players along the value chain of the diamond industry. Use *Stimuli cards* to provide more ideas.

13.3 CASE STUDY 3. THE SUPPLY CHAIN OF NESTLE

Thanks to mounting pressure from regulators, consumers and their own employees and shareholders, more and more companies worldwide are starting to provide evidence of sustainability initiatives. Most companies also recognize that compliance with emissions reporting requirements is just one aspect of more responsible environmental and social stewardship. Many are as keen to demonstrate their commitment to community recycling projects, or human and labor rights, as they are to show that they are responding to the challenge of climate change. With energy costs soaring, risks of all kinds on the rise and shortages of even basic natural resources such as water, companies need to take as broad a view of sustainability as possible.

But how can you be truly sustainable if your suppliers—the raw materials producers, component providers, transport and logistics services, and other interconnected businesses that constitute the supply chain—aren't? The supply chain, after all, accounts for between 50 percent and 70 percent of both total expenses and greenhouse-gas emissions for most manufacturing companies. Most companies now recognize that a sustainable supply chain is no longer just an optional nice-to-have—it's a business imperative, critical to the success of the organization as a whole in a perilous world. [2]

Nestlé is more than just the largest food and beverage company in the world. Increasingly, Nestlé is becoming the world's leader in nutrition, health and wellness. Although less than 2% of company's sales are generated in Switzerland, Nestlé is a Swiss company.

Henri Nestlé, the founder of Nestlé, was a life-saving chemist but also an innovative marketer. He used scientific knowledge to develop products that met consumer needs. He used his name to brand his products in a distinctive way. And he set up systems to distribute his products quickly and effectively. [1]

Since his name is German for "little nest", Henri Nestlé decided to use a bird's nest as his trademark. Today it's one of the best known logos around the world, communicating Nestlé's emphasis on nutrition for a healthy life Nestlé's roots date back to 1849 when an assistant pharmacist called Henri Nestlé set up his laboratory in the small Swiss town of Vevey on the shores of Lake Geneva.It was here, in 1867, that he developed the invention that was to make him world-famous. To help nurture and indeed save the lives of young babies, he created Farine Lactée, the world's first infant food. Henri Nestlé's prime concern was a healthy life for local newborn babies. But he realised that he could help even more mothers and their babies by exporting his successful new product to other countries. So he built a network of agents and importers to distribute it, first in Europe but also in Australia and South America. By the 1870s it was selling in places as far afield as Egypt, Russia, Mexico, and Indonesia. Henri Nestlé set a good example, both as a pioneer of nutritional food products, and as an entrepreneur. His principles are still followed to this day, almost 150 years later. [1]

Nestle Brands [6]

Most people know Nestle through brands. The portfolio of Nestle brands covers almost every food and beverage category – giving consumers variety of "tastier and healthier products to

enjoy at every eating occasion and throughout life's stages including times of special nutritional need". Some of the brands can be seen in picture below.

Baby foods	Cerelac, Gerber, Gerber Graduates, NaturNes, Nestum
Bottled water	Nestlé Pure Life, Perrier, Poland Spring, S.Pellegrino
Cereals	Chocapic, Cini Minis, Cookie Crisp, Estrelitas, Fitness, Nesquik Cereal
Chocolate & confectionery	Aero,Butterfinger, Cailler, Crunch, KitKat, Orion, Smarties, Wonka
Coffee	Nescafé, Nescafé 3 in 1, Nescafé Cappuccino, Nescafé Classic, Nescafé Decaff, Nescafé Dolce Gusto, Nescafé Gold, Nespresso
Culinary, chilled and frozen food	Buitoni, Herta, Hot Pockets, Lean Cuisine, Maggi, Stouffer's, Thomy
Dairy	Carnation, Coffee-Mate, La Laitière, Nido
Drinks	Milo, Nesquik, Nestea
Food service	Chef, Chef-Mate, Maggi, Milo, Minor's, Nescafé, Nestea, Sjora, Lean Cuisine, Stouffer's
Healthcare nutrition	Boost, Nutren Junior, Peptamen, Resource
Ice cream	Dreyer's, Extrême, Häagen-Dazs, Mövenpick, Nestlé Ice Cream
Petcare	Alpo, Bakers Complete, Beneful, Cat Chow, Chef Michael's Canine Creations, Dog Chow, Fancy Feast, Felix, Friskies, Gourmet, Purina, Purina ONE, Pro Plan

The NESCAFÉ Plan [5]

According to information provided by United Nations Environment Programme, Nestlé is the world's largest purchaser of coffee and works with a complex coffee supply chain where 80% of the farmers are smallholders. Around 25 million smallholders depend directly on coffee farming for their livelihoods, and a further 100 million people are involved in the industry as a whole.

The company has a long history in the developing world with half of factories and employees located primarily in rural areas. The company owes a large part of their success to these communities and strive to have a positive long-term impact on their economic and environment development and standards of living.

Nestlé's impact on helping coffee communities to achieve progress in rural development is quite significant, given the sheer quantities of coffee we purchase. This was one of the key motivating factors for Nestlé to launch "*The NESCAFÉ Plan*" in 2010, bringing under one umbrella company's commitments on responsible coffee farming, production and consumption. The strategy of company is also being communicated in a more consolidated way to consumers through The NESCAFÉ Plan website.

This global initiative is a best practice example of Nestlé's Creating Shared Value approach to business, where the company aims to simultaneously create value for both shareholders as well as for the society at large. The Plan contains a set of objectives which will help Nestlé further optimize its coffee supply chain.

- *Responsible farming* – Encouraging and supporting farming cooperatives and individual farmers to adopt sustainable agriculture practices and reduce environmental impacts.

- *Responsible production* – Continually improving manufacturing process including energy and water use, packaging and transportation.

- *Responsible consumption* – Helping consumers make the right choice in the preparation and use of products to minimize energy and water use, and ensure proper disposal or recycling of packaging.

According to information provided by United Nations Environment Programme, in addition to the CHF 200 million the company has invested in coffee projects over the past 15 years or so, and will make a further CHF 500 million of investment and premium payments by 2020. Around CHF 350 million will support the *NESCAFÉ* Plan and CHF 150 million will go towards the *Nespresso* Ecolaboration™ platform.

Through this investment, the company will double the amount of *NESCAFÉ* coffee bought directly from farmers and their associations over the next five years, so that by 2015, the company will be purchasing 180 000 tonnes of coffee from around 170 000 farmers every year. With the support of the Rainforest Alliance, an international non-governmental organisation, and the Common Code for the Coffee Community (4C) Association, all farmers' green coffee for *NESCAFÉ* will meet the internationally recognised 4C code of conduct by 2015. In addition, 90 000 tonnes of *NESCAFÉ* coffee will be sourced according to Rainforest Alliance and Sustainable Agriculture Network (SAN) principles by 2020.

Under *The NESCAFÉ Plan*, the company will also distribute 220 million high-yield plantlets to farmers by 2020. This helps farmers to rejuvenate their plantations, thus multiplying the yield on existing land and increasing farmers' income. Through partnerships with public and private institutions in a number of countries, including Indonesia, Mexico, the Philippines, and Thailand, Nestlé has already distributed over 16 million coffee plantlets over the past ten years. Nestlé is also expanding its technical assistance programmes, in which Nestlé agronomists provide advice on farming and post-harvest practices, to over 10,000 coffee farmers a year.

The *NESCAFÉ* Plan is just one example of Nestlé's Creating Shared Value approach that:

- provides Nestlé with a reliable supply of high-quality coffee beans;
- creates an optimised supply chain with sustainable sourced raw materials;
- helps farmers to increase yields, giving them higher incomes and improving their living standards;
- brings sustained growth for the local economy.

One of the biggest challenges we face with regard to coffee will be to ensure the 180,000 tonnes of coffee the company will have sourced through direct procurement by 2015 is 100% compliant with 4C standards. Further to meeting sustainability standards, it will also be key for Nestlé to make coffee growing an attractive proposition for future generations. Ageing coffee trees in many producing countries will have a negative impact on productivity, so the company needs to encourage the renovation of coffee plantations and provide adequate access to microfinance to ensure the coffee farmers of tomorrow are adequately motivated and supported.

The company is expecting to make further such investments as business continues to grow, both locally and around the world and are working to continuously assess the social

Nestlé RISE-ing: engaging with suppliers to share sustainability best practices [2]

Driven by a desire to gain a better knowledge and understanding of its "farm to fork" supply chain, Nestlé, the Switzerland-based global food company, has developed a procurement procedure that has helped deepen relationships with suppliers on issues ranging from water management and nutrition, right through to using sustainable procurement for rural development.

The Nestlé Supplier Code covers all of the company's suppliers, worldwide and forms an integral part of all purchase orders and supply contracts across every market and business, including the supply of agricultural raw materials—a critical area of any food company's supply chain. By applying the code, Nestlé has encouraged best practices in sourcing and has thus helped ensure the long-term supply of safe, quality-assured and regulatory-compliant agricultural materials for its business.

In the dairy sector, for instance, the company has worked with the Swiss College of Agriculture to help develop the Response-Inducing Sustainability Evaluation (RISE), which assesses sustainability holistically across multiple ecological, economic and social dimensions, including energy consumption. The evaluation is based on data collected at the farm level, using a comprehensive questionnaire. Ten key, computer-generated indicators identify potential strengths and weaknesses with regard to sustainability, and Nestlé discusses intervention points for improvement with the farmers themselves. RISE has not only helped identify opportunities to reduce greenhouse-gas emissions. By simultaneously providing assessment analysis feedback to farmers as the data is collected, the company also stimulates other improvements. Indeed, Nestlé's engagement with its farmers has helped them innovate to enhance the quality of their own lives—just the sort of mutually beneficial outcome that is key to success in the quest for a truly sustainable supply chain (see story).

In China, for example, the company's specialists have trained farmers to handle and store animal manure safely by using biogas digesters, or waste management solutions that trap methane as it is produced. The technology clearly helps reduce greenhouse-gas emissions— but it also makes methane readily available for cooking or even for electricity generation in farming communities.

Thanks to education and outreach programs that have stimulated demand, this technology has been replicated in other countries whose farmers supply Nestlé-Indonesia and Mexico among them. In Mexico, for example, 16 industrial biogas digesters have been built in regions that provide more than 35 percent of the milk bought by Nestlé Mexico.

Independent external monitoring of Nestlé's cocoa supply chain in Ivory Coast [9]

The Fair Labor Association (FLA) annually conducts independent assessments of a sample of each affiliated company's supply chain. For Nestlé, which joined the FLA in 2012, this means monitoring the portion of its cocoa supply chain served by the Nestlé Cocoa Plan (NCP – Nestlé launched the Nestlé Cocoa Plan in March 2011 with a commitment to eliminate child labor from its cocoa supply chain. In 2013, the NCP covered cocoa farmers in 45 participating cooperatives, some of them certifie), which represents around 20 percent of its total cocoa supply chain. From October to December of 2013, during the peak cocoa-harvesting season, the FLA conducted ten unannounced independent external monitoring visits to five cooperatives in the Ivory Coast supplying to Nestlé via the NCP. Assessors visited a total of 200 farms (20 farms in each of the 10 communities, or 40 farms under each cooperative). These 200 farms represent seven percent of the 2,863 farm owners affiliated with the five visited cooperatives.

The team began by gathering information through desk-based research and meetings with 38 external experts, community members, and civil society organizations in the five regions. Following their research, the team visited the cooperatives, conducting a total of 358 interviews. Assessors interviewed 17 staff members at the cooperatives, 200 farmers (189 men and 11 women who own the cocoa plantations) and 109 adult seasonal workers and sharecroppers (86 men and 23 women who are engaged to work on the plantations by the farmers). Additionally, the team identified and interviewed seven young workers (between15 and 18 years of age) and four child workers (younger than15) working on the farms during the following field and community level visits.

Independent External Monitoring Findings Nestlé produced an Illustrated Supplier Code of Conduct in 2013 and distributed it to 25,000 farmersin the Ivory Coast. The FLA assessment team confirmed that Nestlé's Illustrated Code of Conduct for cocoa farmersis the most widely distributed code, and the one most often used by farmers. Assessors found that the code had been distributed to all 2,863 farmers, and the majority of farmers stated in interviews that they had attended training sessions where code elements were explained in the local language. In addition, assessors identified the following key findings:

1. ***Child and Forced Labor*** – assessors found four children under the age of 15 working in the cocoa fields, as well as one case of forced labor involving a young worker from Burkina Faso, believed to be 15,who had been working without pay or documentation since he was 13.[1] Seven other young workers between the ages of 15 and 18 were also

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[1] The young worker stated in an FLA interview that the farm owner sends payment to his father in Burkina Faso, but pays the worker himself nothing directly. He has worked for the same grower for three years, and has been

found working on the farms. Children perform the same work (both hazardous and non hazardous) as adults, and work the same hours. Additionally, farmers explained during the interviews that almost all the children and young adults in their families (both immediate and extended) perform farm-related tasks like picking cocoa, transporting wet beans, and cleaning the land. Some of them do not attend school. Assessors found that the farms lack an age-verification and documentation system, and lack a system to remove working children from the farms.

2. *Health and Safety* – assessors found a number of health-and-safety-related non-compliances at all visited farms, including lack of first aid kits, or trained health-and-safety personnel; inability to transport workers to a hospital or clinic, in case of emergency; insufficient safety and personal protective equipment (PPE), especially for women; and improper chemical storage and disposal procedures.

3. *Code Awareness, Employment Relationship, and Grievance System* – despite farmers' familiarity with Nestlé's Code of Conduct, workers and sharecroppers have not received training on the code. Farmers have not been trained on document maintenance, and the lack of any employment documentation at the cooperatives and farms (such as labor profiles, employment contracts, hours of work, and compensation records) made verification of several code elements challenging. Among workers, assessors noted a general lack of awareness about grievance processes.

4. **Gender Disparities** – in all visited cooperatives, assessors noted that almost all staff managing the internal monitoring systems are men, and only one woman was found to be sitting on any cooperative's Board of Directors. Similarly, assessors found only limited efforts to involve women as trainers or include women in training programs run by the farmer field schools or Nestlé's Child Labor Monitoring and Remediation System.

5. *Non-discrimination* –Nestlé's illustrated code lacks a non-discrimination clause.

Corrective Action Plans [9]

In response to the FLAs monitoring visits, Nestlé has developed and submitted a corrective action plan, included in the FLA monitoring reports. The highlights of this plan include:

1. *Child Labor* – Nestlé's Child Labor Monitoring and Remediation System (CLMRS[2]), serving eight cooperatives in 2013, will be extended to 16 cooperatives

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involved in all activities at the farm. Nestlé followed up on this case twice, first interviewing the young worker again for clarification, followed by an unannounced farm visit. On both occasions, Nestlé reminded the farm owner of the required labor standards, including definitions of hazardous and age-inappropriate tasks, and the need to pay farm workers directly. Nestlé continues to explore options for alternative vocational training for this worker, and will ensure that the remediation component of its CLMRS, as it is rolled out, offers an appropriate response for cases of this kind.

[2] According to Nestlé, by June 2014, CLMRS assessors had visited a total of 3,382 farms and interviewed 3,828 producers among the 11,815 registered cocoa farmers in the first 13 cooperatives. During those visits, 1,682 children (around 14 percent of children surveyed) were categorized as child workers involved in hazardous

in 2014. Under this system, in partnership with the International Cocoa Initiative (ICI), Nestlé staff in the Ivory Coast, cooperative staff, and farm owners all receive training workshops on:

- definitions of child labor;
- causes and consequences of child labor;
- international and national norms and legislation;
- monitoring, evaluation, and control systems; and
- steps for identification, prevention, and remediation of child labor.

In addition, the community selects Community Liaison People (CLPs) from among the cooperative members to receive training and manage child labor monitoring at the community level. The CLPs report situations in which children are at risk, and organize awareness-raising activities in the communities to prevent child labor. At the cooperative level, similarly, a Cooperative Child Labor Agent (CLA) is responsible for proposing child-labor prevention and remediation efforts, and for ensuring that these activities are followed through.

2. *Health and Safety* – based on a heath and safety risk analysis made at the cooperative level, CLMRS staff will be trained on developing and running a health and safety management system covering topics like safe chemical handling, use of personal protective equipment, first aid, accident procedures, and more.

3. *Grievance Procedures* – Nestlé will include grievance procedures in its existing training activities, and will extend these trainings –currently limited to farmers –to sharecroppers and workers. Nestlé has broadened access to its third-party-managed toll-free confidential hotline number, which is designed to help workers report non-compliances. This number will be displayed at each section level warehouse, and other types of grievance channels, such as suggestions boxes, and a grievance process involving the CLP, will be established at the cooperative level to ensure workers have multiple recourses.

4. *Gender disparities* – Nestlé has published a response to the FLA's assessment of women's roles in its Ivory Coast supply chain (see section *„Nestlé Action Plan on Women in the Cocoa Supply Chain"*. Nestlé's plan includes strategies for increasing the representation and recognition of women at the cooperative level, making training sessions more accessible to women, facilitating women's access to community level dialogue and grievance platforms, and increasing women's awareness of health and safety issues and access to personal protective equipment.

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work. Nestlé has begun remediation work for these children, with 639 covered so far, including providing school kits (uniforms, books, paper, etc.) to 29 of these children, securing birth certificates (required for admission to junior secondary school) for more than 200, and developing income-generating activities for 291 mothers of identified children, with the remaining cases being investigated further. Of the 11,803 children of farmers who are members of the thirteen cooperatives, 7,801 (66 percent) attend school. The FLA will verify these figures as part of the 2014 monitoring cycle

5. *Non-discrimination* – Nestlé will include a non-discrimination and non-retaliation provision in its illustrated code of conduct and distribute the new code to all Tier One suppliers and NCP farmers. Nestlé, in collaboration with its Tier One suppliers will reinforce training on the code of conduct for CLMRS staff at each cooperative who will then train lead farmers at the farmer field schools. Nestlé will actively encourage farming families and village residents, particularly women, to attend farmer field school training sessions.

Nestlé Action Plan on Women in the Cocoa Supply Chain [3]

Nestlé believes that the long term success of the company can be assured if value is jointly created for the Company and Society. This is most marked in the area of rural development where the overall wellbeing of farmers, rural communities, small entrepreneurs and suppliers are intrinsic to the long-term success of the business. Many of these are women who tend to be disadvantaged. According to UN Sources, women perform 66 per cent of the world's work, produce 50 per cent of the food but only manage 10 per cent of the income and own 1 per cent of the property.

Nestlé is committed to scaling up its business-related activities and programmes to focus on gender equality and education for women and girls. The company supports the United Nations "Every Woman, Every Child initiative" that encourages governments, businesses and organisations to play a greater role in improving the health and wellbeing of women and children. This includes exploring how Nestlé can do more to help and improve the lives of women in its supply chain, building on insights gained from its work with female dairy farmers in Pakistan and India.

The Nestlé Action Plan on Women in the Cocoa Supply Chain is the first commodity specific Action Plan but work will be extended to cover other priority commodities such as Milk and Coffee where Nestlé is already working on women's issues in Kenya and Colombia.

Nestlé Action Plan

On 26th March, 2013, Nestlé announced that it would publish an Action Plan setting out in more detail what it will do in the short and medium term to strengthen its efforts to promote and support the lives of women in its cocoa supply chain. The Action Plan will be updated in August 2014 following the publication of the Fair Labor Association's (FLA) assessment of the cocoa supply chain in Côte D'Ivoire in spring 2014 which will include gender issues.

Nestlé has expressed its determination to strengthen its efforts to promote and support the lives of women in the cocoa supply chain through the Nestlé Cocoa Plan and the Rural Development Framework. Strengthening the gender component of these projects will assist Nestlé's priority focus on child labour.

Ambition: Nestlé is committed to rolling out the Nestlé Cocoa Plan (NCP) to cover 100,000 tonnes of cocoa (approx 25% of Nestlé global usage across all categories) by end 2015, and

to progressively integrate gender aspects into the programme. More details of timings and scale of roll out will be given in April-May 2014.

Countries to be covered: the plan will initially focus on Côte d'Ivoire and will extend to Ghana, Indonesia and Ecuador and subsequently other countries in the Nestlé Cocoa Plan.

Responsible sourcing and the Nestlé Supplier Code

In company's Corporate Business Principles, Nestlé commits to foster responsible practices in the supply chain. The Nestlé Supplier Code helps to implement this commitment. The company wants to ensure both responsible sourcing and supplier relationships that deliver a competitive advantage.

The Nestlé Supplier Code establishes non-negotiable minimum standards that the company asks suppliers, their employees, agents and subcontractors to respect and to adhere to at all times when conducting business.

The Nestlé Supplier Code is an integral part of all purchase orders, supply contracts and is being integrated into all other commercial agreements. The Nestlé Supplier Code is implemented in each market and business and is applicable to all suppliers. Read more about how the implement the code worldwide through the Traceability and Responsible Sourcing Audit Programme:

The 4 pillars of the Nestlé Supplier Code [8]

1. Human Rights

Nestlé fully supports the United Nations Frame-work and Guiding Principles on Business and Human Rights and expects the Supplier to respect all human rights, including labour rights, throughout its business activities. As a minimum:

Freedom of Association and Collective Bargaining

The Supplier should grant its employees the right to Freedom of Association and Collective Bargaining in accordance with all applicable laws and regulations.

Forced Labour

The Supplier must under no circumstances use, or in any other way benefit, from forced labour in line with ILO Convention No. 29 on Forced Labour and ILO Convention No. 105 on Abolition of Forced Labour. Forced labour refers to any form of indentured servitude such as the use of physical punishment, confinement, threats of violence as a method of discipline or control such as retaining employees' identification, passports, work permits or deposits as a condition of employment. Where the Supplier is using migrant or prison

labourers under a legal framework, Nestlé must be made aware to review appropriate documentation maintained by the Supplier.

Employment Practices

The supplier shall only employ workers who are legally authorized to work in their facilities and are responsible for validating employees' eligibility to work through appropriate documentation. All work shall be voluntary, and workers shall be free to leave work or terminate their employment upon reasonable notice. To every extent possible work performed must be on the basis of recognised employment relationship established through national law and practice. Obligations to employees under labour or social security laws and regulations arising from the regular employment relationship shall not be avoided through the use of labour-only contracting, sub-contracting, or home-working arrangements, or through apprenticeship schemes where there is no real intent to impart skills or provide regular employment, nor shall any such obligations be avoided through the excessive use of fixed-term contracts of employment.

In the case of employment through third party labour agencies the Supplier shall comply with Convention No. 181 of the International Labour Organization on Private Employment Agencies.

Minimum Age for Employment

The use of child labour by the Supplier is strictly prohibited, in line with ILO Convention 138 on the Minimum Age, and Convention 182 on the Elimination of the Worst Forms of Child Labour. The ILO Convention 138 on the Minimum Age indicates that no child below 15 years (or 14 in certain developing countries) is allowed to work, subject to exceptions allowed by the ILO or national law.

If the Supplier employs young workers, it must demonstrate that the employment of young people does not expose them to undue physical risks that can harm physical, mental or emotional development.

Fair and Equal Treatment

The Supplier must operate with dignity, respect and integrity in regards the treatment of its employees:

- *The Supplier shall not discriminate in hiring and employment practices on the grounds of criteria such as of race, colour, religion, gender, age, physical ability, national origin, sexual orientation, political affiliation, union membership, medical tests, or marital status, in line with ILO Convention No. 111 on Discrimination.*

- *Any form of psychological, physical, sexual or verbal abuse, intimidation, threat or harassment must not be tolerated.*
- *The Supplier shall respect the privacy rights of its employees whenever it gathers private information or implements employee-monitoring practices.*
- *When the Supplier retains direct or contracted workers to provide security to safeguard its personnel and property, the Supplier will make sure that security personnel apply the same standards on fair and equal treatment.*

Working time and rest days

The Supplier must ensure that its employees work in compliance with all applicable laws and mandatory industry standards pertaining to regular working hours, and overtime hours, including for breaks, rest periods, holidays, and maternity and paternity leaves. In absence of law, the Supplier shall not require a regular work week over 60 hours, employees shall be allowed at least one day off after six consecutive days of work, and any overtime worked shall be voluntary and compensated at premium rate.

Wages and benefits

The Supplier's employees must be provided with wages and benefits that, at a minimum, comply with national laws or industry standards whichever is higher, as well as binding collective agreements, including those pertaining to overtime work and other premium pay arrangements. In any event, wages should always be enough to meet basic needs for employees, and their entitled official dependents, and to provide some discretionary income. The Supplier must not apply disciplinary or any other forms of deductions from pay neither apply any forms of discrimination in employment and remuneration practices.

2. Safety and Health

Nestlé expects the Supplier's operating and management systems, as well as employees, to work in preventing work-related injuries and illnesses.

Workplace Environment

The Supplier shall provide its employees with a safe and healthy working environment. As a minimum, potable drinking water, adequate lighting, temperature, ventilation, sanitation, and personal protective equipment must be provided together with equipped work stations. In addition, facilities must be constructed and maintained in accordance with the standards set by applicable laws and regulations.

Housing Conditions & Respect of Privacy

When provided by the Supplier, dormitory facilities shall be constructed and maintained in accordance with all applicable laws and regulations, and they shall be clearly segregated from the factory and production area. All dormitory buildings shall be clean and safe and workers shall be able to enter and leave the dormitory buildings freely at any hour. There shall be clean toilet facilities, access to potable water, and sanitary food preparation and storage facilities. All dormitory facilities shall also provide workers with reasonable personal space, adequate heat and ventilation and clean shower and bathrooms.

Emergency preparedness

The Supplier shall be prepared for emergency situations. This includes worker notification and evacuation procedures, emergency training and drills, appropriate first-aid supplies, appropriate fire detection and suppression equipment, and adequate exit facilities. The Supplier shall regularly train employees on emergency planning, responsiveness as well as medical care.

Product Quality and Safety

All products and services delivered by the Supplier must meet the quality and safety standards required by applicable law. When conducting business with or on behalf of Nestlé, the Supplier must comply with the Nestlé quality requirements.

3. Environmental Sustainability

Nestlé requires its Supplier to comply with all applicable legal environmental requirements and demonstrate continual improvement of its environmental performance.

Environmental Permits and Reporting

The Supplier shall make sure that it obtains, keeps current, and follows the reporting guidelines of all the required environmental permits and registrations to be at any time legally compliant.

Environmental Management System

The Supplier shall document and implement a relevant environmental management system (based on international standards such as ISO 14001:2004), designed to identify, control and mitigate significant environmental impacts.

Hazardous Materials and Product Safety

The Supplier shall identify hazardous materials, chemicals and substances, and ensure their safe handling, movement, storage, recycling, reuse and disposal. All the applicable laws and regulations related to hazardous materials, chemicals and substances shall be strictly followed. Supplier shall comply with material restrictions and product safety requirements set by applicable laws and regulations. Suppliers shall ensure that key employees are aware of and trained in product safety practices.

Resource Consumption, Pollution Prevention and Waste minimisation

The Supplier shall optimise its consumption of natural resources, including energy and water. Supplier shall implement and demonstrate sound measures to prevent pollution and minimise generation of solid waste, wastewater and air emissions. Prior to discharge or disposal, supplier shall characterize and treat wastewater and solid waste appropriately and according to applicable laws and regulations.

4. Business Integrity

Nestlé requires the Supplier to comply with all applicable ethical trade laws and regulations in the countries where materials are sourced, produced and incorporated into Nestlé product ("country of use"). In case of services, the location of service delivery should prevail

Anti bribery

The Supplier must never, directly or through intermediaries, offer or promise any personal or improper advantage in order to obtain or retain a business or other advantage from a third Party, whether public or private. The Supplier will not pay or accept bribes, arrange or accept kickbacks and shall not take any actions to violate, or cause its business partners to violate, any applicable anti-bribery laws and regulations including the U.S. Foreign Corrupt Practices and the UK Bribery Acts.

Grievance mechanisms

The Supplier shall have systems in place enabling anonymous grievances, reporting and management. A designated officer shall continuously monitor the grievance mechanism, keep records on the issues raised and take appropriate actions on a confidential manner.

Records

The Supplier shall maintain transparent and up to date books and records to demonstrate compliance with applicable materials, services, governmental and industry regulations.

Origin

The supplier shall be capable to disclose all the potential sources of primary origins (country of origin) associated with deliveries made. Nestle reserves the right to ask the supplier to create, at a point of time, full supply chain mapping back to origin to facilitate assessment of upstream supply chain compliance.

Intellectual property

The Supplier shall take appropriate steps to safeguard and maintain confidential and proprietary information of its business partners and use such information only for the purposes authorized for use by the contractual agreement. In case of sub-contracting, sharing of confidential information should be made with the consent of Nestlé.

Conflict of Interest

The Supplier is expected to report to Nestlé any situation that may appear as a conflict of interest, and disclose to Nestlé if any Nestlé employee or professional under contract with Nestlé may have an interest of any kind in the supplier's business or any kind of economic ties with the supplier.

Additional standards

In addition to the Nestlé Supplier Code, the Supplier is bound to any additional requirements as applicable to the materials or services to be delivered and in particular the requirements of the Responsible Sourcing Guideline, as example animal welfare or land rights.

In case of direct supply from farms, applicable Good Agricultural Practices shall be followed by the farmer to ensure compliance with the Code. The Nestlé Responsible Sourcing Guideline for Materials of Agriculture, Forestry, Fisheries and Aquaculture Originwill provide additional guidance on best practices to be implemented as needed with the help of Nestlé Agricultural Service Teams.

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ANNEX 1

Key statistical and financial figures of Nestle [4, 7]

As stated in the 2013 annual Nestle report, the micro-environment in 2013 was one of soft growth, minimal in developed world and below recent levels in emerging markets. The response of Nestle was to increase brand support, accelerate innovation, and to insure the pricing was sensitive to customer needs. This gave impetus to Nestle real internal growth and, together with efficiencies and structural cost savings, contributed to Nestle margin improvement and strong cash flow. The long term strategic direction is to be the leader in Nutrition, Health and Wellness. This strategy is reinforced with the creation of Nestle Health Science extended to the field of specialised medical skin treatments by setting up Nestle Skin Health S.A.

In 2013 Nestle sales increased by 2.7% to CHF 92.2 billion, impacted by negative foreign exchange of 3.7%. Organic growth was 4.6%, composed of 3.1% real internal growth and 1.5% pricing (see pictures below). Acquisitions, net of divestitures, added 1.8% to sales.

The Group's trading operating profit was CHF 14.0 billion, representing a margin of 15.2%, up 20 basis points versus last year, and up 40 basis points in constant currencies. Nestle Continuous Excellence again delivered more than CHF 1.5 billion in efficiencies in all areas of the business. This, together with reduced structural costs, enabled to increase brand support and absorb higher restructuring costs.

As stated in the 2013 annual Nestle report, the cost of goods sold fell by 70 basis points as a percentage of sales, also supported by a favorable input cost environment. Distribution costs were down by 10 basis points. Administrative costs decreased by 40 basis points, reflecting structural efficiencies including Nestle pension plans. Total marketing costs increased by 60 basis points with consumer facing spend up 16.3% in constant currencies.

Net profit was CHF 10.0 billion down slightly due to the costs of portfolio restructuring and the currency impact. As a consequence, reported earnings per share were CHF 3.14, down 2.2%. Underlying earnings per share in constant currencies were up 11.0%.

The Group's operating cash flow continued to be strong at CHF 15.0 billion.

Principal key figures* (illustrative) in CHF, USD, EUR

In millions (except per share data)	Total CHF 2012	Total CHF 2013	Total USD 2012	Total USD 2013	Total EUR 2012	Total EUR 2013
Sales	89 721	92 158	95 651	99 452	74 443	74 858
Trading operating profit	13 464	14 047	14 354	15 159	11 171	11 410
Profit for the year attributable to shareholders of the parent (Net profit)	10 228	10 015	10 904	10 808	8 486	8 135
Equity attributable to shareholders of the parent	61 007	62 575	66 685	70 329	50 538	51 030
before proposed appropriation of profit of Nestlé S.A.						
Market capitalisation, end December	190 038	208 279	207 726	234 087	157 428	169 850
Per share						
Total basic earnings per share	3.21	3.14	3.42	3.39	2.66	2.55

* Income statement figures translated at weighted average annual rate;
  Balance sheet figures at year-end rate.

Trading operating profit
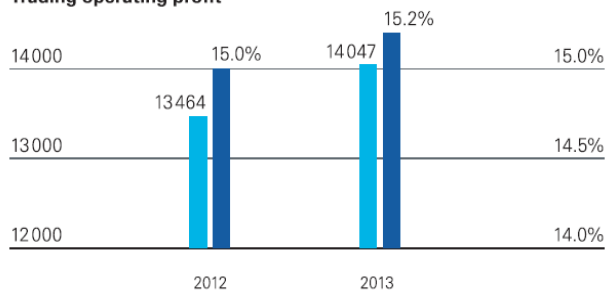
- In millions of CHF
- In % of sales

Operating segments: trading operating profit

In % of sales

Zone Europe	15.0
Zone Americas	18.2
Zone Asia, Oceania and Africa	18.9
Nestlé Waters	9.4
Nestlé Nutrition	20.0
Other [a]	17.7

(a) Mainly Nespresso, Nestlé Professional and Nestlé Health Science.

Geographic sales

as % of total sales

Asia, Oceania and Africa 28%

Americas 44%
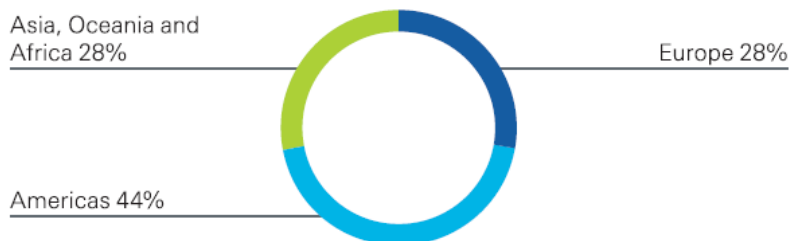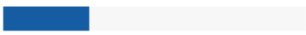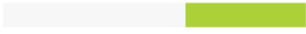
Europe 28%

The Nestle Group's organic growth was broad-based, 5.1% in the Americas, 0.8% in Europe and 7.4% in Asia, Oceania and Africa. Business in developed markets grew 1.0%, achieving sales of CHF 51.4 billion. Emerging business markets grew 9.3%, delivering sales of CHF 40.8 billion.

Real internal growth was 2.1 in the Americas, 1.9% in Europe and 5.9% in Asia, Oceania and Africa. This growth reflected a focus on the priorities that enabled to outperform the market: stay competitive by ensuring Nestle offered consumers best value, invest behind the brands and build the capabilities to win in today's challenging environment.

Sales by geographic areas

	Differences 2013/2012 (in %)		in CHF
	in CHF	in local currency	millions
By principal markets			2013
United States	+0.3%	+1.5%	23334
Greater China Region	+29.3%	+27.6%	6618
France	+0.7%	−1.4%	5578
Brazil	+1.2%	+12.9%	5116
Germany	+3.6%	+1.4%	3321
Mexico	+0.3%	−1.4%	3179
United Kingdom	+3.5%	+6.1%	2824
Philippines	+17.0%	+19.0%	2410
Italy	−3.3%	−5.3%	2098
Canada	−3.6%	+0.8%	2064
Russia	+6.3%	+10.6%	1852
Spain	−0.8%	−2.9%	1843
Australia	−12.1%	−4.8%	1775
Japan	−13.9%	+6.6%	1569
Switzerland	+0.6%	+0.6%	1512
Rest of the world	+2.8%	[a]	27065
By continent			
Europe	+1.8%	[a]	26071
USA + Canada	−0.0%	[a]	25399
Asia	+11.9%	[a]	20502
Latin America + Caribbean	−0.3%	[a]	14568
Africa	+2.8%	[a]	3397
Oceania	−10.0%	[a]	2221
Total	+2.7%	[a]	92158

Employees by geographic area

		2012	2013
Europe*		28.1%	28.0%
Americas		33.1%	32.5%
Asia, Oceania and Africa		38.8%	39.5%
Total		100.0%	100.0%

* 10 175 employees in Switzerland in 2013.
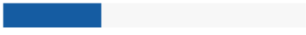
Employees by activity

In thousands

		2012	2013
Factories		177	178
Administration and sales		156	155
Total		333	333

Factories by geographic area

Nestlé has sold its products in 196 countries and has 447 factories in 86 countries. Six were acquired during the year and 11 divested.

		2012	2013
Europe		144	140
Americas		164	164
Asia, Oceania and Africa		144	143
Total		452	447

PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to encourage students to analyse factors influencing forces that are driving changes in supply chain. Generate as many ideas as you can what factors influence change in Nestlé's supply chain. Now use *Stimuli cards* to generate as many new factors as you can and explain how they can affect Nestle supply chain management. Present your ideas orally.

Assignment #2

The goal of the assignment is to encourage students to analyse importance of supply chains for business. Write arguments why supply chains must be managed sustainably. Then use *Stimuli cards (Principle cards)* to apply various principles to Nestle supply chain management.

Assignment #3

The goal of the assignment is to encourage students to analyse supply chain management in international business. Students are divided to groups of 3-5 people and asked to draw a model explaining main processes of supply chain management. Then students get familiar to the theoretical information about supply chain management and, if needed, add additional information to their models. Models are presented publicly and explained. Then *Stimuli cards (Person cards)* are used to analyse how supply chains are managed in different business sectors.

Assignment #4

The goal of the assignment is to encourage students to make decisions in international business. Identify what are Nestlé's supply chain management problems. Generate as many ideas as you can how to solve these problems. Now use *Stimuli cards* to generate as many new ideas as you can. Present your ideas orally using PowerPoint or other type of visual presentation.

Assignment #5

The goal of the assignment is to encourage students to create new business ideas. Students are asked to provide ideas for new initiatives how Nestle can develop their production further (various existing fields of activity can be used: baby foods, bottled water, cereals, chocolate & confectionery, coffee and other). Use *Stimuli cards* for generation of further ideas. How supply chain of Nestle would change after integration of these new products (services)?

14 ECONOMICS

14.1 CASE STUDY 1. FISCAL POLICY: EU APPROACH

Introduction to the topic

The recovery is broadening. GDP growth in the EU, which has turned positive in the second quarter of last year, is increasingly driven by domestic demand. This year, domestic consumption and investment are set to expand further, reducing the dependency of the recovery on the external sector. Growth has also returned in many of the vulnerable Member States, and growth differentials across EU Member States are expected to narrow. [1]

Within the EU economy, welcome recent improvements point to a path towards gradual normalisation. However, the consequences of the crisis are still holding back growth and job creation and could do so for some time. On the one hand, there are positive developments on several fronts. After years of necessary front-loaded fiscal consolidation, the aggregate fiscal stance is now close to neutral, although efforts are still required in a number of Member States. The ECB's comprehensive assessment of the banking sector provides an opportunity to finalize the overdue repair of bank balance sheets that is a precondition for overcoming financial fragmentation in the euro area and for getting credit to support the real economy. There are first signs that recent reforms in a number of Member States start bearing fruit as they facilitate internal and external adjustment and, crucially, improve the prospects for employment growth. On the other hand, as long as debt in several sectors of the economy remains too high, unemployment is at record levels and the adjustment of previous imbalances is incomplete, there is a serious risk of growth remaining stuck in low gear. Indeed, should the impetus for reforms at EU and Member State level falter, we would squander the opportunity to put the EU economy back on a higher growth trajectory. The present very low inflation - well below the ECB definition of price stability - could exacerbate the risk of protracted lacklustre growth if it becomes entrenched. Disinflation may have the positive effect of improving real incomes and supporting demand. However, it also makes the competitiveness adjustment in vulnerable Member States more challenging, as the required negative inflation differential to the rest of the euro area could adversely affect debt dynamics. Going forward much depends on the stability of inflation expectations for the medium term. Should they shift lower, the corresponding increase of real interest rates and the debt burden would make it harder for growth to accelerate. [1]
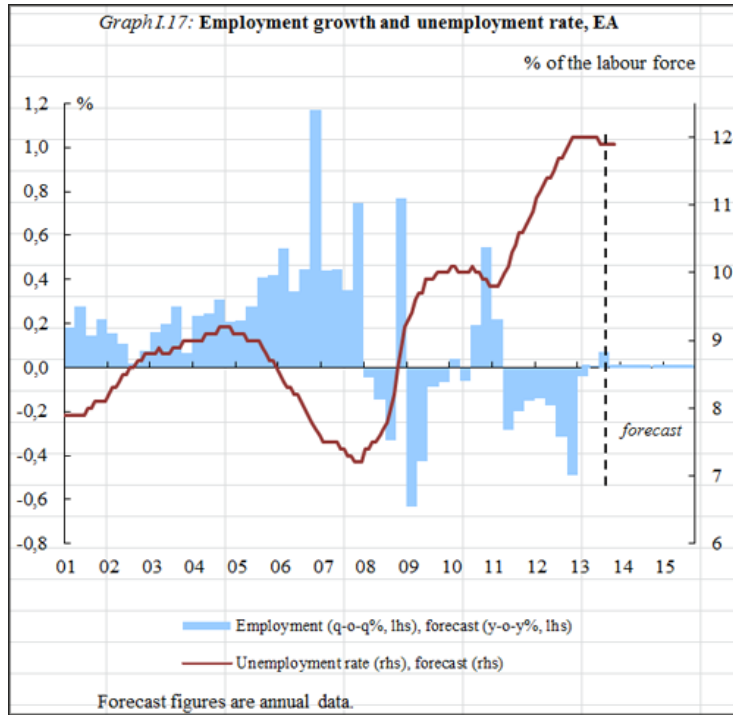
Current situation overview

Real GDP growth is forecast to advance with moderation in 2014, at 1.6% and 1.2% respectively in the EU and the euro area, before gaining some further speed to respectively 2.0% and 1.7% in 2015. [2]

In contrast to the sharp but short-lived upturn in 2010, the current recovery in the EU and euro area is more balanced regionally, as it involves also most of the vulnerable Member
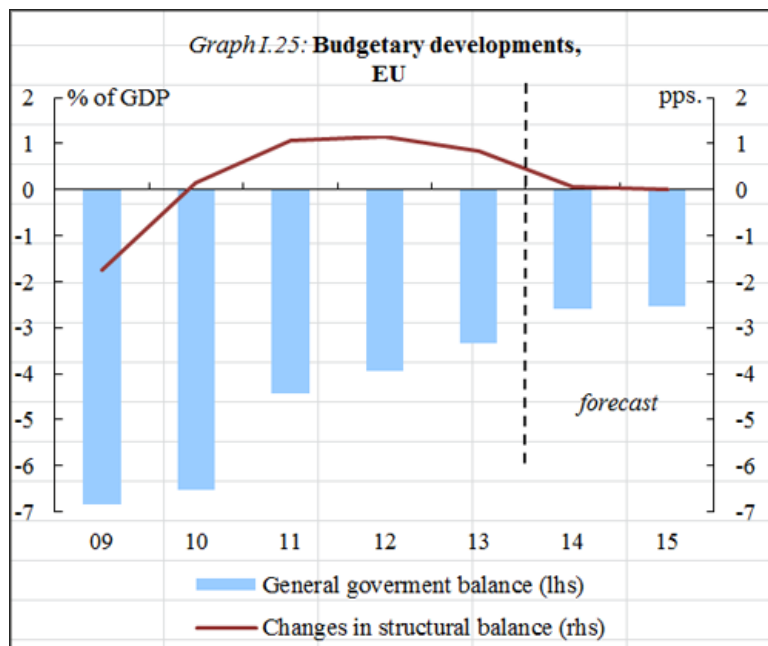
States. Real GDP growth in most EU countries is projected to be positive as of this year (with the exception of Cyprus and Croatia) and growth is expected to accelerate next year. Substantial, but receding, differences in economic performance will remain. Among the largest economies, economic growth is expected to be sustained in Germany while the recovery is firming in Spain and slowly gathering pace in France and Italy. In the UK, growth is becoming firmly established. [2]
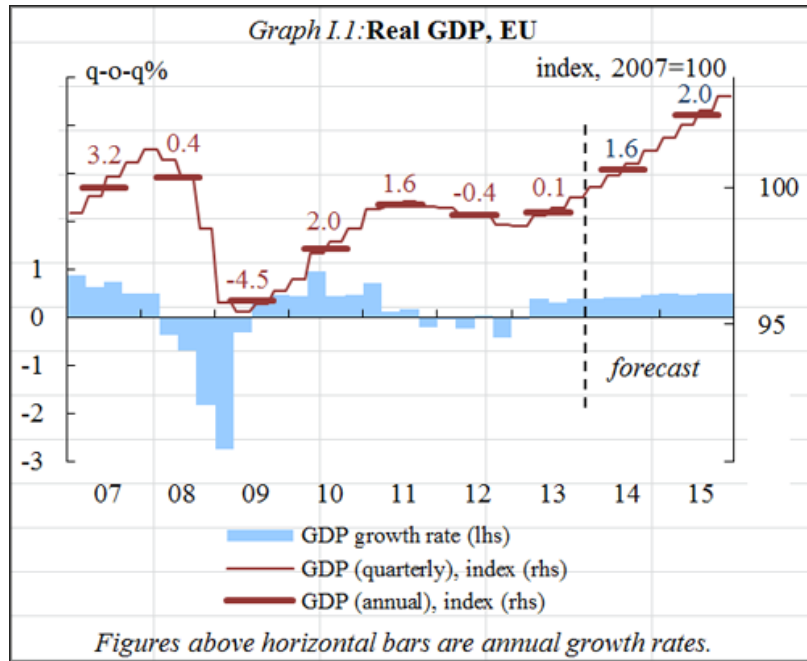
Conditions in the labour market have started to improve in 2013. However, with only limited economic expansion underway and the typical lag in response of employment to economic recovery, little net job creation is expected in the short term. Employment growth in 2014 is expected to be limited, at 0.6% in the EU and 0.4% in the euro area, though slightly better than projected in winter. Unemployment rate in the euro area and the EU is forecast to decrease slightly this year. In 2015 the unemployment rate is projected to stand at around 10.1% in the EU and 11.4% in the euro area. Such a slow decline mirrors the gradual recovery but could also reflect a higher prevalence of structural unemployment than in the pre-crisis years. Significant differences will remain among EU countries over the forecast period. [2]

Graph I.17: Employment growth and unemployment rate, EA

% of the labour force

Employment (q-o-q%, lhs), forecast (y-o-y%, lhs)
Unemployment rate (rhs), forecast (rhs)
Forecast figures are annual data.

