About: This is a BUSINESS ENGLISH text aimed primarily at Chinese students. It makes use of everyday business articles from a variety of sources (such as BusinessWeek and Fortune magazine) to teach business vocabulary. Each chapter contains a number of discussion questions focused on the issues raised in that article. The main aim of the book is to have students practice their oral English using a specific vocabulary.

for my students

Contents

INTRODUCTION

Hello and thank you for using this text. It is hoped that you will gain a greater insight into the world of business English by being exposed to interesting and relevant articles taken from sources that are used by and are of interest to business people.

I have written this book specifically for the Chinese market. As such the book is written in consideration of a 20-week semester, with a total of 20 chapters. Students and instructors alike will be happy to find out though that I have not made you work flat out from day one but rather have allowed for an introductory class, a mid-semester breather, a review and, of course, exam week. As such there are only 16 articles in the book, making the material challenging yet doable. The material does get more complex as you progress though.

The structure of the book is that each chapter begins with an article followed by definitions of 10 general words (highlighted in bold in the text) and 10 business words (underlined in the text), as well as five general information words (italicised in the text). I chose those words that I thought would be most difficult for students to understand, as well as the ones that I thought would be most useful to learn. Sometimes there are more words, depending on the complexity of the article. The goal is to learn about 20 new words each chapter. Following the new words are 20 discussion questions. A model answer is also provided for one of the 20 questions to give students an idea of how to answer questions, from both an English perspective, as well as an argumentative one.

FOR STUDENTS

Having taught Chinese students the first thing I want to say to you is that YOUR ENGLISH IS NOT AS BAD AS YOU THINK IT IS!!! In fact it is a lot better than you imagine. Every time I meet a new student I want to hit them when I hear the words: “Sorry, my English is terrible.” Do you know how bored I feel hearing this for the 1,000th time? And it is also so annoying when the student’s English is actually pretty good. Why put yourself down? Feel confident that you can speak English, that you can communicate with others. Yes, your English is not perfect, but neither is mine! Every student I have ever had has been able to have a two-way conversation with me, where we both understand each other. This is communication and the only reason for learning another language. You don’t learn English to memorise boring grammar rules. You learn English to communicate with others. So, if you can communicate with another person then stop complaining. A lack of confidence is the biggest problem I have with students, not their English ability. So before you even start reading this book, look in mirror and say aloud: “My English is good, I am smart, I believe in myself!”

Of course learning business English is not easy; there are many new and complicated words to learn. But this difficulty is the same for native English speakers. In fact, very often people in different professions (medicine, computers, business) use language to exclude others. They like to create and use complicated words so that they can feel more important. Well here is your chance to learn these words and understand what they are talking about. Really, it is not that difficult. There are not that many words to learn in business English and often you find the some words being repeated again and again. As such, in this text I have picked up on the words you will most likely come across. I have also chosen articles for you that I think are relevant and interesting. I know that many Chinese textbooks make use of articles that are very boring, even for me. I would never read them. But these articles here are ones that business people are interested in reading so you should also develop an interest in them if you are looking to pursue a career in business. Don't worry that you do not understand every word. I often find that students try and make sense of every new word that they encounter. When I read a complicated business article, even though I have a Masters in business, there will be some words I don't understand. I don't care because even if I only understand 90% of the article I will still be able to know what is going on. So when you read, of course my hope is that you will learn some new vocabulary, but most importantly, if you understand generally what the article is about then you are doing well.

Finally, I want to say to you: come to class regularly, don't be afraid to SPEAK OUT in class, listen when your classmates speak, and try and offer your own thoughts when you provide an answer. In today's business world employers are looking for independent and lateral thinkers, not parrots that can just learn words and repeat them. They are also looking for people filled with confidence and ambition, so believe in yourself and go out and conquer the world!

FOR INSTRUCTORS

I wrote this book after coming to China and being asked to teach a business English class with a textbook that would put even the most hardcore economist to sleep within seconds. It was boring as hell, mainly because the articles chosen were ones that most business people would not bother reading. As such I decided to write this book, making sure that I chose articles that people DO read. I know students will still find them tricky but the point is that this is what people are reading, while the articles cover a lot of the basic words found in business. Sometimes words are repeated, but repetition is good, while seeing new words in different contexts also helps with the learning process. Of course, not all of the commonly-used business words will be found in this book, but the idea is to advance student's learning while getting them comfortable with reading business articles. There is also a glossary at the back of the book which has additional words that students might encounter.

In terms of presentation, my recommendation to instructors is that you spend the start of each class discussing and explaining some of the new words, and then allocate the bulk of your teaching time to a general class discussion centered on the questions which all relate to the article or its theme. What has worked well for me is to divide the class up into small groups of about three students. Allocate each group a question and them give them a few minutes to discuss the question amongst themselves (in English of course) and prepare an answer. Then ask each group to choose one student to present their answer. I suggest you give students marks each time they speak to ensure that everyone ends up participating.

For teachers new to China, I also suggest that you take regular attendance. I find this a bit petty, especially with graduate students, but if you don't you will end up having half-empty classrooms each week, seriously denting your morale and confidence, while making it difficult to fill class time with group discussion. Also, Chinese students are incredibly hesitant to speak out in class so you HAVE TO allocate a large portion of the final grade to speaking in class. This alone is not enough so you also have call on students and force them to speak out. This is the only way. A further difficulty is getting students to remain quiet while their classmates talk. One way to ensure this (again a bit petty I know) is to have students who talk during presentations stand up for about 10 minutes. They will soon get the idea. Chinese students are wonderful but like students everywhere they do tend to be lazy, while also driving you crazy with their reluctance to speak out or offer independent thought. Be patient and they will warm to you. Also, always remember that you came to China to experience a different culture. This is part of the difference so embrace it and just go with the flow. Good luck.

FINAL NOTE

Regards spelling, I was schooled in British English and as such have chosen to follow British spelling. It really doesn't matter which one you choose so long as you are consistent in your approach. Having said that I might have missed a few though as my computer doesn't like British spelt words while I have mainly chosen articles from American sources. So don't be confused if you see labour (British spelling) in one place and labor (American spelling) in another. They are the same thing. Americans just don't seem to like the letter "u" for some reason (labor, flavor, color). They also prefer the letter "z" over "s", so with American writers you will see liberalize instead of liberalise and socialize instead of socialise. Here you will generally see the opposite.

CHAPTER 1

Getting started

You learn English to communicate with others, whether it be in business or for friendship. Although in China it is difficult to appreciate the everyday usage of English, it must be remembered that in reality it is quite different to the classroom environment. People often speak in a casual and friendly way. It must also be remembered that even native English speakers make errors while speaking and sometimes have difficulty expressing their thoughts clearly.

As such it is very natural, even in business, to do some basic introductions and engage in small talk before actually getting down to business. It is polite and indicates that one is dealing with other people and not with machines.

In this class students should introduce themselves to their teacher and their fellow classmates. Don't be shy! Speak loudly and clearly and everyone will listen, while your teacher will surely understand you.

After giving your English name you might want to talk about:

- Your family
- Your hometown
- Your work experience (if any)
- Your life experience (e.g. did you travel anyplace interesting?)
- Your hobbies and interests
- The type of work you would like to do after graduating
- Your goals and dreams for the future

After this introduction every student should say aloud: "I think my English is pretty good, and I know it will be even better after this course." Students who say "Sorry, but my English is poor" should be penalized by their teacher (made to sing a song for example).

This activity should fill 2 x 40/45 minute classes as class sizes in China tend to be pretty large, but if there is time left over you might want to talk casually about some recent business news. What is the big story of the week? Maybe Shanghai is hosting a big business exhibition, or property prices are rising again, or the government has cut the interest rate, or McDonald's is opening more stores throughout China, or two big companies are joining (merging) together. Chinese students find this activity difficult but this is also a very natural part of everyday English conversation, just being able to talk freely (and give your opinion) about some news item. The aim in this lesson is just to break the ice and make everyone feel comfortable together.

CHAPTER 2

Don’t blame China for US job losses

Instead of ruffling Beijing, treasury secretary John Snow should have been urging Americans to exploit the new frontiers of innovation

From the Chinese side of the *Pacific*, Treasury Secretary *John Snow’s* trip to Beijing was puzzling. Snow came to town singing the Bush Administration line that China must revalue its currency, the yuan. Snow seemingly came away with nothing more than a pious repeat of China's oft-stated promises that it will eventually move toward more of a market-based system.

It was an entertaining stage show. But it was more about posturing in the run-up to next year's USA Presidential election than the value of China's currency. The USA has been **hemorrhaging** manufacturing jobs during the Bush Administration. More than one of every five has been lost on Bush's watch alone. In response Bush, Snow, and the rest of the *White House* team are talking tough, hoping to convince laid-off and insecure workers in the USA that they're doing something about the problem.

SHADOW PLAY. Bashing China's currency policies is no doubt good sport in America. And it may help Bush pick up some crucial votes. But the USA might take a lesson from Hong Kong, which didn't complain or whine about the extraordinary manufacturing productivity gains that its giant neighbor racked up over the past quarter-century. The entire manufacturing base in Hong Kong was **eviscerated**, when factory jobs moved across the border.

In fact, Hong Kong now has the most service-oriented economy in the world, with that sector now accounting for 85% of GDP. Yet Hong Kong-based companies employ a staggering 12 million people in the neighboring Pearl River Delta region. That's twice the population of Hong Kong itself. The lesson: You don't necessarily need manufacturing jobs to make a successful economy.

Snow's **kow-towing** visit was weirdly **reminiscent** of the sorts of trips USA officials used to make to Japan in the late '80s and early '90s, when they went asking for Japanese help with the American economy. All in all, the **shadow-boxing** over the yuan looks like good political theater but silly economics.

China's leaders came out of the visit looking surprisingly good. Hu Jintao and the new Chinese leadership were able to buttress their nationalist credentials by rebuffing the foreign **supplicant**. "It's good politics," Yiping Huang, a trade expert and Hong Kong-based economist for *Citigroup*. "No [Chinese] leaders want to be seen as giving in to foreign pressure. High-profile remarks and a visit by John Snow can actually be counterproductive in terms of inducing policy change."

UNSTOPPABLE. *Goldman Sachs* Hong Kong-based economist Fred Hu also notes that a modest yuan revaluation would have little effect on China's growing manufacturing prowess. Direct labor costs are less than 10% of the retail costs of most manufactured goods, and many of the key inputs are imported. Hu doesn't expect the Chinese to float the currency or to allow for capital account convertibility, which would affect the way deficits are calculated. But he does expect the Chinese to widen the band in which the yuan trades, effectively allowing for a 3% to 5% revaluation, perhaps as early as the end of 2003 but more likely sometime next year.

Still, absent a big shock (like a repeat of the pneumonia-like SARS virus) or a truly radical revaluation of the yuan, which isn't in the cards, it's hard to see what can slow China's manufacturing **juggernaut**. China (especially the Pearl River Delta region of Guangdong, next to Hong Kong) is an incredibly productive manufacturing center, and it's getting more so by the day.

And it hasn't escaped notice over here that it's not really the USA that is the big victim of China's success. Analysts point out that the East Asian trade surplus with the USA is little changed over the past decade – China's exports have been growing at the expense of Mexico, Eastern Europe, and its Asian neighbors, such as the Philippines, Indonesia, Taiwan, and South Korea. "The currency is not that significant an issue in terms of economics," says Citigroup's Huang, echoing a view widely held among economists. "China's exchange rate policy is not a major cause of structural problems in other countries."

FOCUS ON STRENGTHS. Snow's **diplomatic saber-rattling** didn't win him friends in Beijing. A column in the government-owned China Daily newspaper on the day of his visit (Sept. 3) lambasted his call to revalue the yuan. "China is now on trial," wrote Yan Xizao in an editorial in the Communist Party **mouthpiece**. "As reason gives in, an issue that is economic in nature is dressed up in a weighty political matter… The Chinese economy cannot afford not to grow. Once the Chinese economic locomotive loses steam, so does the world's… As those with insight have observed, the appreciation of the yuan may ultimately go against the intentions of its advocates by throttling the Chinese economy and damaging their own economies in return."

Rather than looking to blame China for the loss of its old-line manufacturing industries, the USA needs to start focusing more on its own extraordinary strengths in technology and innovation to create new jobs.

Mark Clifford (Hong Kong bureau chief)
Source: BusinessWeek online, 2003 September 06

NEW WORDS

General words

Hemorrhaging – to bleed copiously (i.e. to bleed a lot). Used here as a metaphor for losing a lot of jobs.
Eviscerated – disembowel or cut someone's guts out (i.e. to take away a vital or essential part, such as Hong Kong's factory jobs).
Kow-towing – to kneel and touch the forehead to the ground in expression of deep respect, worship, or submission (as was formerly done in China).
Reminiscent – tending to recall or suggest something in the past.
Shadow boxing – basically boxing where no-one gets hurt.
Supplicant – a person who asks for something humbly.
Juggernaut – an overwhelming, advancing force that crushes or seems to crush everything in its path.
Diplomatic – using tact and sensitivity in dealing with others.
Saber-rattling – a flamboyant display of military power. A saber is another name for a sword so you might want to shake all your swords to scare your enemy away.
Mouthpiece – a spokesperson, through which views are expressed.

<u>Business words</u>

Revalue its currency – the value, or worth, of $1 is now seen to be around RMB8. Therefore, to revalue the currency would be to change the number of yuan you could get for $1. You could revalue upwards (appreciate, e.g. 10:1) or downwards (depreciate, e.g. 6:1).
Market-based system – an economic system that is regulated by market forces (supply and demand) as opposed to the state (as was the case previously in China when it was a state-run economy).
Productivity gains – an increase in "the amount of output per unit of input" (i.e. when a worker is able to make two chairs in one hour rather than one chair in one hour).
Service-oriented economy – an economy that makes its money mainly by providing services to people (e.g. selling insurance) rather than from making things (like cars).
GDP – gross domestic product is "the total flow of services and goods produced by an economy, over a quarter or a year, measured by the aggregate value of services and goods at market prices" (i.e. the amount of "stuff" a country produces in 1 year expressed in RMB).
Economist – someone who knows about the production, distribution, and consumption of goods and services. The Economist is a popular business magazine read by economists.
Key inputs – key inputs are usually raw materials that are essential (i.e. they are "key") to a production process and which are used to make a final output (e.g. a key input of a car would be steel).

Widen the band – the yuan does not trade exactly at 8:1 but within a narrow band of say 7.8-8.2:1. So to widen the band would be to increase the numbers to say 7.5-8.5:1. This “widening” would allow the currency to trade more freely according to what the market feels is best.
Trade surplus – when two countries trade in goods and services there will almost always be one that sells more than the other. This country is said to have a trade surplus with the other. The one that sells less will have (or “run”) a trade deficit.
Old-line – outdated (or no longer modern) such as making microwaves and televisions, versus making semiconductors and mobile phones.

General Information

Pacific – the Pacific Ocean is the largest ocean in the world and the North Pacific washes up on the shorelines of China, Japan, Korea and the USA.
John Snow – the former head of railroad CSX Corp. Snow was hired by US president George W. Bush as treasury secretary. The head of the treasury is essentially that country’s chief financial officer, and like corporate CFOs is responsible for the nation's accounts.
White House – the home of the American president. An Asian example is the Blue House in South Korea.
Citigroup – Citigroup is a US company that was formed in 1998 by bringing together Citibank (commercial banking unit established in 1812) and Travelers (established in 1864). It has a global presence in over 100 countries.
Goldman Sachs – founded in New York City in 1869, Goldman Sachs is now a global investment banking, securities and investment management firm.

QUESTIONS

1. Should China revalue (or float) its currency?
2. Why does America want China to revalue its currency?
3. Is America a world bully?
4. What will it mean for American companies if China revalues its currency?
5. What will it mean for China if it revalues its currency?
6. Is John Snow serious or is it just a case of political posturing, as suggested by the article?
7. Is it China's fault that the US has been hemorrhaging manufacturing jobs?
8. What should the US do about the situation? What should China do?
9. What should other countries like Mexico, Eastern Europe, the Philippines and South Korea do?
10. Should the US follow Hong Kong's lead and focus on the service sector?
11. Why does the author say "the shadow-boxing over the yuan looks like good political theater but silly economics"? What is silly about it?
12. Do you think America makes things worse for itself by interfering in the affairs of other countries?
13. Yiping Huang from Citigroup says that Chinese leaders don't "want to be seen as giving in to foreign pressure". Is this a cultural issue related to Chinese not wanting to "lose face"?
14. Why does the author say "the new Chinese leadership were able to buttress their nationalist credentials by rebuffing the foreign supplicant"? What is he talking about? Couldn't he just use more simple English?
15. What does Fred Hu from Goldman Sachs mean when he talks about widening the band in which the yuan trades, effectively allowing for a 3-5% reevaluation?
16. What do you think could happen in the future to slow China's manufacturing juggernaut.
17. Do you agree with Huang that "China's exchange rate policy is not a major case of structural problems in other countries"?
18. Do you agree with the view of China Daily that the rest of the world will suffer if the Chinese economy suffers?
19. Do you think the reporting of China Daily is accurate and unbiased, or cannot be trusted because it is a government-owned newspaper?
20. Is the newspaper the Communist Party "mouthpiece", or is this just Business Week's own bias surfacing?

MODEL ANSWER

14. Do you think America makes things worse for itself by interfering in the affairs of other countries?

Yes, I believe that America makes things worse for itself by interfering in the affairs of other countries. Instead of focusing on its own problems (such as crime, unemployment, debt and racism), America always seems to be looking to rectify the rest of the world's problems. I am not religious but I think the biblical message that "one should remove the plank out of one's own eye before trying to remove the speck in another's" holds true.

If you look at the world today you will find American political and economic interests pursuing their own agendas in most every country. Iraq, Afghanistan, the Philippines, South Korea, the Sinai Peninsula, Bosnia and Cuba all play "host" to American troops fighting for a freedom and way of life that they have defined and determined is best everybody. Ironically, they will use force and military might to ensure their "justice and liberty for all".

Just as people don't like others telling them what to do, so do countries dislike other countries telling them what to do. Indeed, the golden rule of international law is the idea of sovereignty, which is basically the right of self-determination. America would never allow for someone else to tell it how to run its own country, but it routinely disrespects the sovereignty of other countries, as in the recent war in Iraq. This makes people in these countries angry and resentful. This anger they then direct towards America. The outward expression of this ranges from the fairly harmless (burning an American flag) to the horrific (such as the 911 plane attacks on New York City).

I think that if America focused its attentions on its own problems instead of always poking its nose where it doesn't belong, it will not generate so much anti-American feeling throughout the world.

CHAPTER 3

South Korea: how to keep the miracle going

The danger is that, to promote growth, the government may move away from the market and toward Euro-style policies that stifle it

Picture: Seoul City.

South Korea has been one of the **champions** of economic growth, with annual growth of almost 6% in gross domestic product (GDP) per person. As a consequence, the level of per capita GDP in the past 40 years has advanced tenfold. By comparison, it took the USA 130 years, from 1870 to 2000, to raise its per capita GDP by a factor of 10. Aside from a few other East Asian economies, such as Taiwan and Singapore, South Korea's accomplishments in the past four decades are unmatched in history.

The rise in South Korea's GDP was accompanied by improvements in social indicators: life expectancy rose from 54 to 73 years, and the rate of infant mortality fell from 8% to 0.8%. Moreover, income is fairly evenly distributed. The distribution in recent years has been more equitable than in the USA or Japan, and similar to the pattern in Britain and Sweden. Distribution in South Korea also changed little from the 1960s to the 1990s. Therefore, the multiplication of per capita GDP by 10 has meant that the typical person's income also rose about tenfold. Hence, the share of persons living in poverty **plummeted**. Given all this, I am puzzled that recent policy discussions in South Korea have been so preoccupied with income inequality.

One important point is that the great improvements in human welfare took place while South Korea was practicing capitalism without apology. It was not "compassionate capitalism" or "social market economy" or "the third way" or "growth with equality" or other **euphemisms** sometimes proposed by *left-wing governments*.

Now, the new *Roh Administration* is debating which policies to implement to promote further growth, perhaps to catch up with the per capita GDP levels of Japan and eventually the USA It would be wise to start with the policies that worked so well over the past 40 years. These included substantial investments in human capital, reasonable maintenance of the rule of law, a basic orientation to the market (despite occasional lapses into industrial policy that subsidized favored sectors), high and increasing openness to international trade, high saving rates, and a relatively small government.

The other important ingredient for growth was that South Korea was so poor in the 1950s. Empirical research shows that poor countries that have reasonably solid policies, such as South Korea around 1960, tend to grow rapidly and so **converge** with the world's rich countries. However, now that South Korea has become upper-middle income – almost half the per capita GDP of the USA on a purchasing-power adjusted basis – the opportunities for growth are less abundant. To come close to matching its previous performance, South Korea's policies and institutions will have to get even better.

One good option is to raise the quality of education, especially by introducing opportunities for private schooling at the secondary and primary levels. That would promote efficiency and get around the **rigidity** of the public system. Also, financial markets and corporate governance could be improved, as we learned especially from the financial crisis of 1997-98. However, regulatory policies should focus on promoting transparency, rather than allowing the **crusade** against the *chaebol* to **stifle** business productivity and investment. In addition, the financial sector should be strengthened by removing barriers to foreign investment in banking and insurance.

The danger is that South Korea will move away from the market and toward *European-style policies* that **retard** growth. For example, the previous Administration dramatically expanded welfare programs, which diminish the incentive to work. Similarly, the current government has been pro-labor unions, even though international evidence indicates that union power tends to reduce the flexibility of labor markets and hamper productivity.

Looking ahead, the major economic issue will probably involve the integration of the North into a unified Korea. Such integration has proved difficult for Germany, although West Germany's income level was only three times that of East Germany's. South Korea's income is at least 10 times that of North Korea's. The German unification emphasized **subsidies** for individuals and industries in the East. These policies, promoted by West German labor unions, were designed partly to discourage migration of cheap labor from the East to the West. The result has been persistently high unemployment in eastern Germany, high taxes in western Germany, and weak overall economic growth.

It is unclear how South Korea will face its more daunting *unification challenge*, but the recent emphasis on social programs, union power, and income inequality does not make me optimistic. The main hope of South Korea seems to be that the North will maintain a separate political regime, **albeit** one that is more peaceful and rational. It may be that a more relevant issue will be the design of workable economic policies for a unified Korea, once unstoppable political forces make that reunification a fact.