Fiscal policy stance to be close to neutral. Following substantial fiscal consolidation in 2011-13, the fiscal policy stance is expected to be close to neutral in 2014. The deficit-to-GDP ratio is set to decrease further in both areas to around 2½% of GDP this year, as the recovery advances and additional deficit-reducing measures are being implemented by Member States. However, the fiscal effort, measured in terms of change of the structural balance, is expected to be broadly nil. The debt to GDP ratios of the EU and the euro area are expected to peak this year at 89.5% and 96.0% respectively, as continued improvement of primary surpluses, combined with stronger economic growth, are expected to put debt ratios on a downward path. [2]

Graph I.25: Budgetary developments, EU

% of GDP   pps.

General goverment balance (lhs)
Changes in structural balance (rhs)

And some data from IMF

Is Europe's economy finally getting its act together? That's what the International Monetary Fund thinks, according to its latest World Economic Outlook. The chart below shows the IMF expecting moderate growth on the Continent this year and next. [3]

Data suggested an upward trend until recently. Industrial production in Europe rose slowly from summer 2012 through last September. Since then, though, production has leveled off. Over the past year, countries in the European Union have expanded industrial production just 1.1 percent. [3, 4]
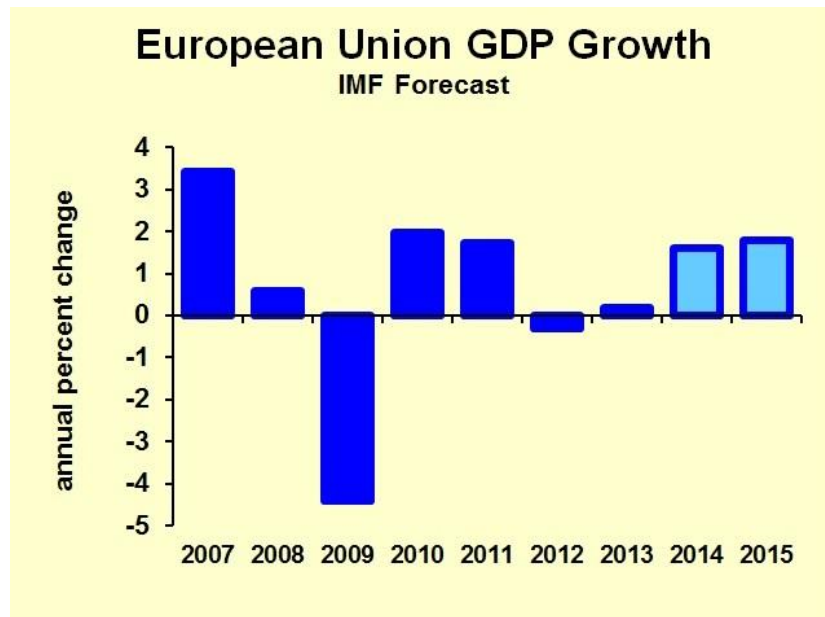
The IMF forecast is plausible but optimistic. One could take it as a base case, and then add lots of risk factors. Debt is still much too high in Southern Europe. The financial crisis is not much in the news now, but the problem lingers. [3]

Are debt levels in the Eurozone too high to be sustained?

Debt levels have risen significantly since 2008, with a very pronounced rise in sovereign debt across the Eurozone. Given our outlook for The New Neutral of low nominal growth coupled with high debt levels, low real interest rates are crucial for regional economic and financial stability. [5]

We expect a gradual reduction of fiscal deficits, though less than governments are currently targeting, stabilization and very gradual declines in debt levels over the secular horizon. In the case of Europe's larger economies, Italy is already running a primary surplus, though it needs growth in order to reduce its debt over time. Spain, however, will take longer to get to a primary surplus – but its initial conditions are better for deleveraging its public sector debt. In Portugal and Ireland, we have already seen debt restructurings in the form of official sector loans that have been extended to very long 30-year maturities and where interest rates have been lowered. [5]

Greece stands out for having an unsustainable level of public debt, at close to 180% of GDP in spite of its debt restructuring, including both private and official sector creditors. We expect more restructuring of the official sector loans in the form of maturity extensions out to 50 years. Greece, in effect, has a 10-year interest holiday before payments are required on official loans. But the Greek political situation remains unstable and very difficult to forecast over the shorter term, let alone three to five years. This makes the investment outlook very hard to judge. [5]

Overall, our baseline calls for a stable but not particularly healthy Eurozone, with a low potential growth rate and high, but stable, levels of debt. The clear tail would be weaker growth than we expect, reflecting Eurozone internal dynamics or an external slowdown. Either development would lead to increased tensions and growing concerns over the trajectory for public debt. [5]

What are expectations of inflation?

Over the secular horizon – the next three to five years – we expect global inflation to remain muted overall, as we think there is still a degree of slack in the global economy. Moreover, supply has increased in certain commodities like crude oil and natural gas, and there have been improvements in production of base metals like nickel. While investors should stay vigilant to the possibility of commodity price spikes or other inflation surprises, our secular base case is for inflation to be modestly higher than current levels. [6]

In Europe as well, we should see aggregate inflation move up from the currently very low 0.7% year-over-year rate to a rate north of 1%. This is still well below the European Central Bank's (ECB) target, and we expect continued stimulative policy from them. [6]

Motivating expansionary fiscal consolidations

Fiscal policy may have non-Keynesian effects on private consumption and investment decisions. It is therefore pertinent to identify the conditions under which a fiscal expansion may either contribute to the increase of economic activity or increase the likelihood of a recession. There is a higher probability of fiscal policy being non-Keynesian when there is a significant public debt-to-GDP ratio. As the argument goes, "perverse" savings reactions are all the more likely if public debt is already high, since the private sector may fear tax increases further down the road to offset a debt explosion. [7]

According to Keynesian explanations, budget deficit reductions, after the implementation of spending cuts for instance, should result in a temporary slowdown of aggregate demand and of economic activity. According to neoclassical theory, a budget reduction would have no effect on economic activity since the supply side is supposed to be the main determinant of economic growth. Keynesian theory postulates that after a fiscal contraction, aggregate demand reduction is the consequence whatever the instruments used. Such reduction will occur either directly, through the decrease in public consumption and investment, or

indirectly, when families reduce their consumption as a consequence of a lower disposable income, brought about by the increase of taxes or by the decrease of public transfers. [7]

Non-Keynesian effects may be associated with tax increases at high levels of government indebtedness. This kind of argument is based on "the expectational view of fiscal policy". If the fiscal consolidation appears to the public as a serious attempt to reduce the public sector borrowing requirements, there may be an induced wealth effect, leading to an increase in private consumption. On the other hand, the reduction of the government borrowing requirements diminishes the risk premium associated with public debt issuance, contributes to reduce real interest rates and allows the crowding-in of private investment. [7]

However, if consumers do not think that fiscal consolidation is credible, then the usual negative Keynesian effect on consumption will prevail. Besides the above mentioned expectational channel a so-called labour market channel could also be active. For instance, composition of fiscal policy may have economic effects via the labour market as a result of reducing public spending, notably salaries, instead of rising taxes. Along such reasoning there were defined two types of fiscal adjustment: Type 1 adjustment, when the budget deficit is reduced through cuts in social expenditures (unemployment subsidies, minimum income subsidies) and cuts in public sector wages; and Type 2 adjustment, when the budget deficit is reduced with the increase of taxes on labour income and with cuts in public investment expenditures. For instance, according to those authors, the fiscal episode of Ireland in 1987-1989 was a Type 1 adjustment, while the 1983-1986 fiscal episodes in Denmark could be classified as a Type 2 adjustment. [7]

The initial level of public debt is an important determinant of the effects of fiscal policy on private consumption. For instance, the increase in taxes would have two effects: the first effect results from the fact that an increase in taxes shifts some of the tax burden from future generations to the present generations, and contributes therefore to reducing current private consumption. The second effect would be a positive wealth effect, related to the idea that an increase in taxes today will avoid an increase of taxes in the future and would also allow the long term loss of income to be reduced. A present increase in taxes might therefore reduce the uncertainty about future fiscal policy. Following this line of reasoning, consumers can then decrease accumulated saving, some of which was probably set up as a precaution to meet future tax increases. This second effect may be the prevailing one, when for instance there is already a high debt-to-GDP ratio. Moreover, with a considerable debt-to GDP ratio, there is a higher probability of consumers displaying Ricardian behaviour, maybe assuming there could be a fiscal policy sustainability problem ahead. [7]

When public expenses keep rising beyond a certain limit, there will be also an increased probability that fiscal consolidation might occur. When the fiscal adjustment occurs, there are expectations that there will be significant future tax cuts, leading therefore to an increase in the consumer's permanent income. The same happens with private consumption, and consumers tend to exhibit Ricardian behaviour. A policy innovation that would be contractionary in a static model may be expansionary if it induces sufficiently expectations of future policy changes in the opposite direction. [7]

Alternative point of view

Europe's So-called "Expansionary Contraction" Has Not Worked in Practice

Supported by academic research, many policymakers in Europe argued that fiscal consolidation could actually be expansionary. Cutting government spending, in particular, would encourage private sector investment and consumption by more than enough to offset the direct reduction of government demand. [8]

Academic support for the view has also been undermined by a reappraisal of the evidence at the International Monetary Fund. Current forecasts suggest that the eurozone and probably the whole European Union are now entering a second recession, with even Germany showing signs of weakness. The big danger in fiscal consolidation is that it creates a downward spiral, where falling demand and employment trigger declining tax revenues and budget deficits actually get worse instead of better. Further spending cuts or tax increases only worsen the downward spiral. [8]

This does not mean that fiscal consolidation can always be avoided, or that expansionary fiscal policy is the answer. Troubled eurozone economies are facing high interest rates as they roll over their maturing sovereign debt, and they can reach a point of no return where borrowing costs are so high that investors no longer believe the debt will be repaid and the market freezes up. Greece, of course, faced that situation and was forced to default. [8]

Expansionary Fiscal Contraction and the Emperor's Clothes

Various eminent economists have attacked 'deficit hysteria' as based on weak economic evidence and poor theory; i.e. as being 'economically illiterate'. The right-wing of the profession has struck back, digging hard into the literature to support their case. The result is the popularization of the phrase 'expansionary fiscal contraction' – meaning that closing the budget deficit (fiscal contraction) is expansionary; i.e. the high road to private sector-led growth. [9]

Advocates of expansionary fiscal contraction argue that cutting the public deficit – either by raising taxes or cutting spending or some mix of the two – will free the necessary private sector resources for growth. The shift to private sector led expansion comes about through a combination of lower interest rates boosting private investment, lower public borrowing boosting consumer confidence and, in response to lower interest rates, a lower exchange rate which boosts net exports. [9]

Fiscal consolidation typically has a contractionary effect on output. A fiscal consolidation equal to 1 percent of GDP typically reduces GDP by about 0.5 percent within two years and raises the unemployment rate by about 0.3 percentage point. Domestic demand – consumption and investment – falls by about 1 percent. [9]

<…>

Broadbent and Daly examine 44 cases of fiscal adjustment in OECD countries over 35 years. Their central argument is that in the 11 cases out of 44 that involved mainly spending cuts, expansion resulted because sharply lower interest rates meant bond yields fell, in turn causing equity prices to rise. The implication is that an asset price rally (stock market, house prices, etc) resulting from lower interest rates restores consumer confidence, boosts investment and leads to growth. This is the economic logic behind Osborne's spending cuts and those of other 'deficit hawk' governments – more generally, it is the logic behind loosening monetary policy to boost growth while imposing a fiscal contraction. [9]

Conclusion

After a period of timid and scattered recovery, there are genuine signs that a more lasting upturn is now ongoing in the EU and the euro area. In recent months, confidence has improved and business indicators have remained above their long-term levels pointing to a recovery gradually gaining strength and spreading across the EU. Growth turned positive in a large majority of Member States over the course of last year and the outlook has improved even in the more vulnerable ones.

Overall, risks to the growth outlook remain tilted to the downside. On the domestic side, as the recovery advances, the risk that reforms crucial to the recovery's continuation and strengthening may be put off also increases. On the external side, risks to the outlook for emerging market economies persist, especially for those most exposed to tighter financial conditions. Uncertainty has increased regarding China's growth prospects and possibly its financial stability. Tensions with Russia have increased geopolitical risks. Their impact will depend on the duration and gravity of the situation.

Though HICP inflation could turn lower than envisaged, the probability of outright deflation remains very low. Upside risks to growth identified in the winter forecast are still valid. Stronger growth in domestic demand could materialize if confidence increases further and credit conditions improve faster than expected. The substantial structural reforms that were undertaken in recent years may also lead to better-than-expected labour-market results, particularly in the vulnerable Member States. This would also lead to a faster normalization of inflation.

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PRACTICAL ASSIGNMENTS

Assignment #1

The *goal* of this assignment is to form basics of macroeconomic data analysis. Students work in groups (4-5 students) trying to identify main macroeconomic indicators and shortly explain what tendencies they can watch from given statistical data. After 15-20 min. work they should shortly present result of group work, which will be fixed on board for further their usage in next assignments.

Assignment #2

The *goal* of this assignment is to ease understanding of fiscal policy definition. Students working in groups (4-5 students) should use their creativity and imagination to make definition map or picture for "Fiscal policy" definition. The form is more important in this task than content. So it is preferable to make some mind releasing or relaxing exercises before task. Different cards can be used to help students in this assignment.

Assignment #3

The *goal* of this assignment is to explain main fiscal policy tools and what is their impact on aggregate demand and other indicators. For that purpose students divide into three groups (three tools). Each group gets sheet of paper and their own fiscal policy tool to analyse. Students try to remember or find in case text different macroeconomic indicators and identify how they can change in case of usage of current fiscal policy tool. After 10 minutes groups should exchange of their papers and continue work of other group (add some more indicators for other tool). Repeat last action two more time each 10 minutes. *Result* can be published on board and preferable to be used for other assignments.

Assignment #4

The *goal* of this assignment is to analyse fiscal policy tools impact on current firm activities. The students should use one picture card (one card per student). Students must choose one picture in the card and decide what business it will describe - whether it is a product or a service related with the product. In 10-15 minutes students individually have to write down as many possible fiscal tools impact on their chosen business as they can. In the next 5-10 minutes students in pairs discuss and helping each other to develop more ideas on those impacts. In the next 10-15 minutes 3-4 students group have to share their ideas and systematize them. Then the group presents what results they came up with.

Assignment #5

The goal of this assignment is to learn how to use fiscal policy tools in real situations. Students should divide into three groups when each group works with one of the tools (three tools). Their task is in 10-15 minutes to prepare arguments for their tool usage in cases: (a) "this tool is better because it will have such positive impacts…"; (b) "this tool is better to use because other tool can have such negative impacts…". Afterward work goes in discussion mode. Each group has 2 minutes to present (a) part of their speech there one member of group presents some (2-5) main positive impact of their fiscal policy tool. Then groups have 5-10 minutes to analyse discussion results and prepare answers as part (b). The last part of this work is to each group (one member) make 2 minutes presentation in case (b) "we should use our fiscal policy tool because other tool can cause such negative effect which is not common for our tool".

Note: For each assignment it would be preferable to change composition of the student groups.

14.2 CASE STUDY 2. PRICE STABILITY AND MONETARY POLICY: EU APPROACH

The benefits of price stability

The objective of price stability refers to the general level of prices in the economy and implies avoiding both prolonged inflation and deflation. There are several ways in which price stability contributes to achieving high levels of economic activity and employment. [1]

First, price stability makes it easier for people to disentangle changes in relative prices (i.e. movements in prices of any individual good or service) from changes in the general price level. In such an environment, people know that movements in prices typically mirror changes in the "relative scarcity" of the individual goods and services which result from changes in the supply of, and demand for, these goods and services. This allows the market to allocate resources more efficiently. By helping the market to guide resources to where they can be used most productively, price stability increases the welfare of households and thus the productive potential of the economy. [1]

Second, if creditors can be sure that prices will remain stable in the future, they will not demand an "inflation risk premium" to compensate them for the risks associated with holding nominal assets over the longer term. By reducing such risk premia in the real interest rate, monetary policy credibility contributes to the efficiency with which the capital markets allocate resources and thus increases the incentives to invest. This in turn fosters economic welfare. [1]

Third, the credible maintenance of price stability also makes it less likely that individuals and firms will divert resources from productive uses in order to hedge against inflation. For example, in a high-inflation environment there is an incentive to stockpile real goods since they retain their value better in such circumstances than money or certain financial assets. However, stockpiling goods is not an efficient investment decision, and therefore hinders economic growth. [1]

Fourth, tax and welfare systems can create perverse incentives which distort economic behaviour. In most cases, these distortions are exacerbated by inflation or deflation, as fiscal systems do not normally allow for the indexation of tax rates and social security contributions to the inflation rate. Price stability eliminates the real costs entailed when inflation exacerbates the distortionary impact of tax and social security systems. [1]

Fifth, inflation acts as a tax on holdings of cash. In an inflationary environment, households have an incentive not to use cash as often in order to reduce transaction costs. These so-called "shoe-leather" costs arise because individuals have to visit the bank (or cash machine) more frequently to withdraw banknotes. [1]

Sixth, maintaining price stability prevents the considerable and arbitrary redistribution of wealth and income that arises in inflationary as well as deflationary environments, where price trends change in unpredictable ways (e.g. redistribution effects from creditors to debtors). Typically, the weakest groups of society often suffer the most from inflation, as

they have only limited possibilities for hedging against it. An environment of stable prices thus helps to maintain social cohesion and stability. As several examples in the twentieth century have demonstrated, high rates of inflation or deflation often create social and political instability. [1]

Seventh, sudden revaluations of financial assets may undermine the soundness of the banking sector's balance sheets and decrease households' and firms' wealth. By contrast, if monetary policy succeeds in maintaining price stability in a credible manner, inflationary as well as deflationary shocks to the real value of nominal assets can be avoided. In this way, monetary policy aimed at price stability provides an important contribution to financial stability. [1]

All these arguments suggest that a central bank that maintains price stability makes a substantial contribution to the achievement of broader economic goals, such as higher standards of living, high levels of economic activity and better employment prospects. This is in line with a host of empirical studies for a wide range of countries which point to the existence of a negative relationship between inflation and growth. A permanent rise in inflation outweighs any short-term gain in nominal income, and eventually causes real income to decline permanently. [1]

The role of monetary policy

The way in which monetary policy exerts its influence on the economy can be explained as follows. The central bank is the sole issuer of banknotes and bank reserves, i.e. it is the monopoly supplier of the monetary base. By virtue of this monopoly, the central bank is able to influence money market conditions and steer short-term interest rates. [1]

In the short run, a change in money market interest rates induced by the central bank sets in motion a number of mechanisms and actions by economic agents, ultimately influencing developments in economic variables such as output or prices. This process – also known as the monetary policy transmission mechanism – is complex and, while its broad features are understood, there is no unique and undisputed view of all the aspects involved. [1]

In the long run, changes in the money supply will affect the general price level, but not the level of real income or employment. The neutrality of money is a widely accepted and empirically validated proposition in the economic profession. In the long run, economy have worked through,, i.e. after all adjustments in the a change in the quantity of money in the economy (all other things being equal) will be reflected in a change in the general level of prices and will not induce permanent changes in real variables such as real output or employment. A change in the quantity of money in circulation ultimately represents a change in the unit of account (and thereby the general price level) which leaves all other variables unchanged. [1]

This general principle, referred to as "the long-run neutrality" of money, underlies all standard macroeconomic thinking and theoretical frameworks. Real income or the level of employment in the economy are, in the long run, essentially determined by real (supply side) factors. These are technology, population growth, the preferences of economic agents and all

aspects of the institutional framework of the economy (notably property rights, tax policy, welfare policies and other regulations determining the flexibility of markets and incentives to supply labour and capital and to invest in human capital). [1]

The potential costs of additional monetary easing

Risk-taking can become excessive whereby some asset prices are bid up to too elevated levels, risking financial instability in the future. Continued asset purchases or forward guidance when investors have become very tolerant to risk could result in excesses, while asset purchases and forward guidance in depressed markets are unlikely to have such effects. [2]

Inflation expectations can rise above targets, with the risk of additional monetary stimulus having such effects depending on the starting point. It is more likely to unsettle inflation expectations if expectations are already above targets or the stock of purchased assets is high, raising concerns about the ability and willingness of the central bank to unwind stimulus in a timely manner and thus control inflation. [2]

Additional asset purchases when holdings are already high add to future exit challenges, notably the risk of bond market instability in the exit phase. The current discounted costs of such possible future events depend on the time to, and the expected pace of, normalisation of monetary policy. Thus, the current costs will be higher if the start of exit is relatively close in time and if there are risks of abrupt policy reversal than if it is likely to take place far into the future and policy tightening can occur gradually. [2]

Risks to central bank independence may emerge in the exit phase when losses are likely on its asset holdings as interest rates normalise. The cost in terms of lower credibility may be higher at the margin when asset holdings are high and lossesthreaten to wipe out the capital of the central bank. [2]

The ever-greening of de factonon-performing loans, encouraged by low interest rates, undermines creative destruction and productivity gains in the economy. If evidence, such as high recorded non-performing loans and bankruptcies, suggests little incidence of ever-greening in an economy, additional monetary easing may run a lower risk of resulting in such practices than if ever-greening practices appear to be widespread. [2]

Adding to an already large stock of assets would lead to increased dominance by the central bank in the market segments where purchases take place and could involve less liquid markets and other efficiency losses. This would be less of a concern when central bank's asset holdings are low. [2]

Situation overview

The recovery is broadening. GDP growth in the EU, which has turned positive in the second quarter of last year, is increasingly driven by domestic demand. This year, domestic consumption and investment are set to expand further, reducing the dependency of the

recover y on the external sector. Growth has also returned in many of the vulnerable Member States, and growth differentials across EU Member States are expected to narrow. [3]

At the same time as we are observing more balanced growth prospects across the EU, the global economy is becoming more differentiated. Among advanced economies, the US has displayed a strong resilience to domestic fiscal shocks and the related uncertainty. Assessing the upswing there as sufficiently robust, the Federal Reserve has initiated the gradual shift towards a less expansionary monetary stance. In turn, the prospect of a gradual normalisation of benchmark interest rates and global liquidity has led international investors to discriminate more strongly among emerging market economies, and capital flows to countries with sizeable external imbalances and domestic weaknesses have dried up. This reallocation of capital flows has led to financial market tensions in mid-2013 and again in early 2014. They are a reminder that the global economy remains vulnerable, even as growth and trade are accelerating. [3]

Within the EU economy, welcome recent improvements point to a path towards gradual normalisation. However, the consequences of the crisis are still holding back growth and job creation and could do so for some time. On the one hand, there are positive developments on several fronts. After years of necessary front-loaded fiscal consolidation, the aggregate fiscal stance is now close to neutral, although efforts are still required in a number of Member States. The ECB's comprehensive assessment of the banking sector provides an opportunity to finalize the overdue repair of bank balance sheets that is a precondition for overcoming financial fragmentation in the euro area and for getting credit to support the real economy. There are first signs that recent reforms in a number of Member States start bearing fruit as they facilitate internal and external adjustment and, crucially, improve the prospects for employment growth. On the other hand, as long as debt in several sectors of the economy remains too high, unemployment is at record levels and the adjustment of previous imbalances is incomplete, there is a serious risk of growth remaining stuck in low gear. Indeed, should the impetus for reforms at EU and Member State level falter, we would squander the opportunity to put the EU economy back on a higher growth trajectory. The present very low inflation - well below the ECB definition of price stability - could exacerbate the risk of protracted lacklustre growth if it becomes entrenched. Disinflation may have the positive effect of improving real incomes and supporting demand. However, it also makes the competitiveness adjustment in vulnerable Member States more challenging, as the required negative inflation differential to the rest of the euro area could adversely affect debt dynamics. Going forward much depends on the stability of inflation expectations for the medium term. Should they shift lower, the corresponding increase of real interest rates and the debt burden would make it harder for growth to accelerate. [3]

Conclusion of main indicators can be seen in the table below (table 1).

Table 1. Main macroeconomic indicators of EU and their forecast, 2012-2015. [4]

Forecasts for EU	2012	2013	2014	2015
GDP growth (%, yoy)	-0,4	0,1	1,6	2,0
Inflation (%, yoy)	2,6	1,5	1,0	1,5
Unemployment (%)	10,4	10,8	10,5	10,1
Public budget balance (% of GDP)	-3,9	-3,3	-2,6	-2,5
Gross public debt (% of GDP)	86,8	88,9	89,5	89,2
Current account balance (% of GDP)	0,9	1,6	1,8	1,8

What are expectations for inflation?

Over the secular horizon – the next three to five years – we expect global inflation to remain muted overall, as we think there is still a degree of slack in the global economy. Moreover, supply has increased in certain commodities like crude oil and natural gas, and there have been improvements in production of base metals like nickel. While investors should stay vigilant to the possibility of commodity price spikes or other inflation surprises, our secular base case is for inflation to be modestly higher than current levels. [5]

In Europe as well, we should see aggregate inflation move up from the currently very low 0.7% year-over-year rate to a rate north of 1%. This is still well below the European Central Bank's (ECB) target, and we expect continued stimulative policy from them. [5]

What are expectations for ECB policy?

Baseline expectation is that the ECB will likely take further liquidity-easing measures, but that it is not ready to move to asset purchases based on its own low inflation forecasts and to ward off deflation risks. The ECB, rather, appears comfortable with inflation undershooting its supposed target of close to, but below, 2% inflation. The central bank introduced a new three-year forecast at its Governing Council meeting on 6 March 2014 (previously, it forecast out only for two years) and projected inflation only rising very gradually to 1.5% in 2016. This underlines the asymmetry in the ECB's attitude toward overshooting and undershooting the target and may reinforce the risk that inflation expectations ratchet down. [6]

This may well reflect political/coordination issues on the ECB board, but it carries significant risks. The risk of external shocks, as mentioned in the context of the growth outlook, is very relevant again. In the event of a shock to the fragile Eurozone economy, with inflation so low, there is little buffer against a slide into deflation. [6]

Should inflation or growth data surprise on the downside, we would expect ECB President Mario Draghi to take more decisive action in the form of asset purchases, triggering a clearer

and present deflation threat. Such a move by the ECB would likely take the form of credit easing – private sector assets – but could also take the form of buying government bonds. Quantitative easing (QE) may be more politically controversial but would be far more straightforward to implement, technically, than attempting to buy loans from banks. [6]

The medium-term orientation of the ECB's monetary policy

An economy is continuously subject to largely unforeseeable shocks that also affect price developments. At the same time, monetary policy can only affect price developments with significant time lags, which are variable and, like most economic relationships, highly uncertain. Against this background, it would be impossible for any central bank to keep inflation at a specific point target at all times or to bring it back to a desired level within a very short period of time. Consequently, monetary policy needs to act in a forward-looking manner and can only maintain price stability over longer periods of time. This is the reasoning that lies at the core of the ECB's medium-term orientation. [1]

The ECB has not defined the medium term with reference to a predetermined horizon, but deliberately retains some flexibility with regard to the exact time frame. Several reasons underpin that choice. It is not advisable to specify ex ante a precise horizon for the conduct of monetary policy, since the transmission mechanism spans a variable, uncertain period of time. In addition, the ECB's mandate is formulated in terms of a price stability objective rather than an inflation target. This element helps policy-makers to avoid mechanistic reactions in response to shorter-term developments aimed at restoring the inflation target at a fixed short-term policy horizon. Furthermore, the optimal monetary policy response to ensure price stability always depends on the specific nature and size of the shocks affecting the economy. For a wide variety of shocks (e.g. demand shocks that move output and prices in the same direction) a prompt reaction by monetary policy is often adequate and will not only preserve price stability but also help to stabilise the economy. However, there are other types of economic shocks (e.g. of a cost-push nature, such as oil price hikes) that move output and prices in opposite directions. For example, monetary policy has to accept the inflationary consequences caused by the first-round effects of oil price shocks, since little – if anything – can be done to counter them. An excessively aggressive policy response to restore price stability in a very short span of time would, in these circumstances, risk imparting a significant cost in terms of output and employment volatility which, over a longer horizon, could also affect price developments. In these cases, it is widely recognised that a gradual response of monetary policy is appropriate both to avoid unnecessarily high volatility in real activity and to maintain price stability over a longer horizon. Thus, the medium-term orientation also gives the ECB the flexibility required to respond in an appropriate manner to the different economic shocks that might occur. [1]

In sum, the focus of the ECB's monetary policy in pursuing its price stability mandate is on the medium term. The ECB's decision not to give the policyrelevant horizon a precise time dimension has been an appropriate choice, both innormal and crisis times. The medium-term orientation implies that the policyrelevant horizon, defined as the horizon at which the ECB

pursues the sustainable alignment of consumer price inflation with its price stability objective, can be of variable length over time, taking into account the fact that transmission lags are not only long but also variable and uncertain. Furthermore, the inflationary or deflationary impact associated with the accumulation of financial imbalances may go beyond the standard horizon of two to three years commonly used in inflation projections. This underlines the importance of the monetary analysis which provides policy-makers with the necessary tools to pursue a medium to long-term perspective. [1]

Alternative Monetary Policy

Critics are concerned that traditional monetary policy is limited in what it can accomplish. Alternative monetary policy comes in different forms. Some involve measures beyond the traditional policy instruments, while others are more sweeping, involving changes that limit the discretion of policymakers. [7]

A problem with conventional monetary policy involves the limits posed by the usual tool of monetary policy, which is the key interest rates set by central banks. These include the discount rate--the interest rate that central banks charge financial institutions for loans--and the funds rate, which banks charge each other for loans. In times of financial crisis, central banks may find it necessary to reduce these policy rates to near zero. [7]

However, even when central banks set policy rates at historic lows, the real interest rates in the economy may still be too high for monetary policy rates to have the desired effect. In this instance, central banks must rely on alternative monetary policy that affects long-term interest rates, rather than setting the short-term rates over which they have control. [7]

Central banks can affect long-term interest rates through alternative monetary policy measures, such as buying different types of securities, which pumps more money into the economy, or by offering loans to banks against different forms of collateral, such as mortgages. [7]

Alternative monetary policy measures such as these enhance banks' access to funding, increasing the monetary supply in times when the economy is in a deep recession. [7]

Conclusion

After a period of timid and scattered recovery, there are genuine signs that a more lasting upturn is now ongoing in the EU and the euro area. In recent months, confidence has improved and business indicators have remained above their long-term levels pointing to a recovery gradually gaining strength and spreading across the EU. Growth turned positive in a large majority of Member States over the course of last year and the outlook has improved even in the more vulnerable ones.

Overall, risks to the growth outlook remain tilted to the downside. On the domestic side, as the recovery advances, the risk that reforms crucial to the recovery's continuation and

strengthening may be put off also increases. On the external side, risks to the outlook for emerging market economies persist, especially for those most exposed to tighter financial conditions. Uncertainty has increased regarding China's growth prospects and possibly its financial stability. Tensions with Russia have increased geopolitical risks. Their impact will depend on the duration and gravity of the situation.

Though HICP inflation could turn lower than envisaged, the probability of outright deflation remains very low. Upside risks to growth identified in the winter forecast are still valid. Stronger growth in domestic demand could materialize if confidence increases further and credit conditions improve faster than expected. The substantial structural reforms that were undertaken in recent years may also lead to better-than-expected labour-market results, particularly in the vulnerable Member States. This would also lead to a faster normalization of inflation.

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PRACTICAL ASSIGNMENTS

Assignment #1

The *goal* of this assignment is to make understanding of price stability importance. Students work in groups (4-5 students) trying to identify price stability main benefits and costs reviewed in case text. After 10-15 min. work they should shortly present result of discussion, which are being fixed on board for further their usage. Afterwards students continue their work in groups with new data. They get cards (e.g. "People") and new task to explain what impact (positive and negative) can make price in/stability (low inflation, higher inflation or deflation) to current firm activity.

Assignment #2

The *goal* of this assignment is to ease understanding of monetary policy definition. Students working in groups (4-5 students) should use their creativity and imagination to make definition map or picture for "Monetary policy" definition. The form is more important in this task than content. So it is preferable to make some mind releasing or relaxing exercises before task. Different card can be used to help students in this assignment.

Assignment #3

The *goal* of this assignment is to explain main monetary policy tools and what is their impact on price stability and other indicators. For that purpose students divide into three groups (three tools). Each group gets sheet of paper and their own monetary tool to analyse. Students try to remember or find in case text different macroeconomic indicators and identify how they can change in case of usage of current monetary policy tool. After 10 minutes groups should exchange of their papers and continue work of other group (add some more indicators for other tool). Repeat last action two more time each 10 minutes. Result can be published on board and preferable to be used for other assignments.

Assignment #4

The *goal* of this assignment is to analyse monetary policy tools impact on current firm activities. The students should use one picture card (one card per student). Students must choose one picture in the card and decide what business it will describe - whether it is a product or a service related with the product. In 10-15 minutes students individually have to write down as many possible monetary tools impact on their chosen business as they can. In the next 5-10 minutes students in pairs discuss and helping each other to develop more ideas on those impacts. In the next 10-15 minutes 3-4 students group have to share their ideas and systematize them. Then the group presents what results they came up with.

Assignment #5

The goal of this assignment is to learn how to use monetary policy tools in real situations. Students should divide into three groups when each group works with one of the tools (three tools). Their task is in 10-15 minutes to prepare arguments for their tool usage in cases: (a) "this tool is better because it will have such positive impacts…"; (b) "this tool is better to use because other tool can have such negative impacts…". Afterward work goes in discussion mode. Each group has 2 minutes to present (a) part of their speech there one member of group presents some (2-5) main positive impact of their monetary policy tool. Then groups have 5 minutes to analyse discussion results and prepare answers as part (b). The last part of this work is to each group (one member) make 2 minutes presentation in case (b) "we should use our monetary policy tool because other tool can cause such negative effect which is not common for our tool".

Note: For each assignment it would be preferable to change composition of the student groups.

15 COMMUNICATION

15.1 CASE STUDY 1. MANAGING INTERNAL COMMUNICATION

Introduction

This case study is based on the results of a communication audit which was conducted by Paul J.A Robson and Denis Tourish from Aberdeen Business School, Robert Gordon University, Aberdeen, UK in a major European health-care organization (HCO) undergoing significant internal re-organization [13].

Role of Internal Communication in the organization

Internal communications (IC) is the function responsible for effective communication among participants within an organization.

People at work communicate regardless of the intentions of their managers or leaders. The purpose that a formally appointed IC manager or IC team will serve within a given organization will depend on the business context. In one, the IC function may perform the role of 'internal marketing' (i.e., attempting to win participants over to the management vision of the organization); in another, it might perform a 'logistical' service as channel manager; in a third, it might act principally as strategic adviser.

There are a number of reasons why organisations should be concerned with internal communication.

As noted in Quirke (2008) "Traditionally, internal communications has focused on the announcement of management conclusions and the packaging of management thinking into messages for mass distribution to the 'troops'". Research indicates a limit to the value of this 'broadcasting' model of IC. Without feedback loops and harnessing the active involvement and mediation skills of frontline supervisors or team leaders, broadcasting tends to be more effective at influencing senior and middle managers than frontline employees - see, e.g., Larkin and Larkin (1994) [12].

Beneficial effects of communication

There is now a substantial literature that suggests that internal communications helps to improve the likelihood of an organisation being successful. Hanson's (1986) research looked at the profitability of 40 major companies over a five-year period. His results indicated that when predicting profitability of an organisation the presence of good interpersonal relationships between managers and staff was three times more powerful than the four next

most powerful variables, combined-market share, capital intensity, firm size and sales growth rate [6].

Clampitt and Downs (1993) undertook a wide review of the evidence on the effects on organisations of communication. They concluded that the benefits obtained from quality communications included improved productivity, a reduction in absenteeism, increased levels of innovation, a reduction in the number of strikes, higher quality of services and products, and a reduction in costs [4].

Kanter (1988) argued that higher levels of innovation can be achieved by good communication within and between organisations and sections of organisations. More specifically, the thrust of Kanter's (1988) conclusion is that contact between as many levels in an organisation as possible is important to achieving enthusiastic, widespread involvement in the achievement of organisational goals and the creation of a supportive climate for innovation [9].

Barriers to effective practice

A wealth of empirical material has demonstrated a frequent gulf between how much information people need to do their jobs and what they receive, problems with the sources from which they receive it, the channels through which it is transmitted and how much information is in turn sent by most organisational members (Tourish and Hargie, 1998, and various contributors to Hargie and Tourish, 2000) [16]. In addition, many managers are reluctant to investigate their communication practices by implementing communication audits. Such resistance to diagnosis might well be itself a contributory factor towards communication problems – if organisations lack data on how well they are performing it becomes correspondingly harder to develop appropriate action plans.

Among the problems identified that prevent organisations implementing best communication practice are the following:

> *A widespread conviction that the managerial agenda is already over-crowded.* Managers then become reluctant to burden it further with issues that are widely regarded as too intangible to be measured, let alone transformed [15].

> *A recognition that communication might be poor in many organisations, combined with the view that the manager's own organisation will be an exception.* In reality, most managers are poor at evaluating their effectiveness as communicators [12].

Furthermore, most people rate themselves as more intelligent, skilled, ethical, honest, persistent, original, friendly, reliable, attractive, fair-minded and even better drivers than others (Myers, 1996). It is therefore hardly surprising that one national survey in the USA found 60 per cent of top management respondents saying they communicated "frequently" with their employees, while only 30 per cent of non-management staff agreed [5].

Thus, it may be that managers' low level of awareness of their communication climate, combined with a reluctance to investigate it, become key obstacles to the development of

positive communications policies. This article seeks to explore these issues, and identify other factors that may prevent the implementation of good practice.

Data gathering and methodology

Research questions

RQ1. Is communication functioning at an optimum level in the healthcare organization (HCO), or is there a gap between practice and what is needed?

A second question was concerned with the workloads of senior managers. Excessive amounts of hard work can be detrimental to the people engaged in such policies and can also have detrimental effects more widely upon the organization. In particular, excessive work could result in poorer decision making by senior managers, and an inability to empower other members of the organization with the necessary information to do their jobs effectively [2]. Our second research question is specified as:

RQ2. What is the perception of the workload of the senior level of management by other levels of the organisation, and what is the impact of their workload on communication climate?

Organizational context

The data upon which this case study was written is derived from a communication audit of a major European HCO which was undergoing significant internal re-organisation. The HCO employs 3,500 staff, has a budget of over 300 million Euros per annum, and offers a wide range of services to a population of 350,000 people dispersed across a large geographical area. The HCO is composed of seven main care groups (including acute illness, primary care and mental health), in four main geographical areas. Within each group, a general manager (GM), male, had been appointed in the previous 18 months, charged with the task of co-ordinating activities across the care groups within the locality. Thus, the essential point of the management structure was to be that clinical governance responsibilities lay with the care group director across all locations, ensuring consistent patterns of care. However, within each location service co-ordination would be the responsibility of general managers, who were accountable to the senior management team. This was an extraordinarily small body, composed only of the CEO and the seven care group directors.

Importantly, there is commonly a legal requirement for organizations to communicate with their workers. In Europe, for example, the EU has made very specific provision about workers' rights to be informed and consulted.

Effective internal communications is one of the key enablers of employee engagement (see, e.g., the UK government-sponsored Macleod Report for a summary of research) and thought to add significant value to organizations on all metrics from productivity to customer research [13].

A communication audit was carried out in the HCO. As preparation for this audit, and in line with normal procedure (Hargie et al., 2002) a meeting had been held between the audit team and the HCO's senior management team (SMT). At this meeting there was a review of the general principles of communication audits; the nature of a communications strategy, and the benefits that can be obtained from implementing it; and the likely timescale for the implementation of a communication audit within the organisation. Importantly from the standpoint of this project, the main intention here was to work through the basics of an effective communication strategy, the need for an adequate flow of information on key corporate issues and to explore the attitude of the SMT to these issues. All members of the team were keen to discuss these issues; all committed to the principles of effective communication; all agreed that a steady flow of good quality information on key issues was a vital prerequisite to effective organisational functioning [7].

Research results

Results from focus groups and interviews

A total of six focus groups, attended by 23 people, and nine interviews were conducted. Participants in the focus groups and interviewees were all probed for their attitudes towards:

(1) internal communication in general;

(2) their understanding of, and support for, new organisational structures; and

(3) how well they grasped the vision of the top management team.

Data from the interviews and focus groups were content-analysed for main themes. Consistent with much current practice, both focus groups and interviews were conducted in the light of a priori thematizing [10], in which reference is made to existing theory, literature and the researcher's insights. Thus, questions were constructed based on the project research questions. Comments from respondents were then content analysed around the main themes, as determined by frequency counts of the main comments received. Content analysis involved following protocols recommended by Clampitt [3], in which:

One researcher read all the responses to a given question and identified recurring themes. Responses relating to these issues were initially divided into positive and negative categories. Further sub-divisions then emerged, depending on whether the experiences related to middle or senior managers, co-workers, channels of communication, problems with implementation, etc. A second researcher, unaware of the classification system employed by the first researcher, repeated these steps.

Results were then compared and discussion ensued until an agreed classification system emerged. The process was repeated twice, until agreement on coding that covered over 90 per cent of the responses was obtained.

From this, a number of key themes consistently emerged, ranging across:

(1) the need for more communication;

(2) concern at senior management workloads, on the part of senior managers themselves, and by people throughout the organisation; and

(3) people's willingness to be involved in the decision-making process, combined with a feeling that this had become impossible.

Clearly, there was a degree of overlap between these areas. For example, some people addressed the issue of the new structures from the standpoint of their impact on decision making and levels of participation. But separating out these themes enabled us to focus more sharply on the extent to which people felt that they grasped management's vision for the future of the organisation. However, in the main, the categories identified here formed discrete areas that facilitated analysis and action.

Results from interviews and focus groups have been conflated in this section of the article for two reasons. First, it eliminated unnecessary repetition. Similar themes emerged from both forms of data collection. Second, it helped to maintain respondent confidentiality. Each of the three main themes were addressed in detail.

The need for more communication

When the focus groups were asked their overall impressions of communication within the HCO 12 people responded positively. Examples were offered of approachable line managers and an adequate flow of information on key issues. A significant number of people, even when critical, felt that a genuine effort had been made to improve communication within the HCO. However, positive comments about the current situation were in a minority. The majority of people in the focus groups, who came from all levels of the organisation, felt that the HCO's internal communications required further improvement. Much of this feeling revolved around the need for more communication (Table I). Nor were these perceptions confined to the issue of information being transmitted from managers. Eight of the respondents, across the spectrum of staff groupings, locations and level of managerial responsibility, felt that bottom up communication needed further development within the HCO. The nature of the communication received and transmitted by people also emerged as an issue. Thus, the sub-themes within this category can be said to encompass the following issues [13].

These are issues which managers in other HCOs should perhaps consider:

- the need for progress on communicating important issues;
- the need for more information on crucial change issues from managers;
- the need for more time for interaction between crucial change agents, such as members of the SMT and general managers;
- the need for heightened face-to-face interaction between managers and other staff;
- the need for an end to communication practices viewed as bullying in nature;

- the absence of a formal strategy and a clearly understood process for information dissemination;
- problems at the induction stage for new staff;
- the need for more upward communication; and
- a lack of face-to-face rather than technologically based communication.

A sample of respondent comments on these issues is as follows:

I don't feel that there is enough engagement on an ongoing basis. Not enough time is spent by SMT even with general managers to get beyond the day-to-day operational basics. I haven't sat down with my immediate reports and said that this is what I need for the forthcoming year, this is how I want you to perform, and these are the key things that I need from you and on which you will be evaluated.

Table I. Suggestions to improve communications

Suggestions	Number of respondents
More face-to-face communication, particularly meetings	47
More communication/openness	29
Greater consultation/listening	23
Improve voicemail/e-mail/post	13
More appreciation	8
Improve newsletter	7
Training, especially for communication	6

There is a lack of communication. We don't know what's going on. We hear things on the grapevine rather than from supervisory staff.

Communication is not good. Sometimes there is no communication on very major things. Major decisions are made without consultation. I don't blame senior managers. They are under pressure from the department to do various things, sometimes far too quickly. But for example new appointments were being rapidly organised in Nenagh and no one was asked for their opinion about it. This sort of thing does not engender trust.

When money is allocated to the hospital we read about it in the paper rather than hearing about what is going on from management.

Communication is quite good given the size of the organisation. But it is haphazard. We rely a lot on informal communication.

There is no formal strategy for communication, no policy document or anything else. This could set out a process for everybody. This would assign and clarify roles relating to communication. It would help with understanding and clarify for people what the role of GMs etc. is [13].

The workload of senior managers

This issue of the workload of senior managers was raised predominantly by middle managers, but also by those at lower levels in the organization. Many people expressed an awareness of how hard senior managers worked. The positive side of this was a recognition of, and appreciation for, the intense commitment this represented. The negative side was that several people at low and medium levels in the organization made it clear that they would be incapable of such commitment, and therefore had no wish to develop a management career. Arguably, it was also a further development of the previous theme – the delegation of decision making. There was a widely held perception within the HCO that people further down the hierarchy either could not or would not make sufficient operational decisions. Linked to this, senior managers frequently felt embroiled in operational details rather than strategic thinking. Thus, managers themselves felt frequently dissatisfied by the results of their activity, but exhausted by the effort required. The main sub-themes that emerge there were:

- the hours middle and senior managers now work;
- the extent to which this is innately bound up with excessive attention to operational issues;
- the ability of the organisation to break free from this cycle, while senior managers work so hard; and
- the wider symbolic effects of this, in communicating whether people are genuinely empowered to make operational decisions.

Sample comments are given below:

I reckon I work about 80 hours a week and General Managers work 55 to 60 hours a week.

Sometimes if I get home early I think [expletive deleted], what am I doing here when I should be at work.

We're all so busy, but we're all chasing our tails.

I work 50-60 hours a week on the job. A lot of the time is non-profitably spent. Many issues are referred up to me that shouldn't be.

I think the senior management team is very male dominated and macho. They're all men of a certain age. Maybe the work culture is part of a macho image? I think all the GMs are male too. The workload of top managers from general managers up is much

too heavy. I wouldn't want an SMT job or a general manager job at all. I know many people feel the same [13].

Clearly the workload of senior management links crucially with the delegation of decision making, and also the need for more communication. The senior managers consistently worked hard, but the extent to which they worked hard because they did not delegate is difficult to disentangle. The culture at the top of the organization was that working hard was the norm, and it could be the case that as communication improved within the organization senior management continued to work equally as hard but in a more productive manner.

Conclusion

This case study has reported the results of a communication audit in a large HCO in Europe, using both quantitative and qualitative methodologies. This has enabled us to develop a rich understanding of the communication problems encountered by a HCO, which need to be overcome by management and which may be indicative of potential communications issues and problems in organizations other than the one surveyed. We discuss the main findings here in relation to our original research questions.

Two key themes consistently emerged from the transcripts of the focus groups and the interviews: a need for more communication, and problems related to senior management workloads.

> RQ1. Is communication functioning at an optimum level in the HCO, or is there a
>
> gap between practice and what is needed?

Major communication problems were identified, covering most aspects of the communication process. Individually and cumulatively the effects of these communication problems were to hinder and preclude the involvement of employees and managers in implementing the strategic goals of the HCO. Most of those interviewed and participants in the focus groups, at most levels of the organization, stressed the need for more communication – particularly relating to crucial change issues, and also for a better flow of information from the bottom to the top of the organization structure. People offered plentiful suggestions about how such needs could be facilitated. The data in this article do not disclose a hopelessly unrealistic wish list. Rather, it is striking how many of the suggestions made were low-tech and even simplistic in nature. Other researchers have pointed out that effective internal communications systems are frequently characterised by precisely such simplicity [1]. However, it needs to be noted that improving communications requires time and money. Such resources are finite, and in the scenario where resource constraints are binding this requires organizations to make choices, and also to forgo changes in communication because of lack of money resources and/or time constraints upon senior management.

Thus, it would appear that a management team that wants to improve the communication climate within its organisation could readily embark on basic measures that these data suggest are likely to find a ready response from their staff.

Clearly, the data reveal a communication problem – the practices of the organisation were revealed to be inconsistent with either the wishes of most people who worked there, or the fundamentals of good practice.

Many possible explanations could be deuced from the data. Here, we would highlight the following:

A reluctance on the part of managers to, in practice, devote the time clearly required to build effective communication systems. It may well be a case that a key factor in the communication problem is that managers are often prepared to do anything humanly possible to improve communication – except devote time, money and effort to the task! At bottom, it appears that managers often assume that intention is equal to implementation.

Difficulties above all with creating systems for upward communication. It could be postulated that the more inadequate such systems are the more likely it is that senior managers will become out of touch with the internal communication climate. This becomes a source of a communication problem, in that low awareness precludes accurate diagnosis and the crafting of effective action plans.

The remainder of our research questions also obliquely address these themes.

> RQ2. What is the perception of the workload of the senior level of management by
>
> other levels of the organisation, and what is the impact on communication climate.

The results show that there was an excessive workload by the senior management team and that this was widely recognised by the team itself, the managers below them, and by non-managerial staff in the HCO. The data suggest that the excessive workload reduced the ability of managers to do their jobs properly, and more specifically to effectively communicate with those further down the organization. Other researchers have noted that the intense demands now made of managers are turning many into what have been called "reluctant managers" [14]. In this context, the incredible workload of senior managers had a number of deleterious effects. It put people off aspiring to senior management careers, it meant that senior managers remained locked into excessive operational responsibilities, and were bogged down in minutia rather than engaging in strategic thinking. It facilitated a perception that they were unwilling to "let go", and preferred to be over-informed of relatively small scale organisational problems. It restricted delegation and empowerment and meant that the managers had no time to reflect critically on their practice, and new initiatives designed to improve communication were swept aside, since the SMT was already so busy it could not tolerate the thought of more "pressure". The paradox is striking. Managers worked incredibly

hard, but under-communicated, and with diminishing effectiveness. Yet the more they worked the less likely they were to successfully delegate, and to review their current practice.

Finally, this article has indicated that although communication problems may often appear complex the solutions are frequently simple – greater clarity in communication, rather than increasing the frequency of communication. This begs the question of why they appear so elusive, and in many organisations are never even. More research into why this should occur in communication terms is clearly required.

Tentatively, we would suggest that the data in this article point in at least some key directions: first, senior managers who over-work are even less likely to have the time for reflection, followed by behaviour change. Second, the absence of adequate upward communication may blind managers to the full nature of their problems, which in turn guides the search for solutions. In any event, the data suggest that attempting to cover up communication weaknesses by managers working even longer hours (to manage problems that in many instances arise from weak communication systems) only has the effect of further disempowering people, and so accentuating rather than alleviating the underlying difficulty. It is a temptation, however, to which many senior managers are evidently prone.

Internal communication strategy

There are two sides to strategy in internal communications. In the first instance there is the organization's strategy — what it hopes to achieve and how it plans to go about achieving it. That strategy will be supported and, to some extent, delivered through effective internal communications.

In this context internal communication can help on several different levels:

Tell: simply informing people of the direction, non-negotiable

Sell: anticipating some form of backlash, requiring some persuasion

Consult: seeking specific areas of input to the decision-making process

Involve: seeking varying degrees of involvement and co-creation

Secondly, and more importantly, internal communications needs a strategy of its own. It should be positioned more than a simple plan of tactical interventions in support of business activities. The strategy should consider the following:

Market: What does the organization know about its audiences' needs? How should its audiences be segmented?

Message: What is it the organization's message is trying to achieve? In what tone should it be conveyed?

Media: Which channels work best for the different audience segments? How will it maximize reach and cut-through? Are there clear editorial guidelines for each?

Measurement: Are there clearly defined success criteria? What are the leading and lagging measures? As well as informing all of the other three M's, it should be used to demonstrate value and measures of performance (ROI, message penetration, hit rates, quality of feedback, etc.)

The strategy will inform the best way to organize effective communications.

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PRACTICAL ASSIGNMENTS

Assignment #1

A warm-up task. The goal of the task is to brainstorm all possible communication problems in an organization:

- Get up and come out into the middle on the floor
- Close your eyes and think of the number of letters in your first name (20 seconds). Open your eyes and find the person who has the same number of letters in his or her name
- In pairs brainstorm possible communication problems in an organization
- Use Picture Training Cards when you run out of ideas

Assignment #2

A warm-up task. The goal of the task is to generate all possible communication problems in a European Health Care organization (HCO) between senior managers and non-managerial staff:

- Get up and come out into the middle on the floor
- Close your eyes and think of when you went to bed last night (20 seconds). Open your eyes and find a person who went to bed at the same time as you
- In pairs brainstorm possible communication problems in a European Health Care organization (HCO) between senior managers and non-managerial staff
- Use Challenge Training Cards when you run out of ideas

Assignment #3

The goal of the task is to come up with a number of creative ideas how excessive workload of the senior managers could be the reason of ineffective communication:

- Get up and come out into the middle on the floor
- Close your eyes and think of your last holiday destination. Open your eyes and find the person who thought of the same holiday destination as you.
- Generate ideas using Word Training Cards. Use the words on the card one by one for inspiration. Generate as many ideas as possible

Assignment #4

The goal of the task is to brainstorm ideas how to improve communication in an organization described in the case study.

- Get up and come out into the middle on the floor
- Look around and find a person wearing the most similar shoes to yours
- In pairs generate ideas how communication in HCO could be improved.
- Use Person Training Cards for inspiration or when you run out of ideas. Write each idea on a post-it-note and put them on the wall.

Assignment #5

The goal of the task is to brainstorm ideas and create an action plan how to improve communication in the group.

- Get up and come out into the middle on the floor
- Close your eyes and think of a toy for babies. Open your eyes and find a person who thought of the same toy as you.
- In pairs, go around the classroom and generate ideas how communication in your group could be improved.
- Use Word Training Cards and write one idea on a post-it-note.

15.2 CASE STUDY 2. COMMUNICATING WITH LOCAL PUBLICS: COCA-COLA'S CHINESE WEBSITE

Introduction

This case study is based on the research by Yan Tian, University of Missouri-St.Louis, USA, and it aims to examine how Coca-Cola, the number one brand in the world, is using its web site to communicate with the publics in the world's largest market [36].

Global public relations is an important aspect of corporate public relations today. Companies from different countries are conducting business in different regions across the world, and they are therefore communicating with publics from different cultures. As the process of globalization is defined as "the compression of the world and the intensification of consciousness of the world as a whole" [28], it is important to ask how cultural factors affect the communications between companies and their publics in the "compressed world."

This question becomes even more important when it is investigated in the context of the internet, as the internet seems to be an ideal medium for globalization, given its capacity for expanding geographic locations. The internet has been used extensively for corporate communications. Companies use the internet to communicate with both their internal and external publics in a variety of ways, among which corporate web sites are an important one. Corporate web sites are a significant component of corporate communication [19], and they have become an icon for a company in a manner similar to that of a corporate logo. The cross-national nature of the internet allows companies to use their web sites to communicate with their publics and to manage their images on a global scale. However, this global communication does not necessarily mean that it is a standardized process.

Previous studies have identified the two aspects of the process of globalization. While some researchers suggest that globalization is a homogenous process (Barker, 1999; Hall, 1991; Nyamnjoh, 1999), other researchers argue that globalization can be a heterogeneous process (Hamilton, 1994; Inglehart and Baker, 2000). Similarly, there are different strategic approaches in global business and marketing. A global strategy approach suggests that companies should sell the standardized products with same strategies across the whole world (Allio, 1989; Levitt, 1983; Yip, 1989). A glocal strategy approach, on the contrary, is a combination of different levels, from local to global, of strategic approaches, with the awareness of the significance of adaptation to local markets, and it attempts to maintain a balance between global homogenization and local customization (Robertson, 1995; Maynard, 2003; Svensson, 2001). As many companies today are practicing a glocal strategy in marketing and advertising (Hong Kong Imail, 2002; Maynard, 2003; Poe and Courter, 1997), it is interesting to investigate if and how this approach is being practiced in public relations in cyberspace.

This study will examine Coca-Cola's Chinese web site to understand how Coca-Cola is communicating with its publics in the Chinese market through the internet. As Coca-Cola is the most valuable brand in the world (BusinessWeek, 2004), and it has been through the strategic transformation from a global strategy approach to a glocal strategy approach (Taylor,

2000), this study will provide insights for the theory and practice of international public relations in the context of new communication technologies.

Coca-Cola as a global brand

Though the soft drink giant slipped to #3 in year 2013, Coca-Cola has enjoyed a long and illustrious reign as #1 Best Global Brand for good reason. An enduring classic that has evolved over its 127 years, Coca-Cola remains the most recognizable—and one of the most valuable—brands in the world. Guided by its 2020 Vision goals around innovation, focus, and creativity, Coca-Cola achieves impressive global presence through standout ad campaigns, bold design, digital savvy, and a simple, universally relevant theme that weaves throughout the brand's communications: happiness. In a nod to its creative legacy, Coca-Cola was named Creative Marketer of the Year at the 2013 Cannes Lions International Festival of Creativity. During the past year, much of its marketing focused on the global, music-driven "Move to the Beat" campaign for the London Olympic Games, but the creative output didn't stop there. Coca-Cola not only effectively spread its "Open Happiness" message in more than 200 markets around the world, it also created moments of happiness through the award-winning "Share a Coke" campaign that puts consumers' names on bottles and cans, and the madcap Coca‑Cola Zero "Unlock the 007 in You" stunt that cross-promoted the James Bond Skyfall movie release in the UK. Coca-Cola's innovation pipeline also extends to its sustainability platform and packaging, promoting healthy living, and reinventing self-serve beverage dispensers with the Coca-Cola Freestyle dispenser [39].

Global public relations on corporate web sites

Corporate web sites have important functions for public relations. According to Esrock and Leichty [10], corporate web sites provide companies with the following advantages. First, corporate web sites enable potential consumers to seek information in a more active way than they used to receive information from traditional media as television, newspapers, or magazines. Companies therefore can assume that their web site visitors are actively interested in the companies or the products. Second, corporate web sites, with their interactivity, facilitate the process for companies to gather information. Companies can use their web sites to gather the visitors' feedback, monitor public opinions on specific issues, and have direct conversations with their customers. Third, corporate web sites allow companies to have deliberate, direct communication with various publics. Finally, corporate web sites enable companies to be free from the restrictions of gatekeepers, while allowing them to communicate directly with news media (pp. 456-7).

Given the above advantages of corporate web sites, companies can use their web sites to communicate with a great variety of publics including consumers, investors, partners, suppliers, distributors, media, communities, current employees, potential employees, and so on. These publics can be in different countries, regions, and cultures. Thus, corporate web sites can be a useful channel for international public relations.

Two models in international public relations can be used to explain the strategies in corporate communications in cyberspace: one is the ethnocentric model, and the other is the polycentric model. The ethnocentric model in international public relations is similar to the global strategy in marketing. It is more focused on the homogenous aspect of international public relations, and it suggests that principles for public relations remain same across the world [31], or public relations programs are more similar than they are different across countries (Anderson, 1989). The polycentric model in international public relations is similar to the localized strategy in marketing. It is more concerned with the heterogeneous aspect of international public relations, and it argues that public relations strategies could be different based on the different situations of each country [5]. The term glocal can synthesize the two models, as it includes both the homogenous and heterogeneous, or globalization and localization aspect of international public relations. Thus, a glocal approach can be a useful framework for understanding the theory and practice and international public relations.

Previous studies have found that some companies localize their communication strategies on their corporate web sites. Okazaki and Rivas (2002) revealed that Japanese Multi-National Corporations (MNCs) used different communication strategies for different target countries on their local web sites. They found that the Japanese MNCs provided more information cues for the American and Japanese market than for the Spanish market through different versions of their corporate web presence. Furthermore, collectivistic values were traced in Japanese web pages, but not in the American and Spanish web pages. In addition, the web pages for the Japanese market used the "argument" strategy significantly less than for the American and Spanish markets. These findings indicated that Japanese MNCs localized their web communication strategies according to the characteristics of different target audiences [26]

Maynard and Tian (2004) reached the similar conclusion. Maynard and Tian conducted a content analysis of the Chinese web sites for the 100 top global brands. They found that 58 brands had a Chinese web site, and the majority of these global brands integrated local cultural factors into the communication strategies on their Chinese web sites. Those companies used their web sites to present their image of being responsible to the local government, local people and local community and therefore to improve their relationships with local publics. The study by Maynard and Tian provides a comprehensive picture of how top global brands are practicing the

glocal strategy in public relations on the internet with a quantitative approach. This study, however, will employ a qualitative approach. It will provide in-depth understandings of the application of the glocal strategy in public relations on corporate web site through the case analysis of Coca-Cola's Chinese web site. As Coca-Cola is the number one brand in the world (BusinessWeek, 2004), investigating how Coca-Cola uses its Chinese web site to communicate with the local publics in China, the largest market in the world, will provide a good example for successful global public relations in cyberspace [4].

Coca-Cola's glocal strategy approach

Coca-Cola had a crisis in Europe in June 1999. School children in Belgium reported feeling ill after they drank Coca-Cola. Governments in different European countries responded to this crisis in different ways (Taylor, 2000). Taylor explained this difference with Hofstede's theory of national culture. Taylor (2000) suggested that publics in countries with high uncertainty avoidance and high power distance reacted more strongly to this tainting crisis, as the government of these countries banned the sales of Coca-Cola related products, while the governments of countries with low uncertainty avoidance and low power distance did not. Taylor's case study suggests that global public relations strategies should take into account cultural factors in different countries [34].

The 1999 Coca-Cola tainting crisis affected Coca-Cola global marketing strategy [34]. Coca-Cola's then CEO M. Douglas Ivester was criticized for his arrogance in dealing with this crisis [21]. In February 2000, Douglas Daft became Coca-Cola's new Chairman of the Board and CEO. Daft introduced the "think local, act local" approach to marketing, which emphasizes addressing the needs of customers in the local market. Daft argued that though Coca-Cola is a global brand, customers do not drink Coca-Cola globally. Therefore, Coca-Cola's communication strategies should focus on local consumers' needs. Daft [8] believed that "only if we understand them can we address them. And understanding comes from recognizing, respecting, and celebrating the diversity of local needs and wants."

As a result, Coca-Cola has been adopting a localized strategy in marketing, advertising, and public relations. For example, based on the conversations with Japanese consumers, Coca-Cola developed multiple flavors of Georgia, a coffee brand, to meet the Japanese consumers' need for variety of coffee, and Georgia has become the top coffee brand in Japan (Daft, 2002). Another example is that Sprite succeeds in being regarded as a local brand by many Chinese people, as it uses Fu Mingxia, a Chinese world-class female diver, as its spokesperson (Hong Kong Imail, 2002). In addition, Coca-Cola has been integrating local traditional cultural factors into its strategies. For instance, in year 2001, to greet the "Year of Snake," the year marked by a system created by Ancient Chinese, Coca-Cola printed the design of a cartoon snake wearing a hat on its bottles (Asia info Daily China News, 2001). All these examples illustrate that catering to the taste of local publics has been an important component of Coca-Cola's global strategy.

Given Coca-Cola's practice of the glocal approach in the offline world, this study will examine how Coca-Cola uses its Chinese web site to communicate with local Chinese publics, since previous studies have suggested that offline cultural factors will affect the patterns of internet use on both individual and organizational level (Honglodarom, 1998; Marcus and Gould, 2000; Stewart et al., 1998; Zahir et al., 2002). A qualitative text analysis will be conducted to reveal Coca-Cola's communication strategies in cyberspace through the textual and visual features of Coca-Cola's Chinese web site.

Coca-Cola's Chinese web site

On Coca-Cola's "home" web site (www.coca-cola.com), there were three links, one linked to "The Coca-Cola Company," one linked to "Coca-Cola Worldwide," and one to "Cola-Cola in the USA." The "Coca-Cola Worldwide" web site provided links to 94 countries and regions in the world, which signified its global market, and China was one of them [1].

Coca-Cola presented its understanding of and respect for Chinese culture in a variety of ways on its Chinese web site. In its "Chronicle" section, it paralleled the history of Coca-Cola with world history as well as modern Chinese history through a chart in the Chinese language, with an obvious focus on the political events in China, compared with its "Heritage Timeline" on its English web site. The researcher translated some components of the chart into English, as shown in Table I.

The parallel chronicle of the events in Table I did not imply there was causal or correlational relationship between these events. However, by presenting Coca-Cola's chronicle together with modern Chinese history, Coca-Cola expressed its understanding of Chinese history and its respect for the most influential Chinese political characters. Furthermore, this presentation indicated Coca-Cola's position in government relations for the Chinese market. An in-depth examination of Coca-Cola's American site did not find an emphasis on government relations. Apparently Coca-Cola chose a localized strategy to address its relationships with the Chinese government through its Chinese web site. With this chronicle chart, Coca-Cola explicitly sent out the message to the Chinese market that it was in harmony with the Chinese government [36].

Meanwhile, Coca-Cola presented itself as being socially responsible in China. Coca-Cola presented its contributions to the Chinese community in the "Community Relations" section, focusing on its contribution to China's education. Being a part of China's Project Hope, which helped children in the less developed areas in China to get education, Coca-Cola addressed its philanthropic effort in building 52 Coca-Cola-Hope elementary schools in China. Other information about Coca-Cola's contribution to China's education on its Chinese web site included providing $1 million in scholarships for 700 college students from China's countryside, building 20 e-learning centers to help to bridge the digital divide in China, and providing professional training for Chinese teachers teaching in elementary schools. In addition, on Coca-Cola's Chinese web site, there was a special section called "Coca-Cola and Olympics in China," under which Coca-Cola highlighted its sponsorship for many Olympic-related activities in China. By presenting all of these contributions to the local Chinese communities, Coca-Cola managed its image in the Chinese market with a localized strategy [36].

Furthermore, Coca-Cola showed its appreciation of traditional local culture on its web site for the Chinese market. Figures 1-3 were pictures downloaded from Coca-Cola's Chinese web site on January 18, 2004, when the Chinese people were celebrating the Chinese new year. Figure 1 was a couplet (Dui Lian), on which people write good wishes to celebrate the Chinese new year.

Table I. Chronicle of Coca-Cola in relevance to China[a]

Year	Events
1883	Coca-Cola company was launched
	Mao Zedong was born[b]
1923	Robert W. Woodruff became the Chairman of Coca-Cola in 1923
1925	Sun Zhongshan died[c]
1927	Coca-Cola appointed two Chinese bottlers in Tianjin and Shanghai[d]
1937	Japan began to invade China
1948	China became the first overseas market where Coca-Cola's annual selling exceeded 100 million boxes
1949	People's Republic of China was founded
1978	On the same day when China and the US announced to establish diplomatic relations, Coca-Cola announced to be the first international consumer goods company returning to China
1997	M. Douglas Ivester became the CEO of Coca-Cola[e] China resumed sovereignty over Hong Kong
1999	50th anniversary of People's Republic of China
	China resumed sovereignty over Macau
2000	Douglas N. Daft become the CEO of Coca-Cola[f]

Notes:

[a] www.coca-cola.com.cn/cokeworld/heritage/chronicle/index.jsp (accessed March 12, 2004);

[b] Mao Zedong was the founder of People's Republic of China; [c] Sun Zhongshan was the "Father of the Revolution" in China; [d] Tianjian and Shanghai are two big cities in China; [e] Ivester's name was presented in Chinese with the literal meaning "Chinese gentleman"; [f] Daft's name was presented in Chinese with the literal meaning "becoming rich"

It has been a custom for many centuries for Chinese to post a couplet on the doors of their house when the Chinese new year was coming. Following this tradition, Coca-Cola posted a couplet on its web site, which said, "happy Monkey Year" and "being delicious and being happy." In fact, "being delicious and being happy" was also the literal meaning of Coca-Cola's Chinese name in the Chinese language. Therefore, this couplet could also be translated as "Coca-Cola celebrates the Year of Monkey." Similarly, Figure 2 was about children in ancient China celebrating Chinese new year. Figure 3 was a Fu, which Chinese people posted

on the doors or windows of their houses to wish themselves good luck in the new year. Same as most Chinese families, Coca-Cola posted a Fu on its web site to celebrate Chinese new year. All of these pictures signified Coca-Cola's understanding and adoption of traditional Chinese culture. It accommodated these cultural factors for its online public relations strategies targeted at a Chinese audience [36].
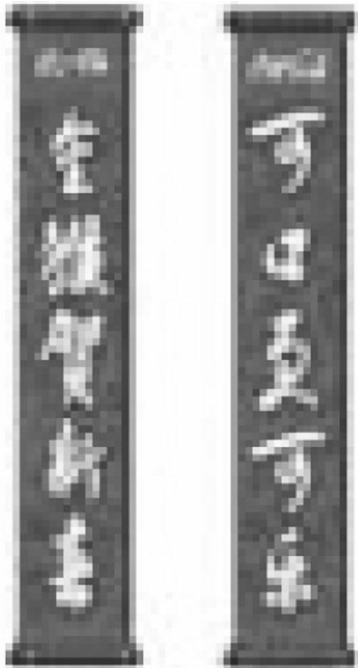

Figure 1.

Coca-Cola celebrated Chinese new year with a couplet

Figure 2.

Coca cola presented how ancient Chinese children celebrate new year

Figure 3. Coca-cola posted *Fu* on its Chinese website

Discussion

This study confirms the role of corporate web sites in global public relations. Companies can use their web sites to communicate with their publics and to manage their images (Chun and Davies, 2001; Esrock and Leichty, 1998, 1999, 2000; Kent and Taylor, 2003). In this study, Coca-Cola uses its Chinese web site to communicate with the Chinese communities and to manage its image of being socially responsible in the Chinese market. Compared with traditional media such as television, radio, newspapers, and magazines, the internet provides global companies with an inexpensive but easily accessible way for corporate communications across the world (Maynard and Tian, 2004). Companies can use their web sites to improve their interactions with their publics or potential publics on a global scale.

This study reveals that a glocal strategy approach is being practiced by Coca-Cola in public relations in cyberspace. As the number one brand in the world, Coca-Cola has been successful in exploring the global market. It has links to 94 countries and regions in the world on its "home" web site, which suggests the company's global orientation. Similar to its approach in the offline world, Coca-Cola's online communication strategy accommodates the political, economic, social, and cultural characteristics of the target market. On Coca-Cola's Chinese web site, both the textual and visual features suggest that the web site is designed to cater to the taste of the local Chinese publics. According to Maynard and Tian, among the 100 top global brands on the BusinessWeek's list, 42 brands do not have a web site in the Chinese language, which indicates that these 42 brands are practicing a global approach or the ethnocentric model for public relations in the Chinese market. Coca-Cola, however, does not use a standardized global strategy approach or the ethnocentric model to communicate with the publics in China. Coca-Cola has a web site in the Chinese language, and this Chinese web site is not the literal translation of Coca-Cola's English web site. Instead, Coca-Cola localizes the content and the style of its Chinese web site for the Chinese market. This glocal strategy approach practiced by Coca-Cola integrates the ethnocentric and polycentric model in public relations. It focuses on both the homogenous and heterogenous aspect of globalization, and it has important pragmatic implications for companies competing in the global arena [24].

This study also supports the argument that in developing countries, government is a very important public (Taylor and Kent, 1999). On its Chinese web site, Coca-Cola shows its respect to the Chinese government and to important Chinese political characters. This finding suggests that Coca-Cola understands that government relations is an important dimension of public relations in China. The importance of government relations in China is due to the high power distance of traditional Chinese culture (Hofstede, 2001), but it is also related to the privatization process in China. The economy of China is transforming from a command economy, by which the state owns most companies, to a market economy, characterized by the newly emerging private companies. Taylor and Kent (1999) revealed that the push for privatization in Malaysia "has created the need for private corporations to reassure governments that they are capable of managing the newly privatized sectors of the economy" (p. 135). Global companies in China are in the same situation. They need to reassure the

government that they are being responsible to the Chinese government and Chinese people, and they are good corporate citizens in China. Therefore, government relations is very important to global companies exploring the Chinese market or the markets in other developing countries [35].

The process of globalization requires companies to integrate international dimension of public relations into their communication strategies [34]. This is especially important in cyberspace, given the internet's inherent "globality." This case analysis of Coca-Cola's Chinese web site provides in-depth understandings of how this number one global brand is using its web site to communicate with the publics in the world's largest market. Theoretically, this study illustrates that the ethnocentric model is not an appropriate model for global public relations in cyberspace. A glocal approach, which integrates the ethnocentric and polycentric model in international public relations, indicates the directions for future global public relations in both theory and practice.

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PRACTICAL ASSIGNMENTS

Assignment #1

A warm-up task. The goal of the task is to bring students onto the creative platform:

- Get up and come out into the middle on the floor
- Close your eyes and think of how many times a week you empty the bin (20 seconds). Open your eyes and find the person who empties the bin the same number
- Use the Person Training Cards to generate ideas
- Identify how each person from the card do marketing of himself or of the profession
- Try to come up with as many ways they do marketing as possible
- Use the person analogies on the card one by one

Assignment #2

A warm-up task. The goal of the task is to bring students onto the creative platform:

- Get up and come out into the middle on the floor
- Close your eyes and think of your favourite soft drink (20 seconds). Open your eyes and find a person who likes the same drink as you
- In pairs use the Principle Training Cards and generate ideas for a future soft drink
- Use the principles on the card one by one as an inspiration for ideas
- Generate as many ideas as possible

Assignment #3

The goal of the task is to come up with a number of creative ideas for culture specific advertising strategies:

- Get up and come out into the middle on the floor
- Close your eyes and think of your last holiday destination. Open your eyes and find the person who thought of the same holiday destination as you.
- Taking into account Coca-Cola's advertising strategies described in the Case and cultural aspects, take any country of your preference and generate its advertising strategies that might be effective in the same way. Consider cultural aspects as the key priority.
- Generate ideas using Word Training Cards. Use the words on the card one by one for inspiration. Generate as many ideas as possible

Assignment #4

The goal of the task is to generate ideas how to effectively communicate via websites with the publics of different cultures, and carry out a cross-cultural comparison of 2 countries of your choice.

- Get up and come out into the middle on the floor
- Close your eyes and think of how many pieces of red furniture you have in your home (20 seconds). Open your eyes and find the person who has as many as you
- In pairs generate the most effective communication methods taking into consideration both countries' Hofstede's indexes of the 6 dimensions
- Use Word Stimuli Cards for inspiration or when you run out of ideas
- Write each idea on a post-it-note and put them on the wall

Assignment #5

The goal of the task is to generate ideas and draw a sketch of 2 websites advertising the same product but created for 2 different cultures of your choice.

- Get up and come out into the middle on the floor
- Close your eyes and think of how many lottery coupons you buy a year (20 seconds). Open your eyes and find the person who buys the same number as you.
- In pairs, generate ideas for the 2 websites taking into consideration cultural aspects.
- Use the Case material as an example.
- Draw a sketch for 2 websites

15.3 CASE STUDY 3. BRAND COMMUNITIES ON THE INTERNET: COCA-COLA'S SPANISH VIRTUAL COMMUNITY

Introduction

This case study is based on the research by Maria Sicilia and Mariola Palazon, University of Murcia, Murcia, Spain, and it explains one of the most successful online strategies developed by a global brand, Coca-Cola, in Spain and provides a better understanding of the virtual communities' phenomenon [35].

Background

Given the increase in the globalisation of the world's economies, coupled with the rise of the internet, new opportunities and challenges have emerged for marketing brands and products [3]. In its early days, the internet was seen as an opportunity for marketers to communicate with consumers, and even to engage them in two-way communications. However, consumers are becoming overwhelmed by marketers' attempts to engage them in relationship marketing strategies. Only recently, it has become apparent that consumers are using the internet to communicate with each other [10]. Cyberspace has become a new kind of social terrain, crowded with "virtual communities" (Rheingold, 2000). Over 40 million people worldwide are estimated to participate in some form of virtual community.

This evidence is forcing managers and planners to apply new ideas in order to make their web sites more effective. The traditional web site is no longer motivating customers to return to the site. An alternative strategy involves the development of a virtual community around the brand [6].

Virtual community is an issue that deserves special attention as it is still in the early stages of research [5]. Recent research has focused attention on the identification of those characteristics that lead consumers to value brand community and participate in communal activities [2]. Managers need to understand the bases for dialogue that can lead to strong relationships [22]. In addition, interactions among members can influence the choice of brands and impact brand loyalty, making virtual communities very relevant from both a theoretical and a managerial perspective (Claricini and Scarpi, 2007; Mathwick, 2006).

In order to get a better understanding of the creation and development of virtual communities in this study, we explain one of the most successful online strategies developed by a global brand; Coca-Cola in Spain. The paper analyses the key drivers of the well-established Spanish virtual community in order to learn what makes it thrive. This study also provides insights for the theory and practice of virtual communities.

The structure of the paper is as follows. Firstly, we review the literature about brand communities. Then, we study how the internet has made possible the development of communities in a virtual environment. Thirdly, we analyse in detail the Coca-Cola virtual

community developed in Spain. Finally, we discuss the consequences and the effectiveness of this strategy.
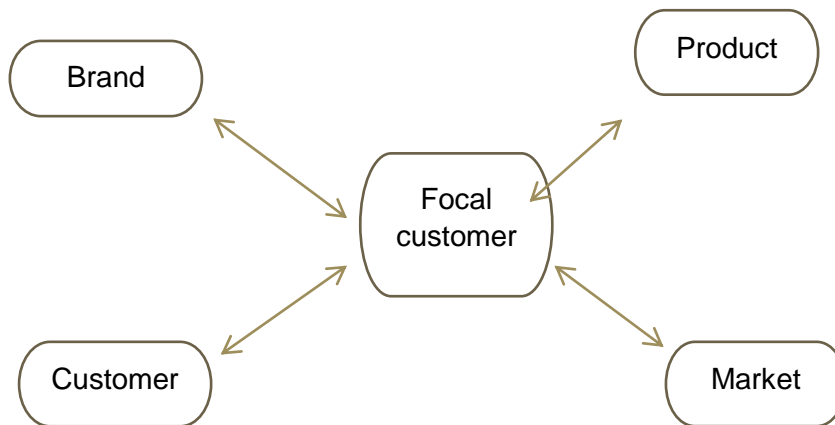
Brand community

Community is a core construct in social thought. A review of the sociology literature reveals at least three core components of community [25]. The first and most important element of community is consciousness of kind, which represents the intrinsic connection that members feel toward one another, and the collective sense of difference from others not in the community. This factor is redefined as social identity by Bagozzi and Dholakia [2]. It consists of three interrelated parts: cognitive identification with the group, affective commitment towards it and collective self-esteem. The second indicator of community is the presence of shared rituals and traditions, also called group norms. The third marker of community is a sense of duty to the community and its members which is often, but not always, shared by group members.

Several authors (Bagozzi and Dholakia, 2006; Hoppe et al., 2007; Muniz and O'Guinn, 2001) argue that brand communities are in fact legitimate forms of community, which form around a brand. A brand community is defined as any group of people that possess a common interest in a specific brand and create a parallel social universe rife with its own myths, values, rituals, vocabulary and hierarchy (Cova and Pace, 2006).

Muniz and O'Guinn [25] envision a brand community as a customer-customer-brand triad formed by two types of relationships, those established between the brand and the customers, and those that emerge between community members. Without the relationship between community members it is impossible for the brand community to become successful. In fact, members feel an important connection to the brand, but more importantly, they feel a stronger connection towards one another. McAlexander et al. (2002) extended Muniz and O'Guinn (2001)'s model by including those relationships established between the customer and the firm and those between the product and the customer (Figure 1). According to this customer-centric model, brand communities enhance consumer identification with the brand and foster the development of a strong corporate feeling (Hoppe et al., 2007; McAlexander et al., 2002).

Research on brand communities identifies several dimensions on which they differ, including social context, size, temporality and geographic concentration (Dholakia et al., 2004; McAlexander et al., 2002). Interactions within a brand community may be rich in social context or nearly devoid of it. Community members may have a great deal of information about one another, including such data as age, sex, and attractiveness, or they may know nothing of one another. Regarding the size, Dholakia et al. (2004) found interesting differences between big communities and small group-based communities in terms of motivation to participate. Another dimension of communities is their temporality, some are stable and others are temporary. The temporal stability can be an asset to marketers in as much as longevity equates with a long-term, stable market. Finally, communities may be either geographically concentrated or scattered [8].

Table 1. Customer-centric model of brand community

A community is likely to form around brands with a strong image, with a rich and lengthy history, and threatening competition. Traditionally, only brands that operated in niche markets and required consumers to make major investments in time or money (i.e. Mercedes, Harley Davidson, etc.) had a noticeable brand community. However, recent research (Cova and Pace, 2006; McWilliam, 2000) has shown that brand community management might be an option for brands mainly offering convenience products such as soap, tools, toys or soft drinks (as for example Coca-Cola) [6].

The appearance of the internet may further change some of the rules that have traditionally guided the creation and development of brand communities. In the next section, we will analyse the particularities of brand communities on the internet, as well as the crucial role of the company web site in their development.

Virtual communities

A virtual community is a social network of individuals who interact through specific social media, potentially crossing geographical and political boundaries in order to pursue mutual interests or goals. One of the most pervasive types of virtual community operates under social networking services consisting of various online communities.

The term virtual community is attributed to the book of the same title by Howard Rheingold. The book's discussion ranges from Rheingold's adventures on The WELL, computer-mediated communication and social groups and information science. Technologies cited include Usenet, MUDs (Multi-User Dungeon) and their derivatives MUSHes and MOOs, Internet Relay Chat (IRC), chat rooms and electronic mailing lists. Rheingold also points out the potential benefits for personal psychological well-being, as well as for society at large, of belonging to a virtual community.

Virtual communities all encourage interaction, sometimes focusing around a particular interest or just to communicate. Some virtual communities do both. Community members are

allowed to interact over a shared passion through various means: message boards, chat rooms, social networking sites, or virtual worlds [36].

Virtual community versus off-line community

A virtual community is a specialized, geographically dispersed community based on a structured and dynamic network of relationships among participants sharing a common focus [8]. Many virtual communities are explicitly structured around consumption activities (Kim and Jin, 2006; Kozinets, 1999). These virtual communities are able to stimulate the trial, adoption, and use of products and services [26].

We can define a virtual brand community as a group of individuals with common interests in a brand who communicate each other electronically in a platform provided by the company which supports the brand. Community members may establish a brand related discussion but they may also share opinions about any other topic of interest. Consumer interaction within the community may be stimulated by the company proposing different contents or topics around which the relationships between members are growth. Brand-based online communities can benefit of dialogue flowing between consumers. As it happens in offline brand communities, crucial relationships arise among fellow consumers that are even more important than relationships established with the brand or firm [36].

On the internet, communities are no longer restricted to geographic co-presence of members, as interaction takes place through a technological interface, so physical context is not necessary [7]. Therefore, the internet overcomes the geographical limitations that have restricted the development of brand communities off-line. The absence of a physical contact may change the social context and the relationships among members.

A theoretical explanation for consumers' participation in virtual communities: uses and gratification paradigm

People who participate in virtual communities are motivated to do so for different reasons [2]. According to the uses and gratification paradigm, media help consumers in satisfying their social and psychological needs. Individuals often seek out media in a goal-directed fashion to fulfil a core set of motivations. A basic assumption of this paradigm is that users are actively involved in media usage and interact highly with the communication media. Gratifications are provided by the attributes, the content provided by the medium, and the social and physical contexts with which each medium is typically associated [19].

Several researchers affirm that this paradigm may be very useful in understanding why consumers participate in virtual communities (de Valck and Dambrin, 2007; Dholakia et al., 2004). As it happens with other media, people may be motivated to involve in a virtual community in order to satisfy different needs (Katz et al., 1973). The gratification of individual motives and needs in a virtual community will depend on the perceived value of being a member (Dholakia et al., 2004; Lee et al., 2003; Mathwick, 2006). A virtual community enables their users to obtain the following values.

Functional value (e.g. advice, information, and expertise). A consumer may participate to obtain a purposive value, which is defined as "the value derived from accomplished some pre-determined instrumental purpose" [8]. Of special interest from a marketing perspective is the sharing resources process. Virtual communities enable individuals to give and receive information on topics they may be interested in (informational value). Mathwick (2006) has recently demonstrated that web site traffic and brand loyalty are primarily a function of the informational value created through virtual interaction [23].

Social value (e.g. friendship, emotional support, self-esteem, social status, social enhancement). In virtual communities, we may find people with similar problems and experiences. The virtual community implies a social activity between groups of people interacting online, which delivers the consumer value of interpersonal connectivity [26]. The affiliation with virtual community represents a social benefit to a consumer for reasons of identification and social integration [22]. Consumers can even derive social enhancement value in virtual communities when they obtain social status within the community [8].

Entertainment value. Entertainment stems from fun and relaxation through playing or otherwise interacting with others. These experiences may include flow state, as it is very likely that consumers enjoy, show a high interest and involvement with other people, and feel a sense of time distortion during their common interaction [8].

The development of a virtual community in a brand sponsored web site

Previous research (Bellman et al., 2006; Ghose and Dou, 1998; Sicilia et al., 2005) has focused attention on what factors make a company web site more appealing and motivate customers to visit it repeatedly. Most of these studies show that interactivity is a key factor as it allows consumers to get in touch with the company or even to contact with other consumers (Cova and Pace, 2006; Goldsmith and Horowitz, 2006; McMillan, 2002). The creation of a virtual space for consumers within the brand web site can provide the perfect forum for sharing the community interests. Therefore, the development of a virtual community implies a step forward in trying to get consumers involved and participative with the site.

A corporate web site can allow the birth of a virtual community around a brand using different options [8], though the most common utilities are real time "chat" and asynchronous discussions that play out over days, weeks, and even months in discussion forums, bulletin boards or product review pages [23]. Through the creation of a virtual space, the site will become a meeting point where members develop their relationships but always inside an environment where the brand is present.

Companies have found mixed success in the creation and development of virtual communities. Global brands, that are resource-rich, should be more capable of fully utilizing the web, but that is not necessarily true (McMillan, 2002; Perry and Bodkin, 2000). Some of

these large organizations have failed in launching or sponsoring their own social networking sites in their intent to create virtual communities.WalMart for example closed down its site, the hub, three months after its launch, as it was not performing as expected (Flavian and Guinalı´u, 2005). On the other end of the spectrum is Amazon. The creation of a virtual brand community (in the form of product reviews) has been crucial for the success of the company, compensating the coldness and impersonality of online distribution. Another interesting example is the case of Manchester United Football Club, where close relationships are created among sports fans (Flavian and Guinalı´u, 2005). Furthermore, Gossett and Kilker (2006) recognized the arising of virtual communities around Counter institutional web sites, such as RadioShackSucks.com, where organizational members have a safe space to share their ideas, find solutions to problems, and have their opinions acknowledged [11].

A singular case of a virtual community of consumption is that which has been developed by Coca-Cola in Spain. Given its success, this study will examine in detail its main characteristics. This analysis will be useful to understand the key success factors used to create and support the community.

The Coca-Cola Spanish virtual community

Methodology

In order to collect the information, the authors have compiled the necessary data using several data collection techniques from September 2006 to July 2007. First, we made an online and off-line compilation of information about "the Coca-Cola Movement." We obtained additional information through a telephonic interview with personal of the marketing department. Second, we repeatedly browsed the Spanish web site participating as members of the community. Finally, we conducted an analysis of information and opinions in forums and chats. A similar procedure was followed by Cova and Pace [6].

Information about Coca-Cola

At a global scale, it operates in more than 200 countries all over the world. The company and its bottling partners employ 49,000 persons. The net operating revenues obtained in 2004 were $21,962 million (USA represent 30 percent of total revenues). The Iberian Division (Spain and Portugal) of Coca-Cola has 270 employees. It collaborates with seven bottling partners in this area including 16 factories, which overpass 6,000 employees. In 2005, the division generated €3,000 million in operating income.

Coca-Cola used first its site as a corporate placeholder (including links to annual reports), though Coca-Cola is currently favouring the building of interactive communities, which allows its consumers to express themselves (Hein, 2006). One would expect that the American web site would be the pioneer in the development of virtual communities around Coca-Cola. However, the Spanish strategy better represents the success of a virtual

community within this company. The Marketing Excellence Awards recognized it in 2005 as the best digital media program all over the world [35].

The birth of the Spanish community

Since 2000, Coca-Cola Spain considers its site as one of the mainstays in the communication strategy. BetyByte Entertainment is the interactive agency that has conceived the virtual community. The new approach, called "the Coca-Cola Movement," implies a complete change in the web site concept and has required an enormous content redefinition.

The creation of a virtual community around Coca-Cola was a very challenging objective, as convenience products are frequently questioned regarding their capacity to build a brand community (Cova and Pace, 2006). As we have aforementioned, three requisites are necessary to form a community (consciousness of kind, shared rituals and traditions, and a sense of duty to the community). If we think of Coca-Cola, all their consumers need to be united, aware of the fact that they constitute a different group. It is also difficult that they share rituals and traditions and even more unlikely, that they have any sense of duty to the community [35].

If the virtual community were to have to include all its Spanish consumers, the challenge would be even more complicated, because of the differences among the targets Coca-Cola addresses. As it is extremely difficult to get a virtual community with all consumers reaching these requirements, Coca-Cola has chosen a particular segment to build the virtual community, young people. The reason behind this choice is their high use of web sites as sources of product information instead of other traditional media like TV. Youth use the web as a place to go, sit there for a while (sometimes hours) and meet other people. The findings obtained by Kim and Jin [15] support this thesis. They show that virtual communities are predominately formed by youngsters, because they are more open to giving and receiving information through non-traditional forms of communication, and are more accustomed to forming social relationships using technology.

A second difficulty stems from the characteristics of virtual communities of consumption, where traditionally, people explicitly share their enthusiasm for, and knowledge of a specific consumption-related activity [16]. As an example of this type of virtual community, Cova and Pace (2006) show how consumers who belong to "My Nutella Community" share such enthusiasm. This is not the case of Coca-Cola. Consumers do not talk about their experiences with the product; their members are instead mainly friends sharing opinions and leisure activities in a virtual space supported by Coca-Cola. As McAlexander et al. (2002) state, the existence and meaningfulness of the community is in the customer experience rather than in the brand around which that experience revolves [6].

Group members act as if the community is meeting in a physical public place with shared rules, values, and codes of behaviour. Thus, in the virtual community of Coca-Cola the social context (relationships between members) is more important that the relationships between members and the brand.

How to attract members to the virtual community? The loyalty program

To become a member of the community, a registration process with a login username and password is required. Once registered, each individual provides his/her e-mail and password to access the different sections. Through this "log in" procedure, Coca-Cola obtains an explicit monitoring of customer information. In addition, the company obtains one of the most complete databases in the Spanish market. As shown in Figure 2, customer information on product usage, purchasing habits, feelings, attitudes, personality and demographics (age, sex, and e-mail address) must be filled in the registration form.

On entering the site, the user is invited to actively participate, a necessary condition to hold together the community [22]. Coca-Cola stimulates participation through the development of a loyalty program. Since the early 1990s, organizations have been encouraging customer participation through loyalty programs in which consumers are offered incentives in exchange for "frequency repeat business" (Roehm et al., 2002; Rosenbaum et al., 2005). This is also the case of Coca-Cola, which motivates participation with messages like "Amuse yourself", "Get friends", "Communicate", "Play" or "Win prizes". In fact, the loyalty program is the main incentive that motivates consumers to register and become members of this community. The efficacy of a loyalty program depends on several aspects such as timing of rewards, the ease of use, or the ability of the company to process effectively program data (Rosenbaum et al., 2005). Coca-Cola uses a digital purchase test, named pin-code.

Customers first collect the codes from specially marked Coca Cola products. Then, they enter the codes online in a personal online point accumulation account. When points are exchanged for the desired reward, they are deducted from the customer's account.