Robert J. Barro (professor of economics at Harvard University)
Source: BusinessWeek online, 2003 June 09

NEW WORDS

General words

Champions – one that is clearly superior, or has the attributes of a winner. Also, an ardent defender or supporter of a cause.
Plummeted – to decline suddenly and steeply; to fall straight down.
Euphemisms – the act of replacing a mild, indirect or vague term for one considered harsh, blunt or offensive (e.g. you could say that someone is "vertically challenged" instead of just saying that they are "short").
Converge – tending towards a common conclusion or result. If two lines move towards each other and then meet, you would say that they converge.
Rigidity – the state of being rigid, where rigid means stiff, hard and unbending. The opposite of flexible.
Crusade – a strong and focused effort undertaken to support a cause or fight against an abuse.
Stifle – to keep in or hold back.
Retard – to cause to move or proceed slowly; delay or impede.
Subsidies – financial assistance given by one person or government to another.
Albeit – just another word for "although".

<u>Business words</u>

Per capita GDP – last Chapter we learnt that GDP refers to the amount of "stuff" a country produces in 1 year, expressed in renminbi (e.g. RMB10 billion). Per capita just means "per person", so to get per capita GDP you would just divide the total amount by population size to get your figure (e.g. RMB10 billion divided by 1 billion Chinese equals RMB10 per person).
Social indicators – this refers to indicators (things that show you something) showing you how well a country is doing socially and not just economically. Examples of social indicators are: life expectancy (how long people will live for), infant mortality (how many babies die at birth) and literacy rates (how many people can read and write).
Capitalism without apology – pursuing capitalism where the market is free to do its own thing and then not saying you are sorry later when some people are rich but others are poor.
Human capital – just as in the same way that countries have fixed capital (investment in buildings and machinery), they also possess human capital (which refers to the knowledge and skills of its people).
Industrial policy – this refers to a government policy that seeks to have more control over a country's industry (i.e. its business world).
Small government – this just means that the government plays a small role in the economy. It doesn't interfere in what business is doing but focuses instead on traditional government functions like providing education and health care.
Purchasing-power adjusted basis – this refers to a complicated (but interesting) term called Purchasing Power Parity (or PPP), which you can read

more about in Appendix A (if you are interested). Basically what they are saying here is that there are different prices and different currencies and different exchange rates between countries and only after you make changes (adjustments) to take all this into account can you then say that the per capita GDP of Korea is almost half that of the USA. Purchasing power just means how much money you have to buy stuff.
Promote efficiency – efficiency refers to getting the most outputs from the least amount of inputs, so by promoting efficiency you try to increase your output while maintaining or reducing your inputs.
Promoting transparency – something is transparent when you can see through it, so when countries or companies promote transparency they make their actions more visible to others (customers, staff, citizens).
Flexibility of labor markets – labor markets are flexible when there are not many laws regulating hiring and firing practices, amount of vacation leave, and so on (e.g. USA). Inflexible labor markets have lots of labor laws and strong unions (e.g. France) and are not liked by businessmen and investors.

General Information

Left-wing governments – left wing governments are opposed in their belief to right-wing governments, which are more conservative and think the market should be free to do its own thing. Left-wing governments worry that a totally free market will create too big a gap between the rich and the poor and as such will impose high taxes in order to provide social services (health care, education, etc.) for all. "Compassionate capitalism" then would follow the European model where markets are more-or-less free but the government will ensure that the poor and needy are taken care of (by taxing the rich a lot).
Roh Administration – the Roh Administration refers to the government of current South Korean president Roh Moo Hyun who was elected by popular vote in December 2002.
Chaebol – chaebol refers to a big, usually family-owned company in Korea that controls many smaller companies (e.g. LG or Samsung).
European-style policies – such government policies are inline with those favored by left-wing governments and would include such things as: trade union-based bargaining and worker protection laws; heavier regulation of business; and a larger welfare state.
Unification challenge – this refers to the challenge North and South Korea find themselves in as they aim to unite again into one country, which they originally where before they were separated in 1948 (only shortly after they were liberated from Japanese colonial rule).

QUESTIONS

1. How did Korea manage to grow so quickly?
2. Some people think the reason South Korea (and other countries like Taiwan and Singapore) was able to grow so quickly is partly explained by Asian culture. Do you agree or disagree?
3. Is growth by itself important, or should it be matched with a rise in "quality of life" (as measured by social indicators) as well?
4. Should economic growth be equitable (equal), or doesn't it matter?
5. Do you agree with the author that Korea should continue doing what is has for the last 40 years?
6. Should Korea raise the quality of its education? Isn't the pressure to excel academically already too high in Asia?
7. Actually most Korean students spend all their free time going to private schools after regular school is finished. So why does the author make the suggestion that he does?
8. Should Korea rely on its chaebols, or on small business for future growth?
9. Why do you think there is currently a crusade out against the chaebol?
10. Are European-style economic policies so bad, or is the author just biased because he is from America?
11. You are a foreign investor reading this article. What do you think?
12. You are a Korean worker reading this article. What do you think?
13. Do you think North and South Korea will ever unite? If they do, how should they best do it?
14. What problems do you foresee if the two Koreas are to unite again?
15. The author talks about social programs, union power and income inequality like they are bad things. What do you think?
16. What is the best way for a country to grow?
17. What do you think of England's dole system where people who cannot find work (and sometimes just lazy people) receive money from the state?
18. Would you rather live in a country like America where you either win or lose, or in a country like Sweden where you know the state will look after you if something goes wrong?
19. Talk about what you learnt here in relation to China. Are parts of China growing too quickly and leaving others behind?
20. Make a counter-argument to the one presented by the author.

MODEL ANSWER

4. Should economic growth be equitable (equal), or doesn't it matter?

No, economic growth does not have to be equitable. Look at America. It has the strongest economy in the world regardless of the fact that is has many unemployed and homeless people. Of course it is not desirable to have these people but all countries have these social problems to some extent. So isn't it better to have a system where most people have a good quality of life versus another where everyone just has an average quality of life?

Besides, if you offer a social safety net that is there to save people all the time, then they will become lazy and unmotivated to work, as is the case in most European countries that have a welfare system. Compare these countries to America. The USA does little to protect its workers, or offer any benefits to people but different nationalities from all over the world wish they could get a job there. This is not only because the economy is strong, but also because they know that if they work hard they can achieve great success for themselves. In other countries people worry that if they work hard and become wealthy the state will just take their money away in the form of taxes, and then give it to all the people who are too lazy to work hard.

So we can see that in theory it may seem desirable to have equitable growth, but in practice human nature is such that is it is better just to allow a country to grow freely (without government interference) so that everyone can at least be given the opportunity to excel. If some fall along the way, that is just too bad. They only have themselves to blame!

C H A P T E R 4

Starbucks here tops Starbucks there

Team from Japan advised to do more image marketing

Starbucks Coffee Korea Co. recently greeted unexpected guests from its Japanese sibling, Starbucks Coffee Japan, Ltd. “They are here to learn the secrets behind our success,” a Starbucks Korea official said.

The Japanese visitors may have come to the right place. Starbucks’ Korean and Japanese operations are performing in stark contrast: Starbucks Korea has nearly doubled in business volume every year since its foundation in July 1999; Starbucks Japan recorded a loss of 4.6 billion *won* ($3.9 million) just in the fourth quarter last year.

Industry analysts attribute the **discrepancy** to differences in marketing. Whereas the Korean operation has focused on attaching luxurious images to the beverages it sells, Japanese branches concentrated too much on fast growth, experts said.

Starbucks Korea now is the largest industry player with a 40 percent market share in Korea.

An official from Starbucks Coffee Korea says that the firm is **flooded** with requests from companies in different industries to join forces in marketing. Those partnership seekers, which include industry leaders such as Samsung Electronics, SK Telecom, LG Telecom and Korea Exchange Bank, hope to capitalize on the Starbucks' success in approaching customers, industry analysts said.

Starbucks Korea is <u>co-owned</u> by Starbucks Corp. of the United States and *Shinsegae*, each of which holds half of the firm. Despite potential **adverse** factors this year, such as the US war in Iraq, SARS, and the uncertainties of the North Korean nuclear threat, the growth of Starbucks Korea was not **stunted**. Last year, the company **generated** 44 billion won in <u>revenues</u>, four times larger than that of the second player in the industry.

Industry analysts credit the firm's traditional *"culture marketing"*, which boils down to heightening recognition by satisfying the customers' urge to experience "culture", rather than by pouring money into advertising through televisions or newspapers.

For example, Starbucks Korea joined hands earlier this month with PMC Production, which organizes the *"Nanta"* shows featuring **percussion** instruments drawn from everyday life, such as a knife and chopping board or drum cans. Starbucks gives each customer two tickets for the performance. The company also shared promotions of the movie "I Am Sam" last year. The film was a box office hit in Korea for months, in contrast to **slack** sales in most other overseas markets.

Starbucks Coffee Japan, which was established in 1995, has been walking a different path.

"During the initial stage, Starbucks Japan added on average one outlet per week, seeking short-term rewards," an industry analyst said. "The dull growth of the Japanese firm is the result of neglecting market research, **dispensing** with marketing strategies that could capture the hearts of customers, while just focusing on <u>arithmetical growth</u>."

Another weakness was that Starbucks Japan failed to **localize** its product. The <u>capital</u> for Starbucks Japan was supplied entirely from Starbucks headquarters in the United Sates, and the firm has not launched marketing campaigns that cater to Japanese **sentiment**, analysts said.

The representatives from Starbucks Japan are showing interest in the culture-oriented marketing of its Korean <u>affiliate</u>, an official from the Korean branch said. "The best brand in the world does not guarantee success everywhere," the Starbucks Korea official said. "It must be accompanied by suitable marketing and localization."

Choi Ik-jae (writer)
Source: JoongAng Daily online, 2003 July 09

NEW WORDS

General words

Discrepancy – just means "difference" but the writer also uses the word "differences" in the same sentence so using this word sounds better.
Flooded – a flood is when it rains too much and you get water everywhere, so this just means they got too many requests to handle.
Adverse – against one's interests; moving in the opposite direction.
Stunted – means to stop growing. You can say that a dwarf's (dwarf = very short person) growth has been stunted.
Generated – simply means "produced", but often used (like it is here) to refer to money that was made.
Percussion – when you hit two things together and they make a noise. So a drum would be an example of a percussion instrument.
Slack – it means "moving slowly", but it can also mean "not tight" (such as "the rope was slack", i.e. not pulled tight). Sometimes people can say that you are "slacking off" at work, meaning that you are being lazy.
Dispensing – has two meanings: as used here it means to do away with, or get rid of; but it can also mean to hand out. A good example of this is the pharmacy, which hands out drugs. That is why it is also sometimes called a dispensary.
Localize – to confine or restrict to one particular area. So here it means that Starbucks Japan did not tailor its offering to suit the local market.
Sentiment – emotion, or feeling.

<u>Business words</u>

Sibling – a sibling just means your brother or sister, so here it means that the two companies are "related" to each other. If the one company owned the other then it would be called the "parent" company.
Operations – just means business, or the way in which the business is being done. You could say: "Starbucks' Korean and Japanese businesses are performing in stark contrast."
Business volume – volume means size, so here it just means that the size of Starbucks Korea's business has doubled every year since it was started.
Fourth quarter – when businesses or governments talk about time they talk in quarters, where they divide the 12 months of the year into 4 parts of 3 months each. So the fourth quarter simply refers to that period of time including October, November and December.
Market share – this simply means the size (share) of the market that a company owns. So in this case it means that for every 100 coffees bought in Korea, 40 of them (40%) are bought at one of its outlets (or shops).
Co-owned – just means that these two companies own Starbucks Korea together, probably 50:50. In China this is very common and it is often referred to as a joint venture, or JV for short.

Revenues – revenues just means the amount of money that the company got from selling coffee. It means the same as “sales” but must not be confused with profits. A company can have high revenues but still lose money because its costs are even higher.
Arithmetical growth – arithmetic is just a fancy word for math so here it means that Starbucks Japan’s initial growth come by just focusing on the numbers (e.g. “Let’s open 10 more stores this month”). The problem, like the article points out, is that the company did not match growth with customer appeal so suffered over the long-term.
Capital – just means the money needed to start a new business. If you want to start your own business one day someone might say: “Where will you get the capital to get going?”
Affiliate – closely connected or associated. The journalist could have used the word “sibling” again, but it is better when a writer uses varied vocabulary.

General Information

Won – won refers to Korean money but it can be confusing shopping in Korea because the amounts used are very high. For example the cheapest thing you can buy (maybe an ice-cream) is W500. Coffee is very expensive, about W5,000. Even a nice Korean meal is cheaper than that, about W4,000. W1,000 is nearly = to $1 = 7 or 8 renminbi.
Industry analysts – these are highly paid and very smart people who work for investment houses and “analyse” (look closely at) companies listed on the stock exchange and decide whether people should buy shares in these companies or not. Usually they specialize in one particular industry, e.g. banking, media or, as in this case, probably retailing.
Shinsegae – Shinsegae is an up-market department store that you can find in Korea selling everything from food to clothing. It also owns the big supermarket, E-mart, which you can now find in Shanghai.
Culture marketing – this type of marketing refers to when companies link their marketing efforts to cultural activities such as music, movies, song and dance. In Korea, if you go watch a play, you will often see adverts beforehand, just like at the movies.
Nanta – this is a very entertaining, non-verbal (no talking) performance that you can see in Korea where the performers, acting as chefs, prepare a wedding feast using all kinds of kitchen items (pots, pans, dishes, knives, chopping boards, water bottles) as instruments.

QUESTIONS

1. What can you learn from reading this article?
2. What do you think Starbucks Japan should do in the future?
3. What were the secrets to Starbucks Korea's success?
4. Why would adverse factors like the US war in Iraq, SARS and the uncertainties of the North Korean nuclear threat have an effect on coffee sales?
5. Have you visited a Starbucks? What do you think?
6. Is Starbucks overpriced? Or do you get more for your money than just coffee?
7. How do you feel about paying more for a cup of coffee than a good meal (as is the case in certain Asian countries like China and Korea)?
8. Is Starbucks too American? Could this be a reason for their poor global performance (fact: 23% of its stores are located outside the US, but together they only account for 9% of total revenues)?
9. How big a role does culture play in expanding globally?
10. In China, which has a tea-drinking culture, do you think it will be difficult for a company like Starbucks to change people's drinking habits, or do you think people are always willing to try something new and exciting (especially if it comes from the West)?
11. Is coffee drinking just a phase? Will be people be drinking something "more fashionable" in the next few years?
12. It is well-known that coffee is bad for your health. Added to its expensive price, why do you think it is so popular?
13. The article doesn't tell you but Starbucks Japan actually made money during its first two years of operation in Japan. Why do you think the company started losing money after that?
14. Starbucks' main focus just seems to be on opening as many stores as possible. What do you think about a business model that focuses wholly on expansion?
15. Do you think that in the modern world it is still useful to advertise your business the traditional way using TV and newspapers?
16. What does a play and a movie have to do with selling coffee? What were the marketing people at Starbucks Korea thinking?
17. Why is market research important for a business?
18. Why is it important for a business to localize its product?
19. Do you agree with what the Starbucks Korea official says at the end of the article?
20. Imagine that you want to start a coffee shop. How will you differentiate yourself from all the other competitors out there trying to cash in on the current coffee craze?

MODEL ANSWER

6. Is Starbucks overpriced? Or do you get more for your money than just coffee?

Yes, I think it is very overpriced. But it is strange how even Americans will complain about the price of Starbucks coffee yet still go there on a regular basis. Could it be that coffee is so addictive?

What is stranger though is the price you will pay for a cup of not-so-good coffee in Asia. In China for example you can buy a delicious meal for RMB10, but a cup of coffee will cost double that! In the West it is the other way around, with a meal usually costing double the price of a good cup of coffee. So looking at the price from an Asian point of view it is crazy to pay so much money for a brown liquid that is bad for your health.

But to be honest the cheaper coffee you buy in the West is usually bought at a restaurant and drunk after one's meal. If you go to a special coffee shop you will pay 3 times the amount of a cup of coffee paid for at the restaurant. And the coffee you get is more fancy, usually it contains syrups and cream and chocolate sprinkles on top. But is all this really worth the extra price?

Of course the real reason that coffee shops are so popular is that you do get more for your coffee than just something to drink. Just like at a bar where you pay a lot of money for a beer or cocktail so that you can also meet other people and listen to music, in a coffee shop too you have a nice place where you can meet with your friends, read a book, relax, play some games or even study. In fact, at any Starbucks located near a university in America, you will see many students spending the afternoon drinking coffee while completing their homework on their notebook computer. That is why some Starbucks coffee shops even allow you to connect your notebook computer to the Internet free of charge. Other people will spend the whole afternoon escaping from the hot or cold weather while reading a good book.

In China it is popular to play card games with your friends at the coffee shop while snacking on sunflower seeds. For the most part then you are happy to pay high prices in order that you can sit for as long as you like in a relaxing and comfortable environment. Maybe it's not such a bad deal after all!

C H A P T E R 5

The US is falling asleep on the job

As America sleeps rest of world beating it at its own game

The issue ***du jour*** is being framed as "jobs", which is a shame because that sounds like a movie we've seen before, and it isn't. Yes, American companies are firing US workers in rising numbers while hiring more foreign workers, and unions are **yelping** about heartless bosses, and politicians are **solemnizing** – all that does sound familiar. But the surprising fact is that while CEOs are happy to be saving money by hiring good accountants for $6,000 a year in *New Delhi*, those CEOs are actually as worried about the trend as anybody, and they should be. The issue isn't just jobs but America's place in the global economy.

The difference this time, as we keep reading, is that the outflowing jobs are higher paying and have more intellectual content. That's a difference not just of degree but of kind. Until now, smart, educated people in the US have thought up ways to create wealth and then paid others to do the labour, often in foreign countries. Americans design Dell's latest laptops; Malaysians build them. Americans design Nike shoes; Pakistanis make them.

The emigration of such factory jobs was *Ross Perot's* **populist** issue in 1992, but it lost its appeal above the middle of the organization chart. Our universities continued to produce the engineers, designers and managers who fashioned the labour to be done. Their educations were the world's best, and these graduates remained pretty much ours because companies from the developing world couldn't outbid US firms to hire them, or at least not many of them.

No more. Those developing countries, which obviously have always had people just as smart as ours, are now turning out people just as educated. They can design the work, too, and, because educational and living costs are a fraction of ours, companies in those countries can afford to hire those people. That is a **profound** change: Designing the work is the essence of business, management, competitiveness.

Example: An electrical engineer doesn't make things. He designs things that people in factories make. Used to be that the world's best electrical engineers graduated from US universities and worked in the developed world earning $80,000 a year designing things to be made in factories that were probably overseas. But now an engineer from an Indian university is just as good as the US-educated one, and he'll work in New Delhi – for an American or Indian company – for $18,000 a year.

Multiply that example across many different jobs and then ask, Where does the US company find its competitive advantage?

This is a case of the *innovator's dilemma* as described by Clayton Christensen, but on a national scale. The US is the big, successful incumbent, the market leader that can't imagine it's in danger. The upstart competitors – not just India but also China, the Philippines, and others – at first seem unworthy of our concern. They want to manufacture shoes? Let 'em. Now they're making steel? Well, that's not the future. They've started writing software? Hey, they're welcome to it; a lot of code writing is pure **drudgery**.

You say their designing *CAT scanners*? Uh-oh.

What makes anyone think that progression is suddenly going to stop? The next rungs on the ladder are product innovation, brand building, and overall management. We're looking at three billion people getting better by the day at the things that make us the world's leading economy.

What's our hope? The good news is that our systems **agility** and flexibility will help us out again. Our markets – labour, product, and capital – adjust to change more quickly that virtually any other country's, and that fact has been crucial to our prosperity. We move on from failure better than any other system, and that 's critical too.

The bad news is that this time more than our markets need to adjust. So do our schools – and talking about agility and flexibility in the same sentence as our schools is a **punch line**, not a boast. We've been losing that race for a long time. For years, whenever I've talked to kids who've transferred to US high schools from abroad, I've heard the same thing: School here is so much easier. Ask executives about US business schools, and they usually tell you the **curriculums** are five years behind the times.

But isn't our university system still the worlds best? Maybe. That's what they used to say about their steel at *Bethlehem*, right up until it wasn't. Then it was too late.

We don't have to lose out in this historic shift. But nothing says we're destined to win either. We've never seen this movie before.

Which is why it is a mistake to cast the latest outflow of US jobs in the familiar terms of labour vs. management and the **plight** of workers. It's that – but it's much more.

Geoffrey Colvin (senior editor)
Source: Fortune.com, 2003 September 01

NEW WORDS

General words

Du jour – a French word (some French words are frequently used by English speakers) meaning: most recent or current. So here it means the most recent issue.
Yelping – to cry out; usually one talks about dogs yelping.
Solemnizing – to do something with dignity or formal ceremony; to make serious.
Populist – a supporter of the rights and power of the people.
Profound – coming from a great depth; going beyond what is superficial or obvious.
Drudgery – tedious, menial or unpleasant work.
Agility – the state or quality of being agile. If someone is agile they are quick (either in body or in mind).
Punch line – when you tell a joke to someone the punch line is the final bit that makes them laugh.
Curriculums – the courses of study offered by an educational institution.
Plight – a bad or unfortunate situation.

<u>Business words</u>

Outflowing jobs – jobs that are "flowing out" of an industry or country.
Organization chart – a graphic description of a firm that identifies key positions, people occupying those positions, and reporting relationships.
Developing world – those parts of the world (mostly in the South) that are becoming more economically advanced. Examples include Latin America, Africa and some parts of Asia (including China).
Developed world – economically advanced countries such as Canada, France and Japan. Most developed countries are found in the North.
Competitiveness – the ability of an entity (company/country) to operate efficiently and productively in relation to other similar entities.
Competitive advantage – a competitive advantage is an advantage that a company has over its competitors, one it got by offering customers greater value (such as low prices or high quality products/services).
Incumbent – a person or company who occupies the top spot in politics or an industry (e.g. President Hu Jintao or Lenovo computers in China).
Market leader – means the same as incumbent, but in plain English. They lead the market; they are the "top dog".
Upstart competitors – competitors who start from nowhere and suddenly do very well (and who then think they are very important).
Capital (market) – a country's capital market includes such financial institutions as banks, insurance companies and stock exchanges.

General Information

New Delhi – the capital city of India (with a population of about 14 million people), located at the northern part of the country near to the border of Tibet.
Ross Perot – American businessman who founded EDS in 1962 with a $1,000 loan from his wife. He sold the company 22 years later to General Motors for $2.5 billion! He ran for presidency of the US in 1992, where he came in 3rd. He came in 3rd again in 1996.
Innovator's dilemma – "The dilemma is that the criteria that managers use to make the decisions that keep their present businesses healthy make it impossible for them to do the right thing for their future. What's best for your current business could ruin you for the long-term." (Clayton Christensen, professor at Harvard Business School).
CAT scanners – a machine that uses X-rays, radiation detectors and computers to produce images of planes (slices) through the body.
Bethlehem – a small city in Pennsylvania, America that used to be home to Bethlehem Steel, a once-massive steel company that stopped operations there in 1995.

QUESTIONS

1. What is the main issue facing America that this article highlights?
2. Do you think America will continue to lead the world economically in the year 2015?
3. Why do you think most of the most well-known brands in the world (McDonalds, Coca-Cola, Nike, Levis, Microsoft) come from America?
4. Do you think that work design lies at the core of a country's economic success?
5. Does it seem strange that innovation and brand building can make a country so wealthy, whereas 3-D (dirty, difficult, dangerous) work pays so little?
6. Do you think it is ethical for an American company to pay an engineer working in China $18,000 a year, while it pays the same engineer living in America $80,000?
7. What is America's competitive advantage now? What do you think it will be in the future?
8. What is China's competitive advantage now? What do you think it will be in the future?
9. Does China always want to be the world's low-cost producer of goods?
10. Explain the innovator's dilemma. Is America facing such a dilemma today?
11. Why are agility and flexibility so important to business success?
12. Do you agree with the author that America's systems are agile and flexible?
13. Who should market leaders fear most, other large companies or upstart competitors?
14. It seems that the strength of a country's economy lies with its education system. Do you agree or disagree?
15. What do you think about America's education system?
16. Does it surprise you to learn that foreign students find school in America easier than back home?
17. If school in America is so easy compared with other countries, how is the US still able to dominate the rest of the world economically?
18. Does the Chinese education system help or hinder the country economically?
19. Should BOTH managers and workers be concerned about the outflow of jobs in America?
20. What can the average American blue-collar worker do given the current situation?

MODEL ANSWER

20. What can the average American blue-collar worker do given the current situation?

It must be difficult being a blue-collar worker in America these days. It seems that as top managers try to reduce costs and compete with the rest of the world, they do so by cutting jobs. If you are a blue-collar worker, often you are the first to go. A man must feel betrayed if he works for a company a long time only to be told that his services are no longer required. It must also be demoralizing if one is willing-and-able to work but there is just no work available. What can one do?

Well it seems there are a couple of options. The first is mentioned in this article and that is to view the issue purely as one of “jobs”. You could get together with your fellow workers and call on management not to cut jobs. You could strike and protest to ensure that the top managers listen to you. You could also protest to top government officials and urge them to help protect you from cheap foreign imports. But I think this is the wrong approach. It is unsustainable and will only cause you anger and frustration. You cannot blame your boss for doing their job; you cannot blame politicians for adhering to the rules of the global economic game; and you certainly cannot blame foreign workers who are also only worried about putting food on the table.

Instead of looking to others to help you with your problem, I think it is best to look to yourself. Acknowledge that the world is changing and that you need to change as well. Look at which areas are most likely to need workers in the future, and then work towards making yourself employable in those areas. For example, if you are an auto-assembler worrying about losing your job, you might consider studying car design in the evenings. If you did lose your job then your assembly experience, together with your new knowledge of car design, would surely make you very attractive to many employers. Only by improving yourself and updating your skills can you expect to stay ahead of the game. Nobody owes you a job; rather you owe it to yourself to be ready to face a rapidly changing environment. If not, it will just leave you behind.

CHAPTER 6

Smelling of lemons

Japan Tobacco still thinks that the tobacco business has a healthy future

To see why *Japan Tobacco* is expected to **bid in an auction** in Turkey next week, visit Tokyo's **teen-centric** *Shibuya* district. Youngsters happily puff on cigarettes there, but ignore them – they are not the real story. Although nicotine has **hooked** males in Japan more than in any other rich country, even the Japanese market is shrinking faster than those smoking teens would suggest. Instead, stroll to the nearby Tobacco and Salt Museum. There the story is told of tobacco's globalisation as it spread from the Americas; of how technology has made consuming nicotine more convenient; and of the role that brands have played in marketing the deadly drug. No cigarette firm anywhere is striving harder to make money from the continuation of all three strands of that story than Japan Tobacco.

Its interest in globalisation is easy to understand. Japan Tobacco's domestic market is now shrinking, not least thanks to **successive tax hikes** on cigarettes. In 1996-2001, the number of smokers in Japan – as a share of people aged 20 or over – fell from 27.1% to 24.4%, says the health ministry. Japan Tobacco's domestic tobacco sales fell by 2.4% by volume in fiscal 2001, and by 3.5% last year. Taizo Demura of *Morgan Stanley* reckons that they will fall by a **hefty** 5.5% this year.

In April 2005, Japan Tobacco will also lose its licence to sell *Philip Morris's* Marlboro brand domestically, which the company says will **knock** ¥50 billion ($455m) off its annual operating profits – around one-fifth. Japan's low population growth, moreover, will continue to hold back domestic sales in the future, even if those Shibuya teens keep getting hooked.

To boost tobacco profits, therefore, Japan Tobacco is banking on higher revenue overseas. To this end, it has bought and is now aggressively promoting a portfolio of leading international brands. In 1999 it acquired the international business of America's *RJR*, giving it the rights to the Winston, Salem and Camel brands outside America. Japan Tobacco hopes that growing such high-margin brands will boost its profits in Europe. But, even though the firm is confident – perhaps overly so – that Europe is unlikely to follow America's courtroom assault on the cigarette business, demographics, health concerns and politics (such as proposed bans on smoking in public) make western European countries, such as Britain and Germany, look potentially as unexciting as Japan. This leaves the big emerging economies to be more thoroughly and profitably addicted.

Alas, some of the biggest emerging markets are not very promising either, at least in the short term. In China, the world's biggest market by volume, Japan Tobacco cannot get past a state-run monopoly. Indonesia, the fifth-biggest market, is dominated by locally made kretek cigarettes (laced with cloves from the country's eastern islands). Japan Tobacco has been especially aggressive, therefore, in Russia, the world's fourth-biggest market, where smokers lit up 300 billion cigarettes in 2002. And then there is Turkey, the world's eighth-biggest market.

On October 24th, Tekel, a Turkish state-run firm that sells tobacco products, salt and alcohol, will put its tobacco business on the auction block. Although they are still looking over the details, Japan Tobacco's executives say they have a strong interest in making a bid. Around half of Turks aged 18 or over smoke, and Tekel has 61% of the market. Better still, Turkish smokers are showing growing interest in higher-priced upmarket brands.

Japan Tobacco is also acting on the third lesson from the industry's history, by using more technology. Earlier this year, in and around Tokyo, it began selling Lucia, a new **citrus-flavoured** cigarette that has been specially blended to reduce odour. It claims these are as popular with non-smokers, most of whom usually hate the smell of cigarettes, as with smokers. Lucia will be sold nationwide from November 4th. The firm will also begin to sell a similar reduced-odour cigarette under its Mild Seven brand name – which should make it more appealing to male smokers than girlie Lucia – in Tokyo.

Yet even if it keeps up its profit margins, shareholders are not convinced that they will **reap** the benefits. Unlike the world's biggest tobacco company, Philip Morris, which (through its parents Altria) pays out half of its net income in dividends, Japan Tobacco only returns about 20% of its net income to shareholders. Earlier this month, it announced plans to buy back ¥50 billion of its shares. But so far it has repurchased only about 70% of this total – and most of these were from the government's 66% stake. The firm was partially privatised in 1994.

One reason why the firm is **loath** to return more cash, says Masakazu Kakei, the president of the tobacco business, is that it wants to invest more in its **pharmaceuticals** business – even though it has yet to produce a marketable drug. Perhaps, a few decades from now, there will be a pharmaceutical museum in Tokyo telling how cash flows from tobacco were used to build one of the world's leading drugs companies. More likely, Japan Tobacco's profits will instead go up in smoke.

TOKYO
Source: Economist.com, 2003 October 16

NEW WORDS

General words

Bid, in an auction – an offer to buy (bid) at a public sale where the property or goods are sold to the highest bidder (auction).
Teen-centric – centered or focused on teens (teenagers).
Hooked – a slang word meaning to become addicted to something.
Successive tax hikes – tax increases (hikes) that increase one after the other (i.e. they are successive).
Hefty – of considerable weight; heavy.
Knock – there are many uses for the word knock, but here it means “reduce” (i.e. profits will be reduced by ¥50bn).
Citrus-flavoured – citrus are fruits such as grapefruit, lemon and orange, so citrus-flavoured means the cigarette has the sharp taste of these types of fruit.
Reap – to obtain as a result of effort; to harvest a crop.
Loath – unwilling or reluctant (also spelt loth).
Pharmaceuticals – a business that manufactures medicines; when you are sick you buy medicine from the pharmacy.

<u>Business words</u>

Globalisation – the increasingly complex worldwide interchange of goods, services, money and people.
Domestic market – simply the local market in which you operate (if you are in China then your domestic market is the Chinese market).
Portfolio – a group of investments (as opposed to a single investment) held by an investor or investment company.
High-margin brands – brands that earn their owners a lot of money because the “margin” (amount) between cost and price is very high.
Demographics – demographics refers to such things as a person’s (or consumer’s) age, sex, income, education, martial status, profession, etc.
Emerging economies – an emerging (or developing) economy is defined as an economy with low-to-middle per capita (per person) income. They are usually considered emerging because of developments and reforms, and as such even a big country like China is said to have an emerging economy.
State-run monopoly – a company has a monopoly when it is the only one able to produce or sell a product/service. Monopolies are often run by the government (or state).
Upmarket brands – brands (such as Nike and Rolex) that appeal to, or are designed for, high-income consumers.
Net income – a company’s net income refers to gross (or total) income minus deductions (such as costs).
Dividends – a share of profits received by the shareholders of a company.

General Information

Japan Tobacco – JT is the world's third largest cigarette company. In Japan it controls 70% of the market with two-thirds of the company being owned by the Japanese Finance Ministry.
Shibuya – Shibuya is a very crowded but exciting shopping and entertainment district in Tokyo that is popular with young people.
Morgan Stanley – Morgan Stanley is an investment bank founded in New York in 1935.
Philip Morris – Philip Morris is the leading cigarette manufacturer in the both the US and the rest of the world.
RJR – R.J. Reynolds Tobacco Company is the second-largest tobacco company in the US selling top brands Camel and Winston.

QUESTIONS

1. Do you think Japan Tobacco (JT) is following a smart strategy?
2. Talk briefly about each of the "three strands" that the first paragraph refers to.
3. Why is globalisation important to tobacco companies like JT?
4. Do you think China should open its tobacco market up to international competition?
5. Do you think the Chinese government should impose a high tax on cigarettes like governments in other countries have done?
6. Many foreigners in China complain about the fact that people can smoke anyplace, anytime. What is your feeling about this?
7. What do you think about the fact that the Chinese government monopolises the tobacco industry in China?
8. Can you think of some ways JT can get past China's state-run monopolies?
9. Why do you think so many Chinese smoke? Do you think it is a problem or not?
10. In the West you can see both men and women smoking but in China, although many men smoke, it is rare to see a woman smoking. Why do you think this is so?
11. Why do marketers have to worry about demographics?
12. What do you think about the new Lucia cigarette?
13. Aside from a reduced-odour cigarette, what other ways do you think technology can be used to sell more cigarettes?
14. What do you think about JT investing money in its pharmaceutical business?
15. Why are brands so important to cigarette companies? What about the situation in China?
16. What do you think about tobacco companies?
17. Would you work for a tobacco company, even if they offered you a very high salary?
18. Do you think managing a tobacco company would be any different to managing another type of company?
19. What do you think the future is for tobacco companies?
20. Do you think it is fair that tobacco companies pay compensation to customers who get cancer from using their products?

MODEL ANSWER

14. What do you think about JT investing money in its pharmaceutical business?

It may seem that it is not such a good idea for JT to invest in its pharmaceutical business, but I think it is. In fact, even the author suggests that the company's profits – like its products – will probably go up in smoke, but I disagree. Yes it is true that the company has yet to produce a marketable drug, however one has to look at the long-term.

Firstly, I am certain that most pharmaceutical companies took a long time before they realized a profit. This is because it takes a long time to research and design a new drug, get it approved by the country's health ministry, and then launch the product and market it to the public. As such an investment in a pharmaceutical business requires a long-term view.

The second reason why a long-term view is needed (and why JT is on the right track I think) is evident from the article. The company's domestic market is shrinking, it has lost an important license, business in Europe looks bleak, and big markets like China and Indonesia are literally closed to the company. Also, with the passage of time, it is certain that more people will become aware of the dangers of smoking and cut back on their usage, or quit. At the same time, governments will try and prevent people from smoking too much through mandatory health warnings and high taxes on tobacco products.

Where does this leave the company in the long-term? If it wants to grow it needs to diversify into new areas. Some companies have done this in clothing (Camel, for example) whereas JT is looking to drugs for its future business. In fact it is well-positioned to succeed in this industry when one considers that cigarettes themselves are a drug!

C H A P T E R 7

Stop feeding the losers, Toyota

Questions over Toyota's lifeline to family member

Why would the world's third-largest automaker act like the *Salvation Army*? That's a question Toyota Motor Corp. investors should be asking after the Toyota group agreed on Dec. 27 to **inject** $83 million into Tomen Corp., a money-losing Japanese trading house in search of a new lease on life.

Tomen hit Toyota up for **dough** because both belong to the same extended corporate group, or *keiretsu*. Winners subsidizing losers: It's a time-honored Japanese tradition. What's amazing is that the practice persists in Japan's stressed-out economy. This is the second big <u>bailout</u> since 2000 for Tomen, which has been trying to right its ship for years. So even though the aid to Tomen is **pigeon-feed** for Toyota, with its $125 billion in worldwide revenue, there's a risk that other **moribund** companies will now turn to the carmaker – and other healthy Japanese companies – for handouts.

Toyota could erase those concerns by stating clearly that Tomen is a unique case. But *Fujio Cho*, Toyota's president, has indicated the opposite, hinting he's willing to bail out at least one other troubled firm from the *keiretsu*. On Dec. 17, he didn't rule out helping <u>recapitalize distressed lender</u> UFJ Holdings Inc. Indeed, Toyota's lifeline to Tomen was an indirect holiday gift for UFJ, which as chief banker to Tomen – as well as Toyota – would suffer if the trading house could not keep paying off its loans.

Officially, Toyota is distancing itself from the Tomen deal, saying it was mainly handled by its trading arm Toyota Tsusho Corp., which is Tomen's largest shareholder, with a 12% stake. But that's **disingenuous**. Toyota owns a controlling 23% of Toyota Tsusho, which can't so much as blink without permission from its big brother. Besides, Toyota Motor says it may inject some funds directly into Tomen.

Granted, Toyota can afford to help. It's **flush** with record profits, is on a roll in the **lucrative** US market, and is sitting on $16 billion in cash. This outstanding performance has earned Cho a place as one of BusinessWeek's “Best Managers” this year.

But it's not as if Cho doesn't have any other use for the money **lavished** on Tomen. Toyota needs to continue spending heavily on <u>cutting-edge technologies</u> such as hydrogen-fuel-cell-powered cars to keep a step ahead of rivals in the US and Europe. It needs to keep <u>pumping money</u> into programs to upgrade its existing lineup. And it could boost its paltry 25 cents annual dividend.

So far, Toyota investors seem oddly unfazed by the Tomen news. *Standard & Poor's* says the Tomen aid is too small to affect Toyota's <u>creditworthiness</u>. But S&P warns of a **slippery slope**. Toyota risks being asked to <u>shore up other ailing companies</u>, according to an S&P report. If it opens its purse wider, the report says, “going forward, the rating on Toyota Motor could come under pressure”.

There's no doubt Tomen is in trouble. The company reported on Dec. 27 that it expects a loss of $430 million on sales of $16.9 billion for the <u>fiscal year</u> ending in March. The Toyota group offered not just cash but <u>management oversight</u>, which might help Tomen get back on its feet. Even if it does, however, the long-term pay-off for Toyota is questionable. At best, it'll get a *merit badge*, a bigger piece of a <u>second-tier</u> trading company, and a <u>marginal return</u> on its investment. Meanwhile, it's adding **ballast** to a bankrupt corporate model in which good companies help bad ones survive – to the ultimate detriment not only of their shareholders but also the struggling Japanese economy.

Chester Dawson (Tokyo-based reporter)
Source: BusinessWeek online, 2003 January 13

NEW WORDS

General words

Inject – an injection is what you get when the doctor sticks a long needle inside you and "pushes" medicine into your body. So here "inject" simply means that Toyota gives money to Tomen.
Dough – a slang word for money.
Pigeon-feed – also known as "chicken-feed", this term simply means a very small amount of money. It comes from the fact that chickens are fed corn that is too small for other use.
Moribund – approaching death; on the verge of becoming obsolete.
Disingenuous – not straightforward or honest. Can be because someone is insincere, or just because they are uninformed.
Flush – means to have a lot of something; usually, like here, to have a lot of money.
Lucrative – simply means to be profitable.
Lavished – to give a lot of something; for example, you could lavish your girlfriend with presents on her birthday.
Slippery slope – a dangerous path that could easily lead to disaster. It is often used to show that what is being done now is not so bad, but could lead onto worse things so caution is needed.
Ballast – something that gives stability; often refers to some heavy material put inside a big ship to make it more stable.

<u>Business words</u>

Bailout – to rescue from financial difficulty.
Recapitalize distressed lender – to recapitalize means to change the capital structure of a company (in this case change the capital structure of UFJ Holdings, which lends money but is in trouble i.e. it is distressed).
Cutting-edge technologies – the leading position in any movement or field, so here it means the most advanced technology available today.
Pumping money – simply means to keep investing or spending money.
Creditworthiness – a company's (or person's) trustworthiness with money as based on their credit history. If you buy something on credit you get it now but only have to pay for it later. If you pay back on time you will have a good credit history.
Shore up other ailing companies – shore up means to support and ailing means sick, so here the reporter means that Toyota might have to support other sick companies.
Fiscal year – an accounting period of 12 months. Take note that a fiscal year does not always match a normal year. For example, a company's fiscal year could start in March.

Management oversight – simply, to be watched carefully by management. Here is means that Toyota will check to see what is done with its money, but most likely it will also give some management advice.
Second-tier – a tier is a level or rank, so second-tier shows that this trading company is not the best. Take note, it does not mean it is the second best, but rather that is forms part of a group of companies that are not as good as the best group. For example, Fudan University is a first-tier university in China.
Marginal return – a margin is something on the side, so marginal is used to indicate something small or of poor quality. Here it means that Toyota will only get a small return on its investment.

General Information

Salvation Army – founded in 1865, the Salvation Army is an integral part of the Christian church. It aims to advance the Christian religion, and is best known for its charity work around the world.
Keiretsu – a bit like Korea's chaebol, Japan's keiretsu are large companies (such as Mitsubishi) that have links with lots of other companies, therefore having a big influence on the Japanese economy.
Fujio Cho – Fujio Cho joined Toyota after graduating from the University of Tokyo in 1960. A production specialist, he opened Toyota's first wholly-owned factory in America in 1988. Cho, who became president in 1999, is a third dan in the traditional martial art of kendo.
Standard and Poor's – S&P is a famous credit rating agency, which means that it produces reports informing lenders how creditworthy borrowers (both companies and countries) are. A borrower with a rating of AAA is very good, while one with a rating of CCC is not good. Another famous agency is Moody's.
Merit badge – a merit badge is a badge given to Boy Scouts – a worldwide organisation for young boys that teaches them to be good people – in recognition of good work. Here it just means that Toyota will get nothing of real value in return for its investment.

QUESTIONS

1. Why would the world's third-largest automaker act like the Salvation Army?
2. Why do you think Japan has a tradition of "winners subsidizing losers"?
3. Why do you think the practice of winners subsidizing losers continues in Japan today, even though its economy remains weak?
4. If companies belong to the same "family", should those members in a better position always help out those in a weaker position?
5. If a company is weak, shouldn't it just be left to die?
6. Is $83 million really pigeon-feed for Toyota? If yes, then what's the problem with Toyota handing over the dough?
7. Why do you think Fujio Cho, regarded as a "best manager", would indicate he is willing to help bailout other troubled firms?
8. What role, if any, do you think "connections" (i.e. guanxi) play in this case?
9. Do you agree that Toyota should be spending money on new technologies and upgrading its lineup?
10. Why do you think Toyota investors seem "oddly unfazed" by the news?
11. Why do you think the company pays such a paltry (small) dividend?
12. Discuss the impact of Toyota Motors credit rating coming under pressure.
13. What is the "slippery slope" that the writer talks about?
14. Why is it important that Toyota offers both cash and management oversight to Tomen?
15. Why do you think Toyota is injecting money into Tomen when its long-term pay-off is "questionable"?
16. What are the disadvantages to a country of a few large companies controlling its economy?
17. Are there any benefits from having a few large companies control the economy of country? (Think of the employees or foreign competition).
18. Look at the numbers presented in this case and discuss them from a manager's point of view.
19. What lessons do you think Japanese businesses can learn from China?
20. Do you agree with the writer's closing argument?

MODEL ANSWER

11. Why do you think the company pays such a paltry (small) dividend?

Probably the main reason why Toyota pays out such a small dividend has to do with it being part of a keiretsu. If the majority of a company's investors are outside investors, or private individuals, they would like to get a nice dividend payout as reward for their investment. But if the investors of a company are just other companies, which all belong to the same parent company, then its does not really matter how much money is paid out because everyone belongs to the same family. If dividends are paid out the money is just being moved around within the same group unnecessarily. Better to just keep it as retained earnings.

Not having to worry about dividends can be seen then as a benefit of keiretsu. Unlike American companies, there is not so much pressure to pay out high dividends all the time. So if the company is not doing well one particular year it can afford to pay out less (or no) dividends without upsetting its shareholders, or being punished too harshly by the markets. It also allows managers to take a longer-term strategic view, as they don't have to worry all the time about making immediate profits in order to satisfy investors' dividend needs. This is a criticism of American companies: that there is too much pressure on the short-term, resulting in poor long-term strategies and high CEO turnover. It is also good for a company to retain earnings, as this will allow it to invest in big projects that could yield a big payoff.