Several advantages can be highlighted from this loyalty program. Firstly, the brand overcomes most of the inconveniences of traditional loyalty programs, whereby the consumer had to collect points and mail them to the company, which resulted in a tedious and costly process [2]. Secondly, with this strategy, brand consumption is stimulated. Coca-Cola can even direct consumption towards low-demand products by allocating a high number of points to them. Thirdly, the pin codes strategy allows Coca-Cola to get loyal and participative consumers in the community.
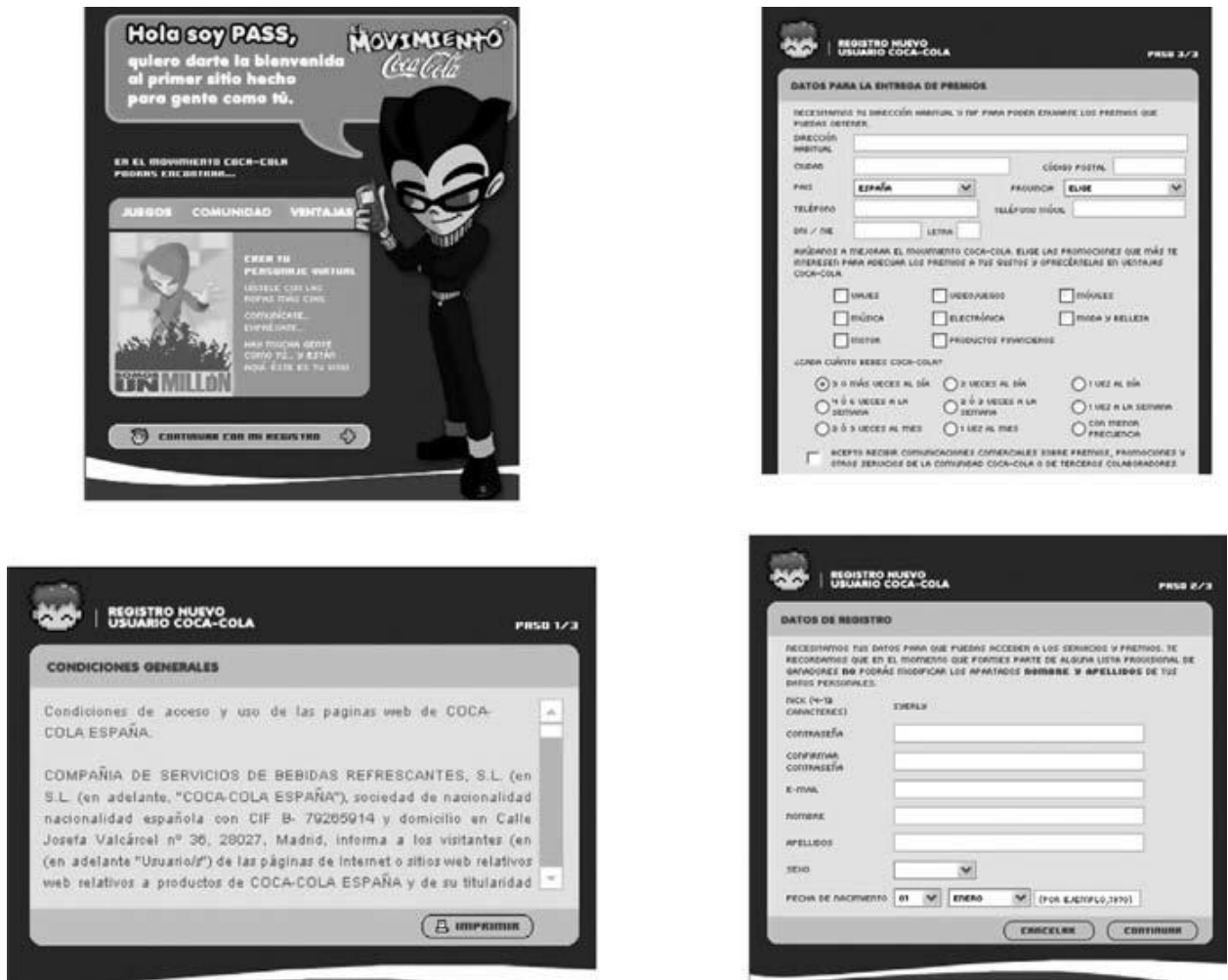
Figure 2. Phases in the registration process

How to maintain an active participation in the virtual community? The uses and gratification approach

By means of the uses and gratification paradigm, participation in the community depends on the benefits or values that members perceive. We next analyse the extent to which this virtual community provides functional, social and entertainment values.

Functional value. The sharing resource process that usually motivates consumers in virtual communities is also present in this site. Communities require a space where members create the content, and are, responsible for it. One of the most popular venues for creation and dissemination of contents are the forums, a web-based application that allows people to post messages and share information. They provide a space for supporting debates that go on for an extended period of time. The Spanish community can participate in 17 distinct forums where members can find out other members' opinions about topics of interest. Nine of them

are game-related. Other forums deal with literature, music, cinema, sports, current issues, relationships and networking [22].

The possibility of downloading further motivates consumers to become members of the community, as it provides unique benefits that are otherwise unavailable in traditional media environments. The web site offers a huge number of downloading options: 49 wallpapers, 11 screensavers, 21 emoticons, 13 display pictures, six background items, 28 desk icons and two videos for computers. It also provides 53 tones, 36 wallpapers, and one game for cellular phones. In sum, members can obtain information or other resources (by downloading) in reward for their participation in the community [9].

Social value. The Coca-Cola virtual community provides different options for primarily social purposes rather than for commercial aims. All members have a personal card containing their personal information, hobbies and likes. This idea of providing room to post personal profile information increases the attractiveness of the platform as a social space. Such information is available for other users to view and may serve to increase familiarity among the users and increase the sense of community [13].

Members can use the site to meet people with specific characteristics (age, sex, and geographical location) by using the "find people" option in order to establish relationships with other members. Members can create friend lists by adding people they find interesting. Once connected, any member can contact other members through the web, which helps people in the community to get to know each other. Members can also participate in chats to satisfy the need for affiliation with the community. As in the messenger system, it is possible to invite several members to participate in the conversation at the same time. Most games include online chats where consumers have the chance to talk with other players while participating in the interactive experience [17].

Some members of the community have formed clans (smaller groups formally recognized in the web) in which they can talk, play against others as a team, or share opinions and interests. The community has also a ranking for the most highlighted members of the week, with regard to several aspects (the sexiest, the dullest, the tenderest, the hardest, and the most original). For instance, in Figure 3, we show the personal card of Xikita, the girl of the week (July 10, 2007). She is a 22-years old girl, from Madrid, 1.50-60 metres in height, green eyes, dark hair, and she is looking for friends. To become the girl/boy of the week, other members have to vote for you during the previous week.

The community also provides the option to ask other members for a real meeting, thus connecting the virtual and the real world. By doing this, members may become more united, and share some kind of rituals, both contributing to the enhancement of the virtual community [1]. Therefore, this community is very rich in social context as consumers have a great deal of information about one another along with the fact that it helps to maintain an interpersonal connectivity among its members [8].

Entertainment value. The idea of linking the brand image to entertainment has traditionally guided the company's communication strategy. The site reinforces such an idea. In traditional communication, companies can create entertaining messages (i.e. humorous ads). However, the sensation of entertainment is short-lived. Coca-Cola aspires to provide entertainment for the community members while surfing through the site.
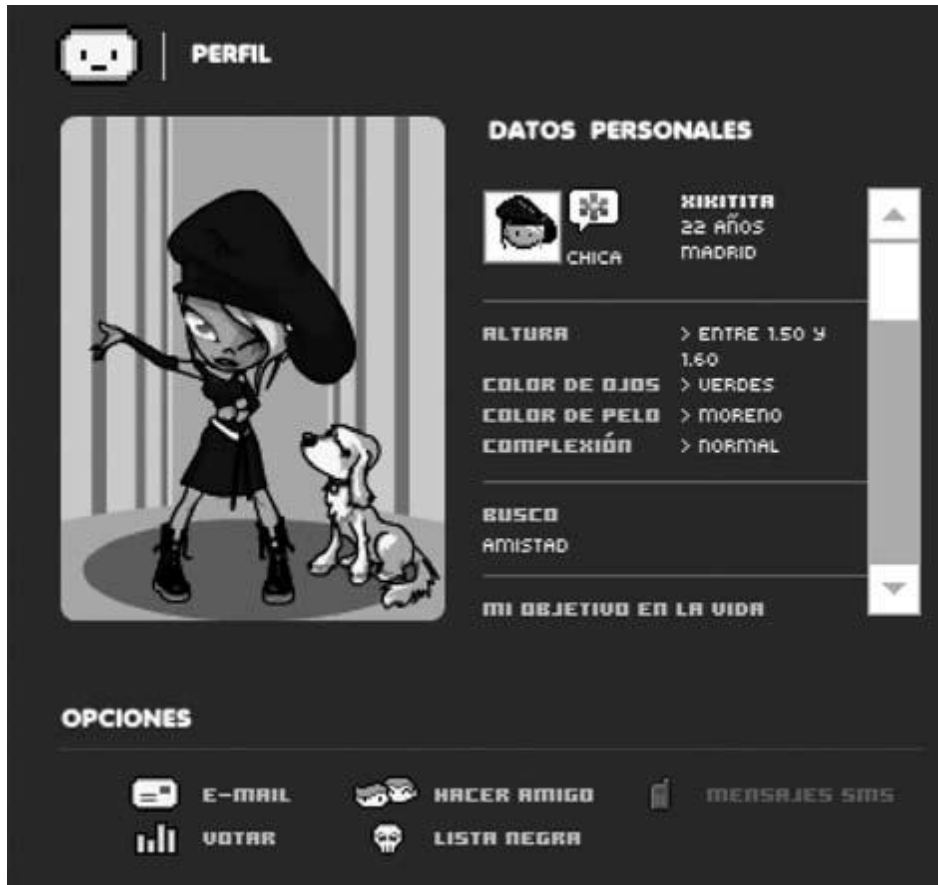

Figure 3. Girl of the week (XIKITA *)

The site has become an authentic leisure place where customers have the possibility of playing online. The company uses games as incentives to attract consumers since the target audience of Coca-Cola, young people, are known for their fondness of computer games. The game section is one of the most successful of the web site. Although many visitors may recognize that games are part of the firm's advertising, they may still love playing because games provide escapism, diversion, and possibly emotional release [9]. It is interesting to highlight that the average connection time is 55 minutes.

The inspection of the site reveals that there are a variety of games (Figure 5) dealing with different issues such as sports, pastimes, or relationships. Consumers can play both individually or by teams. Each game has its own winner ranking and allows participants to obtain prizes (by winning points for their personal accounts).

Figure 4. Games on-line

Prizes such as trips or tickets for concerts may provide important hedonic or experiential benefits to recipients [4]. There is also a chat window for talking to your team or rivals while playing. Therefore, playing online provides an entertainment value and reinforces social interaction within the community.

Results

The data obtained from different sources (Cocacola.es, Marketing Department of Coca-Cola Spain, and BetyByte Entertainment) give us an idea of the success of the Spanish community. According to the marketing department, it is the best site in the world addressed to young people. Registered users have spectacularly increased since June 2001, when there were only 100,000 users. The virtual community, created in April 2002, reached 500,000 members by September that year. It finished June 2007 with just over 1.5 million members.

Most members are between 14 and 25. There are about 50,000 daily accesses and 2,000 new members a day. According to Hugo Giralt, Manager for e-Marketing of Coca-Cola Spain, the "Movimiento" means lower costs in market research, promotions and logistics, and a greater and more effective advertising impact. The virtual community increases the company's capacity for advertising and selling its products in well-defined segments. In fact, sales have grown by around 15 percent since 2000 because of this online community. The size of the community along with the achievement of an important sales growth has led the campaign to be one of the most successful in the global marketplace [35].

Given its success and the experience accumulated, the virtual community created by BetyByte was extended to other countries using the denomination of Redzone (Denmark, Finland, Norway, and Sweden) in February 2003. More recently, the company has decided to

apply a similar strategy to other products. In 2005, it introduced Fanta "Fun & Wave," which has reached 48,000 members in 2007.

Spain's cultural peculiarities

According to Lewis [18] There is only one England or France, but there are several Spains. Castilians are in the majority and continue to dominate, but you would do well to check on a Spaniard's origins when beginning to do business with him or her. Galicians are practical and melancholy, sharing some common ground with British, Dutch and Nordics. Aragonese stubbornness finds an echo in Finnish sisu. Basques have a talent for industry and commerce and, along with Finns, Hungarians and Estonians, stand apart from Indo-European ancestry. Northern Europeans and Americans share the cult of efficiency with Catalans, who face France rather than Spain. On the other hand, they have little in common with two other regions - Asturias, where the people are extremely haughty, and Andalusia, where everyone is an orator and timetables are for cats and dogs. At the time of writing, Spain's regions are still somewhat restive. The Catalans have already achieved a large degree of autonomy and self-rule. Catalan is firmly established as a literary tongue and is in daily use. Galician and Andalusian regionalism is relatively passive. Only in the Basque country is unrest visible, with episodes of violence. The Islamic attack on a Madrid train in 2004 has temporarily overshadowed Basque activities of a similar nature, but the aspirations of certain elements in the Basque provinces of Guipúzcoa, Vizcaya and Alava remain the chief obstacle to Spanish unity in the twenty-first century.

Values

So much for the regions—let us now take a close look at Castile and the values of its people.

guardians of the Roman heritage	proud
verbose	impractical crusaders, mystics
eloquent	individualists
inventive	not compliant with authority
romantic	scorn for laws and regulations
love to talk	personal dignity
fatalistic	energetic, adventuresome

Cultural Factors in Communication

We may insist that facts are stubborn things, but the Spaniard asserts things are not what they seem. There is a double truth, that of the immediate detail and that of the poetic whole. The

second is more important for the Castilian, since it supplies a faith or vision to live by. One must realize the futility of material ambition.

Consideration of these Spanish concepts and credos makes it fairly clear that the Spaniard and some northerners (for instance, Nordics) have quite different perceptions of reality. Dialogue between them is never going to be easy. A grandiloquent, circumlocutory orator and supreme romanticist addresses a passive listener and taciturn pragmatist. There will probably be a language barrier. Yet dialogue there must be, in the world of business.

There are some bridges between Spanish and northern cultures. Castile is a barren land with extremes of cold and heat. The severity of climate and landscape has accustomed Castilians to austerity—a phenomenon not unknown to northerners—and hard times in many countries have encouraged frugality. Although Spain is a land of rich and poor, the egalitarian Britons, Scandinavians and Americans can detect in the Spaniards' protection of the underdog Spain's

version of true democracy.

Behavior at Meetings and Negotiations

Spaniards are generally friendly and affable, extremely hospitable when hosting. Enthusiastic small talk and socializing precede and procrastinate getting down to business. When they do formulate strategies, their proposals are often only "outlines" and vague to begin with. They maintain a genial stance throughout, but they are nobody's fools. People wishing to do business with Spaniards must first accept that they will never act like northerners and that their scale of values is quite remote from the modern age.

Like other people, they buy and sell and are friendly, but they look at you in an old-fashioned way and they are more interested in you than in your goods. I once acted as interpreter for three German salesmen presenting their new product to the board of a Madrid company. The Germans had a slick presentation lasting 30 minutes, with slides, graphs, diagrams and video. The six Spanish managers facing them hardly watched the presentation at all. They were watching the salesmen. Were these the type of people they wanted to do business with? Did they like them? Were they really human?All Germans give perfect presentations, so why watch it? After the session was over the breathless Germans waited for the response. The Spaniards took them for lunch, which lasted until 4:00 P.M. After that everybody took a siesta. The deal was done three days later.

Manners and Taboos

Spain used to be well known for eating and drinking until the early hours of the morning and taking a siesta the following afternoon. Entry into the EU has obliged businesspeople to align their waking and working hours with the rest of Europe, so the siesta tradition is dying fast. Spaniards still eat late, however, very often in restaurants, and lunch is the bigger meal (starting as late as 2:00 or 3:00 P.M., if the office does not demand one's presence). An

evening meal to follow may be just tapas if the lunch was enormous. Many Spaniards have two jobs.

Work situations are more flexible than in Northern Europe or the United States. Contrary to popular belief, Spaniards are not huge wine drinkers, being ranked tenth in wine consumption, drinking only half the amount downed by their Portuguese and French neighbors. Spaniards smoke more than any other Western Europeans. Taboos include failure to protect "face," lack of chivalry and bad treatment of the weak, poor or handicapped.

How to Empathize with Spaniards

You must work hard at making a Spaniard like you. If you succeed in this, the business will follow automatically. You must show you have a heart and that you do not take everything seriously. Northerners have big hearts, but some are often experts at hiding them. You need to talk to Spaniards with a twinkle in your eye. Their "distance of comfort" is much closer than that of most Europeans and they like both physical and eye contact. They are more robust than French, Italian or Portuguese people—they are the roughest of the Latins. Macho is a Spanish word, and the essential masculinity of the northern businessman stands him in good stead in a Spaniard's company. Northern businesswomen will also be comfortable with male Spaniards, as their relative aggressiveness will score points.

Spaniards are very human. When conversing with them it is best to shed some of your cool tendencies, forget the dictates of time, admit that some roguery actually exists in your country, confess to a few private sins or misdemeanors, ask them some rather personal questions, stay up drinking with them until 3:00 in the morning and in general let your hair down.

When relaxing in the company of Spaniards, keep one consideration in the forefront of your mind: they are touchy and sensitive. You may laugh at the French and Germans as much as you like, you can even criticize certain Spanish customs such as siestas or the bull fight, but do not under any circumstances say anything that might be interpreted to impinge on their personal dignity or honor. For many Spaniards pundonor (point of honor) is the most important word in the language. They may be poor, but they are noble. They may have been in jail, but they are honest. They may be unpunctual, but they are true. They may owe you money, but they are sure to pay you when they can. They may have failed, but they cannot be humiliated. Like the Japanese and Chinese, they cannot be made to lose face.

This deference to a Spaniard's dignity, the careful nurturing of their personal, human prowess, the respect shown for their station, personality and soul, is the key to their cooperation, alliance and affection. They will reciprocate in full—if you command a Castilian's loyalty, he will be your best friend. He will buy your company's product and send you Christmas cards for 25 years. He will lie and occasionally die for you. He is an honorable man.

Motivating Factors

- Human relations count far more than logic or efficiency. Put business on a person-to-person basis.
- Be as familiar as you dare, but keep the dignity of man (la dignidad del hombre) in the forefront of your mind.
- Always impute the best motives. Remember that, unlike Italians, they are touchy about personal honor and nationalism.
- Accept physical closeness, tactile behavior, back-slapping, etc.
- Hearty (sometimes rough) humor scores points. They are not subtle or delicate in such matters.
- Let them speak at length. They like to get things off their chest. Do not oppose or interrupt during this phase. The sympathetic listener will be granted favors later. You can even reverse their opinions, if you have gained their loyalty.
- Win their loyalty by listening well, trying to facilitate their task and fulfilling commitments diligently. Your diligence will impress them and put them in your debt.
- Spaniards "feel" situations rather than analyzing them logically. Therefore you may make emotional appeals. "My grandfather did business with your grandfather" is a very valid argument with Spaniards.
- Socialize as energetically (and as late) as possible. Relationship-building in Spain is nearly always associated with eating and drinking.
- Show some knowledge of Spanish history and literature/arts.
- Allude to Spain's glorious past. It is one of Europe's oldest countries; it dominated European politics and Catholicism for centuries, and it had a huge empire.
- Remember there are several Spains (Castile, Andalucia, Galicia, Catalonia, the Basques). Make sure you know where people's allegiances lie.
- Influence them through personal appeal, not rules, regulations or deadlines.
- They do not like being rushed, restricted, hindered or hedged in. Give them space as well as time.
- They have low legal consciousness.
- They need a vision or faith to live by. You must show them your idealism overlying your pragmatism.
- They are rather fatalistic and perceive "double truth"—the immediate reality and the enduring philosophical situation. There is nothing new under the sun. Try to share this attitude with them.

Avoid:

- Confusing mañana behavior with laziness. If late deliveries (or payment) are causing you problems, indicate that you are under pressure from above and ask them to help you personally.
- Allowing any Spaniard to lose face in your presence.

- Paying too much personal attention to Spanish ladies. The men are unreasonably jealous!
- Referring to Spanish lack of punctuality, slowness, political or regional instability, violence or general inefficiencies or weaknesses. It is counterproductive.

Discussion

The analysis of a successful virtual community has allowed us to understand that consumer-to-consumer interaction facilitated by brands online, might offer marketing opportunities and satisfy both the company and its consumers. In addition, virtual communities are not subject to many of the problems increasingly associated with traditional marketing approaches such as fragmentation of media or the resistance of consumers to receive marketing communications posed by direct marketing campaigns [2]. The strength of the Coca-Cola strategy in Spain relies on the creation of a virtual community, which provides functional, social, and experiential values.

From a functional perspective, members may find information about their topics of interest in forums provided by the community. Members can post their opinions and perspectives, and share information and expertise. The community may also offer downloading options to its members. Different incentives may stimulate different people. In the case of young people, downloading (e.g. the latest tones for their cellular phones) appears to be the most appealing strategy in order to capture their attention and interest.

However, offering a functional value is not enough to maintain a virtual community alive. Members could end up using the web site only to obtain information or downloading without actually participating in the community. In order to success, a virtual community must also support social interaction [28]. Connecting online for friends has become the corner store of the rapidly growing social networking phenomena, especially between young people. For that reason, the Spanish web site is designed to allow consumers to socialize and network online by posting a profile, looking for and networking with friends. Community members create their own identities and can meet others in a virtual space supported by the brand.

The social value also resides on the volume of communication and interaction generated between consumers. As Henning-Thurau et al. (2004) state, the writing behaviour signifies consumer participation in and presence with the virtual community and enables them to receive social benefits from membership. Consumers also benefit from their ability to recognize in each other "people like me" and to form genuine relationships with like-minded people [22]. As a result, virtual communities become venues where intense relationships emerge voluntarily among members [24].

Finally, a virtual community should allow its members to explore new worlds of fantasy, entertainment and fun. Coca-Cola provides this experience through online games, sweepstakes and prizes. Games not only entertain consumers, but also reinforce consumers' impressions about the products by appealing to the emotional and sensorial benefits experienced by participants. The values inherent in play create memorable experiences that

strengthen relationship and influence consumer attitudes towards the site, as well as towards the brand [24]. In addition, sweepstakes and prizes are intrinsically fun to watch and to participate in [4].

In summary, virtual communities are not valuable mainly for their informational value, but they may be even more valuable for the social support and entertainment options they offer. Thus, in contrast to Dholakia et al. (2004) results, it is also likely a large virtual community, where people do not know each other personally, attribute more value to entertainment and social interaction instead of a more informational value. Both, the entertaining content and the possibility of forming relationships with others draw members back to the site on a frequent and regular basis [8].

However, some limitations should be considered. The findings of this study are limited by the fast-paced nature of the internet. The virtual community may have changed since the study was conducted. In addition, the analysis developed is qualitative and restricted to the Spanish community. This analysis could be improved with a quantitative study in which members were asked about the degree to which their functional, social and entertainment needs are satisfied.

Managerial implications

The virtual community of Coca-Cola offers many useful lessons for those who wish to accrue brand benefits through an online community. Connecting the brand site and the social aptitude of community participants potentially creates a new marketing tool [22]. This case study has shown that the development of a web site with proper contents and options is crucial for the creation of a virtual community around a brand.

The development of a loyalty program to support the virtual community is a good starting point to increase members' interest in becoming part of a community. It will generate traffic to the site, and will turn visitors into members. The incentive chosen is very important for consumers to return to the site regularly. Prizes are the most frequently incentive used by brands to stimulate consumers. Therefore, marketers must find out what may motivate their targets to register in the virtual community [29].

Once individuals are registered, the maintenance of lively and interesting contents for members is crucial to retain members participative. Downloading options and the creation of common spaces to give and receive information (e.g. forums) help in maintaining the community active. In addition, the site must offer members a sense of involvement or a social identity [2]. Finally, virtual community management should provide its members with entertainment options. Entertainment has a powerful influence in creating memorable experiences that can positively influence consumer attitudes towards the site, as well as towards the brand [24].

In order to success, marketers need to do a perfect analysis and response to community members' wishes [17]. Sharing resources, establishing relationships and living fantasies are very appealing to youngsters, as we have observed in the Coca-Cola community. Other

targets may be stimulated with different venues, therefore, each brand needs to identify what options may appeal the most to its target. In addition, the company should generate reports and statistics about most visited sections and visit durations. Less visited sections can be swapped for new ones of more interest for members. Thus, information obtained is useful to redesign the communication strategy, and to improve the relationship with consumers in the long term.

A virtual community supported by a web site will serve to improve the relationships between individual consumers, as well as among the consumers and the brand. As a result, intense relationships will emerge voluntarily fostering both consumer loyalty and trust [24]. The experiences lived by members in the virtual space will also boost brand loyalty by increasing the commitment and emotional ties with the brand [15]. Ultimately, it is very likely that the virtual community strengthen the attitude towards the company and the corporate image [32].

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PRACTICAL ASSIGNMENTS

Assignment #1

A warm-up task. The goal of the task is to bring students onto the creative platform:

- Get up and come out into the middle on the floor
- Close your eyes and think of your favourite weekend exercise (20 seconds). Open your eyes and find the person who thought of the same exercise as you
- Use the Challenge Training Cards to generate ideas
- Use the challenges on the card one by one. Each challenge provides a condition
- Help one another to generate ideas for which situation or thing that naturally relates to this challenge/condition

Assignment #2

A warm-up task. The goal of the task is to bring students onto the creative platform:

- Get up and come out into the middle on the floor
- Close your eyes and think of a virtual community you belong to (20 seconds). Open your eyes and find the person who belongs to the same virtual community as you
- Use the Picture Training Cards to generate ideas
- Use the pictures on the card one by one as inspiration for ideas how to make clothes smooth and with no crinkles. Generate as many ideas as possible

Assignment #3

The goal of the assignment is to generate advantages and disadvantages of belonging to the virtual community:

- Get up and come out into the middle on the floor
- Shake hands with people in the class. Find a person whose body temperature is the most similar to yours
- In pairs generate advantages and disadvantages of belonging to the virtual community
- Use Word Stimuli Cards for inspiration or if you run out ideas
- Write the lists of advantages and disadvantages on a sheet of paper and compare your lists with another pair

Assignment #4

The goal of the assignment is to come up with all possible ideas explaining why Coca-Cola's virtual community in Spain was so successful:

- Get up and come out into the middle on the floor
- Close your eyes and think of how many times you use your credit card in a week (20 seconds). Open your eyes and find the person who uses it as often as you
- In pairs generate ideas explaining why Coca-Cola's virtual community in Spain described in the Case was so successful
- Take into account Spain's cultural features (Lewis, Hofstede's culture classification models)
- Use Challenge Stimuli Cards for inspiration

Assignment #5

The goal of the the assignment is to come up with an action plan how to attract new members of a virtual community in a particular country

- Get up and come out into the middle on the floor
- Close your eyes and think of when you were last at a burger bar (20 seconds). Open your eyes and find the person who has been at a burger bar at the same time as you
- In pairs generate ideas and come up with an action plan how to attract new members of a virtual community in a particular country
- Take 2 countries of your choice, take in account their cultural features and peculiarities that could be useful for attracting them
- Describe and compare different action plans effective in different cultures
- Use Picture Stimuli Cards for inspiration

16 INDIVIDUAL CREATIVITY

16.1 CASE STUDY 1. AMAZON: HIGH INNOVATION PREMIUM

Amazon.com, Inc. is an American international electronic commerce company with headquarters in Seattle, Washington, United States. It is the world's largest online retailer Amazon.com started as an online bookstore, but soon diversified, selling DVDs, VHSs, CDs, video and MP3 downloads/streaming, software, video games, electronics, apparel, furniture, food, toys, and jewelry. The company also produces consumer electronics—notably the Fire Phone, Amazon Kindle e-book reader and the Kindle Fire tablet computer—and is a major provider of cloud computing services. [1].

Why are some companies able to create and sustain a high innovation premium while others don't?

The answer is not complicated: People, process, and philosophies (what we call the 3Ps). They differentiate the best in class from the next in class when it comes to keeping innovation alive and delivering an innovation premium year after year.

On the people front, the behaviour of leaders matters—big time. In our initial study on disruptive innovators published with Clayton Christensen in The Innovator's DNA, we found five "discovery skills" that distinguished innovators from non-innovators. Innovators ask provocative questions that challenge the status quo. They observe the world like anthropologists to detect new ways of doing things. They network with people who don't look or think like them to gain radically different perspectives. They experiment to relentlessly test new ideas and try out new experiences. Finally, these behaviours trigger new associations which allow them to connect the unconnected, thereby producing disruptive ideas. [3]

The Process of Innovation

We've found that successful leaders not only personally understand how innovation happens but they try to imprint their behaviours as processes within their organisation.

Jeff Bezos

 Jeff Bezos (Amazon) looks to surround himself with people at Amazon who are inventive. He asks all job candidates: "Tell me about something that you have invented. Their invention could be on a small scale – say, a new product feature or a process that improves the customer experience, or even a new way to load the dishwasher. But I want to know that they will try new things." When the CEO asks all job candidates whether they've ever invented anything, it

sends a powerful signal that invention is expected, and valued. Bezos is also a great experimenter (with multiple patents to his name) and claims that, "I encourage our employees to go down blind alleys and experiment. In fact, we have a group called Web Lab that is charged with constantly experimenting with the user interface on the website to figure out improvements for the customer experience." The point is that leaders like Benioff [of salesforce.com] and Bezos don't just do it themselves, they think about replicating themselves and their behaviours throughout their organisations.[3]

In contrast, we've seen many innovators who don't seem to care about coaching or building innovation skills in others. They are good at creative problem solving so why delegate it to others who aren't as good at it? This can be a huge barrier to building an organisation with true innovation capability. So having innovative leaders is necessary but not sufficient for sustaining an innovation premium.[3]

Innovation is the driving force of competitiveness, of growth, of profitability and sustainable value creation. While it can easily be put into the rather narrow box of product development or technology, it is a fundamental challenge for the whole business. While it can quickly become a buzzword of the times, and then quickly forgotten when times get harder, it must be an everpresent, continuous process. [4]

More intelligent innovation	More imaginative innovation
Disruptive. Challenging business or market conventions, fi nding stress points ripe for removal or change.	**Creative**. Radically exploring all possibilities, and ways in which they could become reality.
Developing. Managing innovation as a strategic process, risk and reward, product and market development.	Applying. Innovating the product, the delivery and applications, so that it has maximum impact with customers.
Business Models. Rethinking how business works, how it adds value to customers and shareholders.	Market Models. Rethinking how markets work, customers and partners, channels and pricing.

From the vision of Apple to the insight of Zara, the passion of Nile and the customization of Dell, today's leadering brands think and act differently. The 'genius' of business today lies in resolving a number of paradoxes. Connections must be made between: outside and inside; markets and business; customers and sharehoulders; creativity and analysis; promises and reality; today and tomorrow.[3]

Apple's performance under Steve Jobs, versus other leaders, powerfully illustrates the importance of innovative leadership. From 1980-1985 during Job's initial tenure at Apple, the company's innovation premium averaged 37 percent. Without Jobs, Apple's premium dropped far below zero (an "Innovation Discount") from 1985-1998. But with Job's back at the helm Apple's innovation premium eventually jumped to 50 percent. Job's impact is undeniable. But what will happen now? Did Jobs sufficiently build innovation capability throughout Apple? Does Apple have sufficient innovation skills within the top management team and processes that encourage and support folks as they try to "think different" like Steve Jobs?

What we do know is that if the leaders of a company don't "get" innovation, the organisation doesn't stand a chance. The bottom line is that leaders of innovative companies consciously set the example by modeling innovation behaviours—and imprinting those behaviours within their organisation as processes. Their personal actions help to make innovation matter to others. [2]

Organizations cannot count on internal "creative" or customer input to solve all their problems; even traditional group idea generation has its weakness. Most individuals and groups in organizations occasionally need a brainpower boost to achieve "home run" or breakthrough ideas. And they need a number of methods in their idea toolkits. The more methods they can employ, the greater the odds of producing a hot idea. This need is where organizational training can help. [5]

In the mid-1990s, when Amazon emerged as an online bookseller, publishers welcomed the company as a "savior" that could provide an alternative to the stifling market power of that era's dominant chain stores, Barnes & Noble and Borders. Book publishers with exceptional foresight may have understood that they "had to view Amazon as both an empowering retail partner and a dangerous competitor," as Brad Stone puts it in *The Everything Store*, his deeply reported, fiercely independent-minded account of Amazon's rise.

Amazon looks innovative and supportive. The company's founder, Jeff Bezos, a Princeton-educated computer scientist and former Wall Street hedge fund strategist, had married a novelist; he often expressed a passionate devotion to books, particularly science fiction and management guides. In its early days of creative chaos, Amazon seemed to want to use the Internet to expand the potential of readers and publishers alike. Bezos hired writers and editors who supplied critical advice about books and tried to emulate on Amazon's website "the trustworthy atmosphere of a quirky independent bookstore with refined literary tastes," as Stone puts it.
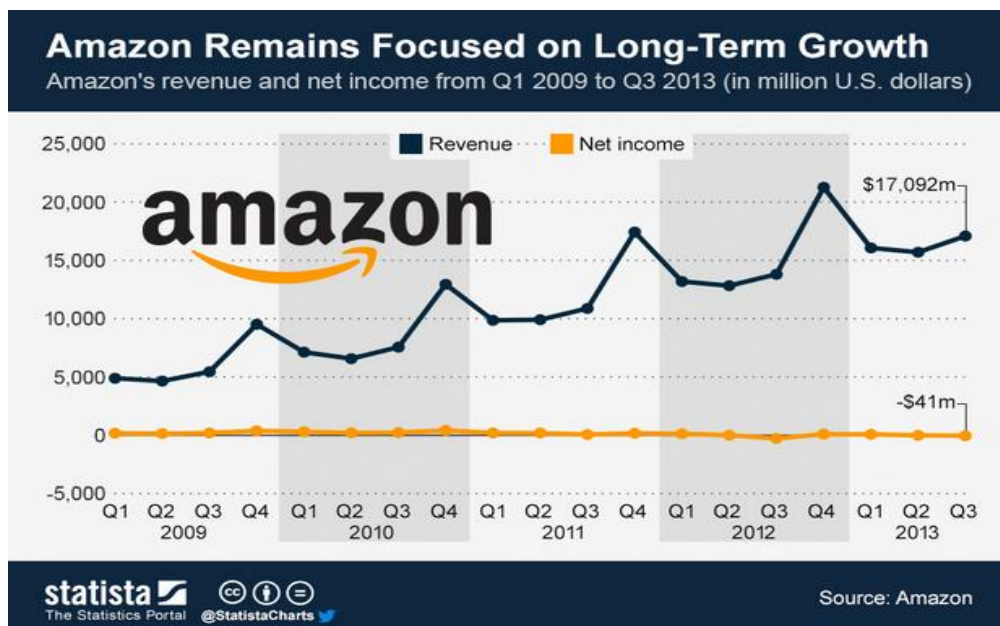
Among the management books Bezos read devotedly were ones by and about Walmart executives. He became inspired by Walmart's example of delivering low prices to customers and profits to shareholders by wringing every dime possible out of suppliers. By 2004, Amazon had acquired significant market power. It then began to squeeze publishers for more favorable financial terms. If a book publisher did not capitulate to Amazon, it would modify its algorithms to reduce the visibility of the offending publisher's books; within a month, "the

publisher's sales usually fell by as much as 40 percent," Stone reports, and the chastened victim typically returned to the negotiating table.[3]

"Bezos kept pushing for more" and suggested that Amazon should negotiate with small publishers "the way a cheetah would pursue a sickly gazelle." This remark—a joke, one of Bezos's lieutenants insisted—yielded a negotiating program that Amazon executives referred to as "the Gazelle Project," under which the company pressured the most vulnerable publishers for concessions. Amazon's lawyers, presumably nervous that such a direct name might attract an antitrust complaint, insisted that it be recast as the Small Publisher Negotiation Program.

Around this time, Amazon also jettisoned its in-house writers and editors and replaced them with an algorithm, Amabot, that relied on customer data rather than editorial judgment to recommend books. The spread of aggression and automation within Amazon as the company grew larger and larger echoed classics of the science fiction genre to which Bezos was devoted. An anonymous employee bought an ad in a Seattle newspaper to protest the change. "DEAREST AMABOT," the ad began. "If you only had a heart to absorb our hatred… Thanks for nothing, you jury-rigged rust bucket. The gorgeous messiness of flesh and blood will prevail!"

Over the last decade, Amazon's growing market share and persistent bullying, particularly in the realm of digital books, where it now controls about two thirds of the market, raise the question of how well competition and antitrust law can protect diverse authors and publishers. Amazon has become a powerful distribution bottleneck for books at the same time that it is also moving to create its own books, in competition with the very publishers it is squeezing. [3]

Amazon Remains Focused on Long-Term Growth
Amazon's revenue and net income from Q1 2009 to Q3 2013 (in million U.S. dollars)

The evidence to date is that Amazon and the attorneys that advise it do not fear antitrust enforcement. You might suppose, for example, that the publication of Stone's book, which contains extensive on-the-record interviews with former Amazon executives describing the company's most dubious practices, would have chastened it and caused it to pull back from strong-arming publishers—to avoid bad publicity, if for no other reason. Yet that has not proved to be the case.[3]

In 2014 Amazon has again launched a negotiating campaign to force publishers to accept concessions on the percentage of revenue it takes from e-book sales. And Amazon has again punished those who resist. Its most prominent target has been Hachette, the French publishing group, which will bring out *The Everything Store* in paperback. As a part of its pressure tactics, Amazon had removed the link on its website that would allow customers to preorder the paperback edition of Stone's book, as well as links that would facilitate other preorders of Hachette books.

Jeff Bezos's conceit is that Amazon is merely an instrument of an inevitable digital disruption in the book industry, that the company is clearing away the rust and cobwebs created by inefficient analog-era "gatekeepers"—i.e., editors, diverse small publishers, independent bookstores, and the writers this system has long supported. In Bezos's implied argument, Amazon's catalytic "creative destruction," in the economist Joseph Schumpeter's phrase, will clarify who will prosper in an unstoppably faster, more interconnected economy.[3]

"Amazon is not happening to book selling," Bezos once told. "The future is happening to book selling." Yet the more Amazon uses its vertically integrated corporate power to squeeze publishers who are also competitors, the more Bezos's claim looks like a smokescreen. And the more Amazon uses coercion and retaliation as means of negotiation, the more it looks to be restraining competition.

Toward the end of his account, Stone asks the essential question: "Will antitrust authorities eventually come to scrutinize Amazon and its market power?" His answer: "Yes, I believe that is likely." It is "clear that Amazon has helped damage or destroy competitors small and large," in Stone's judgment.

In view of Amazon's recent treatment of *The Everything Store*, Stone may now end up as a courtroom witness. Yet there are reasons to be worry about who will prevail in such a contest, if it ever takes place. As Stone notes, "Amazon is a masterly navigator of the law." And crucially, as in so many other fields of economic policy, antitrust law has been reshaped in recent decades by the spread of free-market fundamentalism. Judges and legislators have reinterpreted antitrust law to emphasize above all the promotion of low prices for consumers, which Amazon delivers, rather than the interests of producers—whether these are authors, book publishers, or mom-and-pop grocery stores—that are threatened by giants.

In 1951, the largest retailer in the world was the Great Atlantic & Pacific Tea Company, or A&P. Founded in 1869, the food chain seized upon the faster communications and more efficient transportation links of its era—a new transcontinental railroad and, later, automobiles and trucks—to build supermarkets with wondrous-seeming selection and lower

prices. Throughout the company's rise, as Marc Levinson describes in a fascinating history, it was a target of anger and lobbying by small-town grocers and producers, who protested that A&P was destroying not only their livelihoods, but also the quintessential place of small enterprise in American life A&P perfected a "relentless squeeze on suppliers" and it "pioneered the practice of carefully dissecting manufacturers' costs to determine what prices they should receive for their products," much as Amazon is doing to book publishers today. Also like Amazon, the supermarket deliberately sold some items below cost to attract customers who, once in the store, would also buy profitable items. [3]

A difference between A&P's position then and Amazon's now involves politics. At the cusp of the Great Depression, corner grocers and independent food wholesalers still had considerable political power in both of the major parties. In President Franklin Roosevelt, they also had a powerful defender. Roosevelt understood how A&P's efficiencies and low prices made food accessible to impoverished Americans. Yet he was also concerned that A&P's ravenous growth might cause hundreds or thousands of small merchants to fail, exacerbating the nation's jobs crisis. Roosevelt therefore oversaw a divided approach that used regulation to assure small grocers of some price stability while also enabling A&P to sell low-cost food, although not as freely as it would have without regulation.

Then, in the early 1940s, the Roosevelt administration's antitrust chief launched a wide-ranging investigation into A&P's business practices. In 1946, a federal judge found the chain's executives guilty of criminal violations of the Sherman Antitrust Act, even though the judge conceded that A&P had lowered food prices to the benefit of consumers. [3]

Since then, politics and antitrust jurisprudence have shifted to favor consumers and large corporations at the expense of small producers. On the political left, a consumer rights movement emerged in the late 1960s as a response to dangerous automobiles and corporate pollution. That movement gave consumers priority over small businesses in challenging powerful corporations. On the right, free-market ideologists built think tanks and long-term legal strategies to defeat business regulation of all kinds and to reduce the scope of antitrust enforcement from its expansive Progressive-era origins.

From the Reagan presidency onward, the right succeeded remarkably. Large corporations perfected their lobbying power in Washington while small businesses like bookstores and corner grocers watched their political influence and their hold on the American imagination fade. The United States today presents a more bifurcated economic landscape of empowered, atomized, fickle, screen-tapping consumers and the globalized, often highly profitable corporations that aspire to serve them.

In Europe's democracies, small producers and retailers have proven to be more resilient politically. The Czech Republic, Marc Levinson notes, passed a law in 2010 requiring minimum price markups by retailers to prevent "chains from undercutting mom-and-pop stores." The patisseries and florists of Paris benefit from regulation with similar intent. The conviction within Europe that a thriving culture depends on small, diverse enterprises that may warrant special economic protection is exemplified as well by France's ardent defense of its film industry. Crucially, these patterns of resistance to the digital age's speed-of-light

patterns of creative destruction have a political foundation—they are popular at election time. This is not the case in the United States, which lacks a politics favoring small- and medium-sized cultural producers, whether these are authors, journalists, small publishers, booksellers, or independent filmmakers. [3]

In the digital book market today, the influence of even the very largest groups such as Hachette offers no match for Amazon's grip on distribution and technology. In any event, the real problem of "the Age of Amazon," in Stone's apt phrase, does not concern antitrust economics or consumer prices. It concerns the future of reading and writing. There is no evidence that high retail book prices today discourage reading. The problem is the opposite: because of the digital revolution, the price of information has collapsed in a very short time. Free news, stories, YouTube videos, games, and other content generated by users but enabled by online aggregators and pirates have undermined the leverage of authors and publishers who depend on copyright protection to make a living.

This is the setting in which Amazon is now moving to upend for its own benefit the traditional pricing system in book publishing. At issue is the character of our public life. As the literary agent Andrew Wylie, a fierce critic of Amazon's predation, wrote recently, "The book industry is overwhelmingly the repository of our nation's culture. To destroy it is to destroy the culture."

Nicolò Minerbi/LUZ/Redux

A prototype of 'The Clock of the Long Now,' intended to last ten thousand years and designed by Danny Hillis and the Long Now Foundation as 'a way to promote long-term thinking.' Jeff Bezos, its largest financial backer, is having one built on his Texas ranch.

Jeff Bezos has more influence than any person in the world today over the future of reading. Last year, he extended his power into journalism, by paying $250 million in cash to purchase *The Washington Post*. [3]

He is not an easy man to caricature. In Stone's portrait, he is nerdy, dreamy, prescient, and ruthlessly competitive. He aspires to kindness as a personal ideal but sometimes rages cruelly at his subordinates. He demands hard data and has an unusually keen mind, one that allows him to follow complex numbers to whatever business insights they may yield, and to think ahead of his peers. He claims to value books, authorship, and journalism as public goods, and he seems to wish to be remembered as a patron—even a savior—of American letters in the digital age. Yet it is not clear that Bezos's ideas about the future of reading are driven by any principle other than the maximization of Amazon's position. Bezos became a multibillionaire because of his insights about books and reading, and yet books and reading have also seemed at times incidental to his personal and financial ambitions.

How did Bezos rise to power? In 1963, in Albuquerque, New Mexico, an eighteen-year-old unicyclist and circus performer named Ted Jorgensen impregnated a sixteen-year-old high school sophomore named Jacklyn Gise. Their son Jeffrey was born on January 12, 1964. The new parents married but soon divorced. A few years later, as Stone recounts, Jackie met a Cuban-born oil engineer Mike Bezos, and who was about to take up a stable if peripatetic

career at Exxon. They married and moved to Houston; Mike adopted Jeff as his own. When he was ten, Jeff's parents told him that Mike was not his biological father. Years later, he told *Wired* magazine that he learned the news about his father at the same time that he discovered that he needed glasses. "*That* made me cry," he said. [3]

Bezos came of age in comfortable suburban homes, and was enrolled by his parents in a school for gifted children. At age twelve, he told a visiting researcher, whose unpublished manuscript Stone tracked down: "The way the world is, you know, someone could tell you to press the button. You have to be able to think what you're doing for yourself."[3]

Constructions of giftedness, or more objectively,of high educational achievement, were mediated through social class, culture and family histories, and without understanding and attending to these processes, research on giftedness is severely compromised. In addition, gifted education provision, through a narrowly conceived understanding of 'gifted children', may well continue to foster elitist programmes.[6]

Bezos developed an ambition to travel into space and help mankind migrate from Earth. He was the valedictorian of his high school class and in his speech he quoted from *Star Trek* and described a plan to build permanent human colonies in orbit so that Earth could be turned into a nature preserve. Years later, his high school girlfriend told reporters that Bezos had always wanted to become rich so that he could "get to outer space." [3]

He studied computer science and electrical engineering at Princeton, graduated in 1986, and struck out for Wall Street. He landed eventually at D.E. Shaw & Co., which had been founded by David Shaw, a former Columbia University computer science professor. "Shaw pioneered the use of computers and sophisticated mathematical formulas to exploit anomalous patterns in global financial markets," as Stone recounts.

Bezos entered the book business by cold deduction, not by any high-minded or sentimental desire to have publishers as partners. Shaw was prescient about the commercial potential of integrated computer networks. He and Bezos discussed an idea they called "the everything store," which would seize upon the Internet as an "intermediary between customers and manufacturers" to sell "nearly every type of product, all over the world," Stone writes.