But all this does not help the outside investor who will only get a small annual payback on their investment. Hopefully the company will be respected by the markets for its long-term strategy, as well as its ongoing investment, so the individual shareholder will be able to sell their shares at a higher price than what they bought them for and make a profit this way.

CHAPTER 8

What's this? The French love McDonald's

Gallic twists are luring crowds – and giving the parent a boost

After teaching the world about *haute cuisine*, France is ready to offer another **culinary** lesson: how to sell *le fast food*. McDonald's Corp.'s French subsidiary is booming even as its parent is struggling. The *Oak Brook* company announced its first-ever quarterly loss on Dec. 17. Yet as the parent is **shuttering** 175 outlets worldwide, a new McDonald's opens in France every six days. What's more, the typical French customer spends $9 per visit, versus only $4 in the US, even though a Big Mac costs about the same in Paris as it does in New York.

Just as remarkable, McDonald's France appears to be breaking every rule in an efficiency-obsessed industry. It's spending lavishly to refit restaurants with **chic** interiors and extras such as music videos that entice customers to linger over their meals. And while McDonald's in the US has tried to speed up service by streamlining menus, France has gone in the opposite direction, adding items such as a hot ham-and-cheese sandwich dubbed the Croque McDo. "We are upgrading the experience, making McDonald's a destination restaurant," says Denis Hennequin, the French unit's chief executive.

McDonald's success in France could offer the chain a recipe for boosting sales overseas, a key to future growth as the US market has become saturated. There's no question McDonald's needs a lift. CEO Jack Greenberg resigned on Dec. 5 after failing to reverse a profit slide. He has been replaced by the former head of the company's international operations, James R. Cantalupo. Estimates are that earnings in 2002 grew a disappointing 7%, to $1.8 billion, on sales of $15 billion. Moody's Investors Service has even put McDonald's debt rating on credit watch for a possible downgrade.

Through all the turmoil, Hennequin has **steered a deft course** in France, where mistrust of the US runs deep. When anti-globalization activist José Bové was hailed as a hero for **razing** a partially-built McDonald's in the south of France in 1999, Hennequin, 44, responded with lighthearted newspaper ads depicting fat, ignorant Americans who could not understand why McDonald's France used locally produced food that wasn't genetically modified. "Some of our advertising is over the edge, but you have to have a sense of humor," says the 17-year company veteran.

McDonald's France also has **defused** criticism by adapting its restaurant designs to blend with local architecture. Some outlets in the Alps now boast wood-and-stone interiors reminiscent of a chalet. "The atmosphere is friendly," says Marie Schwinnt, a 16-year-old eating lunch at a McDonald's in a 19th-century building in Mulhouse, in eastern France.

The updated styling, now found in about half of McDonald's 950 French outlets, doesn't come cheap. Michel Réglat, a Toulouse franchisee, redid the interiors of 12 of his 14 restaurants, including one with barstools made from bicycle seats. Réglat figures he spent 20% more than if he'd used McDonald's standard designs. But sales at the **spruced-up** outlets have soared as much as 20%.

True, McDonald's *à la française* would almost certainly fail in the US, where fast-food customers mainly want quick service and cheap, tasty eats. McDonald's stumbled in 2001 when it tried to import the *McCafe* concept from Australia. US **forays** into pizza, for instance, also have **flopped**. "They need to be careful not to over-diversify," says Philippe Hersant, a French restaurant consultant. Still, the company is eager to replicate its **Gallic success stateside**. McDonald's says its theater-themed outlet in New York city's Times Square was inspired by France's push for spiffed-up interiors. The Times Square franchisee is aiming for annual sales of $5 million, well above the $1.6 million that is the US average. Who knows, the next French restaurant in your town could be a McDonald's.

Carol Matlack & Pallavi Gogoi
Source: BusinessWeek online, 2003 January 13

NEW WORDS

General words

Culinary – culinary just means anything having to do with a kitchen or cooking. So if someone has “culinary skills”, it means they are a good cook!
Shuttering – a shutter is a wooden screen for a window . When you shutter something you close it down.
Chic – fashionable or stylish.
Steered a deft course – you steer a car, and deft means “with skill”, so basically Hennequin has managed the company well in France.
Razing – to level to the ground, or demolish.
Defused – it literally means to remove the fuse from an explosive device, but it is used in English to mean: make a situation less dangerous or tense.
Spruced-up – make something look neat and tidy. Almost the same as “spiffed-up”, which means to make more modern and attractive.
Forays – when someone makes a foray they venture into some new area that they are not so familiar with.
Flopped – a total failure.
Gallic success stateside – Gallic simply means anything French (while the word Gaul is sometimes used to refer to France). “To replicate its Gallic success stateside” means that the company wants to reproduce (replicate) its success in France in America (that part, or side, of the world which has many states i.e. America).

Business words

Subsidiary – a subsidiary is a company that is wholly owned by another company (the parent company).
Quarterly loss – a company’s fiscal year (see Chapter 6) is divided into four parts (or quarters), with the company having to produce financial results for each quarter. A quarterly loss therefore means that the company made a loss for that one quarter (three months of operation).
Efficiency-obsessed – efficiency can simply be explained as doing things right, with as little waste as possible. So if you are efficiency-obsessed then you are always thinking about getting the most outputs from the least inputs.
Streamlining – if you streamline a car you make it less wind-resistant, and if you streamline a business you make it more efficient.
Saturated – saturated means to fill to capacity, so here is indicates that there is no more room in the US market for more hamburger restaurants.
Profit slide – just means that the company’s profits are going down.
Earnings – earnings is different to sales – it refers to the profits that a company makes after it has taken away its costs.
Anti-globalization – globalization is the process whereby the world is becoming increasingly connected and interdependent. Some people believe that there are negative consequences of this (such as rich countries exploiting poor countries,

and American culture overtaking other cultures, including French culture) and are therefore against (anti) the process.
Over-diversify – diversify means to extend one's business into different areas, so Hersant is advising McDonald's not to involve itself in too many businesses beyond just producing hamburgers (which is its core business).
Franchisee – the person who buys the rights (from a franchisor) to use a company's name and sell/rent its products in a certain area. This right is called a "franchise" and is governed by a "franchise agreement".

General Information

Haute cuisine – a French word literally translated as "elegant cooking" it is used to refer to skillfully prepared food (usually French, and usually very expensive food).
Le fast food – native English speakers have a joke that if you add "le" to any English word you can turn it into a French word, because the "le" suddenly makes it sound French. So here the writer is just having fun.
Oak Brook – Oak Brook is a suburb of Chicago with a tiny population of 8,702. It is host to the world headquarters of McDonald's including the company's principal training facility, Hamburger University.
à la française – a French term that just means "the French way".
McCafe – a McDonald's owned coffee shop that sells coffees, teas and pastries (cakes). The first McCafe opened in Australia in 1993, but it took another eight years for the concept to reach the US. You can find McCafes in Shanghai, Beijing and Guangzhou in China.

QUESTIONS

1. Why do you think McDonald’s is not doing so well in America?
2. Why do you think McDonald’s is doing so well in France?
3. If you were a fast-food restaurant consultant what advice would you give to McDonald’s?
4. What do you think is the most important thing in starting and running a restaurant?
5. What do you think Denis Hennequin means when he says that he is making McDonald’s in France a “destination restaurant”?
6. Talk about the company’s earning growth, and its earnings in relation to its sales.
7. If a company has a successful model of doing business, does it ever make sense to break the rules and do things a different way?
8. Isn’t it a contradiction that France is anti-America (or let’s say proudly French) yet an American institution like McDonald’s is gaining popularity there?
9. Why do you think McDonald’s is so popular around the world, even in China which has a long culinary tradition?
10. Why do you think most people like “junk food”, even though the name tells us it is not so good?
11. Do you like McDonald’s? If yes, why, and if not, why not?
12. Many Chinese say they like McDonald’s because it is clean, the service is fast and friendly, and families can take their children there. Why doesn’t a Chinese restaurant just copy these three things while selling healthy Chinese food?
13. Many people hate McDonald’s because they think the company exploits workers and makes people fat and unhealthy. What is your feeling?
14. Why do you think people often burn down, blow up or destroy McDonald’s stores when the company has nothing to do with American politics? What is your feeling on this?
15. Do you think it is important for businesses to adapt to local conditions? Why?
16. Do you think a business should stand out or blend in to its local surroundings?
17. Do you think it is worth spending 20% extra on your interior store design if it only increases your sales by 20%?
18. In Chapter 6 you learnt about rating agencies. What does it mean for McDonald’s if Moody’s downgrades the company’s rating?
19. Why do you think the article says that importing the French-style McDonald’s to America would “almost certainly fail”? Do you agree or disagree?
20. Why do you think the French restaurant consultant Philippe Hersant says McDonald’s needs to be careful not to “over-diversify”?

MODEL ANSWER

11. Why do you think most people like “junk food”, even though the name tells us it is not so good?

This is an interesting question. We know “junk food” is unhealthy – that is why we call it “junk” – yet most people (including myself) like to eat it. Why is that? I think the reason is partly psychological, and partly physiological.

Let’s look first at the psychological (or mental reasons). Humans are certainly strange because as soon as something is bad, or not allowed, they will want it. Disagree? Why then is there is a big market for any manner of vices (bad habits) such as smoking, drinking, candy, unhealthy food, gambling, pornography? Tell someone that they cannot have or do something and they will immediately want to have it or do it, even if the desire was not there before. In South Africa pornography has banned up until the country’s first demographic elections in 1994. After that time it was legal and sales of dirty magazines soared, but within a few short years nobody was interested anymore and most of the magazines went bankrupt. Let’s also look back, all the way in history, to the story of Adam and Eve who ate the apple they were not allowed to. It seems we have always had this character flaw.

What about the other reason, physiological? Well this is more easily understood. Fat tastes good, plain and simple, so that is why we like eating fried and oily foods. Also scientists today are able to develop all kinds of wonderful flavours and sweeteners that can even make food with zero nutritional value taste good. What is even more interesting is that apparently healthy food (such as vegetables) contain some chemical making them taste bad, thus ensuring that people (and animals) do not eat them. Vegetables after all also want to live! I don’t know if this is entirely true as I read it on the Internet, but it certainly is a good explanation as to why pizza tastes so much better than cauliflower!

CHAPTER 9

Carrying a bit of movie history in their pockets

Modern technology allows Indians to relive popular 70's movie Subheading

Remember Gabbar Singh (a character in India's hugely successful movie *Sholay*)? Well, he's all ready to lend your cell phone his voice, to answer your calls or receive messages, if you please. A recent spate of tie-ups between film producers and content providers will soon see popular film stars playing all sorts of games for you on your cell.

You may even download their voices and favourite dialogues, save their pictures as screen savers on your cell, or even see their video clips at your convenience. So after *cricket*, it's *Bollywood's* turn to **enthrall** mobile phone users with its **ever-compelling** content.

According to <u>industry estimates</u>, current mobile game paid downloads range from 500,000 to 600,000 a month. This excludes Reliance's services as Java game downloads are currently free on the network. The set of gamers is growing at a rate of around 40,000 to 50,000 per month, **fuelled** by the growth of mobile owners every month.

"The increased sale of Java handsets and a drop in prices of GPRS (General Packet Radio Service) needed to surf operator sites and download games, and the pressure on operators to increase their <u>average revenue per user</u>, is only pushing the trend forward," says Rajiv Hiranandani, country head of Mobile2win.

Operators have no problem lending their network for Bollywood stuff as they agree the magic of cricket and movies reigns over Indian's **psyche**.

"It's a phenomenal business proposition for all parties concerned. While operators get to give their customers something extra, film producers get access to a promotional medium that is cost-effective and efficient with a sure shot access to their target audience," says Mohit Bhatnagar, vice president of value-added services at AirTel.

Response to some recent mobile content for popular films has been good as they managed to generate around 15,000 to 20,000 downloads.

Surprisingly, more than **movie buffs** in India, it were Bollywood aficionados in countries like the US, UK, Middle East and Canada, who **freaked out** on such stuff.

Market players say that around 20 operators from around a dozen countries have shown interest in buying Bollywood content.

"Revenues from international market for Bollywood content are more **lucrative** than domestic markets. If a Bollywood wallpaper costs *Rs*15 in India, it would generate 100 times more in fees in the US or the UK," says Raj Singh, CEO of ActiveMedia Technologies.

Enthused by the response, Mobile2win has decided to **re-ignite** the magic of *Sholay* on mobile phones. It has tied up with Sholay Media & Entertainment to generate *Sholay* games, wallpapers, dialogues and ring tones, and is expecting a good response from both domestic as well as international markets.

Industry observers say such content pushed across networks may bring in over Rs50-60 *lakh* per project. It may seem **miniscule** to some, but the parties concerned are quite upbeat about it.

Says Hiranandani: "Even if operators keep 50% of this revenue, and the remaining is left for the content creator and the film producer to share, it's not a bad deal. It's a new media stream which will only grow in the future."

Hard-pressed for cash, film producers aren't complaining either. Says *Sholay* producer, G.P. Sippy: "*Sholay* has been immortalised, its dialogues are still etched in every mind, be it young or old. More than revenue, what's exciting for me is that now audience will be able to carry a bit of it in their pockets."

So, what're you waiting for? Get set for your version of *Sholay*.

Archna Shukla (reporter)
Source: The Economic Times online, 2004 October 02

NEW WORDS

General words

Enthrall – to hold spellbound; to captivate.
Ever-compelling – always in need of your attention (with "content" meaning subject matter).
Fuelled – fuel is something you burn (such as gas) to provide power (to a car for instance). So "fuelled" refers to one thing (new mobile phone owners) that powers another thing (new gamers).
Psyche – the spirit or soul.
Movie buffs – a buff is someone who is knowledgeable about some topic (such as movies). It's different to an aficionado who is just a big fan or supporter of something.
Freaked out – when someone behaves (through fear or excitement) in an uncontrollable and irrational way they "freak out".
Lucrative – profitable.
Re-ignite – if you ignite something you set fire to it, so re-ignite refers to the situation where something was on fire (i.e. fashionable), went dead and is now being made hot again.
Miniscule – very small.
Hard-pressed for cash – this refers to the situation where someone has difficulty coming up with money.

<u>Business words</u>

Industry estimates – an industry is a specific branch of manufacture and trade (such as the movie industry), while an estimate is a rough calculation. So an industry estimate is a rough calculation made by people within an industry.
Average revenue per user – revenue is income or money received. So here the company will take all the money it receives and divide it by the number of customers it has to get "average revenue per user".
Business proposition – a proposition is a plan or a proposal, so here it is just a proposal centered on business.
Promotional medium – if you promote something you advertise it, and media (the plural of medium, such as: television, radio, magazine, newspaper) is what you use to advertise. Here the promotional medium is a cell phone.
Cost-effective and efficient – cost effective means it is economical in terms of the benefit received for the money spent, whereas cost efficient means pretty much the same thing: that you get good value relative to the cost.
Target audience – a target audience refers to those people (usually potential customers) that you want to target (reach) with your promotional message.
Value-added services – sometimes called VAS, this refers to extra (added) services or features that a company provides.
International market – in this case "market" refers to the area in which sales of a certain product/service takes place. As such an international market would

include sales around the world. A domestic market, on the other hand, refers only to sales within one particular country.
Industry observers – we looked at what an industry is, so industry observers are people (such as financial analysts or journalists) who pay attention to what is going on in one particular industry, and therefore know a lot about it.
Media stream – here media stream uses the idea of a stream (which refers to flowing water) to show that one can use this new form of media to move ("stream") the message to potential customers.

General Information

Sholay – the Hindi movie, Sholay, released in 1975, is one of the biggest hits in Bollywood's history. The film is about a retired police officer who hires two convicts to capture a gangster who killed his entire family. It has the typical ingredients of the more successful Bollywood movies: action, memorable songs, comedy and tragedy. The movie was over budget and declared to be a commercial disaster when first released. However, it went onto become a huge hit with estimates that every Indian has seen the film at least once.
Cricket – cricket is a bat-and-ball sport played between two teams of eleven players each. It originated in England and is popular in: India, Pakistan and Sri Lanka, as well as England, Wales, Australia, South Africa, New Zealand and the English-speaking Caribbean. A game can last over six or more hours a day for up to five days, with the objective of the game being to score more runs (points) than the opposing team.
Bollywood – this is the informal name given to the popular film industry in India, which has the largest output in the world in terms of number of films produced and, possibly, number of tickets sold. The word was created by blending Bombay (the Indian city now called Mumbai) and Hollywood.
Rs – the rupee is the common name for the currencies used in India, Pakistan, Sri Lanka, Nepal and Mauritius. One US dollar is equal to about Rs45.
Lakh – a lakh is a unit in a traditional number system (widely used in India) equal to a hundred thousand.

QUESTIONS

1. Are tie-ups between unrelated companies a good way to do business?
2. Can you think of any tie-ups between unrelated companies in China? Do you think the result is successful or not?
3. Would you be interested in paying for the right to be able to download popular movie content onto your cell phone?
4. What type of content would you most want to be able to download onto your phone? Would NBA content interest you?
5. Why do you think mobile phone games are so popular? Have you ever downloaded a game onto your phone?
6. Why do you think there is pressure on operators to increase their average revenue per user?
7. What do you think reigns over China's psyche?
8. We can call the type of business proposition mentioned a "win-win" situation as both parties benefit. Perhaps even it is a "win-win-win" situation as the customer benefits as well. Can you think of any other win-win business situations?
9. Do you think a mobile phone should be used as a promotional medium?
10. How do technological advances benefit advertisers? (Consider the Internet as well as mobile phones.)
11. What other value-added services do you think cell phone operators should offer their customers?
12. Mobile phone downloads are probably available off the Internet. What is the advantage of this?
13. If the international market is more profitable, why don't Indian producers just focus on this market, ignoring the domestic market?
14. Do some calculations to work out how much money (in US dollars) is coming in for each project. Is the result a bad deal or not?
15. Do you agree that mobile phones are a new media stream that will grow in the future?
16. In Korea you can use your mobile phone as a credit card? Do you think this technology should be adopted in China?
17. At Sookmyoung Woman's University in Seoul, Korea students use their mobile phones as ID cards allowing them to enter the library and borrow books. Would this be a good idea at your university?
18. How do you see mobile phones being used in the future?
19. Describe the perfect mobile phone.
20. Are there any disadvantages to increased cell phone usage and additional cell phone services?

MODEL ANSWER

9. Do you think a mobile phone should be used as a promotional medium?

Yes and no. Maybe my answer seems ambiguous but this is because it really depends on the way in which the message is sent. Our mobile phones are like a moving inbox, a place where we can receive messages anyplace and anytime. But just as we don't like getting junk mail in your letterbox, or spam mail in our computer inbox, nobody likes receiving unsolicited, advertising in their mobile phone inbox. Firstly, you are disappointed when you discover that you didn't get a message from your friend, but rather from a company. Also, you have to take the time to look at and delete it. It is very rude to waste someone's time with something they do not want.

On the other hand, there is some information we may want to get in our inbox. Maybe we like to know what the weather will be like everyday. Or we like to know what the latest news is, or get a traffic update, or receive some special offer. These types of messages can be useful, while others (new ring tones, pictures, games) can be entertaining. However, customers should be able to choose whether they want to receive these or not. They can do this when they first sign up for their mobile account, or they should be able to do it online through the mobile phone operator's website. They should be able to opt-in to whatever service they desire. Perhaps they have to pay some extra fee for this, or perhaps they will get it free with the understanding that they will then receive some advertising as well. So long as the customer is happy with and agrees to this then there is no problem.

The main point then is that the mobile phone can be used as an effective promotional medium provided the phone operators treat customers in a courteous way, ensuring that they only give them what they want. Customers generally accept that they may have to endure some advertising in exchange for some free service. However, the phone companies must also acknowledge that they cannot just stream promotional material to customers without offering anything in return. As the common English expression states: "There is no such thing as a free lunch."

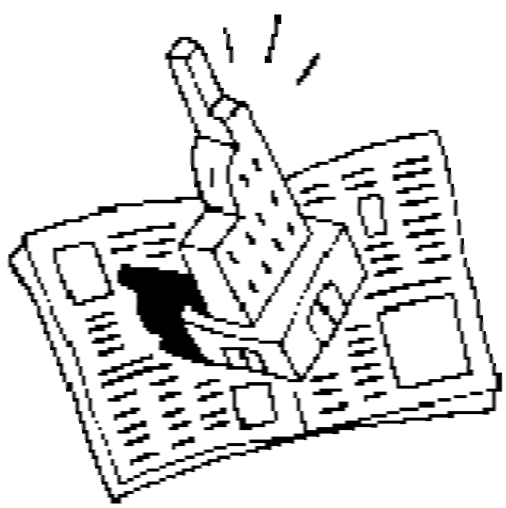
CHAPTER 10

Breather

Phew! You are now halfway there. Time for a breather I think. So this week, instead of reading another article let's do something a little different. Do not worry, it is fun, but more importantly you will learn how to better work together with others in a team (very important in today's business world), while also practicing your English – yes, please communicate in English while completing this exercise.

How it works is that students should form groups of three or four (but ideally not more than this as some students will then end up doing nothing). Each group is then given an equal number of newspaper sheets (the fewer the more difficult, with 20-30 sheets being about right for a 40 minute exercise), and a roll of Sellotape (Scotch tape). The objective is to construct the tallest free-standing tower made only of newspaper and Sellotape in the time allotted by your teacher. The point of the exercise is to help students with team building, planning, organizing, problem solving, time management, creativity and lateral thinking. Ready? Go.

After the exercise I recommend you share your learning with your teacher and fellow students (e.g. answer such questions as: what did you learn from the exercise? how can you apply this learning to your everyday life? and what would you do differently next time?).



CHAPTER 11

Should Google be in the browser biz? You bet

Return of the browser wars could be coming to a PC near you

Most folks figured the *"browser wars"* had gone the way of *Beta vs. VHS*. But recent moves by *Google Inc.* have sparked speculation that the search giant could enter the browser business and restart competition in a market **dormant** since Microsoft Corp. **squashed** Netscape in the '90s. Consider the evidence. In recent months, Google has hired **techies** with browser-building experience from the likes of Microsoft, Sun Microsystems, and BEA Systems. In addition, the company in April reserved the Web address www.gbrowser.com. Although insiders say no browser is imminent, analysts believe it's under strong consideration.

While eager investors have driven up Google's stock 55% since its August initial public offering (IPO), many analysts believe that to **cement** its long-term prospects Google should get into the browser business. Doing so would help it take on Microsoft on its **own turf**, move beyond search, and, by expanding its role as a point of entry to the Internet, allow it to sell more ads. "Developing a browser could be a necessity," says Mark Mahaney, an analyst at American Technology Research Inc. Here's why Google should forge ahead on a browser – and the sooner the better:

EXPANDING WITHOUT CLUTTER. Google has won adoration for a **no-frills**, fast-loading Web page that comprises just a handful of words. But with Google moving beyond search into services such as e-mail, online groups, and photo management, it faces a dilemma: how to promote its services without cluttering up its search page.

A browser is the logical solution. Beyond the standard buttons such as "back" and "reload", browsers typically display a toolbar for quick access to everything from bookmarked sites to often-used desktop software. A **Google-flavoured** browser could highlight its range of services and bring them together without forcing the search giant to **junk up** its site with logos and text.

Beyond acting as a **one-stop shop** for Google offerings, the browser would help the company make its various products work together **seamlessly**. For example, a Google browser could notify you when you receive an e-mail from certain people.

COLONIZING THE PC. This is required <u>real estate</u> if the company is to achieve what many feel is an important future step in search: organizing data on people's hard-drives, from pictures to Word files to e-mail. A browser could provide a **launchpad** to search these new realms, potentially yielding Google millions of additional search results around which it could sell its <u>contextual ads</u>.

True, Google is already establishing a presence on the desktop with a toolbar – software that attaches to existing browsers and provides instant access to Google search and other services. The company says downloads of its toolbar number in the millions. But most Web surfers are unaware that such toolbars exist, and a <u>Google-branded</u> browser could eclipse that. Consider that in the past two weeks people downloaded 2.5 million copies of an *open-source browser* built by a little-known outfit called the *Mozilla Foundation*. That shows how much demand there is for an alternative to Microsoft's browser. If Google were to put its brand behind an effort like that, just imagine the potential.

STAVING OFF REDMOND. Microsoft owns about 94% of the <u>browser market</u> and is moving steadily into search. Sure, the software giant hasn't taken much advantage of the traffic delivered to its sites from buttons built into Internet Explorer. Nor has it marketed a feature that lets users simply type search queries into the browser's address box, taking them directly to an MSN search-results page. But some analysts say that once Microsoft puts it all together, Google could be sorry.

Besides, much of the **grunt work** required to build a browser is already done. Google could simply **piggyback** on Mozilla's open-source technology, then devote its resources to customizing the browser for Google's **myriad services**. "If Google doesn't have a browser in three years, it could be <u>a big hole in their business</u>," says Mahaney. **It's a no-brainer**.

Ben Elgin (BusinessWeek)
Source: Yahoo! Finance, 2004 October 01

NEW WORDS

General words

Dormant – lying asleep; inactive.
Squashed – to beat or squeeze; to put down or suppress.
Techies – a techie is someone who is good at technical stuff, such as working with computers.
Cement – cement is a type of building material used to hold bricks together, but is also used when you want to talk about strengthening or uniting something (such as a position in the market, or a relationship).
Own turf – turf is an area claimed by one group as its own.
No-frills – a frill is some extra thing that is nice but not really necessary (such as having leather seats in a car).
Google-flavoured – a flavour is some distinct quality, so here it refers to a browser that has the same feel as the Google web-site.
Junk up – junk is useless stuff that you would throw away, so "junk up" means to fill your web-site with useless links, adverts and information.
One-stop shop – this term refers to a company/product/service that can solve all your problems at one time.
Seamlessly – just means the products work together perfectly and consistently.
Launchpad – in actuality a launchpad is an area from which rockets are sent into space, but also often used to talk about the situation where a company uses one thing (product/service/event) to launch other products or services into the market.
Grunt work – grunt work is routine or boring work (with a "grunt" being the person who does the work).
Piggyback – just means to ride on the back of (i.e. get a free ride).
Myriad services – myriad just means "many".
It's a no-brainer – a common term describing a situation where it is so obvious that some action is required that you don't really even need a brain to make the decision.

<u>Business words</u>

Analysts – an analyst is a person with expertise in evaluating financial investments. Financial analysts – who serve as investment advisers and portfolio managers – use their training and experience to investigate risk and return characteristics of different securities.
Driven-up – simply means pushed up.
Initial public offering (IPO) – a corporation's first offer to sell stock to the public.
Long-term prospects – just means the possibility of future success (over the long-term).
Point of entry – that place where people can enter (into a market, a country, the internet).
Real estate – real estate is land, but can also be used to refer to any critical resource measured in units of area.

Contextual ads – adverts that are relevant to the situation (e.g. if you do a search on “China” on Google, you will see an ad on the right for a web-site selling goods Made in China).
Google-branded – a browser that bears the Google brand – with a brand being the unique name of a product (such as Lenovo).
Browser market – the browser market refers to all those companies involved in the development/selling/distribution of browsers, and we can see that the browser market is dominated by one main player: Microsoft.
A big hole in their business – a big hole in a business refers to the place where a company should be making profits, but are not, because they did not take advantage of the opportunity to do so.

General Information

“Browser wars” – this refers to the period in the late 1990s when most Internet users were surfing the web using Netscape Navigator. Netscape had 72% of the market, compared to Internet Explorer (IE) 3’s 18%. But then, in October 1997, IE launched version 4, which was much better than Navigator. This, together with the fact that it came free and preinstalled with Windows 98, enabled it to win the browser war – so convincingly in fact that today 94% of all web users are working with IE.
Beta vs. VHS – this refers to the situation in the 1980s when there were two main standards for VCRs: Sony's Betamax and JVC's VHS. Betamax was generally regarded as the better quality technology, but VHS had higher sales. As more VHS recorders came into use, and more VHS films became available, Betamax was eventually squeezed out of the market.
Google Inc. – Google Inc. is the US-based company that owns the Google search engine. Being the largest search engine on the web, Google receives at least 200 million search requests per day. It began as a research project in early 1996 by Larry Page and Sergey Brin, two Stanford, PhD students. They formally founded the company on September 7, 1998 in a friend's garage in California. Google gained a following among Internet users for its simple, clean design and relevant search results. At its peak in early 2004, it handled upwards of 80% of all search requests.
Open-source browser – open source or open source software (as opposed to closed source or proprietary software), refers to any computer software (such as browser software) whose source code is either in the public domain or, more commonly, is copyrighted by others and distributed under an open-source license. Such a license may require that the source code be distributed along with the software, and that the source code be freely modifiable.
Mozilla Foundation – launched on July 15, 2003, the Mozilla Foundation is a not-for-profit corporation that coordinates releases of Mozilla software – such as web browser, e-mail client and HTML editor. It is based in California and replaces mozilla.org, an informal group established by Netscape in 1998.

QUESTIONS

1. Comment on the fairness of the situation where a product loses out to another product of inferior quality?
2. Do you think Microsoft played fair when it “squashed Netscape” in the 1990s?
3. Do you think that “might equals right”?
4. From the evidence do you think Google is gearing up to enter the browser market? Give evidence to support your argument?
5. Do you think Google will be able to beat Microsoft if a new browser war breaks out? Why?
6. Do you agree with the analysts that Google needs to enter the browser business?
7. In business there is a saying that a company should “stick to its knitting” (i.e. do what it does best). Do you think this saying applies to Google in this situation?
8. How would you deal with the dilemma (see paragraph 3) that Google faces?
9. If you had the power, would you leave the Google homepage as it is, or would you redesign it?
10. What services (other than those mentioned) could be incorporated into a Google-flavoured browser?
11. What do you think of Gmail?
12. What do you think of Google’s desktop search facility (where you can search for files on your computer using Google software)?
13. What do you think of Google’s downloadable toolbar?
14. Do you think that Google needs to develop a browser, or just improve on and better market its toolbar?
15. What do you think is the future of the browser market?
16. Do you think that there is a need for an alternative to Microsoft’s Internet Explorer?
17. Do you think Microsoft could beat Google if it engaged it in a “search engine war”?
18. What is your feeling about open-source software?
19. Why do you think Microsoft hasn’t “put it all together” yet?
20. If you were the CEO of Google, what would your long-term strategy for the company be?

MODEL ANSWER

9. If you had the power, would you leave the Google homepage as it is, or would you redesign it?

This is a very difficult question to answer – not from an English point of view but from a management point of view. On the one hand Google become popular because it provided users with a clean and simple interface. On the other hand it has expanded its business since it first started by offering users many services beyond just searching. So what is the best thing to do? Of course the answer is debatable but I would go with a redesign.

The reasons for this are as follows: the first is that the Google home page looks very boring. While other web-sites are eye-catching, Google's home page looks too plain. Sure speed is important when searching, but the company can create visual appeal without slowing down its site. More importantly though is that if I want to make use of Google's other services I have to go looking for them. Not only this but I think many people do not know about all the different services that Google offers. This is because these services are not stuck in front of the user's face. It is only when you click on the "more >>" link on Google's home page that you get to see all the other services that they offer. Plus, this link is small and does not give the user any idea of what they will find.

If you compare the Google site to Yahoo, you will see that on Yahoo you can choose to search straight away while also being presented with their full menu of options. Also, their link taking you to a complete list of all their services is not vague like Google, but clear, stating: "All Y! Services…".

Google probably thinks that while it should offer its users more features and services it should retain its simple look, but I disagree. I think it is no longer just a search company, and this needs to be reflected on its home page. This change is needed not just because the company has changed, but also because its customers either do not know what is on offer or do not want to search all over the place to find what they want.

C H A P T E R 1 2

Why Britain should steer clear of the Euro

Consider Germany. It faces the threat of deflation, but the euro pact has constrained its efforts to spur domestic demand

Should Britain, already a member of the *European Union (EU)*, join the *euro zone*, too? Britain's *Chancellor of the Exchequer* is about to issue what will be a highly controversial report indicating that the answer is "no – not at this time." His verdict will be based on extensive economic analysis concluding that under current conditions, a decision to adopt the euro will not promote Britain's macroeconomic stability and growth. His report is sure to disappoint both British multinationals, whose European transactions would be facilitated by a common currency with *the Continent*, and British politicians, who want Britain to assume a leadership role in a more unified Europe. But with Germany slipping into deflation, France not far behind, and recession overtaking the euro zone economies, the conclusion makes excellent economic sense.

The experience of Germany is a **cautionary tale** of the pitfalls of joining a common currency regime that precludes exchange-rate adjustments and constrains monetary and fiscal policy choices. The German economy is in serious trouble, with a growth rate of less than 1%, an unemployment rate of over 10%, an economy that chronically under-performs its potential, and the highest manufacturing costs in the world. In the past, when Germany controlled its own monetary and fiscal policy, it could have responded to such conditions by lowering interest rates, reducing taxes, and increasing government spending to stimulate demand. Lower interest rates combined with weak domestic demand in Germany would have caused the mark to fall, reducing the world prices of German products and increasing exports. But thanks to the euro, such **counter-cyclical** exchange-rate and policy adjustments are impossible.

The *European Central Bank's (ECB's)* misguided adherence to an average inflation target of less than 2% for the entire euro zone creates excessively tight monetary conditions in Germany. The ECB claims that this target provides a sufficient **safety margin** to guard against the risks of deflation. But that's not true for Germany, whose core inflation rate is only 0.5%, **perilously** close to deflation, and headed downward.

The EU's Stability & Growth Pact, designed to limit budget deficits and **curb** inflation, constrains Germany's ability to use counter-cyclical fiscal policy to stimulate domestic demand. Indeed, by the pact's flawed logic, Germany should be increasing taxes or cutting spending because it has **breached** the 3% cap on deficits as a share of gross domestic product. This is the reverse of what should be happening. The European Commission is even threatening to impose steep fines on Germany if it violates the cap for the third year in a row.

Since January, 2002, the euro has appreciated by 16% on a trade-weighted basis. A euro appreciation of this size is estimated to have the same impact on growth and inflation as an increase of three percentage points in nominal interest rates. Most analysts expect the euro to rise further throughout 2003.

Deflation in Germany, once the economic powerhouse of Europe, is a frightening prospect for both Europe and the global economy. There is now a real danger that Germany, Japan, and perhaps the US will slip into deflation by the end of this year. Deflation increases the real burden of debt, and total private sector debt in Europe – as in the US – is much larger as a share of GDP now than it was in the 1930s, when deflation last **haunted** the world economy. More important, since nominal interest rates cannot fall below zero, deflation renders traditional monetary policy useless and yields positive real interest rates that **thwart** growth.

Once deflation takes hold, it's difficult to reverse. Success is uncertain and depends on "unconventional" macroeconomic policies, including the central bank's purchasing government debt and printing money to finance tax cuts or higher government spending. In either case, a high degree of cooperation between monetary and fiscal authorities is essential.

As Japan's recent experience demonstrates, this kind of cooperation is hard to achieve even in one nation with one independent central bank and one government. It's almost impossible to imagine in the euro zone. Even if the ECB finally recognizes the **imperative** to fight deflation rather than to curb inflation, how would it coordinate with 12 governments representing 12 economies with different growth rates and deflation risks, different debt and deficit situations, and different priorities? In particular, how would the ECB **apportion** its purchases of government debt or its <u>monetization</u> of government deficits among the euro member countries?

Motivated by a bold political vision of a unified Europe and confident of its enduring economic strengths, Germany unwittingly designed a common currency system that is now undermining its economic performance. Britain does not have to make the same mistake. The political logic for joining the euro zone may be compelling, but the economic evidence argues for caution and delay.

Laura D'Andrea Tyson (dean of London Business School)
Source: BusinessWeek online, 2003 June 02

NEW WORDS

General words

Cautionary tale – a story telling people to be careful.
Counter-cyclical – often used in business, it means moving in the opposite direction of the overall (economic) cycle.
Safety margin – an amount allowed beyond what is needed.
Perilously – involving danger.
Curb – to help restrain.
Breached – to break through.
Haunted – to visit often. Usually used to talk about ghosts (e.g. I was haunted by a ghost).
Thwart – to prevent.
Imperative – a command or duty.
Apportion – to divide and distribute according to a plan.

Business words

Macroeconomic – analysis of a country's economy as a whole. It is the opposite of micoeconomic, which is the analysis of the behaviour of individual economic units (such as companies, industries or households).
Deflation – a decline in the prices of goods and services. Its opposite is inflation, which refers to the rate at which the general level of prices for goods and services is rising
Recession – a period of general economic decline; specifically, a decline in GDP for two or more consecutive quarters.
Monetary and fiscal policy – monetary policy refers to the actions taken by a country's central bank to influence the money supply or interest rates, whereas fiscal policy refers to government spending and taxing for the specific purpose of stabilizing the economy.
Interest rates – the percentage of a sum of money charged for its use. China's interest rate currently (October 2004) stands at around 5%.
Exchange rate – the price of one currency expressed in terms of another currency. For example, if one US dollar buys eight Chinese renminbi, then the exchange rate is 8 to 1.
Core inflation – a measure of consumer price increases after stripping out volatile components such as energy and food.
Trade-weighted basis – the value of a currency pegged (i.e. fixed at a certain level) to a market basket (collection) of selected foreign currencies.
Nominal interest rates – the interest rate adjusted for inflation.
Monetization – to convert (government debt) from securities into currency that can be used to purchase goods and services.

General Information

European Union (EU) – the EU is an international organisation of 25 European states. It performs many activities, the most important being the creation of a single common market.
Euro zone – the euro zone is the set of countries of the EU that have adopted the euro (€) currency. There are 12 members in the euro zone: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain.
Chancellor of the Exchequer – the Chancellor of the Exchequer is the cabinet minister responsible for all financial matters in Britain.
The Continent – term used by British people to refer to Europe.
European Central Bank (ECB) – the ECB is the central bank of the euro zone and is in charge of monetary policy for the 12 countries that use the new euro currency.

QUESTIONS

1. Make an argument for Britain joining the euro zone.
2. Make an argument against Britain joining the euro zone.
3. Why would British multinationals be disappointed by the Chancellor's report?
4. What role do you think Britain should play if it joins the euro zone?
5. Why should Britain get the benefits of being part of the EU without having to suffer any of the economic consequences?
6. If inflation is seen as a bad thing, why is deflation also seen as a bad thing?
7. How is the German economy constrained by being part of the euro zone?
8. Why do you think the German economy is in such trouble?
9. Before joining the EU and euro zone, how did the German government deal with any economic problems it faced?
10. Why do you think Germany joined the EU, considering that the result is a loss of control over its monetary and fiscal policy?
11. Do you think that the ECB is too strict?
12. Discuss how lower interest rates benefit an economy.
13. Why is it disadvantageous for a country to have a strong currency?
14. Do you think it is advisable to have one central bank for a number of different countries, when each has different economic needs and conditions?
15. What are the benefits of a strong euro? What are the drawbacks?
16. What are some of the benefits of the EU to its members, and what are some of the disadvantages?
17. Do you agree with the writer that it will be "almost impossible" to achieve cooperation between all the members of the euro zone?
18. Do you think a country should put economics before politics?
19. Do you think Germany should be praised or ridiculed for joining the euro zone? Why?
20. What do you think about creating an Asian Union and an Asia zone?

MODEL ANSWER

13. Why is it disadvantageous for a country to have a strong currency?

The problem with a strong currency might lie simply in the use of the word "strong" to describe the situation. Strong is a positive word, evoking in our minds images of power and prestige. We all like to be strong: physically, mentally, or in character. Indeed, it is far more desirable to be strong than to be weak. So too with a currency, we think that a currency should be strong, not weak. But is this thinking correct? I would argue not. More-often-than-not it is just a question of pride. We like to boast that our country has a strong currency without stopping to think if this is good or bad for the economy – and for us. So let's take a closer look.

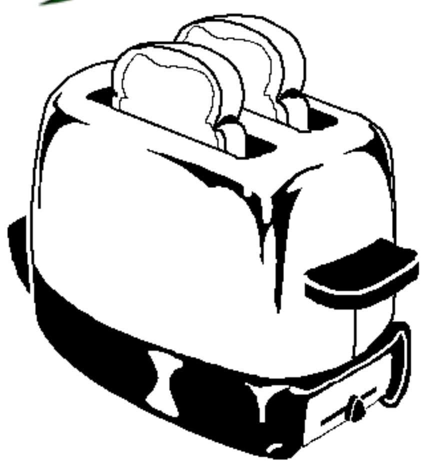
If our currency is strong it hurts exporters because their goods and services will be more expensive on global markets, and therefore less competitive. As such they will sell less stuff and our country will probably run a trade deficit with the rest of the world. If our currency is weak, however, it means our goods are cheaper on world markets, are more competitive, sell more easily, earn us a lot of foreign currency, and earn us a trade surplus. This is good for the country.

Who is a weak currency bad for? Well a weak currency is bad for locals traveling abroad, and those who like shopping. For them traveling is more expensive, while imported goods also increase in price. On the flip-side, a weak currency will encourage more tourists to visit our country and spend their money. However, because international travelers and shoppers of imported goods are usually the richer people in society, with greater access to the media, you are more likely to hear about the disadvantages of a weak currency. Do not listen because a weak currency benefits more people, as well as the general economy. And do not be fooled by the use of the word "weak". We might not like admitting to other nations that our currency is weak, but it will be us having the last laugh.

C H A P T E R 1 3

Buy a toaster, open a bank account

Banco Azteca caters to the little guy – in appliance stores



Pedro Rubio was **in a bind**. The 56-year-old carpenter needed to come up with thousands of *pesos* in notary fees to get legal title to his modest **cinderblock** house. Otherwise, he feared that squatters would stake claim to it when he was away working at construction sites. But Rubio, who earns the equivalent of $600 a month, had no proof of income and no bank account.

So on a recent morning, he walked through his **gritty** *Mexico City* neighborhood to an *Elektra* appliance store. At the back, behind an aisle of microwave ovens, he sat down with a loan officer from a new bank, *Banco Azteca*. **Unfazed** by Rubio's worn jeans and unshaven face, the officer drew up an inventory of his possessions: TV, refrigerator, washing machine – all bought on credit at Elektra in the past three years. Accepting these as collateral, the bank approved Rubio's application within 24 hours. The nine-month, $200 loan carries a 48% annual interest rate, usurious by US standards but not in Mexico, where the banking sector is still recovering from the effects of the *1994 peso crash*. "It's a little expensive," says Rubio. Still, he says he can **swing** the weekly $8 payments. In any event, he adds: "I do not really have any other option."

The first new Mexican bank in nearly a decade, Banco Azteca has **set its sights** on a large but underserved segment of the market: the 16 million households who earn $250 to $1,300 a month. They **toil** as taxi drivers, factory hands, and teachers and aren't welcome at most banks, which consider small accounts a nuisance. Even though these workers boast a combined income of $120 billion, only 8% have savings accounts. "This is something a lot of emerging-market countries need: a new source of domestic borrowing for credit-based growth," says Philip J. Guarco, banking analyst for Moody's Investor Services in New York.

The bank, which began operations on Oct. 30, is the **brainchild** of Ricardo Salinas Pliego, head of a $2.2 billion retail-media-telecommunications empire that includes Grupo Elektra, Mexico's largest appliance retailer. The venture seeks to exploit Elektra's extensive store network along with its 50-year track record in consumer finance. Some 70% of Elektra's merchandise is sold on credit, so it makes sense to convert its credit departments in each store into bank branches. Moreover, the company sees little risk in the venture, since it boasts a sterling 97% repayment rate. "We know this segment of Mexican society better than anyone else," says Banco Azteca President Carlos Septién. He forecasts a return on investment of 15% to 20% in its first three years.

Some analysts are skeptical. "The business model is smart, but we believe their projections of growth and profitability are too aggressive," says Joaquin López-Dóriga, an analyst at Deutsche Bank Securities in New York. Meanwhile, the holders of $275 million in Elektra bonds are worried about how the new bank will affect them. They're concerned that they'll be second in line to Banco Azteca depositors if Grupo Elektra hits a rough spot. Partly because of such concerns, Elektra's stock has dropped 16% since the end of October.

Banco Azteca execs are convinced investors will come around. Although the bank may cater to Mexico's lower-middle class, its parent has spared no expense. The group has spent $20 million a year over three years on information technology, including high-tech "fingerprint readers" that eliminate the need for customers to present IDs or passbooks. The bank also commands a 3,000-strong army of motorcycle-riding loan agents. They **tote** Compaq iPAQ handheld computers loaded with Elektra's rich database, which includes customers' credit histories and even names of neighbors who might help track down delinquent debtors.