Bezos decided to break away from Shaw to start a prototype, but he "concluded that a true everything store would be impractical—at least at the beginning." He therefore analyzed twenty possible product categories for his new company, including clothes, software, music, and office supplies. According to the principles of mathematics, physics, and finance Bezos applied, books were the best choice. They were "pure commodities" in the sense that a book in one store was exactly the same as a book in another. They were easy to pack and hard to damage. And "there were three million books in print worldwide, far more than a Barnes & Noble or a Borders superstore could ever stock." Thus an online bookstore would allow Bezos to promote "unlimited selection," the most important insight that had attracted him and Shaw to the vision of Internet-empowered retailing.

At least two qualities distinguished Bezos from other pioneers of e-commerce and help to explain his subsequent success. The first was his gargantuan vision. He did not see himself

merely chipping away at Barnes & Noble's share of retail book sales; he saw himself developing one of the greatest retailers in history, on the scale of Sears Roebuck or Walmart. Secondly, Bezos focused relentlessly on customer service—low prices, ease of use on his website, boundless inventory, and reliable shipping. To this day, Amazon is remarkably successful at pleasing customers.[3]

To achieve such excellence amid the buggy software, experimental warehouse schemes, and overall novelty of Amazon's business plan was, inevitably, hard going. By Stone's account, Bezos did not always handle his frustrations gracefully. He was "prone to melodramatic temper tantrums that some Amazon employees called, privately, nutters."

"Why are you ruining my life?" he would ask one of his executives.

The Gazelle Project and other programs of aggressive negotiation with book publishers after 2003 look inseparable from the corporate ethos fostered by Bezos as Amazon grew. Of course, retailing is an industry with notoriously low profit margins and its successful new entrants tend to be acidly tough-minded negotiators. Perhaps it was inevitable that Amazon would turn nasty toward its former partners in book publishing as it grew. In any event, as the years passed, books mattered less and less to Amazon's diversifying business. A company founded on an insight about the magical, boggling variety of books—three million titles, all under one virtual roof!—increasingly merchandised books the same way it sold cameras and socks. [3]

Bezos expressed confidence that physical books would yield to digital book reading eventually. By Stone's account, Steve Jobs's innovations at Apple in digital music—the creation of the iPod and the iTunes store, which rapidly upended and damaged the music industry—persuaded Bezos that Amazon had to move fast to capture the digital reading market before Apple did.

Bezos created a secret workshop called Lab126 to develop what became the Kindle reader. At the same time, he embarked on high-pressure and in some respects deceptive negotiations with book publishers to create enough digital book inventory to make the Kindle valuable. In November 2007, Bezos took the stage at the W Hotel in lower Manhattan to introduce the Kindle in the splashy modern manner of Silicon Valley gadget debuts.

"Why are books the last bastion of analog?" Bezos asked. "The question is, can you improve upon something as highly evolved and well suited to its task as the book, and if so, how?" Seventeen minutes into his presentation, Bezos announced an answer to his question: very cheap prices would do the job.

He said that for the Kindle, Amazon would sell digital versions of new and popular books for the flat rate of $9.99. "There was no research behind that number," Brad Stone recounts. "It was Bezos's gut call." Moreover, "Amazon knew quite well that publishers would absolutely hate the $9.99 price," which was far below traditional retail list prices. [3]

In fact, the publishers had been snookered. Amazon had pressured them to convert their inventory to digital forms without telling them what pricing they would have to swallow. As

Bezos promoted $9.99 in one television interview after another, like a man selling steak knives, "the grim reality sank in, and publishing executives kicked themselves for their own gullibility." Bezos's pricing gambit

changed everything. It tilted the playing field in the direction of digital, putting additional pressure on physical retailers, threatening independent bookstores, and giving Amazon even more market power. The publishers had seen over many years what Amazon did with this kind of additional leverage…. [They] believed their necks were being fitted for the noose.

It was amid this anxiety that a number of large publishers entered into discussions among themselves and with Apple about how they might escape Amazon's control. According to evidence later presented at an antitrust trial, the publishers feared that Bezos's carnival barking about a $9.99 digital price would ultimately reduce the plausible price of a physical book, further undermining large retailers like Barnes &Noble, as well as the many hundreds of surviving independent bookstores on which publishers depended.

Starting late in 2009, six major book publishers worked out a deal with Apple that would effectively raise typical digital prices to between $12.99 and $14.99. Under the terms, the publishers would receive less money per book than they would from Amazon at $9.99. Yet they were willing to accept short-term losses to defend "consumer perception of the value of a book," as a federal judge later wrote.[3]

The Obama administration's Justice Department, encouraged by a white paper submitted by Amazon, investigated that deal and filed civil antitrust complaints against five publishers and Apple in 2012. The publishers all settled. Apple went to trial last year and lost; its appeal is pending. In fact, the evidence at trial showed that the publishers and Apple had acted in blatant disregard of the Sherman Antitrust Act. Yet testimony and documents also made clear that the book publishers conspired because they were afraid of Amazon's market power and of its record of retaliation against suppliers that dared to defy its wishes.

The question now is whether the Justice Department will apply the same degree of scrutiny to Amazon's activities in the digital book market that it applied to Apple five years ago. Sandeep Vaheesan, a special counsel to the American Antitrust Institute, has pointed out that "the courts must recognize that defending consumers [also] requires protecting small firms from the anticompetitive behavior of dominant companies."[4]

The evidence is in plain sight—namely, that Amazon controls more than half of the digital book market and is using that control to punish uncooperative publishers. This warrants a substantial Justice Department investigation. Only Justice has the resources and independence to apply the law—book publishers are more dependent on Amazon than ever. To advance the public interest, the department should consider, among other subjects, how antitrust law applied to Amazon might assure greater diversity of economically workable authorship and publishing—cultural and democratic competition, that is, not just price competition. To argue that antitrust should focus merely on price and market numbers is to ignore the law's deeply political and public-minded history. [3]

Amazon's business continues to pose challenges to Bezos: its revenue growth has been much stronger than its profit growth, and the company's stock price has therefore been highly volatile. This has put additional pressure on Amazon to cut supplier costs. Yet these days, at fifty, with a fortune estimated to be about $30 billion, Bezos has entered into a more diversified phase of his entrepreneurial life. According to Stone, he spends some of his time at the headquarters of Blue Origin, a rocket and space exploration company that he founded. (Bezos has bought up almost 300,000 acres of land in rural Texas to build a rocket launch facility.) Blue Origin's offices are studded with Bezos's space collectibles, like props from *Star Trek*, rocket parts from various spaceships throughout history, and a real cosmonaut suit from the Soviet Union [as well as] a full-scale steampunk model of a Victorian-era spaceship. [3]

So far, the company's record has been mixed; one of its test vehicles burned up at 45,000 feet in 2011. Yet according to his friend Nick Hanauer, as quoted by Stone, Bezos exercises every morning because "he absolutely thinks he's going to space."

With Stewart Brand, the founder of the Whole Earth Catalog, Bezos has also involved himself with "The Clock of the Long Now," a large mechanical timekeeper that Stone describes as "an aspirational project aimed at building a massive mechanical clock designed to measure time for ten thousand years, a way to promote long-term thinking." Bezos is installing such a clock on his Texas property.

It is not easy to discern where Bezos's purchase of *The Washington Post* last year fits in this eclectic portfolio. He hopes, according to reporters and editors at the paper with whom I have spoken, to develop a worldwide digital newspaper suitable for e-readers like the Kindle—a digital newspaper that might ultimately thrive on subscription revenue. Bezos has spent little time in the *Post*'s newsroom. But he has left in place an able editor, Marty Baron, and has invested modestly but significantly in the newsroom budget, as well as in research and development. The paper this year won two Pulitzer Prizes, including a share of the prize for public service for the work by Barton Gellman and other reporters that arose from the revelations of Edward Snowden.

The detachment evident in Bezos's involvement at the *Post* so far reflects what remains his ambiguous position in American letters. Bezos seems to believe that he can disrupt book publishers while still advancing the cultural medium he claims to love. Yet if that is his belief, there is little evidence to support it. Amazon has introduced a kind of self-publishing enterprise, the Kindle Single, which offers to writers publisher-displacing royalty rates of up to 70 percent. The trouble is that 70 percent of nothing is nothing and most Kindle Singles don't sell enough for an author to feed a cat. [3]

Amazon's success has arisen from excellence in data science, distribution, and business execution, not creativity with content. The company's attempts to publish its own trade books and to develop original television have so far failed. It is not clear how well Bezos understands the human agency involved in writing and publishing, or the ecosystems in which editors and writers have worked for centuries. Like other Silicon Valley disruptors, Bezos's impatience with publishers can sound like contempt. Yet he seems content with *The*

Washington Post's allegiance to high journalistic norms. On the evidence available, Bezos is at once a visionary, an innovator, and a destroyer. Perhaps he will yet rescue the *Post*, revive the newspaper business, and also recast Amazon's role in digital books from predator to something more creative.

Amazon seeks to be the world's most customer-centric company, a place where people can find and discover anything they might want to buy online. Bezos describes the challenge 'to constantly think like customers and shareholders, to both innovate and focus on delivering an unparalleled online experience, all at the same time.

Why creativity? Ask that question, who like Pfizer managed to create one of the world's best -known and successful products. By thinking creatively about how to use a glue that did not work, the Post- it note was born. Today it sells more than all the functioning glues the company markets put together.

If you ask the people behind the Swedish free newspaper *Metro* the same question, you will hear a story of the future that became a reality thanks to a combination of an established product and a new business and distribution model – owing to insights about people' s behaviour patterns and changing habits. The fi rst edition of *Metro* was distributed in the Stockholm underground in 1995, and within 10 years the free daily had grown to over 60 editions in 19 countries with a readership of more than 18 million. [3]

Apart from their success, these examples have one thing in common. They have been successful by being creative within their existing areas of activity. Instead of looking beyond what they already knew and trying to think up radically new products, they have used and developed their existing products, their know- how and their experience to achieve a creative result. Instead of thinking outside the box they have thought inside the box. Thinking inside the box increases the likelihood of achieving creative results and also strengthens the impact and value of the creativity. [3]

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to show your personal creativity threw inventions. The founder of Amazon asks all job candidates to tell him something they've invented: "Their invention can be on a smaller scale – say, a new product feature or a process that improves the customer experience".

List as many invented things or creative decisions that you made in your life as you remember. Take an A4 sheet of paper and a pen. Generate ideas without any stimulus. Write down all the inventions you can remember on a paper. Hang the paper on the wall. Time: 15 minutes.

Assignment #2

The goal of the assignment is to find your personal creative inspiration. List 8-10 points what is your own unique mixture of elements that enhance your creativity and how do you cultivate your creative inspiration? Take the post-it notes and a pen. Generate ideas and write them down on the post-it notes. One idea per note. Hang them on the wall.

As you explore your creative potential, you will discover the conditions that facilitate this potential. Different people find different strategies to enhance their creativity. Some people find that solitude or meditation enriches their imagination. Others stimulate creativity by exposing themselves to novel situations or unfamiliar surroundings, forcing themselves to deal with reality in a non-habitual manner. The creation of a stable environment might be important to some people, enabling them to focus their energy and attention on a creative endeavor. Music, art, and nature are often used as sources of inspiration. The point is to experiment with different conditions, environments, and states of mind. Pay close attention to how such variables affect your creative capacities.

Assignment #3

The goal of the assignment is to find out how experience in the field of creativity would change your life. Imagine you understand your own unique creative process and how to enter into it, willingly, even with resistance, again and again. How would your life be different? Who would you be? How might you move differently in your life? List 5 things in life what you would do differently.

Get up and come into the middle of the floor. Close your eyes and think of a thing from a restaurant (20 seconds). Open your eyes and find a person who thought of the same thing as you. Use Word Training Cards as a stimulus. One reads the first word on the card and starts generating ideas. The person with the biggest hands starts first.

Assignment #4

The goal of the assignment is to list 5 things in life that you _love to do_ and how it may affect your future carreer?

Psychologist and author M. Csikszentmihalyi (professor and former chairman of the Department of Psychology at the University of Chicago), believes that although creative persons are different from one another in a variety of ways; they all have one thing in common: "They all love what they do." They are not driven by dreams of fame or making lots of money; instead, it is the opportunity to do the work that they find most enjoyable. He found that it is not the career that determines the level of happiness; it is how these individuals perform their work. They derive a certain level of enjoyment from their work.

Take five A4 sheets of paper and a pen. Generate ideas without any stimulus. Write down 1 thing in life that you love to do and where you can use it in your future career on each paper. Hang the papers on a wall. Time: 10 minutes.

Assignment #5

The goal of the assignment is to think what future products you would create if you were CCO (A Chief Creative Officer) or Creative director in '_Amazon_'? Get up and come into the middle of the floor. Close your eyes and think about color of your hair (20 seconds). Open your eyes and find the person who thought of the same as you. Hand out Picture Training Cards - one to each trainee. Use the picture analogies on the card one by one as an inspiration for developing ideas.

16.2 CASE STUDY 2. PERSONAL CREATIVITY CHARACTERISTICS

Erika Landau (2002) proposed a model for developing creative thinking in gifted children. The study attempted to examine the creative characteristics of an innovator in the field of gifted education focusing on creativity and the creative approach. It is aimed at unfolding a better understanding the connection between personal characteristics of creativity expressed in early childhood and adulthood. Concentrating on creativity is the best investment you can make. [5]

Definitions of Creativity

Creativity includes producing an original and useful product which is suitable for the field or area it is designed for (Sternberg & Lubart, 1999). Perkins claims that creativity is a result that is original and appropriate and fits the cultural context upon which it is based (Perkins, 1981). In creativity there is importance for the interaction between the individual, the product, and the environment (Czikszntmihalyi, 1990). The creative individual solves problems, designs products, or defines novel questions in a field or area that was considered new but became acceptable in the same cultural context (Gardner,1993). Mau (1997) makes the distinction between two types of creativity: (a) real time creativity–connected to improvisation, immediateness and something done at the same moment; and (b) multi-level creativity–connected to time needed for generating and choosing ideas.

 The lack of an agreed definition of giftedness therefore continues to dominate the field. However Sternberg (2004) says that there was consensus around the following areas:

- giftedness involves more than just IQ;
- it has non-cognitive components (e.g., motivation);
- the environment is crucial to realize potential;
- there are multiple forms therefore one kind of assessment / provision is too narrow;
- measures of giftedness need to be evaluated. [5]

The noun 'Giftidness' and the adjective "Gifted' are strange, unhelpful and highly contested terms, recalling ancient views of endowment by God or goods. The terms also poorly defined and inconsistently operationalized in educational programmes and research projects. [4]

Creative Thinking

Erika Landau (2002) proposed a model for developing creative thinking in gifted children. Her model combines and balances logic and imagination. It addresses 4 dimensions: (a) ideas; (b) thinking; (c) communication; and d) self. According to this model creative thinking is finding the balance between narrow categorization of ideas and free flow; convergent thinking and divergent thinking; interpersonal communication and intrapersonal; and objective formulation and subjective reaction. Figure 1 illustrates the creative thinking model.
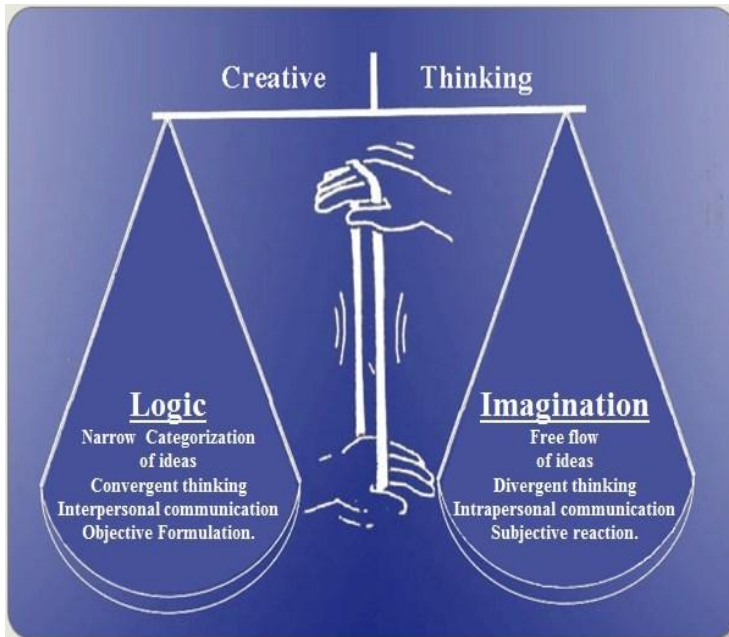
Figure 1: Creative thinking model (Landau, 2002) [6]

Personal Creativity Characteristics

Three categories of characteristics emerge from studies on creativity:

1. Cognitive characteristics;
2. Personal characteristics;
3. Biographical events.

Cognitive characteristics are connected to the way people think using problem solving and associations (Treffinger, Isaksen, & Dorval, 2000). Personal characteristics are connected to values, temperament and motivation, which are all related to the application of thinking (Mac Kinnon, 1978). Biographical events are connected to experiences that lead the person to creative achievements (Gardner, 1993; Csikszentmihalyi, 1996; Sternberg, 2000). The combination of the characteristics is very complicated as they do not appear in the same extent and no person possesses all of them. Many of the characteristics can be learned and nurtured, and it is very difficult to predict which students will be creative, but still they need to be supported and creativity needs to be developed (Treffinger, Young, Selby & Shepardson, 2002). [5]

Personal creativity characteristics are further divided by Treffinger et al (2002) into four categories: (a) generating ideas; (b) digging deeper into ideas; (c) openness and courage to explore ideas; and (d) listening to one's inner voice.

Generating ideas: (a) fluency; (b) flexibility; (c) originality; (d) elaboration; and (e) metaphorical thinking.

Digging deeper into ideas: (a) analyzing; (b) synthesizing; (c) reorganizing and modifying; (d) evaluating; (e) seeing relationships; (f) desiring to resolve ambiguity-bringing order or disorder; and (g) preferring or understanding complexity.

Openness and courage to explore ideas: (a) aesthetic sensitivity; (b) high levels of curiosity; (c) playfulness; (d) capacity of fantasy and/or imagination; (e) risk taking or thrill seeking; (f) open to feelings and emotions/shows emotional sensitivity; (g) problem sensitivity; and (h) sense of humor.

Listening to one's inner voice: (a) awareness of creativeness; (b) need for or demonstration of autonomy/task oriented behavior; (c) independence of thought; and (d) interest in reflective thinking/introspective [5]

Dr. Erika Landau, an Israeli psychotherapist and researcher in Creativity, Giftedness, and Education, was born in Romania in 1931. After four years in concentration camps, she made Aliya in 1947. Dr. Landau possesses a BA degree in Psychology and History from the Tel Aviv University and a Ph.D. in Psychology and History of Art from the Ludwig Maximillian University in Munich, Germany. In 1968, Dr. Landau founded "The Young Persons Institute for Promoting Creativity and Excellence"- Israel's first center for gifted children, a non- profit association to help talented and gifted children to cope with their problems. The institute strives to develop creative thinking, according to the unique creative approach, that Dr.Landau developed, based on meeting thousands of children and studying the subjects. Up until now, more than 40,000 children attended the program; the Institute works with about 800 children each semester.

As a child Erika Landau experienced a *openness* and courage to explore ideas; and horrifying situation of surviving in the camps *listening to one's inner voice*. It is based on the memories as recounted by her in the interview and written in her book "Giving Sense". The additional two categories of characteristics: *generating ideas*; and *digging deeper* into ideas, may have been present but did not come up in the stories relating to the Holocaust.

Openness and courage to explore ideas

High levels of curiosity and aesthetic sensitivity. Erika mentioned two very distinctive events where her aesthetic sensitivity and high level of curiosity were involved. One had to do with a certain painting and the other with music.

"One of the moments of grace I experienced was with an art history teacher, by the name of Dr. Rappaport. Instead of warm clothes he took to the camp reproductions of Renaissance paintings. To the light of an oil lamp he showed me the pictures of Leonardo da Vinci and Botticelli. One painting that I remember very well is the Return of Judith to Bethulia. Dr. Rappaport showed me the painting and said: You see Erika, there were always young Jewish girls who suffered, but they survived."

Judith was a Jewish woman from the town of Bethulia. The town was threatened by the King Nebuchadnezzar's Assyrian army under the command of Holofernes. Judith came up with a plan to save the town. She managed to sneak into Holofernes' camp outside of Bethulia and pretended to defect to their side. She seduced Holofernes, chopped off his head and brought it back to Bethulia. When the Bethulian soldiers showed the Assyrians Holofernes' head, they retreated. The painting shows her coming back with the chopped head of Holofernes.

"I was nine when our piano teacher recommended me and two other friends of mine to take part in a competition. My father was abroad and my mother got ill, but there was a good feeling of belonging and togetherness with the other competitors and their parents. Waiting for the decision of the jury, eyes met, hands touched, sharing hopes and giggles. When the first prize was announced I walked up to the stage bewildered, shook hands with strangers turned around bowed to the public and looked for a pair of eyes to share my embarrassment… but my friends looked down and their mothers had narrow lips. Later my friends bunched in a group, did not invite me to join them. I was an outsider, not wanted. I hated the prize I had once coveted. I felt lonely for the first time and very often since."

Playfulness and capacity of fantasy and/ or imagination. Erika pointed out that what kept her alive was her ability to fantasize and daydream. Her daydreams involved music and the vast of arena of knowledge out there she was ready to absorb.

"I survived by daydreaming. In the cold nights when even sleep avoided me, I thought and dreamt with open eyes. I saw myself and my fingers on the piano and played and played till the morning came. In another repeated daydream I was standing in front of school, and near me was standing a man with no face. We were waiting for the results of exams. I knew there was a world of knowledge to learn from. My mother taught me all she remembered about poets, music and other things. I had a feeling inside me that I must survive to learn." [5]

Risk taking and open to feelings and emotions/shows emotional sensitivity. As a child Erika recalled an incident when she went against her father's commands risking herself and her family as she showed emotional sensitivity feeling deeply for a boy in the camp and knowing she could do something to help him: "With the morning the suffering began with breaking the ice over the water to wash ourselves. To this we were very attentive, to keep clean because dirt brought lice. The louse was the most frightening being in our life. They brought the sickness, the illness of which many died and only a few survived."

"Many years later, after a television talk, a man called and reported he woke up one day in the camps, after this illness and around him all were dead. He walked out on the street of the camp, everybody avoided him, because he was uncombed and people were afraid of his lice. He was weak and sat down, and cried in his despair. A girl came up to him and asked why he was crying. He told her about his illness, and the fact that his parents did not move and now "nobody wants to speak to me." "But I speak to you" said the girl and smiled. And seeing me on television he recognized my smile. And in spite of those sad memories I was glad that I

had helped that desperate child. Who, according to him, got strength out of my smile. Yet, at the same time, guilt feelings came up. What about those I had not smiled at? Those, that life too had not smiled at them? And those that died of hunger, sickness and pain. Why did they have to die? In what were they bad or wrong and I was good and right?" [5]

Emotional sensitivity and problem sensitivity. Erika drew on her experience in the camps showing emotional sensitivity and at the same time being aware of the fact that the human being she was trying to help was suffering from a problem she had faced after the Holocaust:

"Many years later, during the Yom Kippur War, I was asked to help a young man, who for three days did not react, did not speak, just lying there with wide open eyes without seeing, without movement. The only thing I knew about him was, that he was the only survivor of a tank that was hit. I sat down, held his hand and tried to remember what had I studied. What did I know about how to help him? From my brain I received no answer, but from the depth of my guts came the words: "you feel guilty that you are alive and your friends had to die". He turned his head and asked "How do you know?" "For I feel guilty too, that my friend died in the Holocaust and I am alive". He pressed my hand. And I understood that my suffering got some sense. That from my suffering I could help a young man..." (De-Nur, 2000). [5]

Listening to one's inner voice

There are and always will be routine procedures designed to tackle the majority of problems. The secret is to know when you need to be creative and when to fall back on routine procedures. To do this, it is important to figure out what type of problem or challenge faces you. [6]

Awareness of creativeness. As a child in the camps, Erika was not aware of her creativity, but actually practiced it to try and save her parents' lives:

"At that time I did not know that it was creativity. No one spoke about creativity.

I had a happy childhood. I was love and gave love. Suddenly came Hitler and took the family (mother, father my sister and me) to concentration camp. My parents got sick with typhoid and had very high fever. At 10 years old, I walked out, very sad, searching for something. I saw a big potato. I took the potato and cooked it and made a whole meal. The water in which the potato was cooked became soup. The outer part (the peel) I cut into small pieces and made some kind of schnitzel and served it with the potato. My mother was not conscious, but my father, who could not speak, looked at me with his big eyes and said thank you. His smile was a reward for me."

Independence of thought. Erika as a 10 year old child had decided to go and look for food for her sick parents. "Nobody told me to do it. I saw my parents were sick and I thought of looking for some food to strengthen them." When she found the potato she thought of a way

of turning it into a whole meal, just using her own initiative and creativity. An additional case where Erika showed independence of thought was approaching the boy with lice, although she knew it was risky and forbidden. She sat with him because as a person she understood the meaning of being alone and without support, and she thought she could help this boy. She did so in spite of what she had seen and heard around her, feeling she could make a difference:

"I remember, the anger of my father, seeing me with a boy with lice. And when I did not want to leave the boy, feeling his despair, my father in his anxiety tore me away. This was the only time in my life that my father had been rude with me. And in spite of those sad memories I was glad that I had helped that desperate child."

Interest in reflective thinking/introspective. Erika showed introspective ability which helped her ease her suffering during a very stressful event. She knew she was not allowed to cry and found within herself a way to cope:

"I was 12 years old and quite tall compared to my classmates. The Ukrainians came into the house. They were the worst. They took people away, killed people, and violated the women. When they came into the house my mother pushed me into a hole/niche in the wall and pushed a cupboard against me. There I was crying quietly and standing in the dark hole. My feet hurt because I could not move, as the stone wall had spikes that hurt my flesh. Suddenly I made a small movement and for a second it did not hurt. Then I moved another finger and another, and this way I could ease my suffering. Many years later I came to the conclusion that in a surrounding, as narrow as it is, you can find alternatives – you can give a child some alternatives." [5]

Adult life: the creative approach

As an adult Erika Landau developed a creative approach for teaching gifted children. Analysis of the interview and documents generated characteristics in all four categories: (a) generating ideas; (b) digging deeper into ideas; (c) openness and courage to explore ideas; and (d) listening to one's inner voice.

Generating Ideas

(a) Fluency; (b) flexibility; (c) originality; (d) elaboration; and (e) metaphorical thinking.

Originality. The first time Erika came across the term "creativity" made her tackle this subject and be the first to write a book about how to teach creativity to gifted and talented children:

"Writing my doctoral proposal at the University of Munich in the 1960's I found the word creativity in a UNESCO document. They said there that when the Sputnik was sent by the Russians, Americans came to the conclusion that it must be something else not only knowledge and intelligence, but it must be creativity. This was the first time I encountered

the word. My book on creativity, which was published in 1969 and translated into 12 languages, was the first one. I saw there is a way to teach children to look at creativity."

Erika formed a very unique approach to creativity and teaching creativity to gifted children:

"The creative approach challenges the personality at its whole. The problem is approached from all aspects of the personality: intellectually, emotionally and socially. The problem is seen in its course of a process and not in its static position in time and space. The creative approach flows in time and space, present, past towards the future. The creative approach makes learning an experience and each experience is a building block of the personality. It does not burst or brake frames, but tries to find alternatives within the given frame. It is transferable and can be learned. Creativity enriches life, and makes it more interesting, more enjoyable, and more beautiful. It gives life meaning –"my meaning". [5]

Analysis shows that around 20 % of the Nobel Prize winners in history are Jews. Since there are about 16 million Jews living on earth, this number corresponds to only around 0.22 % of the 7 billion population of the world. So what makes it possible for a people accounting for only 0.22 % to take away 20 % of the Nobel Prizes? Isn't that something enigmatic? Can the Jews be born with special genes related to creativity? It is biologically impossible. The Jews have their people's identity maintained through their maternal line.

If a mother is Jew, her child also becomes a Jew whether the father is Jew or not. Since genes are mixed at random, it is impossible to keep preserving the mother's genes and hand them down to children. Thus, we cannot assume that the Jews are born with special genes for creativity.

I have once met and asked a Jewish friend about their creativity but he said he didn't exactly know the explanation for it. He did say, however, that he had heard a lot since childhood about the virtue of asking many questions, asserting oneself, and discussing matters. He said he had made many discussions at home with his parents and been encouraged at school to ask many questions, adding that Talmud, the traditional textbook for Jewish education, says so, too. I have finally found that it is Talmud education that makes the Jews what they are. Education means excavating and developing talents, not just looking at what is natural but developing ability by artificial endeavor as well. So is creativity. Some people say that creativity is something natural and cannot be acquired by endeavor, but actually they don't know the mechanism of creativity. As the Jewish Talmud implies, asking many questions and generating discussions can cultivate creativity. [5]

Erika was the first to offer programs and courses for gifted children identified by her in 1968 in Israel. She had founded the Institute which she has been running for almost 45 years now:

"In 1968, I founded "The Young Persons Institute for Promoting Creativity and Excellence"-Israel's first center for gifted children, a non- profit association to help talented and gifted children to cope with their problems. The institute strives to develop creative thinking, according to the unique creative approach, I developed, based on meeting thousands of children and studying the subjects. .Up till now, more than 40,000 children attended the program; the Institute works with about 800 children each semester. The institute started as

an educational experience in the Tel Aviv Museum. I started teaching creative thinking. I had to teach them (the children) to ask questions. Students (mostly from elementary school) take creative thinking and other interdisciplinary courses like humor, neurotransmitters, technology and science, and archaeology. When the story of cloning "Dolly" was published in May we started a course in September. Teachers at the institute are mostly former students."

Elaboration. Elaborating on the creative process, Erika came to the understanding that children need to be taught how to ask questions:

"The most important aspect of education is the way of asking questions. It is through questioning that the individual looks for himself for his own individual way towards the solution. Thus I prepare the partnership of the student to develop the creative approach to their life."

"I usually start from the present and insist on looking at what is happening "here and now", and only after seeing what is really happening do I ask the causal question WHY? The question "What can I do and what is in me to do about it" is the reformulation of the depressive, causal question "Why is this happening to me?" into an active, creative question: It is the new beginning from an infantile-disturbed into a mature and creative being. This change in form and tense of asking the question is the change from the deterministic approach to the security and freedom to choose the creative alternative." [5]

Digging deeper into ideas

A first characteristic that creative people have in common with everybody else is that they are not unusually clever. Different studies have tested the correlation between people ' s creative capacity and their intelligence and found many times that it is less than 0.5, which means that although there is a correlation, it is chiefl y something other than IQ that characterizes creative people. The 'something other' that distinguishes creative people is usually termed *fl ow of ideas* by psychologists. Flow of ideas means in this context the capacity to generate and develop many ideas. Creative people find it easier than others to generate ideas. The reason for this is another characteristic that creative people share with the rest of us, namely, that they work with something specific. Many people think, however, that it is constraining to work with the same thing for a long time ('I can't be creative if I only work as an accountant/market retail products all day').

The myth says that creative people come from outside, whereas in fact creative people usually work on the same specific thing for longer than others. They do not come from outside, but rather from inside the field in which they are creative.[1]

Analyzing and synthesizing. She also looked deeper into ways of tackling and solving problems that could be taught, analyzing the process of finding creative solutions and what prevents us from doing so:

"Life is a perpetual search for different ways to find and to solve problems, to feel free to choose among them, to dare to try them out and be responsible for your choice. One of the biggest obstacles to finding creative, original and innovative solutions is our acquired stereotyped and mechanical ways to solve problems. In our desire to be loved, liked and accepted, we tend to speak and behave in terms we know a priori will please the society."

"Looking at the situation from different angles, we can work ourselves up to different alternatives and the ultimate choice of the most relevant alternative to the real situation is the product of intellectual, emotional and social participation of each student. It is a combination of inner abilities with outer challenges, interaction of outer logic and inner fantasy, intellect and emotions according to the social needs of the individual in the society."

Reorganizing and modifying. In her approach to teaching gifted and talented students she dug deeper into the problem and recognized relationships between the personal behavioral characteristics of the children and the encouragement to develop and express creativity:

"I first look for the strength in my student "I strengthen the strength" in order to give them the force to confront their weakness. One needs courage in order to confront one's weaknesses: it is much easier to hide behind social conventions and walk trotted ways others went than try out individual ways according to one's own potentials with the risk of failure. We are allowed to make mistakes, what we should not do is not learn from them. Failure could be a good beginning of something new." [5]

Openness and courage to explore ideas

High levels of curiosity and aesthetic sensitivity. Erika offered a course in creative thinking to gifted children interested in arts in the Tel Aviv Museum:

"The institute started as an educational experience in the Tel Aviv Museum. I started teaching creative thinking. I taught them to experience, to look at things from different angles, and to ask questions."

Risk taking and open to feelings and emotions. For the child to be himself and secure taking risks, a special open atmosphere needs to be created:

"We must create an atmosphere for the gifted child which conveys security, so that he dares to be his outgoing, warm, participating as well as his bright, dominating and will feel the inner freedom to venture into a wider world without the perpetual need to compete, to be constantly admired, and always be best. We need to create an atmosphere which will enable him to play and experiment, invent and create, love and share for his own good, as well as that of society." [5]

Most people avoid taking risks; it is a part of our self – preserving nature and is one of our two fundamental drives. Why take a chance when I am comfortable with what I do? ' is a

common but false piece of reasoning. It is based on the myth that creative people come from the outside and do not have as much to lose by entering a new fi eld, because they have not invested their time, effort, soul and money in it. But creative people come from the *inside* and they *have* invested their time, effort, soul and money in the fi eld. And they take risks. The risk – taking expresses itself in the form of taking many risks, but not big risks. [1]

***Shows emotional sensitivity and problem sensitivity*.** The biggest problem in the education of children, according to Erika, is the gap between the higher intelligence and the lower emotional maturity. Because parents and school challenge mostly the intellectual aspect in the child's personality. She went on to elaborate on how the child's emotional abilities need to be challenged:

"To challenge their emotional abilities, is as, or even more important, than the challenge of their intellectual abilities. Children should be taught: a. to look at the matter from all aspects of their personality: intellectual, emotional and social aspect; and b. to ask questions and become aware that each question has different answers and each answer could be asked with continuous questions such as: "What more?, what else could be done?, or could be seen?" to see any concept in its process. To flow in their thinking, to defer judgment as opposite to think in static terms that leads to deterministic, rigid and narrow conceptions." [5]

Listening to one's inner voice

***Awareness of creativeness*.** Erika reported she had found a method for freeing the creative potential and developing a creative attitude in children that will make them aware of their creativity and help them in real life situations:

"To understand the different stages in this creative process, to activate bipolar thinking (imagination and logic, subjective and objective, intra- and interpersonal communication) to know the theoretical aspects, to experience the practical exercises - are the helpful conditions to free the creative potentials buried sometimes under layers of habits and inhibitions. These conditions could help to develop the creative attitude, to become a general factor in the personality which will find the creative solutions in any existential or learning situation. Most of all we need this attitude in the very frequent crisis-situations in our present life. The future might find us unprepared; therefore we must learn how to create new ways, new reactions, and new solutions."

***Demonstration of autonomy and independence of thought*.** To demonstrate individual and independent thought or autonomy, based on Erika Landau's approach, the child needs to gain confidence in himself and believe that he can conquer all obstacles and be productive:

"The aim of education is to give the individual the confidence that he has the strength, not only to adapt himself to the demands of the environment, but also to go out and meet its challenges. It is the acceptance of the student's anxiety; to help him to live actively in the

present in spite of this anxiety and insecurity - thus preparing him for his independent creative future."

Interest in reflective thinking/introspective. Stressing the experience and feelings that go with it is a major factor in the creative approach. Making meaning of an experience is performed via reflective thinking and introspection:

"I revised the aim of education. I came to the conclusion that when things are connected with feelings or a certain person that you love or hate, you will remember. This is the basis to look at things with brains, with feelings and with social interaction. For me education is not only the aim of knowing. To learn is to experience with many senses. When gifted experience they do not forget; they feel it, they think about it, and reflect on it. Then they can transfer what they had learned to other areas." [5]

Personal Creative Characteristics in Childhood Transformed into Adulthood Creativity and Outcomes

The most significant event she had experienced as a child learning from Dr. Rappaport about the painting of Judith and remembering his words, had struck a cord and lead her to the deep realization of new path she would like to take:

"Years later I went to see this painting in the Uffizi Museum in Florence. I imagined it was a big picture, but it was very small. I stood in front of the picture and understood the legacy. I realized I must answer the curious children's questions. This was the turn from creativity to taking care of gifted children."

Erika is a very introspective and reflective person. She has always been thinking of making meaning of what happened to her as a child in the camps. As an educator and therapist she is for speaking about the dark times and that is why she published her book named: "Giving Sense". Directing these questions into finding answers and doing for the benefit of others is very significant for her. This is something she would like to instill in her children:

"With time I dared to see that suffering was not in vain. Suffering could give another meaning. I think I am a better person because I taught myself to give. This is what I also teach the children, and especially to give to our country, because for me, Israel gave me back my feeling of being a human being."

Her experience in the camps taught her to deal with a variety of situations:

"Creativity for me is not a state but an attitude of living and surviving. We are partners in our destiny, without our participation, stating and choosing alternatives, there is no real life."

"The ability to cope with the future is in us. We have only to free it … and learn how to use it creatively."

As a person Erika is just like the children she teaches. She never ceases to ask herself questions. These questions are turned into positive ways of coping:

"I never give up. I am ready for surprises and go on asking what else? How else can you cope? You lose something and look for new ideas. You do not regret what happened. You ask questions like what can I do about it?"

She redirected her suffering to create an educational approach to help children who resembled her. She actualized herself and became an innovator and leader in the field of gifted education in Israel and the world because she understood that:

"An up-to-date, innovative society needs conscious, daring, creative, flexible and self-actualizing individuals. To actualize one-self means to function according to ones' abilities…to become ones' potentials Life is a perpetual creative process." [5]

Conclusion

Early Life

As a child Erika showed characteristics of personal creativity in two main categories:

openness to explore ideas; and listening to one's inner voice. There are no indications of the other two categories of generating ideas, and digging deeper into them, which may result from being quite young and facing hardships that people sometimes try to forget.

Openness to explore ideas. As a young child she was very open to explore new ideas in very dark times. She showed high levels of curiosity and wanted to "swallow the world" and its vast knowledge. She was also drawn to aesthetics and was interested in painting and was already acknowledged as a good pianist winning first prize in a competition. She had the capacity for fantasy and imagination, which turned out to be lifesavers, as she sunk into daydreaming, creating a better life for herself and focusing on future ambitions. As a 10 year old child she showed emotional sensitivity and compassion towards other children knowing she could help them survive. She was also aware of her feeling of guilt because she survived.

Listening to one's inner voice. Erika was not aware of her creativity but was actually practicing it when she cooked her parents a whole meal from just one potato. Deciding to look for food and trying to prepare it on her own showed great independence of thought. She also practiced creative ways of coping with the suffering by being introspective and finding the strength

Adult life

As an adult Erika expressed personal creativity in all four categories:

Generating ideas. She proved to be very original writing about creativity in the 1960's and developing a unique approach for teaching gifted children. Being the first to found an institute, identifying and catering for gifted and talented children made her the innovator and pioneer in Israel in this field. Courses offered at the institute were revised to suit the evolving model and became more interdisciplinary with time within her when forced to stand for hours in a niche in the wall.

Digging deeper into ideas. When she analyzed, synthesized, sand modified her approach, she thought about the obstacles for finding creative solutions. She came to the conclusion that creativity was a combination of inner abilities and this is what she has to look for and develop in her students.

Openness and courage to explore ideas. Possessing a high level of curiosity and aesthetic sensitivity, she started offering a course on creative thinking for children. While exploring the idea she came to the conclusion that the atmosphere created for the gifted needs to be secure in order to enable them to experiment and invent without competition and judgment. She focused on all aspects of personality: intellectual ability or problem sensitivity (asking questions and looking at things from different aspects); as well as emotional sensitivity.

Listening to one's inner voice. Developing the awareness to creativeness and actual creative attitude is at the heart of Erika's approach. She believes gifted children who gain confidence in their strengths to meet challenges and make meaning of an experience will better remember and be able to transfer whatever they have learned. Listening to her inner voice and reflecting on her long-term experiences with the gifted she has revised her aim of education including intellectual, emotional, and social interaction. [5]

Personal Creative Characteristics in Childhood Transformed into Adulthood Creativity and Outcomes

Erika Landau is an example of a case of possessing personal creative characteristics in childhood, which were developed and actualized by strong introspective and reflective abilities, into an innovative approach to educating gifted and talented children. The inner voice helped her create meaning to her suffering and transform it into a positive innovative outcome which has helped thousands of children. Generating and digging deeper into ideas, openness and courage to explore those ideas and listening to the inner voice, which she has been practicing all her life, have turned into an approach for teaching creativity to gifted children.

We know a great deal about creative people but actually not that much about their creativity. Most of us are aware, for example, that Einstein did not do very well at school, or that Leonardo da Vinci had the odd habit of writing backwards. We also know a lot of

biographical facts about other creative people, such as the one - eared Van Gogh, but Einstein and da Vinci will do.

These disparate facts about the individuals themselves do not serve the purpose of getting to know the creative human being. Few of us can lay claim to any deeper insights into creative people. That there has been such intense focus over the years on descriptions and biographies of certain creative people is probably due to the fact that their lives were in fact quite unusual. Roughly speaking, it has been found that 50% of the advances in most fields have come from 10% of the population.

In other words, the majority, and the greatest, of all creative results have been produced by a small number of people who have been regarded as unique and exciting. [5]

One of the most eloquent descriptions of the dynamic movement between the position of the self and that of the other within creative work was offered by the pragmatist philosopher and psychologist John Dewey in his book 'Art as experience'. Dewey defined experience as the encounter between person and world in which the individual acts ('doing') and perceives the reaction of the world towards his doing ('undergoing'). [2]

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to evaluate your strengths and weaknesses. Take an A4 sheet of paper and make a list (not less than 10 your strengths and weaknesses. Don't be shy and try to come up with as many as you can – you have far more skills than you think. The list is can go on forever – just keep exploring yourself. Please sit down comfortable. This is an individual task. Hang it on the wall. Time:10 minutes

What are you good at?

What do you think your key skills and strengths are?

Why do you think you are good at certain things (but not others).

What do you know? What experience have you gathered so far in your life?

Which of your skills are 'transferable' – what can be used in more than one kind of career?

What motivates you?

Facts and figures? Practical outdoor work? Putting together texts?

Working alone or working in a team?

Assignment #2

The goal of the assignment is to analyze what makes you different from others? Creativity is a central source of meaning in our lives. Most of the things that are interesting, important, and human are the result of creativity. Pick up a post-it notes and pen. Please sit down comfortable. This is an individual task. Close your eyes. Identify what you are thinking about right now and write down in thoughts on the notes. One thought per note. All thought are to be written down. Continue writing down any thought that appear.

Assignment #3

The goal of the assignment is to analyze your personal dimention: **Openness and courage to explore ideas.**

E. Landau model combines and balances logic and imagination. Find the similarities in your life events where you've used:

(a) aesthetic sensitivity?_____

(b) high levels of curiosity?_____

(c) playfulness?_____

(d) capacity of fantasy and/or imagination?_____

(e) risk taking or thrill seeking?_____

(f) open to feelings and emotions/shows emotional sensitivity?_____

(g) problem sensitivity?_____

(h) sense of humor?_____

Start writing without speaking. This part of the assignment in individual and that takes place in silence (10 minutes). Get up and come into the middle of the floor. Close your eyes and think of a number between 0 and 10 (20 seconds). Open your eyes and find a person who thought of the same number as you. Share the information with each other.

Assignment #4

The goal of the assignment is to create 10 tips for a business start up where would you use creative ideas. What would you recommend to your peers for business start up? Generate as many ideas as you can to develop a 10 tips plan. Get up and come to a middle of a floor. Close your eyes and think of how many tables do you have at home (20 seconds). Open eyes and find a person who has as many tables as you. Use Word training cards as a stimulus. Take an A4 sheet of paper and together with your partner make a list of 10 recommendations. Hang it on the wall.

Assignment #5

The goal of the assignment is to analyze your personal dimention: **Listening to one's inner voice** E. Landau model combines and balances logic and imagination. Find the similarities in your life events where you've used:

(a) awareness of creativeness?_____

(b) need for or demonstration of autonomy/task oriented behavior? _____

(c) independence of thought?_____

(d) interest in reflective thinking/introspective?_____

Start writing without speaking. This part of the assignment in individual and that takes place in silence (10 minutes). Get up and come into the middle of the floor. Close your eyes and think of a pet (20 seconds). Open your eyes and find a person who thought of the same pet as you. Share the information with each other.

16.3 CASE STUDY3. CROCS: GENERATING IDEAS AND FAST GROWTH

Crocs, Inc. a world leader in innovative casual footwear for men, women and children, celebrated its 10th anniversary in 2012. Crocs offers several distinct shoe collections with more than 300 four-season footwear styles. Since its inception in 2002, Crocs has sold more than 200 million pairs of shoes in more than 90 countries around the world. The brand celebrated reaching $1 billion in annual sales in 2011.

The growth of Crocs is phenomenal by any measure. Not the rough skinned, wide jawed reptiles, but the slightly ugly, multicoloured variety that have taken the footwear world by storm.

FAST GROWTH

Generating Creative Ideas

Many of us don't have the resources or abilities to generate the creative ideas we need. This is especially true in the business world with its complex, ever-changing environments. Competitive pressures require faster delivery of new products and services. In short, businesses are punched to innovate before the competition does. Failure to do so can yield even fewer creative responses- and less financial profit. The need to innovate is not limited to the corporate world, however. Service, government, and nonprofit organizations also can experience similar pressures to cope with changes in markets served or regulation imposed on them.

Organizations cannot count on internet "creative" or customer input to solve all their problems; even traditional group idea generation has it weaknesses. Brainstorming, as practiced in many organizations, is about as effective as consulting a crystal ball. Even experienced brainstorming groups find that the well runs dry interacting with the same people year after a year.