Septién, a veteran commercial banker, and his 7,200-person staff have **taken pains** to create a welcoming atmosphere. Branches are decorated in the green, red, and white of the Mexican flag and posters with the Azteca motto: "A bank that's friendly and treats you well." Rubio, the carpenter, agreed. "They do treat me well at this bank," he says. For Banco Azteca, it could be the start of a long, and lucrative, relationship.

Geri Smith (in Mexico City)
Source: BusinessWeek online, 2003 January 13

NEW WORDS

General words

In a bind – an informal way of saying that you are in a difficult situation.
Cinderblock – a usually hollow building block made with concrete and burnt coal (i.e. coal cinders).
Gritty – just means dirty, or covered in sand.
Unfazed – not worried about.
Swing – to be able to do something successfully.
Set its sights – a sight is the thing on top of a gun that lets you see your target clearly, so here it means that the company is focusing its sights on this particular segment of the market (i.e. it's targeting this market with its new service).
Toil – to work hard.
Brainchild – an original idea or plan attributed to a person or group.
Tote – just means to carry around.
Taken pains – if you have taken pains it means that you have gone to a lot of trouble to do something.

<u>Business words</u>

Notary fees – fees refers to money paid for a service. In this case the service is that performed by a notary, someone who has the legal authority to say whether a document is valid or not. Without this person's seal, Rubio would not be able to get legal title (ownership) of his house.
Inventory – here it means a detailed list or record of things in one's possession, but it can also be used to talk about a company's stock (i.e. the amount of goods and materials available).
Collateral – property acceptable as security for a loan or other obligation.
Usurious – charging a borrower a very, very high (or even illegal) interest rate for the use of money.
Large but underserved segment of the market – so the company is looking to target a large part (segment) of the market (those people who use banking services), mainly that part that does not receive sufficient services (i.e. it is underserved)
Domestic borrowing for credit-based growth – in the text the analyst is saying that people in developing countries need to be able to borrow money locally (domestically) in order to help grow the country's economy – with this growth coming from money borrowed now but paid back later (i.e. it's credit-based growth).
Retail-media-telecommunications empire – the word "empire" tells us that this company is very big and includes a number of other businesses that are involved in retailing (e.g. Bailian Group), media (e.g. Sina.com) and telecommunications (e.g. China Unicom).

50-year track record in consumer finance – a “track record” is a record of achievement, so here is tells us that the company has a long history of success in offering finance (money) to its consumers.
Merchandise – goods that are bought and sold in business.
Credit departments – if you give someone credit it means you give them a certain amount of time (e.g. between 30 days or even 1 year) to pay back the money, so a credit department is that department within a company that checks to see that everyone is paying back the money when they should.
Sterling 97% repayment rate – here sterling means “of high quality”, so they are saying that the bank does very well in that 97 out of every 100 customers repay the money that they owe.
Business model – a business model is a plan by which a company intends to make money while serving its customers. It includes the plan itself (i.e. the strategy), as well as its implementation.
Elektra bonds – a bond is a certificate of debt issued by a government or corporation (such as Elektra) guaranteeing payment of the original investment, plus interest, by a specified future date.
Delinquent debtors – debtors are those people who owe you money, and if they are delinquent it means that they are late in paying you back.
Commercial banker – simply a person who works in a bank. We would call the Bank of China a commercial bank, whereas a bank like JP Morgan would be an investment bank (used more by companies than individuals).

General Information

Pesos – peso is the name of the currency used in various countries, including Argentina, Chile, Columbia, Cuba and Mexico (where you have the Mexican peso, MXN). One US dollar is equal to about MXN11.
Mexico City – the capital city of Mexico, Mexico City is the second most populous city (i.e. has the second largest population, or number of people) in the world with 22 million people – with Tokyo being number one.
Elektra – Mexico’s largest appliance retailer (with 815 branches in 250 Mexican cities) selling home appliances, electronics and furniture. It has a 32% market share and has been in operation for nearly 50 years.
Banco Azteca – the bank first opened in late October 2002 and was the first new bank launched in Mexico in eight years. It opened its branches in existing Elektra stores, with this existing network greatly facilitating its launch.
1994 peso crash – in 1994 the combination of different factors led to the Mexican peso losing 50% of its value in one week in late December. This event had severe consequences for the country’s business world, as well as its general population, including a GDP shrinkage of 7% in 1995.

QUESTIONS

1. Do you think it's fair that squatters would be able to lay claim to Rubio's house if he were away?
2. Most loan officers would be fazed by Rubio's appearance. Why? Do you think such a reaction is rational or a bit stupid?
3. Why is it a good idea to use Elektra products at Banco Azteca (BA) as collateral for a loan? Why is it a bad idea?
4. Comment on the 48% interest rate that BA charges for its loans.
5. It seems like BA is trying to help Mexico's poor people. Do you think this is true, or are they just out to "make a fast buck" (i.e. make some money quickly, and perhaps unethically)?
6. Pedro Rubio says that he "do(es) not really have any other option". Do you agree with this statement or not? What other options do you think he has?
7. Why are most Mexican banks not interested in serving the needs of the country's low-income earners? What "nuisance" do they present?
8. Why do you think the banking analyst from Moody's says that developing countries need "a new source of domestic borrowing for credit-based growth"?
9. The text mentions that some analysts feel skeptical about this new business venture for BA. What is your feeling about it?
10. "It seems strange that an appliance store would choose to offer banking services." Comment on this statement (not from the text).
11. Why do you think BA's president makes the comment that "we know this segment of Mexican society better than anyone else"?
12. Comment on why Elektra's stock has fallen so much.
13. Why do you think the company has invested so much on things like IT and putting together an "army" of loan agents"?
14. Why do you think the company has worked so hard to create a "welcoming atmosphere" and aims to treat its customers well when they generally don't have a choice and are lower-middle class anyway??
15. Do you agree with the writer's final statement that this "could be the start of a long, and lucrative, relationship" (for BA)?
16. If you were on Grupo Elektra's board of directors, would you have supported this new move into banking or would you have been opposed it, suggesting that the company stick to selling appliances? Give reasons for your answer.
17. Isn't the 16% drop in Elektra's stock price already proof that this new business venture is a failure?
18. Do you think this type of business (offering small loans to poor people) would work well in China?
19. Can you think of some company in China that could also offer banking services to its existing customers? Would it work?
20. Whose responsibility do you think it is to offer banking services to a country's poor population, the state or the private sector?

MODEL ANSWER

6. Pedro Rubio says that he "do(es) not really have any other option". Do you agree with this statement or not? What other options does he have do you think?

I do not agree with this statement made by Mr. Rubio because I think he does have some other options that perhaps he has not looked at yet. Also, he needs to consider what the drawbacks are of taking out a loan from Banco Azteca (BA).

Firstly, we can look at the reason why needs the money. He is afraid that squatters will move into his house, so perhaps what he can do is rent out his house while he is away (making himself some extra money in the process). Or he could ask a friend or family member to stay in and look after his house for a few months.

But let's suppose that this option is not open to him, or that he feels happier getting legal title to his house. The first thing that he could do is save the money himself, putting $8 aside each week. If he does this he will have the amount he needs in only six months, without having to pay around $90 extra to the bank in interest charges. Another option is that he borrows the money from a friend or family member, agreeing to pay them back a certain amount every month. He could pay enough for the other person to make a little profit, while also saving himself some money. Perhaps he could also ask an employer to lend him some money. Some companies offer their employees low-interest loans so there is no harm in approaching his boss to find out.

As such I think there are some other options open that our carpenter has not considered. Further, not only is there the high cost of borrowing money from BA, but Rubio also needs to consider what will happen if some unforeseen event prevents him from paying back the money for some time. He will never be able to borrow money again, while the bank will also probably repossess all his belongings leaving him with a bad track record and an empty house.

C H A P T E R 1 4

Thoroughbreds ride high

More money to be made from horsing around than from racing

Thoroughbred racehorses are riding high as **purse money** grows along with television audiences for the sport made even more popular by Hollywood movies such as "Seabiscuit".

A son of champions Storm Cat and Welcome Surprise sold recently for $8 million, a record price for a *yearling*, underscoring the <u>rising stakes</u> in an <u>industry</u> where **pedigree** and physical attributes are key.

Renowned Japanese trainer Hideyuki Mori offered the winning bid on behalf of an undisclosed client at the Keeneland September Yearling sale in Lexington, Kentucky.

"Their goal in buying the horse is not only for it to be an outstanding racehorse, but, combined with his outstanding pedigree, for it to have tremendous potential as a *stallion* for breeding purposes," said Jim Williams, spokesman for Keeneland Association, the biggest US thoroughbred auction house, whose race course is world-famous.

Annual yearling sales in Lexington, the heart of North America's thoroughbred breeding industry, are a **barometer** of the health of the business.

The record-breaking purchase on Sept. 14 – the fourth highest at any Keeneland auction – helped push gross sales for the day to $87.5 million for 179 horses. With five days left till the end of the auction, sales have already hit $300 million for about 2,000 horses, beating the previous record of $291.8 million in 2000.

Retired race champion Storm Cat's $8 million son was *foaled* on January 28, 2003, but since, by tradition, all horses' birthdays fall on January 1, the yet-to-be-named horse is still regarded as a yearling until January 2005. The colt would be even more valuable at the age of 2 – when horses start racing – if it showed as much promise as its father.

A horse's racing career usually lasts one to three years. "But in the cast of real superstars, if they achieve enough on the racetrack, they become worth so much as a potential stallion that there's a financial disincentive to have the horse continue racing," said Eric Wing, spokesman for the National Thoroughbred Racing Association.

Storm Cat, in his 1985-86 racing career, earned an impressive $570,000. But that was slim pickings compared with the record $500,000 stud fee he now gets, sometimes twice a day, to father foals that *broodmare* owners hope will inherit champion qualities.

Since the **breeding season** lasts from mid-February to around the end of June, even a just-retired champion such as Smarty Jones – with a $100,000 **stud fee** and no proven **progeny** – could easily earn $12 million with daily sessions. The fee would rise if Smarty Jones' offspring turn out to be winners as well.

By tradition, **artificial insemination** isn't practiced.

"That said, there's still a great deal of risk involved," Williams said. "There are no guarantees in our business."

"Buying a broodmare to breed is a safer investment than buying a yearling to race," advised Ric Waldman, a thoroughbred consultant. A female thoroughbred used for breeding may be worth less but also has good resale value, he noted. "If you buy yearlings, it's a **crapshoot**. It's all or nothing, a lottery mentality."

To dilute the risk, investors form partnerships or syndicates, with an average of 40 to 50 shares, to buy stallions for breeding purposes. Racing partnerships for investing in racehorses –with hopes they would retire as stallions – are typically smaller.

Japanese buyers are back in force after a pause, while Irish and Arab participation remains as strong as ever.

"We're at the continuation of an <u>(up)cycle</u> that began 12 years ago," said Waldman, whose largest client is Overbrook Farm, Storm Cat's owner. "It has a great deal of <u>growth potential</u> that has yet to be reached."

Many US states now allow races nationwide to be simulcast, or televised, at individual racetracks for the purpose of betting on them. The amount of money **wagered** has grown, which, in turn, allows racetracks to offer bigger monetary prizes.

For prestige "stakes races", purses – or total prize money for the top five winners – start at $25,000 and go up to $4 million for the Breeder's Cup Classic.

"It can be exciting, frustrating or discouraging," Waldman said. "But that one thrill (of winning) will overcome multiple moments of discouragement and bad luck."

Savvy thoroughbred investors <u>diversify</u>. The buyer of the $8 million yearling at Keeneland also spent $3.4 million for another, in addition to other horses, Waldman noted.

"Most yearling buyers buy a number of yearlings as part of a grand plan. It's not just a one-shot crapshoot."

Richard Chang (Reuters)
Source: Yahoo! Finance, 2004 September 26

NEW WORDS

General words

Purse money – a sum of money offered as a prize.
Pedigree – a record of the ancestry of an individual or, as in this case, an animal.
Barometer – actually an instrument for measuring atmospheric pressure, but word commonly used when the writer wants to show that one thing serves as an indicator (or measure) of another thing.
Breeding season – that time when animals produce offspring (or babies).
Stud fee – the money that someone must pay to the owner of a top male horse for letting that horse have sex with their female horse. In English a "stud" is also used to describe a man who is very popular with woman.
Progeny – one's offspring (child/ren).
Artificial insemination – the process whereby an artificial (i.e. not natural) attempt is made to get a female pregnant.
Crapshoot – actually a gambling game using two dice, but often used to express a situation that is risky.
Wagered – something of value (such as money) that has been bet on an uncertain outcome.
Savvy – someone who is savvy is well-informed and perceptive.

<u>Business words</u>

Rising stakes – stakes is money that is at risk, and here the amount of money that is being gambled is rising or increasing.
Industry – a certain part of an economy that employs a large number of people and capital, and which is a distinct branch of trade (e.g. the horseracing industry, the clothing industry, the car industry).
Gross sales – total sales for a period, before customer discounts and returns have been deducted.
Financial disincentive – a disincentive is something that prevents or discourages action, which in this case would be the loss of money.
Small pickings – a small amount (left after others have taken a share).
Dilute the risk – dilute means to make it weaker, so here it means to reduce the risk.
Syndicates – a syndicate is an association of people formed to do something together (can be some legitimate business activity such as buying a racehorse, but is also used to refer to people doing something illegal e.g. a drug syndicate).
(Up)cycle – financial markets (and most everything in life) move in cycles (go down, come up, go back down again), so an up-cycle is when the market, or an industry, is doing well and is at the top (up) part of this cycle.
Growth potential – businessmen often talk about the "growth potential" of a business or industry. This simply means that it can grow a lot (and therefore make a lot of money) in the future (maybe because it is a new market).

Diversify – to distribute investments among different companies or securities (or horses) in order to limit losses in the event of one failing.

General Information

Thoroughbred – a horse that has been bred from pure blood (i.e. only the best horses) over a long period of time.
Yearling – a thoroughbred racehorse that is one year old, dating from January 1 of the year in which it was born.
Stallion – a male horse that has been kept for breeding (while a colt is just a young male horse).
Foaled – foaled means to give birth to a foal (which is the name for a baby horse).
Broodmare – a female horse used for breeding (where a mare is the name given to a female horse).

QUESTIONS

1. What other non-conventional industries can you think of that generate a lot of money?
2. Comment on all the industries that you think can benefit from horseracing? (To help you, imagine which industries would suffer if horseracing was banned.)
3. Do you think it is crazy or sensible to pay $8 million for a horse?
4. Comment on the situation where top horses are more valuable as producers of other fast horses, rather than being fast horses themselves.
5. Gross sales refers to sales minus discounts and returns. Most shops allow you to return something you are unhappy with. Do you think you should be able to return a horse you are not happy with?
6. How is investing in horses different to investing in stocks?
7. What are the similarities between racehorses and professional athletes?
8. What are the differences between racehorses and professional athletes?
9. Consider the situation where top athletes hired themselves out as "stallions". Consider this hypothetical situation?
10. Why do you think the horseracing industry is so risky?
11. Why is a broodmare a better investment than a stallion?
12. If you had the money, would you invest in a racehorse? Why?
13. If you had the money, would you rather invest in a stallion or a broodmare? Why?
14. In the West it is quite popular for rich businessmen to buy (or buy shares in) a racehorse/s. Do you think they do this as a good investment or because it enhances their egos?
15. Why do you think this type of investment appeals to Japanese and Arabs?
16. Who do you think the big winners in horseracing are? Who are the losers?
17. Do you think its better to have a grand plan, or go for a crapshoot approach?
18. Considering this article, do you think that the industry does have a lot of growth potential?
19. Do you think gambling should be allowed in China?
20. Some people think horseracing is a very cruel sport. What do you think?

MODEL ANSWER

7. What are the similarities between racehorses and professional athletes?

Well firstly they both make a lot of money, and even though you might think that human athletes make money for themselves (unlike horses, who make money for their owners), this may not always be true. Probably, the two-legged athletes have a contract with an agent, who does look after them, but who also takes a hefty portion of earnings in fees for doing so.

Like top racehorses, top athletes are in peak physical condition – training hard every day and eating healthily. However, they are both prone to injuries that could ruin their careers, although an athlete will not be killed if theirs is very serious!

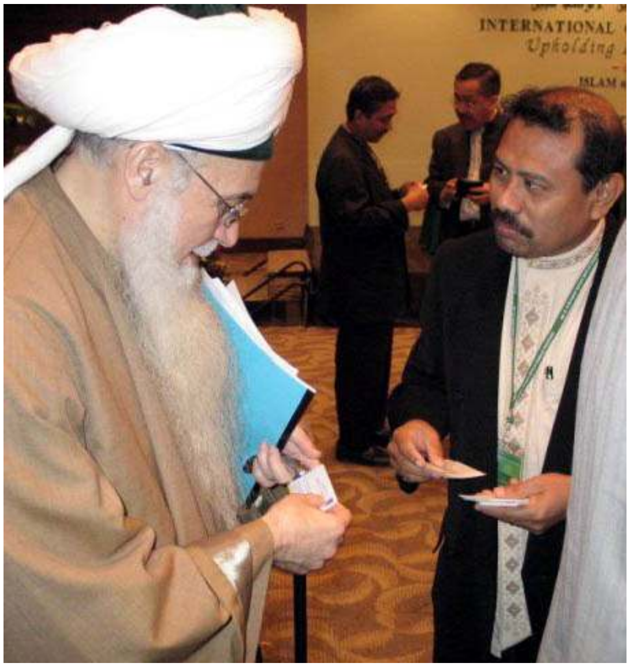
Top athletes and top horses also receive a lot of attention, with both the media and fans chasing after them. Their lives may seem glamorous when presented on TV and in magazines, but perhaps in reality their lives are quite stressful and lonely. And just as horses make more money from breeding than racing, a top athlete these days makes more money from sponsorship deals and endorsements (publicly approving a certain product or service) than from actual competition. Consider Tiger Woods, who makes much more from his corporate sponsor, Nike, than he does by winning golf tournaments.

And lastly, it seems that for both horses and humans, it is the male athletes who gain more financially than the females. This may seem unfair, but for female athletes you can tell them: “Don’t look a gift horse in the mouth”. (This is an old saying that means you shouldn’t be critical of any benefit you receive, even if it is small.)

C H A P T E R 1 5

Offerings for Islamic investors growing

Strict investment rules don't detract from reaping rich rewards



For the millions of Muslims in America who want to conduct their financial lives according to their **faith**, there are few options, especially when it comes to long-term investing.

Islam has strict rules regarding money, including a **sweeping prohibition** on interest, known as *riba*. This puts everything from **conventional** savings accounts and credit cards to interest-bearing or fixed income investments like bonds and Treasuries **off-limits** for faithful Muslims. Islamic law, or *Shariah*, does allow stock investing, however, and a small but growing number of equity mutual funds are targeting Muslims with portfolios that invest only in acceptable, or *halal*, companies.

Devout Muslims do not drink alcohol, eat pork, gamble, consume pornography or accept profits from interest – and any business that profits from these activities is haram, or forbidden. That cuts out the entire financial sector, many retailers, most hotel, restaurant and casino operators, businesses that are heavily leveraged and companies that derive a significant portion of revenues from interest on large cash positions. Makers of weapons and defense products, marketers of tobacco and polluters are also considered unacceptable.

"When you're evaluating a company, what one has to do is not only look at their primary business, but look at their ancillary businesses as well," said Monem Salam, director of Islamic investing at Saturna Capital. "You really have to dig deep into the financials and the annual reports to find this information."

Islamic mutual funds are a **subset** of socially responsible funds, and with the exception of the prohibition on interest, they look a lot like many portfolios that invest with an eye toward Christian values or even environmentalism. Because they tend to avoid industrials and utilities, they often have a growth orientation.

Like socially responsible funds, Islamic funds use a **screening** process to determine which stocks are acceptable. They also consult a panel of scholars, known as a Shariah board, who help decide whether companies are good investments under the teachings of the *Prophet Muhammad*. Energy companies, chemical manufacturers, high-tech concerns and telecom stocks often pass the test.

Globally there are about 130 Islamic mutual funds, but only a handful operate out of the US, including the two offerings from Bellingham, Washington-based Amana Funds. With just $34 million in assets, Amana's growth fund charges a relatively high expense ratio, but its performance shows halal investing doesn't have to come at a cost. The fund is up 5.3% for the year, putting it in the top 5% of all funds in the mid-cap growth category. It's been ranked high for the last three- and five-year periods, as well, **handily** beating overall the *Standard & Poor's 500 index*.

There's also the Dow Jones Islamic Fund, a basket of almost 300 companies, including many US companies found in the Dow Jones Islamic Market, a global family of about 80 indexes launched in 1999. This fund, which has a more **palatable** expense ratio, is about 80% passively managed and about 20% actively managed. It's down 2.89% for the year, but has posted above-average returns for the past three years.

Dow Jones uses a four-step screening process to determine which companies to include in its index, which is widely watched by Islamic investors who want to know which stocks are acceptable under Shariah law. The first step is to eliminate any companies that derive more than 5% of their income from **incompatible** businesses; the second is to exclude companies with total debt-to-market capitalization ratios greater than 33%. The third screen excludes companies with interest revenues-to-market cap ratios of more than 33%, while the fourth excludes companies where accounts receivables are greater than 45% of total assets.

The result is a list of about 1,500 companies from around the world. Some of the largest US holdings include Exxon-Mobil, Microsoft, Pfizer, Johnson & Johnson and IBM. Among those excluded are General Electric, which has a large financial services unit, Wal-Mart Stores, because it sells alcohol and pork, and Verizon Communications, which failed the debt portion of the financial screen.

The financial screens used by Islamic funds are the sort of thing any smart investor might apply, said David Kathman, a fund analyst with Morningstar Inc.

"The Amana fund is not a bad choice as a mid- to large-cap growth fund for anybody, which shows you don't have to give up performance," Kathman said. "But given its growth orientation, you should keep in mind that when there's a bear market, it's not going to do as well. That's true of SRI (socially responsible investing) funds in general. They perform differently… and as long as you understand that, it's fine.”

Meg Richards (AP Business writer)
Source: Reflector.com, 2004 September 29

NEW WORDS

General words

Faith – what someone believes in; in this case a belief in Islam.
Sweeping prohibition – sweeping here means complete and prohibition is a law or order that forbids (disallows) something.
Conventional – just means the accepted or normal way of doing something.
Off-limits – cannot be used by certain people. For example: ”The teacher’s dining room is off-limits to students.”
Devout – devoted to one’s religion; aims to fulfill one’s religious obligations.
Subset – a set is group of common things (e.g. funds), with a subset being another collection of things forming part of the original set.
Screening – a process used to choose only those things (or people) that you want.
Handily – in an easy manner.
Palatable – simply means acceptable, with its true meaning being found in food – e.g. this food is palatable (can be eaten) or unpalatable (cannot be eaten).
Incompatible – different and therefore cannot be mixed together.

Business words

Bonds and Treasuries – a bond is a certificate of debt issued by a government or corporation guaranteeing payment of the original investment, plus interest, by a specified future date. A treasury is just a bond that is backed by the US government and issued through the Department of the Treasury.
Stock investing – simply investing in the stock market, such as the New York Stock Exchange (or the Shanghai Stock Exchange).
Equity mutual funds – a mutual fund is where a number of different people give their money to a manager (called a fund manager) who then invests the money for them. He can invest in anything he likes, but here it would just be in equity (i.e. stocks).
Financial sector – here a sector just means a part of the economy, so the financial sector is that part that deals with finance (such as banks and investment houses).
Leveraged – if a company is highly leveraged it means it has borrowed a lot of money, and therefore has a high debt to equity (D:E) ratio. Also sometimes referred to as “gearing”.
Large cash positions – a cash position is the amount of money (large or small) held by a company or investor in cash. Maybe the investor (fund manager) has a large cash position due to a current bear market (see below).
Primary business – primary just means main or most important business (while ancillary businesses refers to secondary, or less important business).
Financials – refers to the financial information released by a company. It includes the firm’s Income Statement and Balance Sheet, which are printed each year by public companies in their annual reports.

Socially responsible funds – these are funds that invest in companies that do not do objectionable things, such as pollute the environment, exploit workers, or kill animals.
Industrials and utilities – an industrial company is one that manufactures products, while a utility company is one that provides customers with water, gas or electricity (usually owned by the government).
Assets – an asset is any item of economic value owned by an individual or corporation, especially that which could be converted into cash. Examples are cash, securities, accounts receivable, inventory, office equipment, property.
Expense ratio – refers to that percentage of a mutual fund's assets that are used for operating costs (including management fees).
Mid-cap growth – cap refers to market capitalization – basically the price of company, worked out by multiplying its shares by the current price of those shares. Companies are then divided into large (over $5 billion), medium ($1-5 billion), small ($250 million to $1billion), or micro (below $250 million) caps.
Basket – just means a collection of similar things.
Indexes – an index is a statistical indicator (sign) which shows the value of the securities which make it up. For an example refer to the S&P 500 index below.
Passively managed – means that the manager doesn't do any work, just lets that 80% remain invested as first decided. The other 20% will be actively managed though, which means that the manager will maybe sell some of the stocks while buying up others.
Returns – just the reward you get in return for your investment.
Total debt-to-market capitalization ratios – this phrase seem complicated but you have already leant market cap, so it just means how much debt does the company have in relation to its market price. Similarly, interest revenues-to-market cap ratios refers to the ratio of money that a company earns in interest in relation to its market cap.
Accounts receivables – money owed to a company by customers who were allowed to buy goods on credit (i.e. when you get now but pay later).
Bear market – a bear market refers to the situation when the prices of stocks are generally going down. Now (2004) Shanghai is in a bear market. The opposite is a bull market where stock prices are generally on the increase.

General Information

Riba – an unjust return, such as interest.
Shariah – Islamic law, based upon defined sources and methods of determining precedent (making a decision that will determine all future decisions). The primary source is the Muslim holy book, the Quran (also spelt Koran). Secondary sources include the Sunnah, a collection of the words and actions of the Prophet Muhammad (see below).
Halal – anything considered acceptable under Islamic law. Fish, for example, is acceptable, while Muslims can also eat sheep, cow or chicken as long as the animal has been killed in a certain way. If you look at such food in the supermarket you might see a small mark on it saying that it is halal. The opposite

of halal is haram – anything forbidden under Islamic law (such as eating pork, or reptiles).

Prophet Muhammad – Muhammad was the founder of modern-day Islam, and is revered by Muslims as the final prophet of God. He is often respectfully referred to as "messenger of God", and his name is usually followed in speech and in writing by the phrase "peace be upon him". According to his biographies he was born in Mecca in 570, and died 62 years later (in 632).

Standard & Poor's 500 index – usually referred to as the S&P 500, this index refers to the performance of 500 US corporations, ordered by market capitalization. Many people are interested in its performance because it is an indicator or how well the US economy is doing.

QUESTIONS

1. Why do you think Islam has a sweeping prohibition on interest? What is your feeling about this prohibition?
2. How do you think these strict rules affect a Muslim's everyday life?
3. Do you think it is wrong to invest in those companies that make weapons and defense products? Why or why not?
4. Do you think it is wrong to invest in companies that pollute the environment (such as oil companies)? Why or why not?
5. Do you think it is wrong to invest in tobacco companies? Why or why not?
6. Do you think it is wrong to invest in casinos? Why or why not?
7. Not only are people choosing not to invest in ethically questionable companies, but they are also choosing not to work for them? What is your feeling about this (especially considering China's competitive job market)?
8. In America you can invest in a Vice Fund (basically a fund that invests only in "bad" companies). Would you invest in such a company considering that it posted a 1-year return of nearly 34%?
9. Why would industrial and utility companies not have a growth orientation?
10. Why do you think Islamic funds are happy to invest in energy companies, chemical manufacturers, high-tech concerns and telecom stocks (discuss each one in turn)?
11. Are you surprised that the Amana fund performs well? Why or why not?
12. Why do you think the Dow Jones Islamic Fund excludes companies that derive more that 5% of their income from incompatible businesses?
13. Why do you think the Dow Jones Islamic Fund excludes companies with total debt-to-market capitalization ratios greater than 33%?
14. Why do you think the Dow Jones Islamic Fund excludes companies where accounts receivables are greater than 45%?
15. Why might any fund not wish to invest in companies that derive more that 5% of their income from incompatible businesses?
16. Why might any fund not wish to invest in companies with total debt-to-market capitalization ratios greater than 33%?
17. Why might any type of fund wish to exclude companies with interest revenues-to-market cap ratios of more than 33%?
18. Why might any fund not wish to invest in companies where accounts receivables are greater than 45%??
19. Do you see any moral or ethical problems with investing in Exxon-Mobil (oil company), Pfizer (makers of Viagra) Johnson & Johnson (health care), Microsoft or IBM?
20. Why would the Amana fund (or SRI funds in general) do badly in a bear market?

MODEL ANSWER

8. In America you can invest in a Vice Fund (basically a fund that invests only in "bad" companies). Would you invest in such a company considering that it posted a 1-year return of nearly 34%?

This is a difficult question to answer. If you look at it from a purely monetary decision it would be silly to invest in something like the Amana Fund with its 5.3% return, as compared to the Vice Fund with its 34% return. Looking at it from a "numbers" point of view one would have to go with the higher return. However, life is not all about numbers, or rather it should not be in my view. We also have to factor in morality. I could also benefit myself by stealing something, but that would be wrong. Of course it would be illegal too, whereas investing is not, so this is what accounts for the difficulty. In the end it all comes down to one's personal set of values, but I would have to say that I would rather go for the lower return because of the gains to be made in other areas (such as a clear conscience).

And it is not only me who feels this way. If you look at the statistics it is clear that a lot of other people feel the same. One out of every eight dollars under professional management in the US is involved in SRI, with Americans investing over $2 trillion in SR investments. People obviously want to make a return, but not at any cost.

There is of course a strong argument to be made for going with the Vice Fund, an argument that would be supported by no less than the father of modern economics, Adam Smith. He advocated the free market principle stating that the best way for an economy to work is for the market, not government officials, to decide everything. His "invisible hand" theory states that free competition will ensure that people's self-interest is transformed into the common good. Indeed, when one looks at the disastrous results of market intervention throughout history one tends to agree with him. According to Smith then one should invest in the Vice Fund if it offered you the best return on the market.

I understand and agree with the free market principle but the free market is also about choice and I (as do many others) personally choose not to invest in funds or companies that cause death (cigarette or defense companies), hardship (casinos) or pollution (oil companies). This is because my choice might move the invisible hand in such a way that it forces such companies out of business, or forces them to improve their practices.

C H A P T E R 1 6

China curbs its boom with fine tuning and supply bottlenecks

Tough job for policy makers who need to cool China's runaway economic fire on one hand, while still keeping it hot for new job seekers on the other

For those who manage China's economy, or for those who simply bet on it, understanding what is going on can be just as hard as figuring out what to do next.

Over the past year, Chinese policy makers have focused on **heading off** what they saw as a dangerous **bout of overheating**. With bank lending, fixed asset investment and other indicators all running hot, Beijing in late 2003 began to **phase in** a variety of controls and **tightening measures**.

Through administrative **decrees**, some forms of bank lending have been **curtailed**, especially to certain fast-growing key sectors such as the automotive, real estate, cement and steel industries. Banks have also been required to maintain higher reserve ratios.

Meanwhile, officials have been **clamping down** on illegal, redundant, or **grandiose** projects ranging all the way from steel mills to golf courses. Officials at the *Ministry of Land and Resources* have this year (2004) suspended 4,800 illegal *"development zones"* that were being built across the country. According to state-run media, the ministry has also canceled 4,150 other projects that it deemed to be in violation of "the nation's macro-regulation policies". Even China's most treasured **prestige** project – its preparation for the *2008 Beijing*

Olympic Games – has felt the **slowdown**. City officials have announced a new design for the 100,000-seat main Olympic stadium, which will use only half the steel originally planned, and cost $36 million less.

The government has begun cautiously claiming success for its slowdown efforts, **citing** such key indicators as fixed asset investment growth, which slowed from 43% in the first quarter of this year to a somewhat less alarming level of 22.3% in the second quarter.

Some foreign economists share China's optimistic view. A report by the *Asian Development Bank (ADB)* predicts that China will "succeed in cooling off an overheated economy and achieve a soft landing". The ADB sees China's GDP growth rate slowing to 8% in 2005, from 8.8% this year (2004).

But other analysts argue that any slowdown has been caused by factors such as reduced speculation or bottlenecks in commodity and energy supplies. China's economy, they warn, is still built for high speed, and there may be no easy soft landing in sight.

Andy Xie, a Hong Kong-based economist with Morgan Stanley, said overall loan growth in China "is still substantially above trend one year after the tightening began". Annual energy consumption is rising by up to 17%, while imports of crude oil and refined products are growing even faster, meaning China will be increasingly sensitive to higher global oil prices.

"Evidence suggests that the tightening has had only a limited impact so far," Xie said. If it remains unclear how successful China has been in its efforts at macro-tightening, it is likewise unclear how successful it can afford to be. Balanced against any risk of overheating is China's pressing need to sustain a growth rate that will provide jobs for the 15 million to 20 million new job seekers entering the workforce each year, and also for as many as 150 million surplus rural workers. Chinese economists and senior officials say 7% is a minimum acceptable annual growth rate. Below that, unemployment and dissatisfaction could **gravely** threaten social stability.

Apart from any impact of macro-control measures, infrastructure and supply bottlenecks are an **extra drag**. China's rail capacity already falls far short of freight demand. Coal deliveries are especially hard hit, leading to power shortages and factory closures across the country. Ports too are already **congested**, and the growth of port throughputs is projected to exceed new port capacity for at least the next five years.

Even if transport bottlenecks are resolved, commodity supply issues will remain. China's consumption, and imports, of oil, copper and nickel are all rising strongly. Last year, China accounted for one-half of global cement consumption, and about one-third of all steel and coal consumption.

Economies around the globe feel the upward pressure on commodity prices resulting from Chinese demand. But it is through **skyrocketing** foreign trade and investment flows that China truly makes its mark elsewhere.

In the first half of this year, Chinese exports rose by more than 35%, to $258 billion, and imports grew even more, rising 42% to nearly $265 billion. In countries like Japan, South Korea, Singapore and Thailand, all of which run trade surpluses with China, the continued steady performance of the Chinese economy is **vital**. Studies by the ADB show that a slowdown in Chinese GDP growth from the projected level of 8% to an actual level of 6% in 2005 would result in a 0.24 percentage point drop in global economic growth. But for South Korea or Singapore, the impact would be as much as a 0.43 percentage point drop.

These countries are therefore especially pleased with Beijing's new readiness to explore **regional and multilateral cooperation**. After years of avoiding multilateral deals, China has started to consult with Japan, South Korea and Southeast Asian nations about the possibility of free trade agreements. Since joining the *World Trade Organization (WTO)*, China has offered some clues as to how far it will bend to external demands for liberalization. With some **foot-dragging**, China is reducing trade barriers to meet its WTO obligations. At the same time, it continues to resist all pressure to raise the value of its currency, the yuan, or make it convertible. The yuan now trades only in a very narrow band, and after observing the **havoc wrought** by currency speculators during the 1997 Southeast Asian financial crisis, Chinese policy makers see little reason to sacrifice that protection in exchange for better access to foreign capital. With foreign exchange reserves in excess of $470 billion, and with nearly $34 billion in new **actualized** foreign direct investment in the first half of this year, they are probably right.

Ted Plafker (correspondent in the Beijing bureau of The Economist)
Source: IHT online, 2004 October 01

NEW WORDS

General words

Heading off – try to block the progress of something.
Bout of overheating – bout means a period of time, and overheating (or running hot) means that the economy is growing too quickly (i.e. its getting too hot).
Phase in – to introduce in stages (i.e. one at a time).
Tightening measures – strict actions (e.g. being tougher when granting licenses). The opposite of tight would be loose, where the government would be more relaxed in its approach.
Decrees – an order that has the same force as law.
Curtailed – reduced, or cut short.
Clamping down – to become more strict or repressive.
Grandiose – something that is impressive because it is very big, but big in an exaggerated way resulting in disapproval.
Prestige – widely recognized and important.
Slowdown – simply means slowing down.
Citing – to use as an example, or for support.
Gravely – just means seriously.
Extra drag – drag here means something that impedes or slows progress.
Congested – just means overcrowded.
Skyrocketing – rise very rapidly (quickly) and suddenly.
Vital – necessary to the continuation of life.
Regional and multilateral cooperation – this means cooperating (working) together on a regional level (i.e. within a certain region, say East Asia), or with a number of other nations (or parties).
Foot-dragging – failure to take prompt or required action.
Havoc wrought – havoc is “widespread destruction” and wrought here means “created”, so destruction caused by currency speculators.
Actualized – to realize in action, or to make real.

Business words

Indicators – various statistical values (such as bank lending and fixed asset investment) that together provide an indication of the condition (or direction) of the economy. Other examples include inflation rate, unemployment rate, imports and exports.
Reserve ratios – when you deposit money at the bank the bank then takes this money and lends it to others. However, governments make sure that a certain amount of money is kept in reserve in case many customers suddenly want to withdraw their money. They do this by telling banks that a certain amount of money – expressed as a ratio of all money deposited in the bank – must be kept in reserve.
Macro-regulation policies – there are lots of references in this passage to “macro”, including macro-tightening and macro-control. If you remember back to

Chapter 10, macroeconomics ("macro" means big) is that part of economics that refers to the entire economy of a country. The government then implements policies and controls at the macro level to try and create the best conditions (economic growth, price stability, full employment) for its people. The opposite of macroeconomics is microeconomics ("micro" means small), with microeconomics dealing with things at the company and individual level.

First quarter – if you remember back to Chapter 3 it was mentioned there that in business years are divided into quarters of three months each; so the first quarter refers to the first three months of the year.

Economists – smart people who know a lot about economics; economics itself being a social science that deals with the production, distribution and consumption of goods and services.

Reduced speculation – speculation refers to the situation (here decreasing) where people take above-average risks to achieve above-average returns, generally during a relatively short period of time.

Bottlenecks – something that slows down progress or production (e.g. an electricity plant that can not generate enough electricity for all the businesses in a certain area will create a bottleneck to economic development).

Loan growth – simply the increase in money being lent out (which here is "above trend", meaning it is above the general direction it was moving in before, no doubt upwards).

Freight demand – freight is commercial goods transported by a large vehicle, often a train. So "freight demand" is the demand for goods to be sold.

Commodity supply – a commodity is something you can trade, usually an agricultural or mining product that can be processed and resold. China needs a continuous supply of different commodities (such as oil and steel) to keep pace with its economic development.

Consumption – the act or process of using up something.

Upward pressure – just means that there is pressure on things (such as prices) to move upwards. If there is a big demand (by China) for commodities, then this will tend to push prices higher.

Percentage point – a percentage point is basically equal to 1% but is used to be exact. This is because, technically speaking, if the bank rate was 10% and was then reduced by 1% the new rate would be 9.99%; whereas if it were reduced by one percentage point the new rate would be 9%.

Liberalization – to make more liberal, i.e. less strict.

Trade barriers – a barrier is something that gets in the way, so a trade barrier is something (such as a high import tax) that gets in the way of trade.

Convertible – means it can be converted (changed) into another currency.

Narrow band – this was explained in Chapter 1 but to remind you, the value of most currencies in the world are determined by the market, but in China the government controls the value of the currency and "pegs" (fixes) it against the dollar at roughly 8:1. However, it does allow the yuan to trade in a narrow band of between 8.276 and 8.280. If it were allowed to trade between 7.3 and 8.3 we could say it trades within a wide band.

Currency speculators – earlier we looked at the meaning of speculation. Here currency speculators are investors who take high risks by investing in different currencies, gambling that the price will either go up or down resulting in them making a nice, fat profit.
Foreign exchange reserves – just as banks will maintain reserves, so too will countries maintain foreign currency reserves (so as to enable them to pay for imports from abroad, for example).
Foreign direct investment (FDI) – FDI is where foreign companies invest in a country by buying physical assets (such as plant and machinery). Host governments prefer this type of investment to equity investment as stocks can easily be sold whereas FDI shows a long-term commitment to the country.

General Information

Ministry of Land and Resources – China's Ministry of Land and Resources (MLR) was established in 1999 and is headed by Minister Sun Wensheng. It is responsible for protecting the country's farmland and forests, while providing for more rational development of urban areas, integrating transportation, energy, public works, environmental protection and community health.
Development zones – the development of China's industrial parks first started in late 1984 when the government approved the first batch of 14 development zones in 12 coastal cities. They were to provide preferential tax policies to foreign investors who injected capital into these designated zones. The success of these zones encouraged governments at various levels to set up more. By the end of 2003, there were nearly 7,000 various development zones, with the government suspending 4,800 of the zones (about 70% of the total number) in 2004.
2008 Beijing Olympic Games – the 2008 Summer Olympics will be held in Beijing in August 2008, with the opening ceremony to take place at 8pm on August 8, 2008 (a lot of lucky 8s here). Beijing was elected host city in 2001 in a competition with Istanbul, Osaka, Paris and Toronto.
Asian Development Bank (ADB) – the Asian Development Bank (ADB) is a non-profit finance institution with many Asian governments as shareholder members who are also the recipients of funding where appropriate. It was founded in 1966 with 31 member states and has now grown to include 63. Its headquarters are in the Philippines, but the bank is always led by a Japanese president appointed by the Japanese government.
World Trade Organisation (WTO) – the World Trade Organization (WTO) is an international organization which oversees a large number of agreements defining the "rules of trade" between its member states. It was created on 1 January 1995 to replace the General Agreement on Tariffs and Trade (GATT). WTO headquarters are located in Geneva, Switzerland. As of 12 December 2004, there were 148 members in the organization, including China who joined in December 2001. All WTO members are required to grant one another "most favored nation" status, such that trade concessions granted by one WTO member to another country must be granted to all WTO members.

QUESTIONS

1. Why do you think it is difficult to understand what is going on with the Chinese economy?
2. Why do you think China is so “hot”?
3. Why would a “hot” economy be dangerous? Surely growth is a good thing?
4. Why do you think banks have been required to maintain higher reserve ratios?
5. Why would the government suspend development zones, considering the contribution these zones have made to China’s growth?
6. Can you explain this sentence: “[S]ucceed in cooling off an overheated economy and achieve a soft landing.”?
7. Explain in plain (simple) English paragraph seven.
8. There are still many poor people in China. Do you think there are enough resources in the world to provide all of its inhabitants with a comfortable standard of living?
9. The price of oil is currently very high (over $40 a barrel; December 2004). What is the danger or fluctuating oil prices for China?
10. Why do you think tightening efforts by the government have only had limited effect?
11. Explain the difference between macro-controls and micro-controls (using examples).
12. For how many more years do you think China can maintain such a high GDP growth rate?
13. Even with China’s “hot” economy many university graduates find it difficult to get jobs? What is the reason for this and can you think of a solution to the problem?
14. Whose responsibility is it to ensure that there are enough jobs: government, business, individuals themselves?
15. What can China do to solve its bottleneck and capacity problems?
16. Do you think China is growing too fast, without taking into account other things (such as the environment, or quality of life)?
17. Why do you think China does so much trade with other countries?
18. Why do you think China “continues to resist all pressure to raise the value of… the yuan, or make it convertible”?
19. In English we sometimes say: “If a giant coughs everybody else will catch a cold.” Do you think this is a good way to describe the current situation with China?
20. Do you think China will be the next superpower (after America)? If no, why? If yes, do you think this would be a good thing and why?

MODEL ANSWER

5. Why would the government suspend development zones, considering the contribution these zones have made to Chinese growth?

At first it may seem strange that the government would suspend such zones, seeing how they have helped create the economic powerhouse that is China today. However, I would guess that there are a number of reasons for the Chinese government's actions.

Firstly, as mentioned in the article, these zones are illegal and therefore the government is obligated to close them down if it wants people to respect the rule of law. Secondly, the Ministry of Land and Resources is responsible for protecting the country's farmland and forests. Perhaps these zones were being developed on land at a cost to local farmers and/or at a cost to the environment.

A third reason could be that badly managed zones are causing damage to China's international reputation. Lets' say a development zone invites foreign investors to invest. These companies then build factories there but encounter many problems along the way, leaving them with a bad impression of China. If this is the case they might then decide to take their money elsewhere in the future. This bad experience might simply stem from the fact that the zone is not legitimate and therefore not being run in a professional way. Some illegal zones might be doing well, but perhaps the government thinks it best to have controls in place so as to ensure that things are done in a proper manner.

The last reason is obviously the one given in the article, that because China's economy is so hot, the government wants to clamp down on these zones. This is not because they are doing anything bad, but just because by closing them down the government will be able to help slow the country's fast pace of economic development.

Whatever the reason, 4,800 zones is certainly a big number and one wonders what impact this will have on the companies and workers affected.