Most individuals and groups in organizations occasionally need a brainpower boost to achieve "home run" or breakthrough ideas. And they need a number of methods in their idea toolkits. The more methods they can employ, the greater the odds of producing a hot idea. [6]

Methodology for Developing Creativity

When we need to emphasize or learn something, it begins with a methodology. For example, in learning to play soccer, there is a way of practicing it. Practicing running, kicking a ball far, passing a ball, shooting, etc. will lead us to being a good soccer player in the long run. Likewise, there is a way of learning to play the guitar. We hold the strings of the guitar and play a few keys that make a chord. After combining these keys and producing continuous sounds, we create music.

However, there seems no way to develop creativity, which everyone says is important. Being asked how to increase creativity, people simply say reading many books or thinking often leads to creativity. It sounds like one should practice much in order to play the soccer well. How much would it serve the one who was asked to play the guitar well if he were just told to practice without any concrete way presented?

The theory for developing creativity follows theoretical development as described below.

Creativity is hitting upon a new idea.

A new idea is likely to occur while asking questions.

Asking questions to ourselves helps release us from reality.

A habit can be formed by creating a neural circuit.

A neural circuit is built through repetition.

Giving compliment is important for reinforcement of the neural network.

Building a habit of asking questions increases creativity.

It is while we are alone that we can nurture the habit of asking.

Ask questions by extending thoughts along the three axes of time (T), space (S), and field (F).

Cultivate the habit of asking questions in three-dimensional TSF.

Taking the habit of asking three-dimensional questions can make a creative person.

By knowing the mechanism of creativity, we will not simply give up and say that being creative is natural.

Fig.1 Flow of creativity development [6]

Creativity Made by a Neural Circuit

The three axes of TSF (time, space, and field) are bound together into one frame, that is, three-dimensional creativity. This is the combination and integration of TSF components already existing as individual elements. By combining three dimensions, a three-dimensional world is formed and traveling this three-dimensional world allows escaping from a fixed idea because we cannot be restricted to reality anymore. Like the prince in *Le Petit Prince* by Antoine de Saint-Exupery, we can watch the world from outside of the earth. Escaping from a fixed idea releases our thinking (Fig. 2).

What I want to emphasize here is the fact that we must make it a habit to ask questions to ourselves along the TSF navigation. This is just a theory and if we simply follow a theory and remain there, we cannot learn from experience. However enthusiastically we may "read the music," we won't be able to perform music well. Instead, we must keep practicing while reading music until it becomes our habit since it is all repetition that makes a neural circuit. [4]
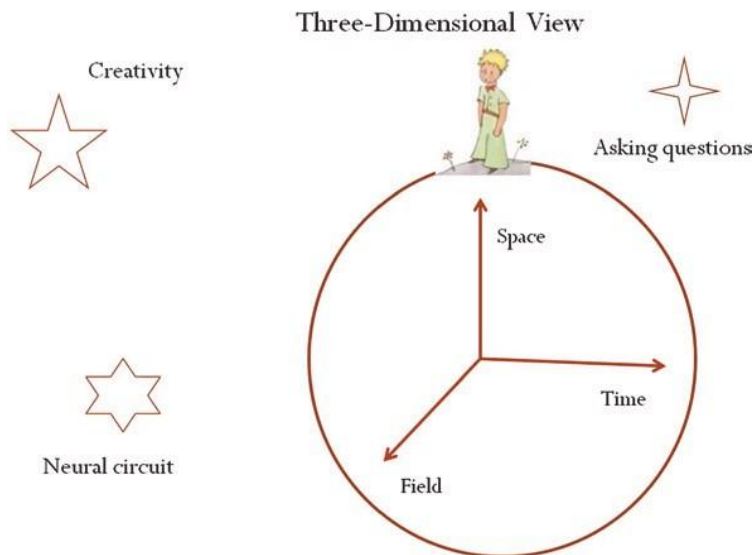

Fig.2 Development of three-dimension creativity [3]

Erika Landau (2002) proposed a model for developing creative thinking. Her model combines and balances logic and imagination. It addresses 4 dimensions:

   (a) ideas;

   (b) thinking;

   (c) communication;

   (d) self.

According to this model creative thinking is finding the balance between narrow categorization of ideas and free flow; convergent thinking and divergent thinking;

interpersonal communication and intrapersonal; and objective formulation and subjective reaction.

Driving and accelerating business growth

'You either step forward into growth or you will step back into safety' Abraham Maslow.

Growth is easy, isn't it?

Discount your prices and your revenue goes up. Recognizing that you also need to make a profit, you cut your costs and the margins quickly improve. Wanting to drive even more dramatic growth, you acquire another company and you can double your size in no time. But it doesn't last.

Sustaining growth is not easy. Sustaining profitable growth is hard. Creating significant and sustainable growth is the imperative for every small business, and indeed the challenge for every large business today.

Achieving great results creates the expectation that you can do it again and again. You need to sustain it. Investors want to see evidence of the future profit streams that will give them a decent long-term return on their investments. Customers recognize that growing companies are doing something right and want to be part of it. Employees know that growth creates a bigger pie in which they can take a thicker slice.

Yet few companies manage to sustain profitable growth. They appear to reach a stumbling block when they reach the perceived limits of their current world, their existing markets and models, capabilities and ambitions, energy or inspiration.

With their heads down and spreadsheets buzzing, they seek to squeeze more out of their existing markets - an extra point of market share, another derivative product development or a more efficient process, that might secure a slightly greater margin. These things matter, but they don't create growth that is significant and sustainable.

The obsession with doing more of the same, through optimization or small improvements, is a significant obstacle growth. Fractions of market share or profit margins will help, but won't make the real difference. The danger is that we plough the same furrow, exploiting what we know best, delivering the same products, doing what we have always done slightly better.

We lose sight of the changing world outside.

We end up playing the old game, whilst oblivious to a new game - a new market, a new customer desire, a new business model. And because we prefer to make the most of what we have, we become hindered by our existing business, locked in our past and current success. The real danger is that incrementalism leads to irrelevance.

So how does a business, large or small, create and sustain profitable growth?

The answer is already in our heads. As human beings we have an enormous capacity to think, to sense and respond, to innovate and change. We each have 100 trillion brain cells, and probably use about 1% of them at any time. At an incredibly simple level we can categorize

our brains into left and right sides - reflecting our ability to think intelligently and imaginatively, analytically and intuitively, sequentially and holistically.

Yet it is the connections between these that really matters. In Einstein's case, his brain remained the object of fascination and research for many years, scientists concluding that it was in some ways different - not simply bigger, but better connected. The grey matter in our heads is connected by white matter. So it is perhaps this white stuff, the connective tissue, that holds more clues to our own genius, and the best opportunities for personal and business growth.

The successful growth business is firstly an imaginative business. It then intelligently focuses on the best opportunities. Whilst most of today's businesses are dominated by left-brain thinking, it is the right-brain thoughts that unlocks newness and enables them to start new things, and make the leaps forward.

Growth businesses succeed by thinking more broadly - seeing a bigger picture, a more holistic view of the market challenges and opportunities. They see a broader context, and by doing so they see more opportunities to exploit, more ways to be different, more sources of future profit.

And the more you have to choose from, the richer your options, the more likely you are to find the best, and the more sustainable you can be in exploiting them.

This might seem overly ambitious, particularly for a small business struggling to survive. Yet, even a few people with dedicated time can apply enormous brainpower to thinking more broadly, deeply and clearly - new thinking that could deliver extraordinary results.

Large businesses need a mix of people with left- and right-brain preferences, or ideally both. Small businesses must choose their colleagues with even more care. The visionary, creative, Intuitive entrepreneur - from Richard Branson to Bill Gates - has always sought a more focused, analytical manager to be their side-kick.

More intuitive, more divergent, more holistic thinking enables us to see things differently, and thereby to think and do different things - to challenge conventions, to explore new possibilities, to hypothesize alternatives. More logical, more convergent, more focused thinking then enables you to choose the best markets, products, customers and approaches to focus your resources to be successful in this wider world.

Today's high growth business is an inspired business, fusing imaginative stretch and intelligent focus in order to deliver extraordinary results.

Imaginative with your right brain. Intelligent with your left brain. Inspired whole brain thinking.[3]

The seven lives of business

The challenge of growth, the challenge of change. The origins of business thinking go far back. Three thousand years ago, the Chinese developed their word for 'business', based on two ancient symbols - the first refers to 'birth' and 'life' and the second to 'meaning'. It seems that the Chinese recognised that growth, sustained with an enduring purpose, is fundamental to business success back then, just like we do today. [3]

Growing businesses have different characteristics, challenges and opportunities, as they evolve from start-ups into much larger organizations. Most companies don't recognize the growth phases that they move through; they suffer from the growing pains without recognizing what to do, and they miss the best opportunities which each phase uniquely offers.

What is required to sustain a growing business? What are the biggest challenges and opportunities at each phase? What are the most appropriate styles of leadership and management as it grows?

There are typically seven stages in the life of a business. Of course, every organization and market is different, and some companies will choose to stay small, whilst others will grow huge, and may well be split up to become small businesses that can grow again. Just like the mountaineer setting out from base camp, the gentle foothills will require very different skills, different clothing and a different pace from climbing the icy peaks.

While each life-stage is partly a result of the business's age, size and performance, it is also distinguished by its structure and sophistication. Some companies will evolve rapidly and others slowly, some will leap through life. Some evolved companies will still be small, maybe virtual, whilst some large companies might still be quite primitive. You can probably think of a few.

Their challenges are different. Small businesses want to get noticed, capture a new market, gain customers, and ensure that they drive enough cash flow to survive, and hopefully thrive. Large companies have an equally tough challenge in seeking to remain innovative, find new markets and to take their organizations with them.

The objectives of each life-stage are different and, therefore, the approach is too. Unlike the natural world, this is rarely a natural evolution. It requires deliberate thought and desire, hard choices and decisive management. Moving from one phase to the next will require change - in strategy, people, activities, leadership and even ownership.

Some of the changes as companies seek to evolve will be painful.

Entrepreneurs love their small, chaotic, personal worlds. Small teams don't like being torn apart or having more structures and processes imposed on them. Large companies don't like having to make choices, to delete certain product lines, pull out of certain markets, make people redundant.

Yet we choose to evolve because each life-stage brings new opportunities for growth. Additional investment allows the company to extend its offerings, recruit more people, launch new ventures. Clearer structures and processes improve focus and efficiency, giving people their own teams to run and markets to manage. New leaders bring valuable experience and fresh ideas, and often allow the founding entrepreneurs to focus their creativity, without the admin. [3]

Growth brings its rewards too, and part of the skill is linking the right rewards to the growth model so that it encourages the positive, evolutionary behaviours that the organization needs. Ensuring that all employees, and even wider business partners, have a stake in the business is one effective way of ensuring that everybody focuses on the same goal, supports growth, and shares in the rewards.

Where is your business? Maybe different parts of it are at different stages, with your structure lagging behind your market ambitions, or your investments out of kilter with your strategic opportunities.

The life-stages flex between periods of rapid growth, where innovation and extension are important, followed by periods of consolidation where the organization has to regroup in order to build a new platform for another stage of growth. The focus and culture of the business will therefore differ by stage, and the challenges in moving to the next stage will be different each time.

Stage 1: 'Create' reflects the birth of a new business, driven with entrepreneurial ambition. The founders shape their ideas and establish the business. The focus will be on creativity, whilst big obstacles to growing to the next stage will include funding.

Stage 2: 'Enter' is about getting the business going, launching itself into markets, building awareness, delivering its services, and generating some income. The focus will be on building, whilst obstacles to evolving the business will often include the founders' own relentless passion.

Stage 3: 'Stabilize' seeks to bring some order to a small, probably fairly chaotic business. The founders might not notice, but others are struggling. The focus will be on consolidation, whilst the obstacles to growing will include learning to empower people.

Stage 4: 'Expand' marks a second phase of rapid growth, extending the business in new ways, reaching out to new products and extending the range. The focus is on innovation, whilst the obstacles to moving on will now include the resistance to more formal control.

Stage 5: 'Optimize' takes stock of all of this expansion to focus resources on the markets, products and customers that matter most. It may also involve stopping doing other things. The focus is on prioritization, whilst obstacles now include the bureaucracy that inevitably creeps in.

Stage 6: 'Extend' is back on the innovation track, looking for more strategic ways to innovate the business, shaping markets and business models. The focus is on strategic innovation, and the obstacle now is size, lacking the agility and single-mindedness of small business.

Stage 7: 'Evolve' is the alternative to death. There is no limit to how far a business can evolve, how high it can fly, the focus is on deciding where to go next - to sell, merge, break up, or keep extending into new domains, limited only by the imagination of its people. [3]

Most companies die young. They should be able to live for 200 to 300 years according to Arie de Geus in *The Living Company*, yet few organizations survive this long, falling victim to blinkered strategies in changing worlds, or the inability to evolve as they grow. [2]

Imagine the changes that a company like Kikkoman, the Japanese soy sauce company, has lived through, from the days as a family business on the banks of the Edo River to the global corporation of today. Consider the journeys of some of the world's oldest companies, together with the relative youth of some of the best known companies today:

Fast growth by three men in a boat :CROCS

The growth of Crocs is phenomenal by any measure. Not the rough skinned, wide jawed reptiles, but the slightly ugly, multicoloured variety that have taken the footwear world by storm.

Islas Mujeres, Mexico.

Three guys from Boulder, Colorado decide to go sailing. Lyndon Hanson, Scott Seamans and George Boedecker take off from their stressful jobs and head for the Caribbean. On arriving at their boat, they unpack their bags, including a pair of foam clogs that one of them found whilst in Canada.

As the days, waves and beers pass by, they are inspired to build a business around the funky, foam-made shoes with the Swiss-cheese perforations. They are incredibly comfortable, non-slip, lightweight, washable and never smell. The perfect boat shoe.

They need a name. 'Crocs' is chosen because crocodiles are tough and strong with no natural predators. Equally good in the land and water, they live for a very long time.

Fort Lauderdale, Florida.

The three friends are staggered by their astonishing success: $1.2 million sales in their first year, and they are still treating the business like a part-time job. They launch their shoes at the Fort Lauderdale boat show - but soon everyone from doctors to gardeners to waiters wants them.

They lease a warehouse in Florida, so that they can combine business and pleasure, but are struggling to cope with demand. Celebrities like Brad Pitt and Britney Spears adopt them. Kids adore them.

Crocs are not just functional but suddenly the height of fashion too.

<u>Sydney, Australia.</u>

Crocs are growing incredibly quickly with $13.5 million turnover by end of the second year, although with a small loss. Word of mouth continues to spread the desire for Crocs like wildfire.

Ron Snyder, a former college friend, has joined as CEO. He previously ran the global business of Flextronics and oversaw its growth from $3 billion to $16 billion in four years. He sees similar potential with Crocs.

Snyder decides to buy the Canadian company, Foam Creations, who make Crocs from a special 'closed-cell resin' called Croslite. In the past Crocs had basically distributed their products; now it has its own unique process, material, design and distribution.

Crocs are now ready for even faster and more profitable growth. [3]

<u>Beijing, China.</u>

Revenues leap to $108.6 million, and profits to $17 million. The rubbery clogs and flip-flops can now be found in over 40 countries. The range and colours diversify too and with prices ranging from $30 to $60 a pair, they are cheap enough for people to buy two, three or four pairs. Strong branding and high profile sponsorships that link closely with target audiences help to raise curiosity, visibility and desire further - from baseball, football and motor-racing, to the latest kids movies from Disney.

Think bigger than you are is a lesson Snyder brought with him. He registers Crocs as a trademark in countries around the world, and establishes manufacturing capability from Mexico to China, to supportstill faster growth. However they are still struggling to keep up with demand.

<u>Wall Street, New York.</u>

Now a global phenomenon, everybody wants Crocs, shops sell out before new supplies arrive. Sales are phenomenal too, selling 20 million pairs, and tripling revenues to $354.7 million and profit margins growing to 18%.

People love their Crocs. Jibbitz, for example, started as a tiny, home-made collection of clay and rhinestone that clipped onto the shoes and enabled people to customize them. It grew even faster than the shoe company, so much so that Crocs snapped up the kitchen company for $20 million. Crocs goes public, with an IPO initially valuing the company at an eye-catching $1 billion, and grew rapidly on trading. Some say it is an outrageous valuation, the company is riding on a fashion trend that cannot last, and investors have been seduced by a funky brand. Only time will tell.

<u>Niwot,Colorado.</u>

On the Lovemarks.com website, Crocs has rapidly become a popular choice with consumers in selecting their most loved brand. Rachel is a typical advocate: Absolutely the most comfortable shoes I've ever experienced. They soon adopted the shape of my feet, support my back, are so easy to take care of, and are created in the most detailed and beautiful rainbow of colours. One for every outfit.

However, no brand can be loved by everyone:Oh nooooooo, I cant stand Crocs! Despite arguments that they might be comfortable - I think they look totally hideous. I wouldnt be seen dead wearing them.[3]

But as Scott Bedbury, the marketer behind Nike and Starbucks points out, a great brand polarizes people it has attitude, it provokes people - some will love it, and others hate it. Back in Colorado, the three buddies have a whole boat load of ideas and innovations to develop, to further accelerate their growth. Sales continue to increase rapidly and profitably, and the market cap closes in on $5 billion. [3]

For most people the essence of creativity has to do with crossing boundaries and 'thinking outside the box'. This catchphrase is so popular in fact that it risks becoming void of all meaning since what people think is 'inside' and 'outside' the box varies greatly. For some this 'box' is made up of rigid ways of thinking and acting as well as unbending social conventions.

Our thinking about creativity, both in science and everyday life, establishes boundaries around what and who is or can be creative. Such 'boxing' is highly consequential and reflected in our interest for certain creative domains or activities (while denying creativity to others) as well as the time and space we allocate to creative action (effectively assigning it to 'special' contexts or moments such as brainstorming sessions or the art class). [1]

Research in organizational creativity and innovation is still in its beginning, as people realize the usual approach to innovation is insufficient to acknowledge the complexity of such a process. There is a growing number of researchers who realize the importance of employee involvement in innovation projects in order to foster organizational change and company sustainability.[5]

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to evaluate TSF (Time, Space, Field) importance for developing creativity. Take the post-it notes and a pen. Get up and come into the middle of the floor. Close your eyes and think of a pet (20 seconds). Open your eyes and find a person who thought of the same pet as you. Generate ideas for how many questions you can ask using TSF in your daily life and write them down on the post-it notes. One idea per note. Hang them on the wall.

Assignment #2

The goal of the assignment is to analyze 'Crocs' or other well known company's development stage using 'The seven lives of business' method. Where is their business? Maybe different parts of it are at different stages? Get up and come into the middle of the floor. Go into pairs with one who has the same shoes as you. The one with the longest socks will start developing ideas. Time: 10 minutes.

Assignment #3

The goal of the assignment is to create a method to filter ideas to find the best ones. How can you ensure that the market is ready for your innovations? Get up and come into the middle of the floor. Close your eyes and think of a colour (20 seconds). Open your eyes and find the person who thought of the same colour as you. Use pictures cards as a stimuli to generate ideas for the 'ideas filter method'. When you run out of ideas, move to the next 2 pictures. Create a method on a A4 sheet of paper .

Assignment #4

The goal of the assignment is to think what future products you would create if you were CCO (A Chief Creative Officer) or Creative director in 'Crocs'? Get up and come into the middle of the floor. Close your eyes and think about color of your clothes (20 seconds). Open your eyes and find the person who thought of the same as you. Hand out Picture Training Cards - one to each trainee. Use the picture analogies on the card one by one as an inspiration for developing ideas.

Assignment #5

The goal of the assignment is to create an innovative idea-'activity for one day' using this example to develop your daily routine.

In the theory of developing your inner-self and creativity, there is a suggestion to change some of our routines that have become rooted in our daily lives. Drive a different route to work. Live a day backwards. Get up and watch the sunrise, then start the day with dinner in the morning. Take your dog for an evening walk in the morning. Watch a video movie and take a nap. Go to the gym after your nap, then run your errands. Eat breakfast at a coffee shop late in the day. The idea is to disrupt your normal routine to get out of comfortable ruts. Watch Saturday morning cartoons or rent an animated children's movie that you loved as a child.

Number of trainees:1.

Time: 7 minutes

Use Pictures cards as a stimulus to generate ideas. When you run out of ideas, move to the next 2 pictures. Write your daily plan (as many activities as you can) on a A4 sheet of paper.

17 SALES AND MARKET MECHANISMS

17.1 CASE STUDY 1. CASE STUDY 1. COCA COLA ADVERTISING

Coca-Cola is a carbonated soft drink sold in stores, restaurants, and vending machines throughout the world. It is produced by The Coca-Cola Company of Atlanta, Georgia, and is often referred to simply as Coke (a registered trademark of The Coca-Cola Company in the United States since March 27, 1944) [9]. The company produces concentrate, which is then sold to licensed Coca-Cola bottlers throughout the world. The bottlers, who hold territorially exclusive contracts with the company, produce finished product in cans and bottles from the concentrate in combination with filtered water and sweeteners. The bottlers then sell, distribute and merchandise Coca-Cola to retail stores and vending machines. The Coca-Cola Company also sells concentrate for soda fountains to major restaurants and food service distributors. The Coca-Cola Company has, on occasion, introduced other cola drinks under the Coke brand name. The most common of these is Diet Coke, with others including Caffeine-Free Coca-Cola, Diet Coke Caffeine-Free, Coca-Cola Cherry, Coca-Cola Zero, Coca-Cola Vanilla, and special versions with lemon, lime or coffee. In 2013, Coke products could be found in over 200 countries worldwide, with consumers downing more than 1.8 billion company beverage servings each day [3].

Introduction

Coca - Cola is one of most well-known brands in the world. This company has continued to gain momentum and growth, capitalizing on the rapidly expanding beverage industry and ranking as the largest beverage company in the world. With its push for global market share, Coca - Cola now operates in over 200 countries with over 84,000 suppliers. Currently, over 70% of Coca Cola's business income is generated from non-US sources [4]. In over a century, Coca -Cola has grown the company into a multi-million dollar business. However, the road to success has not always been easy for Coca-Cola. Many countries have banned the use of Coca-Cola products, claiming that these products are "threatening public health" and "encouraging obesity."Many labor practice suits have been filed against the mega beverage company with accusations of "child labor sweatshops" and "discrimination in providing health care benefits to workers." In addition, the beverage industry has been flooded with competitors introducing new soft drink products, such as Pepsi, along with soft drink alternatives, such as Gatorade, bottled water, fruit juice, and energy drinks. Coca-Cola has faced the challenge by introducing new beverage brands including Sprite, Fanta, Minute Maid, Simply Orange, Fresca, Vitamin Water, Smart Water, Odwalla, and Powerade. In light of the obstacles Coca-Cola has overcome, the company has remained true to its commitment to provide quality, refreshing, and satisfying products to consumers. In order to ensure each product tastes the same across the globe, Coca-Cola continues to keep the beverage recipes secret with tightly controlled manufacturing facilities. Coca-Cola has never lost sight of its

goal to be the best beverage company in the world. Now, let us take a closer look at Coca Cola's journey to globalization. Coca-Cola's Journey to Globalization Founded back in the 1880's, Coca-Cola was developed by John Pemberton as an American iconic brand known for high quality and consistency. During this period in history, storekeepers demanded pre-packaged products with brand name recognition. Coca-Cola met these demands with its iconic red and white logo and brand marketing to instill confidence in the consumer that the Coca-Cola product would taste the same everywhere it was purchased [4]. These strategies soon became the foundation for Coca-Cola's plan to expand globally. In the early 1900's, Coca-cola started to globalize. Bottling plants were initially built in Cuba and Panama as the US military spread to these regions, causing a rise in demand for the Coca -Cola brand. These plants proved to be successful, reducing shipping and delivery costs typical in these regions. Soon after, dditional bottling plants opened in Hawaii, Puerto Rico, and the Philippines. These efforts launched Coca-Cola's investment in testing foreign markets for future expansion opportunities. By 1926, Coca-Cola had established foreign relationships and plants around the world in support of its newly created center of global operations. Coca-Cola continued on its path of mass production and rapid expansion for the next several decades. Local branches along with local partnerships to produce and distribute the signature Coca-Cola products were established throughout the world. The ending of World War II and the Cold War marked the signature period in which Coca-Cola had established itself as a true global corporation known for its efficiency and worldwide capabilities. Next, let us take a look at three key strategies employed by Coca-Cola to support rapid growth and expansion across the globe: global marketing strategies, product differentiation, and technology [4].

Global Marketing Strategies. Coca-Cola's marketing strategies played a significant role in success fully globalizing the company. The company's popular advertising slogans and catchy jingles played into the hearts and minds of people around the world. Some of the most remembered advertising slogans include [4]:

- "Drink Coca-Cola."
- "Things go better with Coke."
- "Good 'til the last drop."
- "It's the real thing."
- "Always Coca-Cola."
- "Enjoy."
- "Life tastes good."

Coupled with the se slogans, songs were used to have consumers remember the brand. One of the company's most popular jingles was known as "I want to buy the world a coke," produced in 1971 by Billy Davis. The commercial featuring this song portrayed a world of hope and love produced by a group of multicultural teenagers on top of a hill. This commercial went down in history as one of the most well-known commercials of all time. In addition to Coca-Cola's advertising efforts, Coca -Cola became the first commercial sponsor of the Olympic Games in Amsterdam in 1928. Coca-Cola continues to be an Olympic Games

sponsor today. Coca -Cola has also sponsored many other sporting events such as the International Federation of Association Football (FIFA), National Hockey League (NHL), National Basketball Association (NBA), National Football Association (NFL), Major League Baseball (MLB), NASCAR, and Cricket World Cup [4].

Product Differentiation. Another key factor that has supported Coca Cola's globalization vision is the company's ability to customize the product to meet the needs an d wants of individual markets. For example, Coca-Cola has been able to tailor its product line to meet the needs of the younger consumer by offering Powerade and flavored Coke products, such as Cherry Coke and Vanilla Coke. Additionally, the company is meeting the needs of the health conscious, older consumer with Diet Coke, Vitamin Water, and Odwalla products. Coca-Cola has invested significant time and money into researching and understanding different marketing segments based on lifestyle, age, and income in order to accurately develop and market its products. Packaging differentiation has also played a key role in how adaptable the Coca-Cola product is to various market segments. Functional packaging has been used to make the products available in different sizes and forms, including glass and plastic bottles, aluminum cans, and fountain drink dispensers. The company considers various shapes and sizes of the bottles and cans to ensure easy stacking and vending machine dispensing. To promote the company's commitment to environmental sustainability, all packaging materials are designed to be recyclable and labeled accordingly for easy consumer identification [4].

Technology. Technology advances contributed to Coca-Cola's ability to globalize rapidly throughout the 20th century. Product transportation became more efficient and cost effective with the development of bigger and faster semi-trucks, cargo ships, jet aircraft, and trains. Coca-Cola was able to manufacture and ship products quicker and farther to market segments that were unreachable before these transportation improvements. In addition, technology advances became the driving force behind the ease and speed at which information was available. Distributors and warehouses were able to more accurately track inventory levels and fill order shipments, resulting in lower overall operating costs. Computerization also led to slashed product costs and improved efficiencies. Computerized and automated manufacturing equipment increased the speed and volume in which products were produced. These technological advances enabled Coca Cola to compete on a global scale, selling the well-known brand of products across the world at competitive prices [4].

Body of the analysis

Coca-Cola Marketing Mix. The marketing mix of Coca cola has been changing over time with more and more products being added such that today it has 3300 products, and many different ways of advertising all those products. But because of this Coca cola is the brand with the highest brand equity [6].

Product. This company has the widest range of beverages of 3300 products. The Beverages are divided into many groups with individual products in these groups, these are; diet category, 100% fruit juices, fruit drinks, water, energy drinks, tea, coffee and more. Coca cola is the No.1 brand in sparkling beverages, juice, and retail packaged water. Coca cola has its market presence around 200 countries. Coca cola's other brands are Fanta, Maaza, Limca, Sprite, Thums up, Minute Maid, Nimbu fresh, Nested iced tea and more [6].

Price. Because of the availability of the many different products the pricing is done according to the market and geographic segment. Each different brand of Coca Cola has different pricing strategy. Their pricing strategy is based on the competitors pricing, Pepsi is the main competitor to coke. Beverage market is said to be an oligopoly market (few sellers and large buyers), that's why they form into cartel contract to ensure a mutual balance in pricing between the sellers [6].

Place. Coca cola is the world's most favorite brand and is available all over the world. Selling in mostly everywhere in the world, you can find all the favorite different brands of Coca Cola in every big chain super market and in most little shops like corner shops [6].

Promotion. Coca cola uses various advertising and promotional strategies to create an increased demand in the market. They do this by associating Coca Cola with life style and behavior and mainly targeting value based advertising. You are more likely to see a coke ad being for a particular festival or in with a general positive message [6].

Coca-Cola is also promoted as a brand connected with fun and good times, providing not only refreshment but also enjoyment to life. Thus, Coca-Cola becomes more than a drink, it becomes a lifestyle. In 1982, the Company introduces a new product – Diet Coke – which is the first extension of Coca-Cola brand. Other products follow satisfying the specific needs and desires of consumers all around the world. 2011 year Coca-Cola celebrated its 125th anniversary. It has made it from a local to global brand, one of the most admired and best known in the world. Today, Coca-Cola is considered one of the world's most powerful brands. It is rated 3rd by Forbes.com (n.d., The World's Most Powerful Brands) right after Apple and Microsoft.

Target Audience. The basis in advertising is to precisely determine to whom the product is intended and to whom the advertisement should appeal. Then the advertising message could be adapted to the needs or desires specific for this group. Bovée and Arens (1992) pointed out the majority fallacy that there is "a common misconception that to be successful a product or service must appeal to everybody or at least to the majority of people"(p. 155). [2] That is not possible because people differ from each other. They have different needs and different desires and they prefer different ways of satisfying them. To persuade various people to buy the same product would mean to appeal at the same time to various needs and desires. Such advertisement would be too complex and as a whole vague, therefore, not

persuasive and not successful. Advertisers use sophisticated methods. They divide market into segments according to the needs and desires of prospective customers. Then, they are able to aim at particular groups of people (not all of them) and to appeal to the needs and desires specific for them. In the history Coca-Cola advertising, it is possible to identify such a division. The analysis of the corpus proves that Coca-Cola advertisements even though presenting the drink as suitable for everybody (e.g. see Ad 20 pointing out that Coca-Cola is *'Everybody's Drink'*) target people according to their needs (i.e. they do not target all people at the same time). The advertisements are adapted to present Coca-Cola as a thirst-quencher, a remedy, refreshment, a social drink, and as a lifestyle. Most advertisements are neutral in regard to age or gender. Nevertheless, some are adapted to appeal to particular age groups or genders. In regard to gender, for example, Ad could be considered as appealing to women rather than men. There are visualized two ladies drinking Coca-Cola accompanied by the body copy [1]: *'Take one glass of Coca Cola when weary with shopping - It imparts energy and vigor'.* The advertisement presents a specific situation (i.e. ladies refreshing themselves from shopping) with which its readers can indentify. The identification would be easier for women since shopping has been considered their domain of interest. The advertisement appeals to their social role of housewives who were responsible for the household. A similar appeal to the social role of women appears in advertisements presenting Coca-Cola as a token of hospitality. Nevertheless, it has to be taken into consideration that such advertisements usually ran in series which enabled the advertiser to adapt them in order to target a specific group. For example, the advertisements targeting women in their social role of hostesses and housewives who are encouraged to serve Coca-Cola to their friends and family do not target their readers as consumers but as those who make the purchase. On the other hand, there are advertisements which target their readers as consumers but not as purchasers. There is a man offering a bottle of Coke to the reader in a very familiar manner like he was his friend. The body copy is: *'That's so right – especially when activity calls for a pause. Just reach into the handy picnic cooler for a frosty bottle of Coca-Cola. Enjoy its tingling goodness and off you go-to play refreshed.'* The advertisement appeals to the reader as the consumer promoting new ways of consumption thanks to the *'handy picnic cooler'*. Nevertheless, those who fill the picnic cooler for their men are usually women who also make the purchase. Therefore, the advertisements could be considered as completing each other. While is targeted at women (*'weary with shopping'*), is targeted at men (*'students and brain workers'*) following the traditional gender roles of the period (both ads were published in 1905) [1].

In regard to age, there are advertisements which are adapted to appeal to a specific group. Focuses on children. There is visualized a boy consuming the drink and the language of the body copy is also adapted for children. It is very personal and it tries to imitate informal spoken language (e.g. the exclamation "*Boy, it's keen!'* or '*You get your nickel's worth...*"). The focus is more on the enjoyment from the drink (e.g. "*You can feel the bubbles all the way down, and the taste is great."*) rather than on presenting its specific properties. Therefore, it appeals to emotions rather than reason. Further, there are also advertisements focusing on seniors. For example, Ad appeals to the reader that she/he can enjoy the drink '*at any age'* or Ad which promotes Coca-Cola as a "*happy pause for the youth of all ages...*". In both

advertisements are visualized happy seniors to help the reader imagine herself/himself in the situation. Also, there are advertisements which focus on young generation (e.g. Ad 71 visualizes young people enjoying themselves on the beach) associating Coca-Cola with enjoyment and a happy life [1].

To summarize, this thesis disagrees with the opinion of Bovée and Arens (1992) [2] concerning the majority fallacy that there is "a common misconception that to be successful a product or service must appeal to everybody or at least to the majority of people" (p. 155). The analysis of Coca-Cola advertisements proves that the drink can appeal to everybody or at least to the majority of people. Instead, a correction is suggested that there is a common misconception that to be successful an advertisement must appeal to everybody or at least to the majority of people. As is described above, Coca-Cola advertisements are targeted at groups of people according to their needs, in some cases also according to their age or gender. An important factor turns out to be the social role of the target audience. Therefore, when the advertiser is adapting the advertising message to the specifics of its target group "it is important to consider not just who the end user is but also who makes the purchasing decision and who influences the purchasing decision" (Bovée & Arens, 1992, p. 260). Other factors determining the target group may be - education, income, occupation, or lifestyle .

Diet Coke and Coke zero. In recent years, The Coca-Cola Company introduced on the market new products – Diet Coke and Coke zero. The present thesis presupposes that these products have been promoted as gender specific – Diet Coke for women and Coke zero for men. Observing the advertisements on Diet coke of the recent years, it is possible to see that these appeal to the interests and desires of women. Diet Coke is associated with fashion (e.g. Ads 93, 97 and 99 presenting Diet Coke in connection with fashion designers as Karl Lagerfeld and Jean Paul Gaultier or models as Heidi Klum) and healthy lifestyle (e.g. Ad 93 encouraging the reader to care about her heart health). Coke zero, on the other hand, appeals to the interests and desires of men as it is associated with adventure and living life to the fullest (e.g. Ads 96 and 100 presenting Coke zero in connection with action movie heroes as James Bond or Zoro). Thus, the presupposition is confirmed. The promotion of Diet Coke and Coke zero represents a new shift in Coca-Cola advertising history as these brand extensions are used to target women and men respectively [1].

Geographic area. By geography, Bovée and Arens (1992) distinguished four types of advertising: local, regional, national and international (p. 12-14). As it is possible in the advertising history of Coca-Cola to mark the development of the brand from local to international, the theoretical description is demonstrated on particular Coca-Cola advertisements [1].

Local advertising is used by businesses whose customers come from one local area. It is also frequently called retail advertising. It focuses on promoting a particular retailer as it tries to persuade the reader to visit her/his store. At the beginning of Coca-Cola advertising, the product is promoted by such retailers. For example, Ad besides describing the qualities of the

product also informs that Coca-Cola is *'For sale by Willis Venable and Nunnally & Rawson'* connecting the brand with a particular retailer.. There is a body copy which closes with the information that Coca-Cola is *'Drawn sparkling ice cold from the fount'* followed directly by the signature line *'EVANS & HOWARD -AT THE- CENTRAL DRUG STORE'* connecting thus the fount with a particular place [1].

Regional advertising refers to advertising of products which are sold in some region but not in the whole country. When products are sold in several regions or the whole country, national advertising is used. National advertising is frequent in the Coca-Cola advertising history. As the brand grows from local to national, it stops being associated with particular retailers but instead it is promoted as available everywhere (e.g.: *'Wherever you go you will find Coca-Cola - AT ALL FOUNTAINS'*; Ad : *'Sold everywhere'*). The availability of the drink becomes one of its key sales points (besides its refreshing and delicious quality); its price as well. Both become inherent parts of Coca-Cola advertisements. The information is reduced to simple *'5c Everywhere'* and serves as a signature line. The vague terms (e.g. *everywhere, whenever, at all soda founts*) allow the advertisements to be published in the same form all over the United States. This helps to build a unified brand image. The unification of brand image allows the advertiser to present the drink as national (e.g. : *'The great national drink'*). The word national has positive connotations for Americans – it connotes love which they have for their country and pride they have for being Americans. The drink thus starts to be associated with such connotations being seen as a truly American product. The promotion of the drink is also in accordance with values which Americans share. For example, the equality of opportunities which is reflected in the drink being suitable for everybody (e.g.: *'All Classes, Ages and Sexes Drink Coca-Cola'*). Another great American value which is targeted at in the advertisements is individuality. For example, in it is stressed that Coca-Cola is *'The national beverage – and yours'* stressing the reader's own importance. The reader is not addressed simply as a passive part of some group but her/his individuality is highlighted making her/him an active part of the nation. Another means of national advertising is promoting the product in connection with special occasions, sports event or celebrities which are popular within the nation. Coca-Cola is connected with baseball, the *"national game"*, or a successful marathon bicyclist Bobby Walthour, or a popular American celebrity Hilda Clark. The national events and celebrities promoting the product are used to enhance the popularity of the drink and create positive associations. [1].

Finally, *international advertising* is directed at foreign markets. The product is introduced into new cultures. Sometimes the new culture may be similar to the culture of the product's origin and sometimes it can be completely different. The advertisers going international have to be careful in choosing the means of encoding and delivering the advertising message. As Douglas and Craig (n.d.) pointed out: "Target audiences differ from country to country in terms of how they perceive or interpret symbols or stimuli, respond to humor or emotional appeals, as well as in levels of literacy and languages spoken." (section 1 Definition of International Advertising) In order to avoid miscommunication or even offending the target group, the advertisers rather choose to employ a local agency to create a local advertisement.

Nevertheless, international advertising is employed in cultures which adhere to similar values and which are similar in terms of perception and interpretation. Modern technologies make the international advertising easier. They enable transport of goods and of information. People are interested not only in what is happening in the area in which they live but also in what is happening around the world. Media and the possibility of free travelling enable them to know that. People are from nature curious about new things. They try new food, new products, and even new lifestyles. International advertising thus is of great influence. It introduces not only products and their benefits for the consumer but also new ways of life. It promotes the culture of the product's origin. Coca-Cola being closely associated with American values promotes them internationally, representing the United States and American culture. It is more than a product, it is a symbol. Advertising, therefore, may be of great social influence. It does not only introduce a new lifestyle but it also encourages the target audience to acquire it. As Douglas and Craig (n.d.) said: "International advertising also encourages desire for products from other countries, it creates expectations about 'the good life', and establishes new models of consumption. Advertising is thus a potent force for change, while selectively reinforcing certain values, life-styles and role models" . The interconnection of the culture and the product could be exemplified on the reaction of the Communist regime in the former Czechoslovakia on the growing popularity of Coca-Cola in our countries. Politicians in order to stop the influence of the "imperialistic drink" placed an order to develop a national drink of the same type which would substitute the famous Coca-Cola. Thus, Kofola was created. International advertising influences people but it also unites them. As Bovée and Arens (1992) said [1,2]:

> Certainly, as a communication form, international advertising contributes to the unification of the world. And one benefit is enhanced international understanding as advertisers introduce foreign products, values, and ideas into new markets. As technology and ideologies evolve, international advertising will continue to flourish. (p. 673)

Again, an excellent example is The Coca-Cola Company. Coca-Cola was introduced on international markets during the Second World War. It was promoted as a drink uniting people, as a token of friendliness. For example, focuses on teaching consumers the new connotation of Coca-Cola – *'Have a Coca-Cola = You're my kind'*. The most popular advertisement in the history of Coca-Cola representing the drink as a bond among people is *"I'd like to buy the world a Coke"*. It started as a song for a radio commercial, but its success came with a TV commercial which treated the song as a "First United Chorus of the World." The song promoted Coca-Cola in connection with love and harmony all over the world with the drink being presented as a social element uniting the world. The text of the song is following [1]:

> I'd like to buy the world a home and furnish it with love, Grow apple trees and honey bees, and snow white turtle doves. I'd like to teach the world to sing in perfect harmony, I'd like to buy the world a Coke and keep it company. It's the real thing, Coke is what the world wants today.

The radio and TV advertising was completed by print advertisements reminding the reader constantly of the song. A unified advertising campaign which is launched internationally as such helps the company to build a positive brand image since it makes no distinction among people. The process of unification of the world may inspire the idea of a global consumer. In favour of this idea is, for example, Levitt who thinks that thanks to "cheap air travel and new telecommunications technology, the world is becoming a common marketplace in which people have the same tastes and desires and want the same products and lifestyles no matter where they live" (as cited in Bovée & Arens, 1992, p. 677). Therefore, world-standardized products could be sold the same way around the world. Nevertheless, as Bovée and Arens (1992) pointed out, "many advertisers believe Levitt's approach is incorrect" because the global consumer does not exit (p. 677). The world is differentiated as well as its inhabitants are. Even Coca-Cola is advertised differently in different countries. It has its global advertising strategy but it is accompanied by advertising campaigns unique to specific markets. The global advertising campaigns are usually aimed at building a positive brand image. Thus, the drink is connected with the world sports events like Olympic Games or world famous celebrities – real (e.g. Jean Paul Gaultier; Karl Lagerfeld; Heidi Klum) or fictional (e.g. James Bond; Zoro). Local advertising campaigns are more focused on the promotion of the product and establishing the relationship between the consumer and the product. Of great influence on the positive attitude towards the advertisement is the choice of the language. According to Wallace Lambert people tend to find speakers of their own language more likeable (as cited in Joseph, 2004, p. 70). Thus, the advertisements are translated into local languages: *Coca-Cola in Czech advertising – ad localization* for the localization of a Coca-Cola advertisement for the Czech market) or the whole advertising campaign is localized, i.e. adapted to a specific market. An example of such localized campaign is a summer campaign in the Czech Republic in which Coca-Cola and O2 cooperated in order to increase their sales. The campaign promised 25 crown credit for calls to everyone who buys a bottle of Coca-Cola [1] .

Medium. In the context of advertising, medium refers to any paid means that is used to carry the advertisement and present it to the prospective consumer (Bovée & Arens, 1992, p 14). Most frequently used are print media (newspapers, magazines), broadcast media (television, radio), outdoor media (billboards, posters) and the medium that is quickly expanding today – the Internet. The choice of media is important for the advertiser. Every medium has different properties and offers different advantages. Media also differ significantly in their costs. Therefore, advertiser has to choose carefully which media to employ and how to combine them so that the advertising campaign would be most effective. For example, television is a great medium for creating awareness of the product, i.e. letting people know that the product is on the market, and showing them how the product looks like. Nevertheless, as Lowrey (as cited in McQuarrie and Phillips, 2008) pointed out, television is an externally paced medium, i.e. people cannot influence the pace of the advertisement delivery (p.163). Thus, it cannot offer the prospective customer many technological details as the customer would not be able to process them. On the other hand, print advertising is self-paced, therefore, it seems more appropriate to carry such kind of information. For example, a car advertiser when preparing

advertising campaign would probably launch TV advertisement first to create awareness about the car and present it in motion. Then, she/he would accompany it with print advertising offering additional technical details for those who become interested in the car. In this case, it would be mainly print advertising which would be persuading the receiver to act, i.e. to purchase. Print advertising also may serve as a reminder of the TV spot. An example from the Coca-Cola advertising may be the spot *"I'd like to buy a world a Coke"* which is described above. The spot is based on a catchy melody. Naturally, print advertising cannot capture and transmit melody, thus, the advertisement complemented the spot by reminding the readers about it[1].

Print Advertising. According to Suggett (n.d.), "if an advertisement is printed on paper, be it newspapers, magazines, newsletters, booklets, flyers, direct mail, or anything else that would be considered a portable printed medium, then it comes under the banner of print advertising". Print is one of the most popular media for advertising. It offers an advertiser a number of advantages of which one of the most important is that it is affordable even by small businesses. Another great advantage is that print is a self-paced medium enabling the reader to spend with the advertisement as much time as she/he wishes. It is permanent, therefore, the reader may reread it, get back to it or even show it to someone else anytime she/he wants. Next, it is a medium that allows the advertiser not only to present her/his offer but also to present it in a creative way. Creativity in modern advertising is a very important factor fulfilling several functions. It is used to catch the attention of the reader as well as to deliver the advertising message in a memorable way. Print advertising also has its specifics in regard to the type of media. In respect of the corpus of this thesis which is compiled of print advertisements from newspapers and mainly magazines the following text discusses specifics of newspaper and magazine advertising [1].

Newspapers are local media, enabling advertisers to target a local community. Therefore, they are best suited for local businesses which wish to attract local people to their stores. Their great advantage is that they are affordable even by small businesses. Newspapers serve to inform readers about current affairs. That is why people buy them – to be informed. When preparing the advertisement, the advertiser should bear this function of newspapers in mind. Newspapers are selective, they allow the reader to read what she/he wants and skip parts which she/he finds not interesting. The same it is with advertisements – they can be skipped. Therefore, advertisements in newspapers in order not to be skipped should carry some information which would be of value to the reader. For example, in the Coca-Cola advertising, newspaper ads imitate medical discourse in order to sound professional. The focus is on providing information and thus appealing to reason rather than arising emotions. Another piece of information provided by such advertisements may concern opening of a new store in the area. It would appeal to the reader as a member of the local community who is interested in what is happing in her/his local area. Another example may be information about a specific offer (e.g. introductory price for a new product) which would appeal to the reader as a consumer who is interested in a bargain price. In this way, the reader's need for information

would be satisfied. Newspapers are mass media, they are read by a wide range of people. They reach various target groups and may function well as awareness creator. Newspaper are published everyday, therefore, they enable advertiser to change her/his advertisement easily or to adjust it in according to current demand. A disadvantage to newspapers is that they usually offer a poor quality of printed image. Therefore, they are not suited to present visually, for example, a new product for it would be hard to decipher what the image represents. Nevertheless, they do not limit the advertiser in typographic creativity. Various fonts or letter sizes can be used to attract reader's attention. To summarize, the major advantages to newspaper advertising are: affordability, ability to target local community, comprehensiveness of readers, and ability to reflect the current demand [1].

Magazines are not as comprehensive a medium as newspapers. They cover specific topics and have specific readerships. Therefore, magazines allow advertisers to reach better the target group of their products (e.g. car advertisements in car magazines). Magazines are not published daily as newspapers are but in longer regular periods (e.g. once in a month). They are usually read from cover to cover as the reader has enough time to do so. Therefore, advertisements in magazines are exposed to readers repeatedly – anytime the reader returns to the magazine and browse through it, she/he will encounter the advertisement. This makes the reader remember it better. Advertisements in magazines are also more oriented to enhance and sustain the brand image. It is because magazines are bought mainly for pleasure and not for information as newspapers. People buy magazines because they are interested in the area they cover. They read magazines because the reading itself pleases them or it is a pleasant way of spending time while travelling or waiting. For these reasons, the goal of advertisements in magazines is to please its readers and create a positive brand image. As is said in the article *Print Advertising Pros and Cons* : Magazine printing methods allow for higher resolution images and better color options, which allow you [the advertiser] to build your brand image in a positive way. Just the fact that you [the advertiser] are advertising in a magazine gives your company a certain professional cachet. Advertising in magazines is more expensive than in newspapers, therefore, placing an advertisement there is also a way to express the prestige of the advertiser. The high quality of printed images is a great advantage to newspaper advertising. Magazine advertisers employ eye-catching visuals in which frequently dominates the product presented in the greatest detail or a celebrity promoting that product. A detailed study of visuals in advertising is covered by chapter 6 *Visuals in Coca-Cola advertisements*. Visuals allow advertisers to be creative and because a picture is worth a thousand words advertisers take this advantage very seriously and spend a lot of time and money inventing plays with meanings based on visuals. Nevertheless, advertising in magazines also has its drawbacks. It is usually more expensive than in newspapers and it has to be carefully planned in advance as is explained in the article *Print Advertising Pros and Cons* : "Many magazines come out just once a month, or even every three months, and to meet their deadlines it's often necessary to have ads completed six months before they'll actually appear" . Therefore, magazine advertising does not allow advertiser to change or adjust the advertisement according to the current demand. To summarize, the major

advantages to magazine advertising are: ability to reach the target group, repeated advertisement exposure, prestige, and creativity in employing visuals [1].

Print advertising with its many advantages seems to be a successful way of the product or brand promotion. Nevertheless, advertisers nowadays gradually abandon print advertising and focus rather on digital media which are increasing in popularity. As audience moves, advertisers move as well. Advertising has always kept in touch with modern technologies and has invented ways to use these in their favor. That is how advertising penetrated into our everyday lives, into our homes. Advertising as a non personal form of communication is dependent on media which enable communication. Therefore, when a new medium is invented, advertising is sure to be there and the more popular the medium gets the more advertisers will be interested in it. Thus, as long as print media have their readership, they will be interesting for advertisers. Print is not dead, yet. It is still an effective way to reach target groups and advertisers are well aware of that. Although they invest a lot of money into advertising in digital media which nowadays play a major part in advertising campaigns, print advertising still has its part – may it be only complementary [1].

Classification of advertising by purpose relates to the advertiser's general objectives, i.e. what the advertiser wants to achieve by her/his advertisement. There are several purposes which the advertiser can pursue. Bovée and Arens (1992) distinguished the following: product versus nonproduct advertising, commercial versus noncommercial advertising, and action versus awareness advertising (p. 14-15). These distinctions are further described below [2].

Product advertising focuses on promotion of goods and services. It tries to sell the product by persuading the target group about its qualities and by presenting the benefits it offers. In the centre of attention, therefore, is the product itself. Regarding the corpus of this thesis, this kind of advertising represents the majority of compiled advertisements. *Non product advertising,* on the other hand, tries to sell ideas. When a company chooses to use non product rather than product advertising it promotes primarily its mission and values. This kind of advertising serves well to enhance the brand image. The Coca-Cola Company besides trying to "refresh the world" by its drinks tries to "inspire moments of optimism and happiness..." and "create value and make a difference" (The Coca-Cola Company, 2012, section Our mission). It promotes friendships, togetherness. It tries to unite people and through this make the world a better place as is promoted in ad: *'Let's do it for our children. Let's show them what a great world this can be when we join hands and live his dream of love and harmony'.* The text is accompanied by a picture of Martin Luther King playing with his daughter. Therefore, the advertisement uses a great figure of American history and refers to his ideas. The advertisement is signed by The Coca-Cola Company but there is no visual of the drink incorporated in the visual itself. Without the signature it would be impossible to associate the advertisement with the Coca-Cola brand. This attitude to advertising has become popular. Commercial brands (such as Coca-Cola) employ this kind of advertising in order to create a positive brand image. They try to be more personal, to get closer to their customers. In this way they can hold their favor. People nowadays are bothered by

advertisements pushing them to buy. They do not like to hear that they are strongly influenced by commercialism, that they embrace material values. Even though people buy things for pleasure, they do not like to hear that they are commercial consumers. Also, many people live quite happily and comfortably surrounded by material things and still they do not like to hear that they are materially oriented. These words have negative connotations. Commercial companies in order to be successful must react to what the market prefers and when the market prefers to buy ideas, they will sell them. In such a case, the product itself and its basic qualities become less important (e.g. Coca-Cola as a drink satisfying the basic human need of thirst). Instead, new values (e.g. Coca-Cola as a friendly drink) are added to the product. Consumers welcome such a move because by buying a product with no added value they would be just consumers of a commercial drink (which will give them a negative feeling) but by buying a product with some added value they become consumers who embrace the spiritual values promoted by the drink (which will please them). Therefore, with such a purchase costumers will be satisfied for they will have the feeling that they do something good and the companies will be satisfied for they will profit [1].

To summarize, even though there might be noble ideas employed in the commercial advertising, it still is a commercial advertising with its basic goal – to sell. In the area of advertising, "the entire focus is on what works, and on what works best" as McQuarrie and Phillips pointed out (2008, p. 9) and in the end it does not matter whether the goal is achieved through product or non product advertising. Therefore, we as consumers should consider carefully how we respond to such kind of advertising. Favoring the consumption of products with purposely added value will not make a difference (there is no connection between consuming Coca-Cola drink and making the world a better place). We can only make a difference by our own attitude to life and to people around us [1].

Commercial advertising differs from noncommercial advertising in that it aims to make a profit. Noncommercial advertising "is sponsored by or for a charitable institution or civic group or religious or political organization. Many noncommercial advertisements seek money and are placed in the hope of raising funds. Others hope to change consumer behavior ("Buckle up for safety")" (Bovée & Arens, 1992, p. 15). This thesis deals only with the commercial advertising, therefore, the specifics of noncommercial advertising are not taken into consideration in the discussions of this paper.

Action advertising and awareness advertising are distinguished in terms of consumer's response to the advertisement. Action advertising aims to make the consumer act, i.e. to go and buy the advertised product. Awareness advertising on the other hand aims to inform or remind target groups about the existence of the product on the market. It focuses on presenting the brand in a positive way, creating a positive image. There are several ways of enhancing the brand image. One of them is adding a spiritual value to the product which is discussed above. Another is associating the brand with some popular event. For example, The Coca-Cola Company has a long history of sponsoring major events such as Olympic Games,

NBA, American Idol and others. The connection of the brand with such events makes the brand visible because many people are keen spectators of them. It also makes the brand prestigious as much as these events are. It also enables the brand to be associated with the values these events promote. For example, The Coca-Cola Company (2012) claims to share "the Olympic Values, which embody the discovery of one's abilities, the spirit of competition, the pursuit of excellence, a sense of fair play and the building of a better and more-peaceful world" . Sharing and promoting such values helps the Company to create a positive brand image among its consumers and inspire them to purchase. Therefore, the overall goal of awareness advertising is also to persuade the consumer to buy. The difference is that action advertising seeks an <u>immediate</u> consumer response (i.e. the action) which may be urged, for example, by a time-limited offer or coupons attached while awareness advertising seeks to build a positive image of the product which will lead the consumer to the purchase (in the ideal case a repeated purchase). To summarise, the goal of action advertising is the immediate response (usually one time action) while the goal of awareness advertising can be considered long-term (usually repeated purchase based on the positive attitude of the consumer to the brand) [1].

CONCLUSION

- Coca-Cola is one of the most well -known brands in the world, operating in over 200 countries.
- While the global marketplace has presented numerous opportunities for Coca-Cola, the company has also encountered global attacks on the nutritional value of its products, along with unfair labor practice accusations. Founded in 1880, Coca-Cola began its journey toward becoming the world's best and largest beverage company.
- Coca-Cola's American iconic logo, brand recognition, convenient packaging, and consistent product manufacturing became the foundation for the company's plan to expand globally. A pioneer in globalization, Coca-Cola began expanding bottling and manufacturing facilities back in the early 1900's, establishing key foreign partnerships.
- Coca-Cola's marketing strategies, including memorable advertising slogans, catchy jingles, and sporting event sponsorships, played a significant role in winning the hearts and minds of consumers globally.
- Product differentiation, such as offering different beverages in flexible packaging options, allowed Coca-Cola to customize the product for different market segments.
- Technology advances, including product transportation, telecommunication, and computerization, became the driving force behind Coca-Cola's ability to capitalize on the rapidly expanding marketplace across the globe.
- Modern Coca-Cola advertising mostly restricts itself to prominent visuals (employed in 41 advertisements from 50 in the period since 1950 to 2012) which are anchored in headlines and subheads. This tendency could be explained by the lack of willingness on the part of readers to spend their time reading long advertisements. They further argued that that is the reason why in modern advertising advertisers stress creativity

for they want to produce interesting advertisements which their readers would remember. While at the beginning of the Coca-Cola advertising the advertising message is spelled out, in modern advertising it has to be construed from the interaction of visual and verbal elements. What is more, some advertisers nowadays experiment with open advertisements, i.e. advertisements based on visuals with no guiding verbal elements at all. Coca-Cola have the ability to teach their consumers how to read them. In the history of Coca-Cola advertising, it is possible to indicate a transitional period (from 1950 to 1965) in which consumers were taught how to read visuals in interaction with verbal elements. Therefore, as it has been proven that open advertisements offer some advantages to strong global brands it could be expected that these brands will gradually employ open advertisement in their advertising campaigns.

- Coca-Cola as a thirst-quencher appeals to the physiological need of thirst. It is represented in the corpus by only one advertisement. Nevertheless, even this one is rare for it is typical of advertising to add some value to the product in order to offer the consumer something more that a competing product. The low competing value of the drink is balanced by employing creativity in communicating the advertising message (e.g. personification of thirst). Thus, the advertisement and the drink are made interesting for the reader. The goal of the advertisement is to change consumer's habits (i.e. to teach the consumer to drink Coca-Cola all year long). Coca-Cola as a remedy appeals to the need of safety (i.e. health of body and mind). It is promoted in a very formal way. The language is sophisticated, complex and impersonal. It imitates professional language. The advertisements target a specific group of people – people in need of such a medicine.

- Coca-Cola as refreshment also appeals to the need of safety but not in regard to health in its direct sense but more in regard to well-being in connection with a higher quality of life. Thus, it is presented in a less formal way. The language becomes simple, easier to grasp. In some cases even elements of informal speech are employed. The communication becomes personal, the reader is directly targeted. Thus, the advertisements target a much larger audience.

- Coca-Cola as a lifestyle appeals to the need of self-actualization - the need of the highest order according to Maslow. The drink is promoted as a means of improving the quality of its consumer's life. Self-actualization is very individual concept. For every one it represents something else. The language of such advertisements is personal but with a vague meaning. The reader is free to interpret the meaning as she/he likes and to adapt the advertising message to her/his own needs. The language appeals to emotions. It is playful trying to please and amuse the reader.

- The description reveals that there are three major shifts in communicating the advertising message in regard to the language means employed. The first shift is from formal to informal language. The second shift is from indirect to direct address of the reader and the third shift is from appealing to reason to appealing to emotions.

- The Company proves to be very flexible in communication with readers. It presents the same product in new ways targeting new and new audiences. Its advertisements

appeal to various needs and desires making Coca-Cola a drink for everyone. The Company has also incessantly worked on building a relationship between the product and the consumer. Thus, consumers have become emotionally attached to it and when an innovated formula was introduced (New Coke) in 1985 they demanded the old drink back. Its popularity rose. The original drink was renamed Coca-Cola Classic and returned to the market in grand manner. Nevertheless, Coca-Cola attained attention and the Company celebrated its success. It is clear that Coca-Cola has become more than a drink. It has become a symbol. It represents the tradition and values with which American people identify. It unites people. It stresses their individuality. It represents lifestyle focused on happiness and real moments in life. It represents the American dream as the brand built its global success from nothing. It represents the hope that everything is possible.

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to create yield advertising message for Coca cola. Get up and come out into the middle on the floor. Close your eyes and think of the first thing you would do if you won a million (20 seconds). Open your eyes and find the person who thought of the same as you. (Hand out Person Training Cards - one to each trainee- one to each trainee). Use the person analogies on the card one by one to as inspiration for ideas. Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Choose the best advertising message. Also read advertising message other groups. Choose the best idea from all the groups.

Assignment #2

The goal of the assignment is to create advertising messages, reflecting the company's brand or image creation strategy for international market. Get up and come out into the middle on the floor. Close your eyes and think of Close your eyes and think of your favorite flower. Open your eyes and find the person who thought of the same as you. (Hand out Person Training Cards - one to each trainee- one to each trainee). Use the person analogies on the card one by one to as inspiration for ideas. Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Choose the best advertising message. Also read advertising message other groups. Choose the best idea from all the groups, which help to develop the company's brand or image creation strategy for international market.

Assignment #3

Get up and come out into the middle on the floor. Close your eyes and think of Close your eyes and think of your favorite color (20 seconds). Open your eyes and find the person who thought of the same as you. The goal of the assignment is to evaluate selected Coca cola advertising using following tools:

Advertised company and product					
Type of advertising					
What is the potential user of advertising?					
Quality of advertising	Story	Idea	Colour	Text	Animation
Scale					

Write the ideas on the post notes. Stick post note on the wall. Read post notes other groups.

Assignment #4

The goal of the assignment is to create new package of the Coca cola to cosmonauts enabling the use of this beverage in the space. Get up and come out into the middle on the floor. Close your eyes and think of your favorite meal (20 seconds). Open your eyes and find the person who thought of the same as you. (Hand out Pictures Training Cards - one to each trainee- one to each trainee). Use the person analogies on the card one by one to as inspiration for ideas. Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Choose the best idea. Also let see at the ideas of other groups. Choose the best idea from all the groups.

Assignment #5

The goal of the assignment is to evaluate Coca cola SWOT analysis. Get up and come out into the middle on the floor. Close your eyes and think of your favourite colour. Open your eyes and find the person who thought of the same as you.

STIMULI:

Employement

Unemployement

GDP

Wages

Legislation

Policy

Culture

Habits

Environement

Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Also let see and read at the ideas of other groups. After reading all ideas please write on the desk common SWOT analysis.

17.2 CASE STUDY 2. CASE STUDY 2. ZARA:

INTERNATIONAL MARKETING STRATEGY AND

COMPETITORS

Zara is established in 1975 in Spanish, belonging to Inditex group. As one of the biggest international fashion brand, Zara has men's clothing and women's clothing, each of these subdivided in Lower Garment, Upper Garment, Shoes, Cosmetics and Complements, as well as children's clothing (Zara Kids). Zara needs just two weeks to develop a new product and get it to stores, compared with a six-month industry average, and launches around 10,000 new designs each year [1].

Introduction

Established in 1975, Zara is the flagship of Inditex (Industria del Diseño Textil, S.A.), a holding company located in Galicia (north-west Spain). In a relatively short time frame Inditex has become the world's second largest clothing retailer with 2,692 stores spread across 62 countries worldwide by the end of January 2006. In addition to Zara which accounted for 66 percent of the group's turnover in 2005, Inditex owns seven other clothing chains: Kiddy's Class (children's fashion), Pull and Bear (youth casual clothes), Massimo Dutti (quality and conventional fashion), Bershka (avantgarde clothing), Stradivarius (trendy garments for young women), Oysho (undergarment chain) and Zara Home (household textiles) [2].

Zara is facing several issues. Zara has a consistent business system that gives the company its competitive advantage. One of these advantages is the economies of scale that Zara is able to utilize and the company has been successful in scaling up its distribution system. However, with continued growth, especially due to expansion in the international markets, there is some concern in regards to Zara's centralized logistics model. The company is concerned with diseconomies of scale as it grows. To address this issue and increase capacity, Zara has begun construction of a second distribution center in Zaragoza [2].

The other concern facing the company is in the area of international expansion and its geographic scope. The company realizes that it needs to continue to expand internationally. However, which territories to enter is somewhat unclear.The opportunities to expand within Spain are limited based on H&M experience in Sweden. One possibility is to expand in Europe itself, specifically targeting Italy. Another region is North America, but this region suffers from retailing overcapacity, less fashion-forward sense, demand of larger sizes, higher operating costs, intense competition and weakening demand. South America is much smaller and also subject to profitability pressures. Middle East is also a small market though profitable. Lastly, the Asian market is very competitive [2].

With this continued expansion, the other question facing the company was the model it should utilize in each country. The company had experimented with franchising, joint ventures, and company owned stores. The questions it faced now were which of these to

utilize. Also, should it start up chains or acquire existing ones. The real issue was to perform all these activities while maintaining profitability and revenue growth requirements [2].

Beginning in the nineteen eighties Zara began experimenting with differentiating the design, manufacturing and distributing progression in order to condense lead times and respond faster to new trends. Gaona considered this to be "instant fashion." Instead of individuals, Zara used information technologies and groups of designers to base its improvements in fashion. In 1998, the company began its international development through Portugal's second city, Porto. By 1989 Zara entered the United States and by 1990 entered France. Zara's international development expanded to Mexico in 1992, Greece in 1993, and Belgium and Sweden in 1994. Zara continued to open stores around the world until there were stores in seventy countries. This includes more than 519 stores in Spain, 116 stores in France, 87 stores in Italy, and 45 stores in the USA (Zara: Cool Clothes Now, Not Later).

Body of the analysis

Market Entry Strategies. While Zara owns a majority of its stores in Spain, the international expansion has adopted three different entry modes:

Own subsidiaries. This direct investment strategy is the most expensive mode of entry and involves high levels of control and risk in case the firm exits the market. Zara has adopted this strategy for most European and South American countries that were perceived to have high growth potential and lowbusiness risk.

Joint ventures: This is a co-operative strategy in which the manufacturing facilities and know-how of the local company are combined with the expertise of the foreign firm in the market, especially in large, competitive markets where it is difficult to acquire property to set up retail out lets or where there are other kinds of obstacles that require co-operation with a local company. In 1999 Zara entered into a joint venture with the German firm Otto Versand and benefited from the latter's experience in the distribution sector and knowledge of one of the largest markets in Europe. The administrative barriers in Italy, wherein local traders decide whether an international brand could operate in a specific city and the amounts of money required for the transfer of the stores led Zara to link with Gruppo Percassi, a successful firm in the property sector, in 2001. The 12 experience of Biti in the clothing sector together with its knowledge of the property market encouraged Zara to sign an agreement with this company to enter Japan in 1998. In Germany and Japan the deal was on a 50-50 joint venture. In Italy Inditex held a 51 percent investment in Zara. However, Zara has recently increased its ownership to 78 percent in Germany, 80 percent in Italy and 100 percent in Japan [3].

Franchising: This strategy is chosen for high-risk countries which are culturally distant or have small markets with low sales forecast like Saudi Arabia, Kuwait, Andorra or Malaysia.

Zara's franchisees follow the same business model as their own subsidiaries regarding the product, store location, interior design, logistic and human resources. However, they are responsible for investing in fixed assets and recruiting the staff. Zara gives franchisees the chance of returning merchandise and exclusivity in their geographic area, although Zara has the right to open its own stores in the same location [3].

Once the entry decision is made for a particular country, Zara follows a pattern of expansion known in the company as "oil stain" Zara opens its first store, the so-called flagship store, in a strategic area with the purpose of getting information about the market and acquiring expertise. The experience guides Zara in the following phases of expansion in that country.

International Marketing Strategies. At the early stages of internationalisation, the management at Zara was following an ethnocentric orientation whereby the "subsidiary companies had to be a replication of the Spanish stores". However, this approach encountered unexpected difficulties in some countries due to the cultural differences. Therefore, Zara decided to move towards a geocentric orientation, allowing the company to adopt in some cases local solutions rather than merely replicate the home market. Zara sells a largely homogeneous product for a global market. Nevertheless, there are some adjustments in its marketing mix because of the customer's size difference s in Asian countries, laws issued that require the availability of garments for youths in all sizes in Buenos Aires, cultural differences in Arab countries where some garments cannot be sold, and a different season in the southern hemisphere The information gathered by he store guides the decisions of the design department that finally produces those garments that can be sold in all the markets where Zara operates. Each store manager, based on the customer's remarks on the products, decides the specific garments that will be put on display in the store to meet the customer's taste in that area [3].

Zara's promotion strategy is the same in domestic and foreign markets. Advertisement campaigns are carried out only at the start of sales or a new store opening. Zara relies on the store as its main promotional tool. The prices of Zara's garments differ between countries with the Spanish market being offered the lowest prices. Prices are set centrally following a market-oriented strategy. Prices in international markets are generally higher due to longer distribution channels. As in the domestic market, the store location is a critical factor in international markets. All Zara's shops are situated in prime locations. This decision is based on an analysis of the local market environment that identifies the niche opportunities for Zara's products in those markets, the price of competitors' products and the recommended price to achieve a maximum level of profitability. The shop window display and interior design are prototyped centrally and then replicated in all international shops by professional store decorators. Hence, Zara standardises the key strategic elements, namely the location, window display, interior design, store layout, store display rotation, customer service, information systems and logistics. The rest of the elements are customised to the market to suit local preferences.

Once the location for the store is identified, the next stage is the recruitment and selection of the company personnel. Initially Zara sent Spanish managers to replicate the management procedure used in Spain. Difficulties arose in countries like Mexico and France (which made Zara change to a practice of recruiting employees locally to get a better understanding of the local market preferences. Zara makes a great effort to transfer 16 know-how in order to share the same corporate values. The Head Office in Spain controls the subsidiaries to maintain Zara's concept across it s international markets [3].

Branding Considerations. International retailing is regarded as the transfer of a retail brand with its associated image across national borders so branding has an important role to play in the internationalisation of Zara. Zara has transformed itself from a local brand to a global brand in less than 30 years. Zara brand was ranked 73rd in the list of the world's 100 top brands 2006 by Interbrand and has overtaken fashion brands like Hermes, Prada and Armani. The firm declines to use any kind of identification with its origin. Hence, the COO effect is played down to convey a broader image. The fact that the prices of Zara's garments are higher in the international market affects its positioning in those countries and therefore, its brand image [3].

Zara's products are labelled following a dualistic brand-name strategy. The company uses the name of the firm and a unique brand name for the same product group. Examples of these sub-brands are `Zara Woman´, `Zara Basic´ and `Zara Trafaluc´. The company's 1999 annual report states that the aim of Zara is todemocratise fashion and to target a broad market, especially a young segment sensitive to fashion. In line with this objective, Zara filled a niche in the Spanish market that was neglected by the department stores by offering the latest fashion at medium quality and attractive prices. Zara's positioning strategy is based upon design, quality and price. In order to communicate its benefits, in some cases Zara has had to educate the market and influence consumer shopping habits.

Zara's main competitors. Zara's major international competitors in terms of market share are H&M and Gap Inc. This section will first present some background information of the two firms before offering some comparison with Zara [3].

H&M Established in 1947 in Sweden, H&M's business concept is to offer "fashion and quality at the best price " for men, women, teenagers and children. H&M outsources its production from 700 suppliers of clothes. The location of its stores, flexibility of its production and low prices can be identified as the key factors behind H&M's success. H&M hires celebrity designers like Karl Lagerfeld and Stella McCartney to democratise fashion and catch consumer's attention. The firm churns out 500 new designs every year that can be purchased from its 1,193 retail outlets located across 22 countries and also via mail order or through its website for the Nordic countries. The growth of H&M has been marked by the addition of cosmetics a nd accessories to the apparel line in 1975, the incorporation of new

countries to its market portfolio and the development of the catalogue and e-commerce, available in the Nordic countries. Compared to Inditex and Gap, H&M is much more internationalised with over 90 percent of its turnover coming from overseas in 2005, Germany being its largest market with 27 percent of the company total revenue. Its expansion has been at a moderate pace particularly during the early stages. H&M has been able to consolidate its position in each of the international markets. Having operated in its domestic market for 17 years, H&M followed the same expansion pattern as Zara and Gap Inc by selecting international markets based first on physical and cultural distance to the domestic market and then on economic indicators such as purchasing power, employment rate and purchasing behaviour. Local information about competitors, demand and accessibility is also considered. "A combination of market saturation and entrepreneurial ambition " led the company to embark on internationalisation, which had two distinctive phases in the early stages: The first focused on Scandinavia, and the second aimed at the UK, Switzerland, Germany and other Germanic countries. H&M launched its international expansion first into neighbouring countries, Norway in 1964 and Denmark in 1967. Both of them together with Sweden are markets belonging to the zone of cultural similarities labelled as `Nordic Europe´ by Usunier and Sissman. The second phase wasinitiated in 1976 with the opening of a store in the UK and later on in Switzerland in 1978 and Germany in 1980. These three markets share cultural affinities and are grouped in the `Anglo-German´ cluster by Kasper and Bloemer (1995). The mix of cultures in Switzerland (German, French and Italian cultures) made this market a reference point for its further expansion in those adjoining countries. During the end of the 1980s and the early 1990s other Germanic countries such as The Netherlands, Belgium, Austria and Luxembourg were entered. The experience gained over the early stages drove H&M to embark on a third phase of international expansion. This period has been marked by the quick expansion into distant and different markets like the USA, Canada, Southern (France, Spain, Portugal, Italy) and Eastern Europe (Poland, Czech Republic, Slovenia, Hungary) at the beginning of the 21st century, adding at least two more countries per year. H&M's expansion has been mainly through its own subsidiaries. It s plan of opening stores in Dubai and Kuwait in the near future has led H&M to sign a franchise agreement, which still keeps the management control within the Swedish company to ensure the H&M concept across countries. The store location is a key factor in H&M's business model regardless of the market, establishing new outlets only in the best shopping areas. The interior design is prototyped allowing some customised solutions. In 1997 the former Managing Director of H&M, Stefan Persson, stated in his Annual Report that "When we expand, it is important to listen carefully to the local market. We need to adapt but not at the expense of losing what makes us who we are". Hence, H&M's strategy resembles that of Zara: replication of the same concept with some local adaptations [3].

Gap Inc Created in San Francisco in 1969, Gap Inc is the world's largest specialist clothing retailer with 3,053 stores in 5 countries: United States, Canada, the United Kingdom, France and Japan. This holding company sells clothing, accessories and personal care products for men, women and children. Like Inditex, Gap Inc operates several clothing brands: Gap´, `Banana Republic´, `Old Navy´ and ´Forth &Towne´. Gap Inc outsources all its production

from 1,100 suppliers located in the United States and abroad. Gap Inc's market growth was based on four strategies: International expansion, diversification into accessories and personal care articles, creation of new brands and development of other channel of sales like electronic commerce, launched in 1997 to increase its market share and reach a broader consumer base in the US.Gap Inc's internationalisation process has been steady and focused on a few countries. After operating in the home market for almost twenty years, Gap Inc opened its first store in the UK and Canada in 1987 and 1989 respectively; they are both close markets given their cultural proximity. During the second phase of its internationalisation Gap Inc expanded into France, 1993 and Japan, 1995 despite their geographical and cultural distance. The experience acquired earlier and the attractiveness of these two markets were the main driving forces. After operating in the German market for ten years, the unsatisfactory results in sales led Gap Inc to withdraw from that market in August 2004 (Wells and Raabe, 2005). Gap's future expansion markets have been identified in Asia and the Middle East. International sales accounted for 15 percent of the firm's total turnover in 2005. Own subsidiaries have always been the mode of entry adopted to operate in the host markets. However, its willingness to establish itself in five markets in the Middle East (United Arab Emirates, Kuwait, Qatar, Bahrain and Oman) and in Singapore and Malaysia in the near future, has led Gap Inc to consider franchising as the strategy to expand into these smaller, culturally distant and high business risk countries [3].

Comparisons between Zara and its competitors. While Zara controls its entire production chain, Gap Inc and H&M outsource all their production. Zara's vertical integration enables the firm to have a faster turnaround than its competitors. Product and geographic diversification has been used by the three clothing brands as their main directions for growth. Gap Inc and H&M have also developed new channels of sale. The development of electronic commerce sets Gap Inc and H&M apart from Zara which does not offer its products online. Gap Inc has focused mainly on the home market, international sales accounting for merely 15 percent of its turnover in 2005. H&M's expansion strategy is characterised by developing and reinforcing its business system in each country entered. Zara has a wider international presence in comparison to both Gap and H&M, having become a global company in a shorter period of time . The international expansion of Gap and H&M has been largely organic. In contrast, Zara has used franchising and joint ventures as entry strategies. The expansion pattern of all three brands is marked by the physical and cultural proximity of the international markets. Advertising is a strong communication tool for both Gap Inc and H&M, while Zara hardly advertises. All three make some adjustments to their product offerings to satisfy the needs of local consumers. The location of the store is a key principle of the H&M and Zara business models.

Threats and Opportunities-ZARA. Some threats that affect ZARA include international expansion, geographic scope, and intense competition. Zara recognizes that the company needs to have a competitive advantage in order to survive, so they are constructing a second distribution center in Zaragoza. Also the company is still looking to expand internationally.

Expanding in Spain is difficult for the company because of past experience in Sweden. Zara is considering expansion in North America, but is concerned that it is already suffering from retail saturation, less fashion -forward sense, the demand for plus sizes, lots of competition, and not enough demand for the clothing.Some opportunities faced by Zara are expansion into other countries such as Europe focused primarily on Italy and scale up its distribution system. If Zara continues to expand it will then help to create a more recognizable brand name to consumers and in turn also help make a higher profit. In the construction of the second distribution center will help the growth of the company [4].

Current Marketing Strategy ZARA. Zara is considering setting up loyalty programs to create a link with its customers and increase the number of people that visit the stores. Also the company is heavily concentrated on improving its logistics system which is very important to the company in having success in the clothing industry (Euromonitor International, 2009). Zara markets towards the Euro-chic crowd who wants more fashionable clothes with a shorter lead time. Zara produces lower quantities of clothing, therefore the supply of their items are very scarce. Zara relies more on location of a retail establishment rather than advertising to attract customers. Only .3 percent of sales are spent on advertising for the company compared to that of its competitors who spend around 3.5 percent. Zara is more concerned with finding the exact retail site that best suits the company rather than spending the extra money on luring customers into the store.

Gap, H&M and Benetton are considered Inditex's three closest comparable international competitors. As in the product positioning map, Inditex's flagship brand, Zara, is relatively perceived as more fashionable than all the other three and prices less than Benetton and Gap but higher than H&M. In these four competitors, Benetton and Gap place at relatively less fashionable and higher price, while Zara and H&M is more fashionable and price lower. H&M is the closest competitor in many dimensions, such as ROE, Gross and Net Profit Margin, etc. Also, H&M's focused approach to international market is more similar to Inditex's expansion style than the other two closest competitors [4].

History of H&M. The history of H&M started with a man named Erling Persson, who was a Swedish former salesman that became fascinated with America's high - volume efficient outfits that 8 Barneys and Macy's carried. Persson first discovered the outfits when coming to the United States after World War II. Persson brought the retail concept –that high turnover produced lower prices –and brought it back with him to Sweden. It was then that Erling chose to open his own store which he called Hennes, standing for "hers" in Swedish. During this time the store only sold women's clothing.

The company Hennes was established in 1947 in Vasteras, Sweden and by 1968 Persson had purchased the men's sportswear inventory and property of a Stockholm hunting equipment store which was named Mauritz Widforss. Erling Persson then changed the name of his store Hennes to Hennes & Mauritz to express the expansion, and later downgraded to just the abbreviations H&M. When Persson began to exporting his business overseas he began with

Norway in 1964 and then joined Denmark in 1967. Persson bought the inventory, which was a left supply of men's clothing which lead him to expand into men's apparel. By 1970 Hennes & Mauritz developed a children's clothing line and by 1978 the store offered much of all family clothing. With Hennes & Mauritz offering a wide range of family clothing, it helped the company expand with the new generation of youth wanting to be able to express their individualities [4].

Besides its Scandinavian base, Hennes & Mauritz expanded into the British market by 1976 with mixed results, however while a long growth retained, by the later years of the 1990's H&M realized that their company had better results in their European market than their Scandinavian market.Back in Sweden, Persson developed a Rowells mail -order company which in turn was the pedestal for H&M Rowells, H&M's mail -order subsidiary. Persson then expanded the company into Switzerland's main cities which promptly be came a stronghold. When H&M opened a store in Germany by 1980 it caused a stir in their clothing retail market because of the traditional clothing had usually been dull or stodgy. In the 1980's H&M decided to open cut price stores called Galne Gunnar however abandoned the idea after ten years realizing that keeping the name to H&M alone made more of a profit for the company. H&M's is known for being of good quality and of good price. Persson's son had soon to become the lead of the company, expanding stores slowly across Sweden and by 1990 H&M became one of the largest Swedish retail stores and the fifth largest company in the country. During this period of expanding internationally to which Persson referred to it as "global fashion," he began to realize the surfacing of trends. Television shows such as MTV, celebrities in Hollywood, Madison Avenue Advertising, and the internet invented the national boarder fads among teenagers and other groups around the world. H&M's international expansion was intense and one of the first of its kind. By 1994 the company had overseen SKr 13.5 billon in their sales, which 70 percent of was from outside Sweden. Within the same year Germany took over the Swedish sales making it their number one single market and by the end of the decade Germany had doubled their Swedish numbers (International Directory of Company Histories, 1999).

In 1998 H&M concord France with opening up six different locations in Paris and surroundiAAng locations when analysts had doubts that the company would be successful with Frances' snobbish apparel shopper. H&M eventually moved into southern Europe at the end of 1999 after long waiting to tap into Spain and Italy's competition such as Zara and United Colors of Benetton. By 2000 H&M finally came to the United States after historically being a European brand and set its dominance (International Directory of Company Histories, 1999).

H&M Performance:Financials:According to the Datamonitor report from the Marketline industry report of Sweden's apparel retail industry profile (2009), which included charted information about the revenues and profitability of H&M, the revenues from H&M have increased each year. The revenue chart started in 2004 at about $10 million, and has risen to about $16 million in 2008. Their profit margin dropped significantly from about 14.7% in 2004 to about 12.9% in 2005. Each year after that, the profit margin increased again and is

basically stabilized again at about 14.7% in 2008. (pg. 20) According to the Reference USA company report (2009), "For the nine months ended 31 August 2009, H&M: Hennes & Mauritz AB's net sales increased 18%. Net income for the period increased less than 1%. Net sales reflects increased sales in several geographical segments, especially in Switzerland, Germany, China, Italy and the United States. Net income for the period was partially offset by increased administration charges and higher selling expenses." (pg. 1)"H&M operates its business through three geographical segments: Nordic region (17.3% of total revenue during fiscal year 2008), Eurozone excluding Finland (56.4%) and Rest of the world (26.3%)." (Marketline Company Profile, 2009, pg. 2) According to the Marketline company profile of H&M (2009), revenues (rounded off) by geography are as: Euro Zone excluding Finland, H&M' s largest geographical market, accounted for 56.4% of the total revenue in the fiscal year of 2008. Revenues from Euro Zone excluding Finland reached $7,673.5 million in 2008, an increase of 15% over the fiscal year of 2007. The Nordic region accounted for 17.3% of the total revenue. Revenues from Nordic region reached $2,353.5 million in 2008, an increase of 2.04% over the fiscal year of 2007. The Rest of the world regions 11accounted for 26.3% of the total revenue. Revenues for the Rest of the world reached $3,570.7 million in 2008, an increase of 16.8% over the fiscal year of 2007. "H&M: Hennes & Mauritz AB (H&M) is engaged in designing and retailing of fashion apparel and accessories. The company offers a range of apparel, cosmetics, footwear and accessories for men, women, children and teenagers. H&M ...operates in 34 countries... primarily operates in Europe, North America and Asia. The company is headquartered in Stockholm, Sweden and employed approximately 73,000 people, out of which 53,430 are full time employees as of November 2008." H&M had started their global expansions earlier than Zara, so they have had a longer time period of success in the performance area. An article in BusinessWeek (2002) states that in their first attempt at international expansion, H&M opened a store in London in 1976. When this article was written in 2002, H&M was leading the market versus its major competitors, Gap and Zara. According to the author, Capell (2002), by the end of 2002, the company had plans to increase their number of stores to 844, which would have been an increase of almost 75% from 1996-2002. Also by the end of 2002, H&M was planning to open 45 stores in the United States; and by 2003 to open 23 more stores. Their expansion goals also included entering a new country every second year. At times, breaking into the US market wasn't easy. Out of the stores opened in 2000, some stores were too big, and others were in poor locations with too many inexpensive competitors. But by the third quarter of 2002, they had already cut their losses from the US stores in half. (pg. 106-110).

As mentioned in BusinessWeek's Europe's Top Performers (2008) article, as of May 2008, H&M has 145 stores in the United States. Zara currently has only 31 stores in the United 12 States at the same time. "Some of H&M's early locations performed poorly and were later closed. H&M has been gaining traction, and people see them as successful," says consultant Dana Telsey. "H&M still needs to build name recognition outside major cities," she states in the article.

SWOT Analysis for H&M [4].

Strengths: H&M is a famous Swedish retail-clothing company, which is known for its fast-fashion and affordable price for men, women and kids. It's the third largest global clothing retailer in the world, which is just behind Inditex (Zara). Now, it has expanded all over Europe and Asia. It is popular among the young adult and teenagers [4].

Weaknesses: Due to the low cost of the clothes, the quality of the clothes is not as good as high fashion designer clothing.

Opportunity: H&M has expanded its retail stores to Asia and European, and some high fashion designers are interested in their market. Therefore, some designer brands such as Givenchy, Versace choose to cooperate with H&M and expand their market. Therefore, H&M can improve their rank and quality of clothing, and the designer brands also attract more different customers.

Threats: There are other fast-fashion clothing retailers that compete with McDonalds including Zara, Forever 21. These fast-fashion stores also have fashion clothing, and cheap price for both women and men with good quality of clothes [4].

Future: H&M should expand its store all over the world and improve the quality of clothes while it should keep the low and affordable price. Further, H&M should continue to cooperate with high-fashion designer brands and expand its customer market. Also, the designer should create some new and fashion clothing for men, women, teenagers and kids.

Some of the threats that H&M faces is declining consumer confidence and intense competition. H&M is facing major competition, but so are other companies that are trying to make it in this tough retail world. Some of the opportunities that H&M has are business expansion in new and existing markets, H&M home initiative, and establishing a footprint in Japan. All of these opportunities will allow the company to continue to grow and further establish a recognizable name that consumers will be able to place on key items when deciding where to shop ("H &M,").

Current Marketing Strategy. H&M Current strategies that H&M are marketing to its consumer are through a mobile marketing campaign to promote the latest collection. In doing this mobile marketing strategy consumers receive SMS coupons, mobile banner ads placed on major portals and media sites. H&M is using Mobiento to market this strategy and its sister company Adiento, which is an ad network. This campaign was geared toward consumers in Sweden. H&M launched their fist campaign in 2006 and is still continuing to use this channel to cover a wide range of consumers. The main goal for this marketing

technique is to promote the latest seasonal trends for that particular season and to drive membership of the H&M Club. Consumers can sign up for this by going to the website and entering in their mobile number (Butcher, 2009). To help gain customer traffic in the store H&M has also used celebrities such as Karl Lagerfeld, Roberto Cavalli, Rei Kawakubo, and Jimmy Choo to help increase sales. One of the major ad topics that H&M may market is the Fashion Against Aids campaign. The specific collection featured t-shirts, tank tops, and hooded sweaters designed by Designers Against AIDS (DAA) and by several music artists including Rihanna, Timbaland, and Ziggy Marley. Nearly 25% of the sales from this collection went to HIV/AIDS prevention projects. Also in 2005, H&M used Stella McCartney to help add style to the collections. With the introduction of these major stylists, H&M wanted to increase their market share especially in the English market. In 2006, H&M spent $17 million on advertising in the U.S. and in 2007 the company spent nearly $18 million as of the middle of November.

Our Marketing Plan

When deciding which company to construct a new marketing plan for, our group determined upon H&M because of its access of information. Zara is a private company for which is difficult to find information upon. Our firm realized that Zara would be in more need of a new marketing strategy rather than H&M, however, H&M could possibly beat Zara with their access to celebrities and more promotion.

Marketing Objectives

Our team has decided on three basic objectives to include in our marketing plan. The three main objectives are: to make the H&M brand name more well -known by ad vocating more advertising, to focus on the fact that H&M's average sale prices are often lower than their competitors, and to use the economic slowdown as an opportunity to expand by securing more low- cost locations and prepare for future growth.The first main objective of our marketing plan is to make the H&M brand name more well -known, especially outside of major cities. Nationally in the United States, many people are 14 unaware of H&M and what they offer. Zara may have a slightly faster lead time, but H&M uses a different strategy. Around one quarter of their stock is made up of fast-fashion items, but they also keep a large inventory of basic, everyday items sourced from cheap overseas, mainly Asian, factories. (Tiplady, 2008) [5] For this reason, we feel that H&M will be more appealing to the masses in the American teen and young adult segment. Some consumers might be afraid to go too fashion -forward, so those that have a more reserved style may also find something at H&M.

As far as making the brand name more well -known, we suggest the company utilize more advertising opportunities. To create more national brand awareness, we suggest they place advertisements in all of the well-known fashion magazines. We also suggest that H&M place advertisements during popular teen and young adult television shows in the United States. Another useful advertising outlet is online. We suggest placing ads on all of the popular

websites including: teen chat sites, Facebook, etc. Basically, in online websites the target market would be frequently visiting. The second objective of our marketing plan is to focus some advertising towards the fact that H&M's average sale prices are often lower than those of their rivals. (H&M relies on relentless focus on cutting costs, and the executives in the company buy as cheaply as possible and keep overheads low. The advertisements focusing on projecting H&M's cheap, yet quality, apparel image will help keep the brand image positive amongst their teenage consumers, who are in search of a better value for a cheaper price.The third objective of our marketing plan is to use the current economic slowdown as an opportunity to expand by more easily securing lower-cost locations throughout the United States. "As economic conditions worsen, H&M, which leases its store sites, is finding it easier to secure prime locations at better terms, especially in the US." This will become a 15great advantage for H&M; hopefully once the economy picks back up, they can use the opportunity to expand to cheaper locations for future growth in the brand. Once H&M has utilized advertising to get their brand name more well-known to the consumers, focus on informing the consumers about cheaper sale prices, and expand to lower -cost locations, the brand can prepare for future growth and even focus on developing their sub-brands and maintaining their acquisitions.

SWOT Analysis:

Strengths

- Providing quality fashion at best pricethrough strong procurement and designing strategy
- Wide geographical market presence
- Collaboration with designers

Weaknesses

- Product recall

Opportunities

- Business expansion in new and existing markets
- H&M Home initiative
- Establishing a footprint in Japan

Threats

- Declining consumer confidence
- Intense competition(n.d.). H &M.

Marketing Mix. When beginning to discuss about H&Ms' marketing mix, we first must acknowledge what H&M is known for, their product and cheap price s. H&M designers design fashionable and trendy apparel products that are of respectable quality. There product line includes t-shirts, fashion shirts, cardigans, jeans, pants, undergarments, dresses, jackets, shoes, purses, jewelry, and other fashionable trendy accessories. H&M is able to offer their consumers fine quality apparel at an economically friendly price. Hennes & Maurtiz is able to provide superb quality products for a low price due to their 16 reduction of a middle man who buys the material for the company and sells the material for a higher margin. H&M buys their apparel fabrics in bulk straight from the suppliers. According to the reference USA company report (2009), H&M mainly operates in North America, Europe, and Asia and the company's headquarters is located in Stockholm, Sweden. H&M stationed its stores in highly profitable cities around the world in order to achieve the most benefits of the company.

Hennes & Mauritzs' promotional strategy includes mobile marketing through SMS text messaging, celebrities, charities, and popular music artists (Butcher, 2009). For our group's marketing plan for H&M, we all noticed that their advertising is minimal. For this, our group decided that H&M should incorporate more of their company budget into more advertising; advertising in more teen and early twenties targeted magazines, Facebook, as well as teen crazed chat websites. With these advertisements, the company's main focus point should be the pricing to get consumers interested in the brand. Our group also decided that the company should broaden its location stores throughout the USA. For the products being sold throughout the United States, there should be a small selection in each store dedicated to a fashion collection. This way it keeps the consumers interested in new items as well as persuades them to become more interested in the brand itself by perhaps checking out the company website to see if they can get more fashionable items. As of now, there are almost twice as many stores in Europe as well as an online store while the USA only has select few stores over the west and east coast. H&M has proven itself to be quite successful so far in the United States however could be far more successful with an online store. Opening an online website to Americans would have a large impact on sales and brand image.

Competition Hennes &Maurtizs' current competition includes other affordable fashion apparel retailers such as Forever 21, Zara, Topshop, and The GAP (H&M Hennes & Mauritz AB, 2014) [6]. These companies have similar marketing strategies such as H&M and most have had success, however are still not as worldwide as H&M has been able to reach since the opening of the company. H&M may come across more competitors if and when opening new locations throughout the USA, however if the proper amount of advertising is done H&M should significantly further its advancement in the industry.

Business Model of Zara . As the largest and most internationalized brand of Inditex's chain, Zara is the principle driver of the group's growth and play the lead role of Inditex's sales and profit. Zara's unique business model brings special interest of business studies and is often sited as "Dell in the fashion industry". The core concept of Zara's business model is they sell "medium quality fashion clothing at affordable prices", and vertical integration and quick-response is key to Zara's business model. Through the entire process of Zara's business

system: designing, sourcing and manufacturing, distribution and retailing, they presented four fundamental success factors: short cycle time, small batches per product, extensive variety of product every season and heavy investment in information and communication technology. These four elements are involved in every aspect of the business. Zara's designers track consumer preferences on a year-round basis and place orders with both internal and external designers. Each year several hundred thousand SKU's are produced based on 11,000 distinct items varying in color, fabric and size. Zara is able to accomplish this huge variance due to ordering small batches and internal production of the most stylish, and therefore most time-sensitive items. More predictable styles are outsourced to manufacturers in Asia. The throughput time from beginning of the design phase to the arrival of the finished goods in the stores is 4 to 5 weeks for new items and 2 weeks for modifications to existing items. The sourcing and manufacturing process are also key to the business model. Zara has purchases offices in the fashionable cities of Barcelona and Hong Kong which allow for the purchases to also serve as trend-spotters. Zara uses an Inditex subsidiary, Comditel, for its purchasing of fabric. Approximately half the fabric is purchased in grey to allow for flexibility in manufacturing a variety of colors and patterns. This is a key component of the business cycle as the fabric is finished in just one week. The particular distinction of Zara's manufacturing is that they manufactured its most fashion-sensitive products internally and produce in small batches for the most time-sensitive ones. For distribution, all merchandise is shipped through either the central facility in Arteixo, Spain, or through satellite sites located in Argentina, Brazil and Mexico. Merchandise in the main facility has a capacity of only 45,000 folded garments per hour. This facility admittedly has its limitations unless more capacity can be created elsewhere. Also, the vertical integration of manufacturing and distribution greatly helped to reduce the Bullwhip effect. On the retailing end, the business model allows for Zara to have a much more fashion forward line because it can commit to its product line much later in the season. In fact, the design process does not seem to stop and the designers are constantly evaluating consumer preferences. Zara's in-store staff is also young, and very fashion-conscious who serve as key "trend-spotters". In addition, Zara provides very limited volumes of new items in the most fashionable of Zara's stores and then uses the results of those sales to decide whether the items should also be sold in other locations. The limited volume and short available time successfully created a sense of 'scarcity' in consumer's perception.

Alternative solutions

Zara faces a myriad of options on how the company wishes to grow. After careful analysis, a few key recommendations emerge. The first of these recommendations is to further expand into Europe. Given Zara's centralized distribution system which is already located in Europe (Spain), it seems that Zara will have the easiest time leveraging its existing system in regions within relatively close proximity to its main centers.

Specifically, Zara should look into aggressively increasing its presence in Italy. Zara has already attempted to enter the Italian market twice through joint-ventures. The latest of these events paid off with the successful opening of a massive store in Milan, the largest Zara store

in Europe. Zara can "piggyback" off this success and aggressively establish a presence in the lucrative Italian market. Aside from the Italian market, there are numerous other European markets that Zara can and should further expand into. Among these are Eastern Europe and Germany [2].

Another important strategic recommendation involves the Asian market. Zara should hold off on this expansion route. Although huge in scope, the Asian market has proven to be a market of intense competition. Not only does such competition squeeze margins but it requires careful strategy if success is to be achieved. If Zara is focusing on an aggressive expansion program in Europe, it cannot devote the resources and focus necessary to achieve great success in such a competitive market as Asia. Furthermore, although there is intense competition in the Asian clothing industry, established brands can still earn a price premium over the competition in this market. A larger presence in Europe will only raise Zara's cache and make it easier for the company to compete in the Asian market in future [2].

Other markets that Zara is considering expanding in are the South American and Middle Eastern markets. It is advisable that Zara not seek growth in these markets, at least initially. The South American markets are much smaller than some of Zara's other growth opportunities. They are also subject to profitability pressures that are thought likely to continue. The Middle Eastern markets, although more profitable than South America, is even smaller in scope than South America. With other much larger growth opportunities available to Zara, the company should not expend valuable focus and resources in these regions (at least not in the short term). However, the Middle Eastern markets do offer profitable opportunities. Thus, Zara should explore growth in these markets but not before attacking some of the bigger growth markets.

To support this growth, Zara must scale up its distribution system. The case mentions that Zara was beginning construction on a second distribution center which would add substantial capacity to the system. Although some argue that a centralized logistics model might suffer from diseconomies of scale and that what worked well for a 1000 stores will not work well for 2000 stores, the increased capacity that Zara will gain from expanding its distribution centers will be pivotal in supporting the growth of the company.

Zara should look into expansion into the US market. Zara is operationally strong and should be able to out-compete other companies on this dimension. Even though Benetton and H&M had trouble with this area in the US market, Zara's track record indicates that it should be able to compete. For example, GAP shows revenues 5 times larger than Zara's, but its COGS is 70% of net revenues vs. only 48% for Inditex. For GAP, operating expenses account for 92% of the gross margin and for Inditex, this number is only 58%.

GAP suffered declines due to its inability to reposition itself to a more fashion-driven assortment and is not profitable due to its high COGS and operating expenses. Zara's system may help it avoid both of these mishaps. It has room to grow in the US market if it can keep its costs low and continue to monitor trends via its sophisticated IT system, store managers, fashion-conscious staff, and designers (trade magazines, fashion shows, industry research, etc.).

Zara's competitive advantage is in its business system. However, when Zara moves into international markets, it loses some of these advantages. It loses some control over costs – shipping costs, tariff costs, etc. Zara can overcome this problem by re-configuring its system to a less centralized approach. It should keep some portions of its systems centralized (such as designing, purchasing, etc.) but should move manufacturing and distribution to the international market. For example, in the US market the company can establish a manufacturing facility in Mexico (or US) near its satellite distribution center in Mexico. It can also expand this distribution centers to service the US market. The products can be purchased centrally and then shipped from Comditel directly to North America for manufacturing and distribution, instead of having to go through Spain. This will result in a slight increase in manufacturing cost (due to increased labor and facilities costs in US), but these will be offset by reduced shipping and tariff costs. The rest of the system can stay centralized and provide support for the North American manufacturing and distribution.

By utilizing this method, Zara may be able to reduce its costs. The current prices are based on market conditions and therefore Zara can leave the prices intact and enjoy greater margins, which would help preserve its margins and allow it to invest in systems to sustain its competitive advantage [2].

The other issues in the US market are retailing overcapacity, less fashion-forwardness, need for larger sizes, and considerable internal variation. Zara's current system of IT and mangers feedback system to designers will help Zara avoid overcapacity. Manufacturing and distributing close to the source (in US) will help Zara address the latter three issues.

Conclusions

Zara is already in the process of implementing a second distribution facility in Zaragoza. This will help with its continued European expansion. Now that it has a flagship store in Milan, it should continue expanding in Italy. Zara should continue expanding like it traditionally has in the rest of Eastern Europe with its "oil stain" approach. It already has a presence in many of the countries like Germany and Poland. Therefore, its expansion will be more of the same. Its distribution system is already in place, so integration of the new stores into the network will be something Zara already has experience in.

For overseas expansion, it requires much more capital. Zara will need to invest in manufacturing and distribution facilities in North America as it moves into that market. As soon as it has the capital requirements, Zara should build a manufacturing facility in North America. In addition, Zara will have to invest in training the management to be able to operate these facilities in a similar fashion. The purchasing and designing can continue to stay centralized. However, the new facilities will need investments in IT and logistics to communicate with the current systems and utilize the existing knowledge in the system.

The risks involved by expansion into the US market are clear. There is intense competition, higher operating costs, and weakening demand in the US market. This clearly poses a risk to

the growth Zara may be able to obtain. This can result in capital losses and similar obstacles were faced by both Benetton and H&M.

Other risks that company faces are to its margins with international expansion. The company is unable to control the increased costs in exporting to foreign countries and currently passes these costs to the consumer. However, it may be difficult to continue doing this and margins are likely to get squeezed. The company needs to be able to grow while maintaining these margins. If it is unable to do so, it risks threats to its competitive advantages and cost efficiency.

Zara also faces risks to its image and therefore has to be very careful in regards to franchising and joint-ventures. With these models, Zara may have a limited role in operating the retail locations. However, if these are poorly managed and operated, there is a possibility of tarnishing the brand and the image that Zara has created. This can also effect the positioning and market segmentation strategy in a particular country – for example, in South America, the company has to position itself as a "made in Europe" brand.

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the assignment is to evaluate Zara competitive advantages. Get up and come out into the middle on the floor. Close your eyes and think of what did you eat in the breakfast (20 seconds). Open your eyes and find the person who thought of the same as you.

STIMULI:

Innovation performance speed

Knowledge and information

Customer relationships

Customer service

Organizational culture

Image

Brand management

Marketing

The price and exclusivity

Time-based competition

The ability to work quickly

The ability to develop new products

Quick response to customers' needs

Flexibility

Higher quality

Companies belonging to the network

Customer loyalty

Production capacity

Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Read ideas other groups. Choose the best idea from all the groups and discuss.

Assignment #2

The goal of assignment is to create advertising message for Zara products in internet. Get up and come out into the middle on the floor. Close your eyes and think of what did you eat on the dinner yesterday (20 seconds). Open your eyes and find the person who thought of the same as you. (Hand out Pictures Training Cards - one to each trainee- one to each trainee). Use the pictures analogies on the card one by one to as inspiration for ideas. Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Choose the best advertising message. Also read advertising message other groups. Choose the best idea from all the groups.

Assignment #3

The goal of the assignment is evaluate Zara competitors. Get up and come out into the middle on the floor. Close your eyes and think about color of your clothes (20 seconds). Open your eyes and find the person who thought of the same as you.

STIMULI:

Price

Promotion

Product

Place

Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Read ideas other groups. Choose the best idea from all the groups and discuss.

Assignment #4

The goal of the assignment is to create new Zara products for children. Open your eyes and find the person who thought of the same as you. (Hand out Person Training Cards - one to each trainee- one to each trainee). Use the person analogies on the card one by one to as inspiration for ideas. Please start now. Generate as many ideas as possible. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Read ideas other groups. Choose the best idea from all the groups and discuss.

Assignment #5

The goal of the first part of the assignment is to evaluate Zara SWOT analysis. Get up and come out into the middle on the floor. Close your eyes and think about sweet you eat yesterday (20 seconds). Open your eyes and find the person who thought of the same as you.

STIMULI:

Employement

Unemployement

GDP

Wages

Legislation

Policy

Culture

Habits

Environment

 Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Also let see and read at the ideas of other groups. After reading all ideas please write on the desk common SWOT analysis.

17.3 CASE STUDY 3. MCDONALD MARKETING IN INDIA

McDonald's is the leading global foodservice retailer with more than 32,000 local restaurants serving more than 58 million people in around 130 countries each day. 70 percent of our restaurants worldwide are owned and operated by independent, local businessmen and businesswomen [1].

Introduction

In India, the brand is managed by two business entities [1]...

- Connaught Plaza Restaurants Private Limited, led by Mr. Vikram Bakshi, JV Partner and Managing Director, North & East India

- Hardcastle Restaurants Private Limited, led by Ms. Smita Jatia, Managing Director, South & West India

McDonald's philosophy of QSCV (Quality, Service, Cleanliness and Value) is the guiding force behind its service to the customers in India. Following its philosophy of being sensitive to local food and cultural preferences, India was the first country in the McDonald's™ system where it served non-beef and non-pork products. More than 70 percent of the menu in India has been locally developed with complete segregation of vegetarian and non-vegetarian products right from the food processing plants to the point of serving the customers. McDonald's commitment to its Indian customers is evident even in development of special sauces that use local spices and chillies. The mayonnaise and all other sauces are egg-less. McDonald's™ also pioneered the establishment of Cold Chain across India which helps maintain freshness and nutrition in every product.McDonald's™ regular scrumptious menu includes wide range of products like McAloo Tikki™, Filet-O-Fish™, Spicy Range, Chicken McGrill™, McVeggie™, Veg Pizza McPuff™, Chicken Mcnuggets®, Fries, Wraps, an assortment of Sundaes, Soft Serve and refreshing beverages such as Ice Tea & Cold Coffee with outstanding service in a vibrant and lively ambience, for which McDonald's™ is known worldwide. McDonald's™ had further reinforced the branded affordability mantra via the introduction of the *Happy Price Menu* which starts at Rs 25 only. Keeping pace with the customer evolving needs McDonald's™ also functions on models that drive convenience and create unique differentiation like McDelivery, Drive thru, Breakfast Menu, high ways and extended hours. (Currently, available in select cities). At present, there are 300 McDonald's™ restaurants in India. The strong foundation that Ray Kroc built... continues today with McDonald's™ vision and commitment for its internal as well as external customers. Since then, it has evolved into a value driven brand, and recognizes that affordability of its products is an attractive proposition for its customers along with taste. McDonald's™ continues to strengthen it business model and progress with customers evolving needs [1].

Body of the analysis

McDonald's Role in the Indian Economic Growth. McDonald's Role in the Indian Economic Growth In 1990, six years before the opening of the first McDonald's restaurant in India, McDonald's and its international supplier partners worked together with local Indian companies to develop products that meet McDonald's igorous quality standards. These standards also strictly adhere to Indian Government regulations on food, health and hygiene. Part of this development has involved the transfer of state-of-theart food processing technology, which has enabled Indian businesses to grow by improving their ability to compete in today's international markets. Prior to McDonald's arrival in India, the concept of a Cold Chai for the distribution of food and dairy products from the farm to the end supplier in predetermined and stringently enforced climactic and hygienic conditions was at a very nascent stage of development. For five years prior to opening the first restaurant, McDonald's pioneered the effort to develop this aforementioned Cold Chain so that trademarked high standards would be assured. This concept has today been adopted by various Indian and International players to deliver quality produce to consumers. For instance, Cremica Industries worked with another McDonald's supplier from Europe to develop technology and expertise, which allowed Cremica to expand its business from baking to also providing breading and batters to McDonald's India and other companies. Another benefit is expertise in the areas of agriculture, which allowed McDonald's, and its suppliers to work with farmers in Ooty, Pune, Dehradun and other regions to cultivate high quality Iceberg lettuce. This includes sharing advanced agricultural technology and expertise like utilization of drip irrigation systems, which reduce overall water consumption, better seeds & agricultural management practices, which result in greater yields. In some cases, these Indian suppliers had the technology - but no market for the products they produced. For example, Dynamix Dairies - through its relationship with McDonald's - was introduced to a large customer of milk casein and other milk derivatives. McDonald's local supply networks through Radhakrishna Foodland, to get products from the various suppliers to restaurants across India. McDonald's North India alone contributes more than Rs.30 crore (USD 7 million+)/annum approximately as sales tax to different State Governments where we have our operations. [2]

McDonald's has continued to open new outlets in the country, evolving its marketing strategy through several phases.

Twelve years of McDonald's India. McDonald's India was set up as a 50:50 joint-venture between McDonald's at a global level and regional Indian partners such as Hardcastle Restaurants Private Limited in western India, and Connaught Plaza Restaurants Private Limited in northern India. The first Indian McDonald's outlet opened in Mumbai in 1996. Since then, outlets have begun rading in metropolitan and Tier II towns across the country. By September 2008, it had premises in Mumbai, Bangalore, Baroda, Pune, Indore, Nasik,Chennai, Hyderabad, Surat and Ahmedabad. Amit Jatia, Managing Director, McDonalds India, said: "The past decade has witnessed a marked change in Indian consumption patterns, especially interms of food. Households in middle, upper, and high-

income categories now have higher disposable income per member and a propensity to spend more." [3]

Phase I: Launching the brand. The starting point for McDonald's India was to change Indian consumers' perceptions, which associated it with being 'foreign', 'American', 'not knowing what to expect' and 'discomfort with the new or different'. McDonald's wanted to position itself as 'Indian' and a promoter of 'family values and culture', as well as being 'comfortable and easy'. Simultaneously, the brand wanted to communicate that, operationally, it was committed to maintaining a quality service, cleanliness and offering value for money. Says Arvind Singhal, Head of Marketing at McDonald's India: "From a marketing communications standpoint, we chose to focus on familiarizing the customer with the brand. The brand was built on establishing functional benefits as well as experiential marketing." Until 2000, McDonald's India did not have enough reach to use mass media such as television advertising. Instead, most of its marketing effort focused on outlet design, new store openings and PR about its attempts to tailor a menu to Indian tastes. Amit Jatia said: "Products like McAloo Tikki burger, Veg Pizza McPuff and Chicken McGrill burger were formulated and introduced using spices favored by Indians. The menu development team has been responsible for special sauces which use local spices do not contain beef and pork. Other products do not contain eggs and are 100% vegetarian. The Indianized products have been so well received that we even export McAloo Tikki™ burger and Veg. Pizza McPuff™ to the Middle East." However the company did not escape food criticism inthe country. For instance, it hurt the religious sentiments of Indians by using beef flavoring for its "Vegetarian" French Fries. [3]

Says Sridhar, National Creative Director, Leo Burnett: "When McDonald's launched we took a conscious call of not introducing any beef or pork in our products. Thus, when controversies around McDonald's products started during the early and growth stages of the Indian business, we reacted quickly. "We educated our customers about the build of our products and did extensive kitchen tours for our customers. We showed them how we use separatevegetarian and non-vegetarian platforms for cooking – a first in any market for McDonald's."

II Phase: brand advertising. By 2000, McDonald's India was ready to begin TV advertising. Arvind Singhal said: "The first Indian TV commercial, Stage Fright, attempted to establish an emotional connection between the (Indian) family and the brand. Over the years advertising has reinforced this positioning, supported by promotions." The Stage Fright campaign aimed to establish McDonald's as a familiar, comfortable place. It featured a child who suffers stage fright and is unable to recite a poem. On entering McDonald's, he easily recites it in the store's familiar environment. A second campaign featured a child and his family moving into a new place. He misses his previous surroundings – until McDonald's provides something familiar. A still from the Leo Burnett/McDonald's campaign featuring a family moving home. These storylines were supported by other initiatives. The company's one-minute service guarantee attempted to reinforce its reputation for fast, friendly and accurate service and it

also ran in-store events for mothers and children. Mr Singhal says: "To kids sitting on the RonaldMcDonald bench, pumping sauce from the sauce machine became brand rituals." K.V. Sridhar, National Creative Director, Leo Burnett, the company's agency in India, adds: "In the launch phase the communication focused solely on building brand and product relevance. The brand's scores on relevance to families and kids were very high." Later, McDonald's realized there was untapped potential in the youth audience who considered McDonald's expensive and mainly for children. Sridhar says: "In 2004, we launched the Happy Price Menu with a value message for a younger audience. For the first time McDonald's India saw a surge of younger consumers and people from socio-economic class B walk into our stores. "We had realized that the Indian consumer was price sensitive and even though the organization managed to establish a sense of familiarity, Indian consumers continued to perceive McDonald's as an expensive eating out option." McDonald's "Happy Price" campaign [3]

Phase III: Appealing to both ends of the age spectrum. In 2008, the latest campaign from the McDonalds-Leo Burnett stable uses father-son duos from the Indian film industry to reiterate the theme of "Yesteryear's Prices". It features Bollywood stars from past decades together with their sons and a message that prices have not risen in line with the passage of time. The Happy Price campaign has also been promoted via virals. Outdoor has also promoted a home delivery option in a country where home delivery is common in urban areas. McDonald's has also been exploring strategic tie-ups with Indian sports properties such as the IPL cricket tournament, where it was one of the event's food providers. Amit Jatia, however, says: "The eating out market in India is very large and has huge potential fuelled by rising disposable incomes. There are many Indian and international players who have entered in the market since the last decade and unbranded food chains have also grown significantly. "The Indian consumer has seen value in what we have to offer at our restaurants which is a testament to our model."

Challenges for McDonald's in India:

Vegetarianism: The major issue was beef. Cow being sacred and worshipped, beef could not be served. Muslims did not eat pork. The challenge was to change the form of the worldwide popular Hamburger to make an entry into India. With 25-30% of the population being lacto vegetarian and a large majority eating meat, an alternative to beef and pork was necessary. he population of a billion was undoubtedly a promising opportunity for an international company. McDonald's accepted the challenge and created the Aloo – Tikki Burger known as McAloo TikkiTM especially for the Indian vegetarian cusomers. Aloo- Tikki was a potato patty with spices. It also made a chicken and fish option available for the non vegetarians. McDonald's even separated the non vegetarian cooking process and the vegetarian cooking process to convince the customers of the "Shudh Shakahari Experience' which means pure vegetarian experience. In addition, the crew cooking vegetarian food were asked to wear green. McDonald's in India was one of its kinds as it did not offer beef at all. In order to

convince and change the perception of the customers about the burgers they offered, McDonald's made attempts to clarify their stand about beef in India. So the world famous hamburger was without meat. This was indeed a classic case of product adaptation, to gain foothold in a new market. [3]

The competition from the local food retailers was intense. The food retailers had been doing business for years. Their familiarity with the market and the understanding of the local taste gave them a competitive edge. There were numerous eating joints which offered snacks and meals with affordable price tags. Organized food retailing was dominated by the north Indian style and the south Indian style restaurant chains. The metropolitan cities and some developed urban areas offered superior dining experience through the existence of some fine, classic restaurants. But the price was expensive and only a select group of customers could afford to make visits there. On the other hand, the size of the unorganized food retailing was larger and comprised of roadside food vendors, dhabas (the eateries on the highways) and on the outskirts of the cities and a plethora of small eateries. Local food in a large assortment was widely available within acceptable price ranges. It was observed that food choices made by consumers were impulsive. Aroma, taste, habits and visibility worked on the subconscious level and played a major role in affective decision making. The local food business exactly understood the psychology of the customers and operated accordingly. The mass markets in India had their own set of preferences.

Target Marketing: Value propositions had to be directed to the right target market to establish a new product. An interesting question was who would eat at McDonald's? In order to develop the marketing strategy, it was important for any company to understand the consumer market. The more one knew and understood about consumers, the more effectively one could communicate and market to them. Four aspects of consumer behaviour which needed to be examined to understand a consumer market were the ability of the people to buy, consumer needs, buying motives and the buying process. The initial attempt of McDonald's was to induce trials and get the customers into the restaurants. Word of mouth and advertising was expected to reveal the experience of eating at McDonald's. McDonalds Value Meal addressed the price sensitivity of the Indian consumer market. However, irrespective of this effort, McDonalds was affordable to select customers only. These were the ambitious middle, upper middle and affluent classes who were keen to combine eating with fun. Children were the major influencers. McDonald's advertisement put forth an attractive proposition to the children segment that played a major role in the decision making as regards the choice of a restaurant. Happy Meal TM was used to reflect the fun element of the experience at McDonald's. Happy Meals TM were all about the simple pleasures of childhood, a time of excitement, joy, and being treated special. Each Happy Meal™ was themed and had on offer, a set of collectible toys from that particular theme. One theme typically was used for duration of 4-6 weeks. In this deal the customer got a choice of a burger, a drink and a toy. Happy Meals TM were a huge success. The rising income levels in India increased the disposable income. Fun and entertainment assumed importance in the financially stable families. McDonald's was perceived to be a fun place with special areas marked for kids, toy gifts and

of all the attraction of a burger. Subsequently, McDonald introduced newer menus appealing to the India taste. Children in India preferred a burger over pizza and McDonald, the king of burgers was announced as the number one in a survey titled India's most respected companies by Business Week in India for Food retailing in 2006. Youngsters valued McDonald's for the trendy environment and the joint acted as an interesting meeting place. In United States, two thirds of the business of McDonalds was done at the drive through window six. In India, because of unavailability of space and lack of proper infrastructure, the company could not do so. However, home delivery was an area of consideration. In March 2007, McDonalds announced that it would invest about Rs 3 crore (US $0.75 million) over the next three years to strengthen its home delivery services. It launched an all-India single home delivery number — 66-000-666 to facilitate this service. In March 2007, the company's Managing Director Mr.Vikram Bakshi said "Mc Delivery currently accounts for almost 5 per cent of the overall sales and with the introduction of the new system; the company is looking at a substantial share of 7.5 per cent in the turnover by next year".[4]

Pricing. Food pricing was a sensitive issue in India. An ideal strategy was to focus on customer's ability to pay and tap the rich and upper middleclass population in IndiaAlthough McDonald's strategy was to increase sales volumes by making products available at affordable price, its products were perceived to be expensive. The company outlets in Delhi and Mumbai initially were opened due to the increased affordability of people with western exposure and brand recognition factors in metros. Additionally, people in the metros were open to experiment with variety of foods. Absorption of newer cultures was faster in the Metros than other areas. The mass markets in India were price sensitive. The positive factors were the growth in consumer markets with rapid growth in disposable incomes, development of modern urban lifestyles and the demand for value [4].

Eating Habits. Eating out was a special occasion to many Indian families. Meals had been an essential medium for social sharing and relationship. Whenever families decided to eat out, the choices available were abundant. The trend in metropolitan cities was however changing. With more nuclear families and dual income households, the demand for fast and readymade food was growing. The needs of the growing working population stimulated the need for new products and services. Indian culture was relatively new to the use of technology and streamlined process in food service. McDonald's needed to find ways and methods to motivate the customers opt for initial trials and acceptance. The conventional eating pattern of Indians involved breakfast, lunch and dinner. Lunch and dinner menus were complete meals providing the right balance in terms of nutrition. Breakfast was conventional as per the family culture and upbringing. Burgers were likely to be slotted in the category of snacks. But globally burgers and beverage brands were linked with poor eating habits [4].

Issues. McDonald's had been accused of destruction of vast areas of the rainforest for the production of cattle to produce beef, promoting unhealthy food with a risk of cancer and heart

disease, taking advantage of children with its advertising and marketing, and cruelty to animals. There had been complaints as regards the nutrition, hygiene etc. [4].

Animals. Vegetarians and animal welfare campaigners were not too wholehearted about McDonald's - for obvious reasons. As the world's largest user of beef, they were responsible for the slaughter of countless cows every year. In Europe alone they used half a million chickens every week, all from windowless factory farms. This meant that these animals suffered great cruelty during their unnatural, painful and short lives, many being kept inside with no access to fresh air and sunshine, and no freedom of movement. A major consideration for the fast food industry was whether it was acceptable for the food industry to exploit animals at all. McDonald's argued that it stuck to the letter of the law and if there were any problems, it would be a matter concerned with the government. Although meat eating had a long history, it was only in recent decades that factory farming and intensive methods had been applied on a vast scale. This mass production process was primarily to benefit the food companies' drive for greater profits, backed by their promotional campaigns. McDonald's corporation was the world's largest promoter of meat based products, the largest user of beef and the second largest user of chicken. Environment Conservationists had often focused on McDonald's as an industry leader promoting business practices detrimental to the environment. But the company spent a fortune promoting itself as environmentally friendly. They annually produced over a million ton of packaging, used for just a few minutes before being discarded. The environmental effect of the production and disposal of all this needed to be taken into account. Multinational companies operating on such a scale contributed to global warming, ozone destruction, depletion of mineral resources and the destruction of natural habitats. The modern industrial system, with transnational corporations in particular, had callously taken advantage of the natural resources globally, damaging forests and other eco-systems, reducing biodiversity, adding to land, and sea and air pollution while adversely affecting the global climate. McDonald's contribution to these were mainly through the effects of cattle ranching (as the world's fore most promoter of a beef-based diet), through the growing and transportation of cash crops, and through the production and disposal of thousands of tons of packaging material [4].

Nutrition and Health. One of the most fundamental and enjoyable aspects of the day-to-day lives of people had been eating food of their choice and the circumstances in which it was eaten. For most people this generally meant eating the healthiest possible food (bearing in mind constraints of time and poverty), usually cooked on site and then eaten communally - either in a family or home setting, or with others while at work or in school. But there were rapid changes as the pace and nature of society had shifted. An industrial or service infrastructure increasingly dominated the local neighborhoods and people's lives, undermining existing patterns of human interaction, whether among families, friends, neighbors or in the community in general. Mass-produced, processed food gradually and increasingly replaced fresh and healthy foods in people's diets over the course of the twentieth century. In recent decades, McDonald's capitalized on this situation by promoting

quick meals to be eaten outside the home. This change in eating habits brought serious consequences to human relations and health. These consequences sparked a debate about healthy food. They also brought out a whole range of new campaigns and movements dedicated to encouraging healthy eating and healthy lifestyles. Macro environmental factors affected McDonald's, forced it to become defensive, and they had to resort to lip service to try and deflect public criticism. In the health debate, food industry was heavily criticized for creating products that are high in fat, sugar and salt. Health consciousness was rising amongst people with the obesity crisis hitting the world. The concern was serious as it was children who were the most affected. Nutrition and exercise issues which were important and needed to be reviewed earlier, now were considered, discussed, and debated only after witnessing the frightening consequences. Many critics blamed McDonalds like businesses for public health concerns, contending that fast food menus and portion sizes contribute to obesity, diabetes and heart disease and a variety of other diet related problems. But at the same time, it was worthwhile to note that the type of demand exhibited by the market initiated the processes within the companies. As long as the demand for fast food continued, nutritional issues would continue to be argued and deliberated upon. India also had its own set of so called nutritious and non-nutritious food. People in India appeared to prefer food for its taste. Bhel Puri, Samosas and Potato Wada which were some of the very popular Indian snacks were weak in terms of nutrition. However, a large level of population savored them for the spicy taste ignoring the hygiene and the value in terms of nutrition. Trans- fats and their use in food also had been a major controversial issue. It had been established scientifically that artificial trans-fats were bad for human health. In United States, New York City was the first city to announce a ban on all restaurants from using artificial Transfats with the deadline on July 1, 2007. When the legal system imposed bans and developed a regulatory framework, the food industry was compelled to respond. In January 2007, McDonald's picked new Trans fat free oil for cooking its famous French fries after years of testing. In view of the health risks and dangers, it was important that food service did not just confine to respond to the basic need of hunger. Food industry was required to innovate and work on introducing healthy eating options and making them available. This would create a situation where the final choice would then be made by the consumers. A healthy lifestyle only would help overcome the health problems gripping the society. Awareness about health needed to be built up and somewhere the responsibility definitely lay with companies which were into the food business. Health concern was a global call and responding to this was the need of the hour [4].

McDonald and India Franchising Industry growing at an astonishing 25-30% year-over-happening elsewhere in the world (Fransmart, 2012). Even at that trajectory rate, according to Fransmart, there is still a gap that continues to widen in India between the under-supplies of quality food franchise this growth, it represents various opportunities for many foreign nternational brands to open businesses in India. According to Franchising World Top 100 annual survey, which included over 1000 franchise brands currently in India, this growth rate will continue to rise at the same pace for the next coming years. The report also highlighted that franchising was one of the most ideal method of expanding business and brands within the Indian consumer market (Franchise Business, 2012). Moreover, the franchise industry in

India has been growing at an optimistic speed and most of the brands have been choosing for the franchise means to tap the massive Indian consumer market (Franchise Business.com). Dale Tasharski, Deputy Commercial Counselor at the U.S. Embassy in New Delhi, reports that citizens under the age of 35 represent a staggering 71% of the population in India. This emerging Indian middle class is well educated, modern and social. They are the new peak earners in the booming India economy, and they love US food franchise brands. This presents an unprecedented opportunity for growth-minded US food franchises and well-capitalized entrepreneurs, investors, and restaurant operators in India to work together to profit from the growing gap between food franchise supply and demand (Fransmart, 2012). In 1996, for the first time, McDonald's entered India market by opening its first outlet in New Delhi [5].

Mix. Vignali (2001) argued that the key to global success of has been the use of franchising in which the delivery and interpretation of US brand culture are automatically translated by the local people in terms of product and service. Once its key audiences have been identifiedthe marketing mix (namely product, price, promotion, and place) is created that appeals specifically to in general, products and services. However, in some countries like India the religious laws and local customs (Vignali, 2001; Goodstein, 2001; Goyal & Singh, 2007) [5].

Product. As McDonalds customers is that there is a huge amount of choice available to those potential customers with regard to how and where they spend their money. Therefore McDonald developing a menu which customers want. Market research is very crucial in this regard. However, order to meet those changing preferences to introduce new products and phase out old ones over time [5].

Promotion. Communication channels including advertising, sales promotions, point of sale display, merchandising, direct mail, telemarketing, exhibitions, seminars, loyalty schemes, door drops, and demonstrations Advertising is conducted on TV, radio, in cinema, online, using poster sites and in the press for example in newspapers and magazines. Key objectives of advertising are to make people aware of a product or service, feel positive about it and remember it [5].

Price. There are a number of possible pricing strategies. The bad thing of using low price as a marketing strategy is that the customer may consider that a low price is indicative of compromised quality. When we decide on the price, we must be fully aware of the brand and its integrity. Otherwise, we will be reducing the profit margin without increasing the sales [5].

Place. The place is where the customer receives the product and service.Place, as an element of the distribution points for products. It incorporates the management of a range of processes involved in bringing products to the end consumer.

Comparing Marketing Mix Strategy between China and India. Using franchising as its business branches worldwide have its different and similar features in running the operation. For instance, China and India are different in culture and norms, but they still have some similarities in the marketing mix implementation. Due to the franchisor control over the decision making of the business operations, some of the original concepts still put into practice in different geography area across China and India. For instance, the core products of rious flavor of burger), french-fries, soft drink and desserts. This menu is still in China and India. In terms of service, s self-service concept, where customers make order in front the counter, pay and carry the foods to dine-in or take away by themselves. In terms of place, the same decoration either interior or exterior is also implemented in China and India [5].

Advertising and Marketing Initiatives at McDonald's. Advertising was known to have an impact on the minds and the hearts of the consumers. But product and the value offered needed to be attractive and powerful to maintain consistency in sales and build customer loyalty. Advertising was the backbone of McDonald's marketing strategy in India. The positioning had been directed towards establishing McDonald's as a family restaurant. Special efforts were made to not allow it to get converted into a typical teenage hangout. Advertisements were created using storylines with focus on emotions. Through a variety of advertisements, the visit to McDonald was portrayed as a special occasion providing excitement and satisfaction to the customers who comprised of families with kids and the youngsters. Advertising helped in building brand recall, but advertising alone was not able to sustain the brand. Despite the fact that McDonald's was a fast food chain of restaurants, in India it was positioned as the family restaurant and outlets were called "McDonalds Family Restaurant". Extra care was taken to make the restaurants child friendly, by providing play areas wherever possible so that the parents could relax and have a good time while visiting McDonald's. The counters were low, tables were rounded so that children did not hurt themselves in the restaurant and the menus are pictorially depicted so that a child could order a meal without bothering parents. The entire restaurant was attractive and child friendly. When operations in India began, initially McDonald's positioned itself as a place to visit with the baseline "McDonald's mein hain kuch baat" ("There's definitely something about McDonald's") in their advertisements. People were encouraged to try the McDonald's experience. However, over the years, after McDonald's had been hugely accepted by Indian customers, there was a need to evolve the communication strategy and move on from trying to encourage and motivate people to visit for the first tim to making McDonald's a regular experience. After McDonald's established itself and people knew what McDonald's was all about, the baseline was changed to "Toh aaj McDonald's ho jaye" ("Let it be McDonald's for today"), which talked about an everyday experience. The objective was to continue positioning McDonald's as a comfort zone for families. The brand's media strategy focused more on the electronic media. The advertising continued to use emotional appeal to display

family ties and fun at McDonald's. Indians being emotional found it easier to correlate themselves with such types of emotional messages. Advertisements with audio –visual appeal created more impact on the viewers. So McDonald's narrated the fun filled environment at their fast food outlet using electronic media. McDonald's did have enough repeat customers. The customer base increased substantially since they started operations. The strength of McDonald's as a brand in India was that it was the most recognizable brand world over amongst all age groups. It was the'Indianization'of the brand that helped McDonald's establish in a new market successfully. The brand's success was attributed to its promise of a great fun filled experience delivered at its outlets. McDonald's executed promotional campaigns involvingchildren. McDonald's used kids as an entry strategy to the family. World over McDonalds was a family restaurant and children were an integral part of a family. During the last few decades, kids had become the target audience for most categories including consumer durables. In the 1990's, India saw a major shift to nuclear families. When joint-extended families existed, the head of the family made most decisions. In smaller-nuclear families, individual opinions had become more dominant, whether it was buying a refrigerator or a TV or whether it was about eating out. Children were an integral part of the decision making process for buying things and played an influential role. Word of mouth and peer pressure worked effectively for this age group. Children influenced the decisions of parents, and McDonald's realized that this group could no longer be ignored. McDonald's "Happy Meals" were often accompanied with Lego toys to attract children and the restaurant maintained several 'Play-Zones' to provide children with a fun experience. The restaurants hosted birthday parties, played latest pop-music hits and became a favorite place even for the new generation of jean-clad 'Americanized' teenagers of India. McDonalds even introduced unusual ice-cream flavors such as bubblegum, green apple and berry to entice the curious youngsters. Using collectable toys, television commercials, promotional schemes in schools and figures such as Ronald McDonald, McDonald's pursued its main target group – children. Many parents objected strongly to the influence this had over their own children. McDonald's adhered to all the advertising codes in each country. But some argued that it still amounted to exploitation of children, sponsoring so many school events and learning programs out of publicity, not philanthropy. In view of this criticism, McDonald with some other companies vowed to devote at least half of their radio, print, television and internet advertising to promoting more healthful products and healthy lifestyle. Mary Dillon, McDonald's Chief Marketing Officer said that McDonalds planned to put more emphasis on physical activity in ads and was reviewing how it could use licensed characters. Disney characters were used extensively by McDonald's at one time but the entertainment company decided to allow its characters to push products that met certain nutritional guidelines' [5].

The Business Model of McDonald's is a franchise-based model coupled with strong corporate branding. The focus is on the branding of McDonald's as a globally accepted service provider with strong customer perception. Happy Employees means Happy Customers -McDonald's realized very early in their business that in order to achieve happiness amongst customers; the possible route is through happy, motivated and committed employees. In accordance with this they played on the customer first strategy. Even in India, their efforts clearly indicated that they were keen to understand the Indian consumer. Hence

they adapted themselves to tickle the taste buds of their Indian customers to become a brand that enjoys a very high brand recall. Therefore they focused on internal as well as external marketing. The level of importance has changed to be in the following order (the most important people are now at the top). Corporate Branding - The marketers are shifting the branding efforts from their product brands to a more holistic corporate branding .The reason for the shift can be traced to the belief that, it is the corporate image that carries a great impact on the buyers who are more aware and more exposed to media coverage on various issues be it environmental responsibility, being corporate social responsibility or be it responsibility towards health of future generation. McDonald's describe a corporate branding framework that is based on three elements: McDonald's Efforts of repositioning its Brand- Recently, McDonald's management has decided to change its strategies. They now want to provide not only a place to sit and eat but also an experience that can be enjoyed by their customers. The recent McDonald's rebranding strategy is a part of this thought and vision. McDonald's road to success has not always been rosy. They have been at the receiving end of the media's onslaught. There was a huge uproar in US after media exposure against McDonald's unhealthy menu that was affecting the nation and leading it to a generation suffering from obesity and heart diseases among many more ailments. There were employment issues internally which showed that they did not treat their workers well. Hence they assessed their strategies again and came up with new objectives that strengthened their previous aims and gave a new direction to them as well [6].

McDonald's Marketing Efforts Over the Years- Proactive Rebranding – A Proactive strategy includes a new line of business or market that does not conform to the existing brand identity. When McDonald's once referred to itself as Mickey D's to target kids in a commercial, it had just coined a new way of catering to an audience separate from its traditional family audience. Objectives of McDonald's Repositioning Strategy McDonald's, the promise of American fast food anywhere in the world, has had to rethink and reposition its brand offerings in different countries. While some basic elements like Ronald were left in place the menu underwent an overhaul. For example, in India, the menu has no beef dishes since it is not considered religiously correct to eat cow's meat: there is the very popular McAlooTikki, a potato-based patty in burger buns; the Big Mac is replaced by the Maharaja Mac, the Big Mac in chicken; there is also the paneer (cottage cheese) McVeggie burger. The Italian McDonald's has a special coffee spot. To celebrate its 20th anniversary in China, McDonald's rebranded under the "Make Room for Happiness" campaign. They had all you want coffee refills; Wi-Fi and a more modern restaurant design were unveiled. This was done exclusively for China, where McDonald's positioned itself as a place to relax away from the high demands of the average Chinese's life. Its "I'm Lovin' It" slogan made way for "Make Room for Happiness," and McDonald's became the place where the stressed young Chinese can spend quality time rejuvenating after working for long hours. The result was an 18% increase in sales, and an increasing legion of fans that is fueling McDonald's' growth in China [6].

McDonald's Changing Market Changing Strategies. Decades after its launch, the Big Mac is changing colours, literally. The world's largest fast-food chain is letting go of its familiar red-and-yellow colours for more muted tones as it goes for its biggest and costliest revamp in the country, in line with its global strategy of attracting more adults. For the next generation of

consumers McDonald's plans to cultivate a very different image from its existing one. After revamping 280 stores in various markets last year, McDonald's is now opting for the Tampa model and will spread that design to upwards of 800 locations this year — roughly triple what it did last year. The company is donning a new look when India is on its way of becoming a global hotspot for food retailers, with chains like Starbucks, Burger King planning to enter the country. Some McRemodel highlights include [6]:

- Redoing roofs - The bright red roofs that have topped McDonald's for several decades are getting the heave, replaced with flatter, more conventional roofs.

- Muting paint - The neon yellows and reds common to the interiors and exteriors are becoming history, replaced with much more subtle oranges, reds, yellows and even reens.

- Updating chairs - Those industrial steel chairs are giving way to wooden chairs, colorful stools and, in some cases, vinylcovered chairs that resemble leather. Some stores will have larger lounge chairs similar to the kind you might expect to find in a coffee shop.

- Doubling drive-through - To ease lines inside and outside stores, many locations are adding second drive-through windows to speed up service.

- Splashing colour - McDonald's hasn't junked it's familiar red and yellow colors altogether, but it is making them far less obvious. Instead of filling the restaurants with them, it's splashing bright yellow and red here and there for effect.

- Dividing dining areas - The sea of tables and chairs is history in the remodelled stores. The new dining rooms are divided into separate eating zones for larger groups, eat-and-run customers and folks who want to stay and lounge.

- Adding flat-screens TVs - Large, flat-screen TVs — some playing contemporary music — are showing up in many locations, though fewer than half of the remodelled stores will display them. The new design makes the customer feel more comfortable and at leisure to enjoy their surroundings. This offers to McDonald's two key opportunities- firstly, to shift to another customer base with high spending power and then to broaden their menu with offerings at a higher price point.

- Risks Involved - When a global organization like McDonalds is going in for rebranding, a lot of financing is involved and the global impact is huge. Though the step taken by the managers of McDonalds is well calculated but speculations are on till the time it doesn't fair well in the market and most importantly to the customers. This kind of rebranding in the Indian Food Industry can help change the image of McDonald's completely like in the case of Pizza Hut, which has become a part of fine dining segment, which it was not earlier. The Indian consumer is considered to be loyal but still the risks involved are high.

1. A trade-off between what is expected from a company and what a company has to gain from the consumers -One can se that one facet raises the scale while the other weighs it down making it a tough task. In order to sustain the balance, it requires big investments which will surely add to the costs incurred in the rebranding. If the rebranding falls flat, it will result in a major profit decline.

2. Store positioning -McDonald's needs to have th most current information to determine if present outlets are cannibalizing each other's business. To achieve this McDonald's team will need comprehensive, demographic data of India along with both theirs and competitors' outlets.

Conclusion

The task is mammoth as McDonald's tries to keep up in the race for a piece of the great Indian pie. As per Forbes , McDonald's India operations contribute 30 % to their sales which is a considerable share. It might become imperative to create a Point of Difference to fight it out in the Indian market as all fast food brands have modelled themselves on local flavors now, the latest being KFC with its _Streetwise' menu. While McDonald's does have the edge with its excellent supply chain and distribution network the customer ultimately does become the king with low brand loyalty in this category being the generalisation. The rebranding effort on their part seeks to bring in a new flavor to their brand offering but what remains to be seen is whether they are still able to strike a chord with the customer.

Mcdonald's is considered to be the King of the fast food. To achieve this greatness Mcdonald's has tried hard for ages to prove itself in the competitive environment of Fast food. The key factors in success of Mcdonald's in my view is innovation, customisation, good management and above all best Marketing strategies adopted by Mcdonald's. Mcdonald's in India has a very bright future because of the customers bank, customised approach from Mcdonalds towards its customers and above all the strong brand Image.

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PRACTICAL ASSIGNMENTS

Assignment #1

The goal of the first part of the assignment is to evaluate McDonalds SWOT in India. Get up and come out into the middle on the floor. Close your eyes and think about color of your favorite clothes (20 seconds). Open your eyes and find the person who thought of the same as you.

STIMULI:

- Employement
- Unemployement
- GDP
- Wages
- Legislation
- Policy
- Culture
- Habits
- Environement

Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Also let see and read at the ideas of other groups. After reading all ideas please write on the desk common SWOT analysis.

Assignment #2

The goal of the first part of the assignment is to create McDonald's competitor advantage. Get up and come out into the middle on the floor. Close your eyes and think about what did you eat on the breakfast (20 seconds). Open your eyes and find the person who thought of the same as you.

STIMULI:

- Marketing
- Price
- Promotion
- Place
- Product
- Custom satisfaction
- Custom loyality

Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Read ideas other groups. Choose the best idea from all the groups and discuss.

Assignment #3

The goal of the first part of the assignment is to create SWOT analysis McDonald's in India. Get up and come out into the middle on the floor. Close your eyes and think about what kind of sweets do you like (20 seconds). Open your eyes and find the person who thought of the same as you. Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Also let see and read at the ideas of other groups. After reading all ideas please write on the desk common SWOT analysis.

Assignment #4

The goal of the first part of the assignment is to evaluate Indian eating habits. Get up and come out into the middle on the floor. Close your eyes and think about color of your bag (20 seconds). Open your eyes and find the person who thought of the same as you. Please start now. Generate as many ideas as possible. Write the ideas on the post –it notes. Stick post note on the wall. Also let see and read at the ideas of other groups.

Assignment #5

The goal of the assignment is to evaluate McDonald's marketing mix. Get up and come out into the middle on the floor. Close your eyes and think about what is your favorite ice cream (20 seconds). Open your eyes and find the person who thought of the same as you.

STIMULI:

Price

Promotion

Place

Product

Please start now. Generate as many ideas as possible. Write the ideas on the post notes. Stick post note on the wall. Also let see and read at the ideas of other groups.