C H A P T E R 1 7

IBM's Chinese adventure

The PC business deal with Lenovo gives both sides something they need. Making this cross-cultural company work, however, will be a challenge

In a deal that could **rock** the computer world, *IBM* has agreed to sell most of its $12 billion-a-year Personal Systems Group to China's Lenovo for $1.75 billion. This is no traditional transaction. *Lenovo* will relocate its world headquarters to New York, and it will be run by a pair of **veteran** IBM executives, and Big Blue will take a minority ownership stake in Lenovo. It's **akin** to a joint venture, though legally it's a sale.

The deal, announced after the US markets closed on December 7, brings to an end 13 months of on-again, off-again talks. According to a source close to the negotiations, things almost broke down in September when IBM's Personal Systems Group, which is predominantly PCs, rang up outstanding results – with revenues rising 17%, to $3.3 billion, on strong sales of ThinkPad mobile computers. After **mulling** it over, however, IBM's chief executive, Samuel Palmisano, decided to go ahead with the deal, the source says.

The transaction makes sense for both sides. With it, IBM gets to keep selling PCs while no longer owning a PC division that has been **a drag** on its earnings. Lenovo, which has essentially been **bottled up** in China, buys itself a global PC company. "Lenovo gets what they want – a worldwide presence. And IBM gets what it wants. They still have a product offering for their large accounts, but they don't want to be manufacturing **commodity** machines," says Phillipe de

Marcillac, senior vice-president for international business at tech market researcher IDC.

WORKABLE MODEL. IBM has had a **wild ride** in the PC business. Big Blue gave the nascent industry credibility in corporations when it introduced the first IBM PC in 1981. IBM dominated the industry in the 1980s before losing the leadership first to Compaq Computer and then to *Dell*. After suffering huge losses, IBM finally came up with a workable business model in the past couple of years. It sold off manufacturing plants and outsourced most of its production to *Sanmina-SCI and Solectron*.

Lenovo has it own ups and downs. It's the dominant PC player in China, with a 27% market share, but efforts to expand into servers and services haven't been successful. It has been slowly losing market share – partly to Dell, which is strong in corporations, but also to IBM, which is No. 1 in mobile computer sales in China. Combined, Lenovo and IBM held about one-third of the country's overall PC unit sales in the third quarter.

A key advantage for IBM is that the deal takes the PC business off its books. In the first nine months of this year, the PC group reported just a $70 million pretax profit on $9.4 billion in sales. Analysts say IBM can improve its overall operating margins by getting rid of the PC business, but it will still be able to potentially profit as a reseller of PCs. Right now 35% of IBM's PC sales go through Big Blue's sales force and its online store, and the rest go through its thousands of resellers.

STRANGE MOMENT. But the deal is no **panacea** for IBM or Lenovo. For starters, the combined operations still won't be able to match the efficiencies at Dell – which is a build-to-order business, while Lenovo will still predominantly makes PCs based on forecasts and sell through distributors.

Also, culture clash is a tremendous risk for an organization that will be part Chinese and part American. Lenovo will be run day-to-day by Stephen M. Ward, as CEO, and Fran O'Sullivan, as *chief operating officer*. Ward is now senior vice-president and general manager of IBM's Personal Systems Group, which includes point-of-sale devices and printers as well as PCs. O'Sullivan is now general manager of the personal systems division – the PC part. The Beijing-based chairman will be Yang Yuanqing, who is now CEO and vice-chairman. Lenovo's current chairman will retire.

How will the company integrate its operations and who will truly be in control? "The biggest challenge will be how it is managed," says IDC's de Marcillac.

Can Lenovo and IBM pull it off? It will be interesting to watch. This is a strange moment. An **icon** of Western capitalism is marrying a company that's partly owned by the Chinese government. Weird. But also a sign of the times in this evolving global marketplace.

Steve Hamm (senior writer for BusinessWeek in New York)
Source: BusinessWeek online, 2004 December 08

NEW WORDS

General words

Rock – just means to upset.
Veteran – someone who has a lot of experience.
Akin – similar to.
Mulling – think about for a long time.
A drag – causing delay.
Bottled up – confined or trapped.
Commodity – some general thing that can be made and resold.
Wild ride – a crazy time. Instead of everything being ”smooth sailing”, the company has had many ups and downs; just like a wild ride at an amusement park where some parts are exciting while others are very scary.
Panacea – a remedy that can fix any problem.
Icon – an image or representation.

<u>Business words</u>

Minority ownership stake – this is where a company (IBM) owns a part of another company (Lenovo), but it is a small part (less than 50%), so they will not have control over the company and the way in which it is run.
Joint venture (JV) – a cooperative business agreement (or partnership) between two or more parties that is usually limited to a single enterprise and that involves the sharing of resources, control, profits and losses.
Markets closed – here markets refers to stock markets, which in America close at 4pm EST (Eastern Standard Time) each week day.
Nascent industry – we have looked at industry before (a part of the economy, such as that part dealing with computers) with nascent meaning emerging or coming into existence.
Outsourced – this refers to the increasingly popular trend today where companies send out work (usually such things as cleaning, security, catering) to an outside provider, or manufacturer, in order to cut costs.
Off its books – here “books” refers to the company’s financial reports, such as its Balance Sheet and Income Statement. If something is “off its books” it means it no longer forms part of these statements, sometimes with beneficial results (as is the case here with IBM).
Operating margins – the technical definition is: operating income divided by revenues, expressed as a percentage. More simply it is just the amount of profit

you make on the stuff that you sell. For example, if it costs you RMB1 to make something and you sell it for RMB3 you have a high margin, but if you only sell it for RMB1.10 then you have a small margin. Supermarkets for example operate on small – or thin – margins, but they make a profit by selling lots of stuff (they are a high volume business).
Reseller – someone who buys goods from a manufacturer and resells them to customers unchanged.
Efficiencies – where one is efficient (i.e. ratio of output to input is high).
Forecasts – forecasts are estimates of future trends made by examining and analyzing available information.

General Information

IBM – commonly called Big Blue, IBM first started in 1888. Headquartered in New York state, the company manufactures and sells computer hardware, software and services. With over 300,000 employees worldwide and revenues of around $90 billion (2003), IBM is the largest information technology company in the world. In recent years, services and consulting revenues have been larger than those from manufacturing.
Lenovo – formerly known as Legend, Lenovo is the largest personal computer manufacturer in China, and as of 2004 is the eighth largest in the world. Along with PCs, Lenovo sells servers, handheld computers, imaging equipment and mobile phone handsets. Lenovo also provides information technology integration and support services, while offering Internet access through its FM365.com portal. Legend Group Holdings, which is controlled by the Chinese government, owns a majority stake in Lenovo. Its 2003 revenue was US$2.59 billion, which was less than US PC vendors like IBM (92.84B), Hewlett-Packard (78.37B), Dell (45.38B) and Apple (6.2B).
Dell – founded by Michael Dell in 1984, while he was a freshman at university, Dell is a computer manufacturer based in Texas, USA. The company was successful so Dell dropped out of university at the age of nineteen to run it full-time. In 1999 it overtook Compaq to become the largest seller of personal computers in the US. In 2002 Dell lost the lead to Hewlett-Packard – which acquired Compaq in the same year – but took the top spot again the following year. Dell has an efficient direct business model (building computers to order) which helps keep inventory costs low by cutting out the middleman.
Sanmina-SCI and Solectron – both companies are Electronics Contract Manufacturers, which means that they manufacture products (such as computers) on behalf of other companies (such as IBM).
Chief Operating Officer (COO) – a chief operating officer (or COO) is a corporate officer responsible for management of day-to-day activities of the corporation. The COO is one of the highest-ranking members of an organization, monitoring the daily operations of the company and reporting to the chief executive officer directly.

QUESTIONS

1. Why would IBM sell a $12 billion-a-year business for only $1.75 billion?
2. Why could the deal rock the computer world? What do you think about the deal?
3. Often deals that look good on paper don't work out in reality. What is your feeling about this in relation to this particular deal?
4. Why do you think IBM outsourced most of its production to others?
5. Why do you think Lenovo was unsuccessful in its efforts to expand into servers and services?
6. Why do you think Lenovo is losing market share to other PC manufacturers in China?
7. Does it surprise you that IBM is the number one mobile computer seller in China?
8. Why do you think IBM makes such a little profit on such high PC sales?
9. Why do you think the writer says the deal is no panacea for the two companies?
10. Why don't other computer companies switch to Dell's direct model if it is so much more efficient?
11. How do you think the new company will integrate its operations? Do you have any ideas on the best way to integrate?
12. Do you agree that the biggest challenge will be how the company is managed?
13. How big a factor do you think culture will be in the future?
14. Comment on the writer's statement that "[t]his is a strange moment".
15. In 2003 IBM's revenue was US$92.84 billion whereas Lenovo's was only US$2.59 billion. Does it make sense that Lenovo buys IBM?
16. Many mergers and acquisitions fail, what do you think will be the future of this acquisition?
17. If you were to buy a computer, which brand would you choose and why?
18. What do you think of Lenovo computers? In what ways do you think they (or the company itself) can be improved?
19. How do both sides benefit from the deal? In what ways could they suffer?
20. Although Lenovo are the buyers, two Americans are running the company? Why do you think this is?

MODEL ANSWER

4. Why do you think IBM outsourced most of its production to others?

I think IBM outsourced most of its production to others because this then allows them to concentrate on those areas where it excels, such as marketing or R+D (research and development). This is common for businesses today. You might hear people talking about their “core competence” when talking about outsourcing. This means that companies will look at what it is that they do best (such as marketing) and then outsource its other functions to companies that can do these things better than them. It looks at what sets it apart from others and then focuses its attention there. Maybe its core competence is in design, or engineering, or marketing. It will then focus on these areas while finding other companies whose core competence is in activities that need to be done, but not necessarily by the company itself.

When outsourcing first became popular companies outsourced non-essential tasks to others, such as cleaning, or security, or catering. Usually companies need to do these things but they are not an important part of the business. Better then to just pay others to do it. It saves the company the hassle while also allowing it to get a much better service at maybe even a lower cost.

Over time though people started outsourcing more essential functions, such a manufacturing. Companies such as Nike, Coca-Cola and IMBM all realised that they are good at marketing but that perhaps other companies can do a better job of manufacturing, so they then outsourced this function to them. Of course there will be some concerns about giving up control over such an important part of the business, but quality, delivery and level costs can be ensured by signing watertight contracts with the contract manufacturers, who themselves have a core competence in manufacturing. In the end everyone does what they do best, while the customer is provided with what they want. It is a win-win-win for all three parties.

C H A P T E R 1 8

A java jolt for Dunkin' Donuts

CEO Luther has launched an ambitious growth plan. Can he take on Starbucks?

After complaints that *Dunkin' Donuts* had become a sleeping giant, Jon L. Luther was recruited 2 years ago by the company's parent, Allied Domecq, to revive the **venerable** chain. At that time *Krispy Kreme Doughnuts*, with a **cult-like** following for its sugary doughnuts, was running circles around it. In coffee, Dunkin' hadn't even bothered to offer the lattes that gave *Starbucks* its buzz. And while it was a **powerhouse** in the certain areas, much of the US was ignored.

Luther was brought in from Popeyes Chicken & Biscuits, and these days the 54-year-old chain is acting like it has swallowed a triple shot of its new fresh-brewed espresso. It has left the **imploding** Krispy Kreme in the dust, thanks in part to better <u>execution</u> and a strategy that stresses beverages rather than carb-laden doughnuts. It has begun an <u>aggressive expansion</u> that aims to triple Dunkin' outlets to 15,000 within a decade or so. Now Luther's team is even daring to talk about taking on the coffeehouse *crème de la crème*. "We're every bit as good as Starbucks," insists John Gilbert, vice-president of marketing, who has **brazenly** launched ads claiming Dunkin' offers "A taste that Starbucks can't beat."

Advertising **taunts** aside, not even Luther believes Dunkin' Donuts can beat

Starbucks at its own **hipster** game. Rather, Dunkin' is building on its blue-collar coffee image. Starbucks popularized Italian espresso drinks, but Luther says: "We offer more of an Americanized espresso, with a more **mellow** blend." Similarly, while Starbucks baffles newcomers with its "tall, grande, or venti" cups, Dunkin' sticks to small, medium and large at prices some 25% lower. Luther is betting there are lots more coffee drinkers who want espresso drinks at lower prices without the **jiggy** atmosphere.

Filling a **void** left by the stalled Krispy Kreme and riding Starbucks' espresso **coattails** is making Dunkin' one of the hottest acts in fast food. Thanks to a 6.9% jump in same-store sales, and 423 new stores, US sales surged 14% in the fiscal year ended August 31. That's nearly three times the industry average for sales growth, according to food consultants Technomic Inc. And while Dunkin' has little in common with its British parent's core wine and spirits business, it is a cash machine. Dunkin' Brands – which includes the Baskin-Robbins ice cream chain and Togo's sandwich shops – accounts for about 9% of Allied's sales, but 14% of its total profit.

No question Dunkin's basic business model looks all the more attractive against its **faltering nemesis** Krispy Kreme. A year ago, Krispy Kreme's stock was soaring. But now the chain's fortunes have collapsed under the weight of mismanagement, over-expansion, and accounting probes. Meanwhile, Dunkin' is finding smarter ways to move the doughnuts. Increasingly, it's transferring production out of stores into nearby central kitchens that can serve a whole district of Dunkin' shops. And it's pushing the new espresso products to price-sensitive latte sippers while still offering its old reliable cups of **joe**. Smart move – java orders are growing four times faster than those for lower-margin doughnuts, estimates Harry Balzer, vice-president at market researcher NPD Group Inc.

But Luther still has a long way to go to catch Starbucks, which boosted sales 30% in the fiscal year ended on October 30 – twice as fast as Dunkin'. His first move, in fall 2003, was the launch of the espresso-based drinks. Rather than pay baristas to craft lattes, Dunkin' hired Swiss manufacturer M. Schaerer Ltd. to produce an idiot-proof $8,000 machine. It churns out consistent cappuccinos in less than a minute. This combination of speed, consistency and a lower price is winning **converts**. "Both are good, but Starbucks takes too long," says Leslie Bello a Starbucks-to-Dunkin' convert. The new beverages already account for up to 10% of store sales. And they're the prime focus of a new ad campaign, which aims to get consumers to stop by for an afternoon **pick-me-up**.

Luther's broader mission is to improve the image of Dunkin's coffee, and he's getting help. The December Consumer Reports rated Dunkin's ground coffee a "Best Buy", and far higher than Starbucks', which it found "burnt and bitter". Starbucks CEO Designate James L. Donald's retort: "Thirty million customers vote with their feet every week."

NO LUNCH BUNCH. Kicking Dunkin' up a few **notches** in coffee drinkers' minds is not as easy as getting the milk frothed right. Dunkin' has some star franchisees who build fiercely loyal customers with spotless stores and <u>personalized service</u>. But many franchisees fall short, and some stores are downright **dingy**. Also, Dunkin's shops are largely deserted before and after morning rush. Despite numerous attempts with sandwiches and soups, it has never made the transition to the lunch crowd. A store redesign is under way, but it will take years.

Dunkin's biggest opportunity is geographic expansion rather than a bigger menu. Currently, 80% of its sales come from just 34% of the US, and it's all but invisible in much of the midwest, southeast, and west. Dunkin' is invading four new markets and will enter four more over the coming year. US chief operating officer Will Kussell, who's directing the expansion, predicts it will soon be opening over 500 stores a year, up from under 200 in 2001.

Ultimately, Luther's aim is to vault Dunkin' closer to the **stratospheric** performance of Starbucks, which has 40% more US stores than Dunkin'. Rapid expansion has its perils, as Krispy Kreme discovered. To succeed, Dunkin' doesn't need to match its rivals sales pace. But it does have to find a flock of new well-financed franchisees willing to keep standards high. Then it has to persuade some of the millions still drinking the **swill** sold at most convenience stores and gas stations to trade up. That strategy may not be as **glitzy** as Starbucks's wi-fi connections, comfy couches and hip music, but it's as straightforward as an honest cup of coffee.

William Symonds (in Boston), with David Kiley and Stanley Holmes
Source: BusinessWeek online, 2004 December 20

NEW WORDS

General words

Venerable – commanding respect by virtue of age, dignity, character, or position.
Cult-like – means that people are very crazy about this thing (for example, you could say that Bruce Lee has a cult-like following because so many people are crazy about him).
Powerhouse – a great force.
Imploding – the opposite of exploding, imploding means to collapse in on itself. Basically it means to fail.
Brazenly – to do something in such a confident way that it is a bit thoughtless and disrespectful.
Taunts – to tease someone, but in an insulting way.
Hipster – a slang word meaning fashionable. The more common usage is to call a fashionable person "hip".
Mellow – has a full and pleasing flavour.
Jiggy – just means "cool".
Void – an empty space.
Coattails – if you ride on someone else's coattails it means that you become successful as a result of the success of another.
Faltering nemesis – faltering means to stumble, while nemesis is an opponent that causes misery and cannot be overcome.
Joe – just means brewed coffee.
Converts – someone who changes from one belief (a belief that Starbucks has the best coffee) to another (Dunkin' Donuts has the best).
Pick-me-up – something that can restore your energy.
Notches – a notch is just another level, so if you go up a few notches it means you rise a few levels.
Dingy – covered with dirt.
Stratospheric – extremely or unreasonably high. The stratosphere is a certain part of the air surrounding the earth, a part that is very far away.
Swill – swill is leftover food mixed with water fed to pigs. Of course people are not really drinking this but this word is used to show that what they are drinking is very terrible.
Glitzy – something that looks good but which is also a bit superficial is glitzy.

<u>Business words</u>

Execution – to put something into effect; most often used in business setting (e.g. he executed the new corporate strategy).
Aggressive expansion – to increase in size in a fast and assertive way.
Blue-collar – the term is used to refer to that group of wage earners whose jobs are performed in work clothes and often involves manual labour. Above them are white-collar workers who usually work in an office.

Industry average – we have mentioned industry before (e.g. the food industry), with the industry average being the average (sales, staff turnover, whatever) for all companies operating within that particular industry.
Cash machine – just means that it generates a lot of money; sometimes called a “cash cow”.
Accounting probes – a probe is an investigation into unfamiliar matters or questionable activities, in this case related to the company’s accounts.
Transferring production – just means moving production (or manufacturing) to another place.
Price-sensitive – if a customer is price sensitive it means their buying decision will be influenced by the price of the product (e.g. if it goes up they probably won’t buy it anymore).
Lower-margin – in the previous chapter we spoke about margins so here it means that the profit Dunkin’ Donuts makes on doughnuts is lower than what it makes on drinks, such as coffee.
Personalized service – this refers to service that is performed and sometimes changed for one particular person (e.g. when the manager of the store greets the customer by their name).

General Information

Dunkin’ Donuts – the first Dunkin’ Donuts shop was opened in 1950 in the US. Today it is the world's largest coffee and baked goods chain, serving more than 2.7 million customers per day. There are over 6,000 Dunkin' Donuts worldwide in 30 countries. Its most significant presence overseas is in the Philippines, Indonesia, South Korea and Thailand.
Allied Domecq – listed on the London Stock Exchange, Allied Domecq is a company that operates spirits, wine and quick service restaurant businesses. Its spirits division operates worldwide, and included in its portfolio of products are such famous brand names as Beefeater, Ballantine's, Kahlúa and Malibu.
Krispy Kreme Doughnuts – a popular doughnut chain that originated in North Carolina, USA. The founder, Vernon Rudolph, purchased a secret recipe and began selling doughnuts to local grocery stores in 1937. By the 1960s it was well-known throughout the south-eastern US. It spread quickly across the country in the 1990s and began to open international stores. It is famous for its very light doughnuts covered in glaze and served warm.
Starbucks – Starbucks first opened in Seattle, USA, in 1971 and still maintains its headquarters there. As of May 2003, the company operates more than 6,400 locations worldwide. However, its success in the US market has not always been replicated around the world as it faces stiff competition in locations where existing coffee shops already serve a variety of high-quality coffees.
Crème de la crème – a French word meaning the best-of-the-best (the cream-of-the-cream). In English we would call the best “the cream of the crop”, the idea being that cream rises to the top of milk. Crème de la crème therefore means the very best. There are a number of French words used in everyday English.

QUESTIONS

1. Why do once-powerful companies often become “sleeping giants”? What can be done to solve this problem do you think?
2. Do you think expansion (opening more stores) is the best strategy for a popular business?
3. Have you ever been to a doughnut shop? How about Starbucks? What do you think? If you have been to both, how do they compare?
4. Many restaurants and coffee shops realize that they can make a lot more money from selling drinks than from selling food. Talk about this from both the business point-of-view, as well as from the customer’s point-of-view.
5. In buying coffee how important are taste, price, image (i.e. whether the place you are buying it at is cool or not)? Discuss each in turn.
6. Why is it always important to compare sales and sales growth to the industry average?
7. Why do you think a company that focuses predominantly on wine and spirits would also have doughnut and ice-cream businesses?
8. How do you feel about big corporations deciding what we eat and drink?
9. In English there is a saying: “The bigger they are the harder they fall.” Do you agree with this statement (from a business perspective)? Why or why not?
10. What are the advantages and disadvantages of transferring production from the stores themselves to nearby central kitchens?
11. Why do you think Starbucks‘ sales growth is so high?
12. Which approach do you think is better: training staff in how to make complicated coffee drinks, or manufacturing a machine that can do the job? Give reasons for your answer.
13. Many people complain that Starbucks is too expensive but they still buy coffee there. Why do you think this is?
14. Why do you think people are prepared to pay so much money for a cup of coffee (or any drink)? Isn’t it just a rip-off (so expensive that you are being cheated)?
15. How can the head-office of a business ensure that all its franchisees operate clean and efficient stores?
16. How do you think a store like Dunkin’ Donuts can attract a lunch crowd?
17. What are some of the problems with having too many stores? What are the benefits?
18. Why do you think a lot of people just drink cheap and nasty coffee bought from convenience stores and gas stations?
19. If Jon L. Luther asked for your advice, what would you say to him?
20. Why do you think Dunkin’ Donuts has no stores in China when its overseas business is most strong in other Asian countries?

MODEL ANSWER

17. What are some of the problems with having too many stores? What are the benefits?

America is a big country and as such many popular companies grow their business by opening more and more stores throughout the US. Walmart and Starbucks are good examples. If customers like what you are selling then the best way to improve your business is to expand aggressively and reach as many people as possible. However, there are some problems that can occur along the way.

First, as mentioned in the article, it is difficult to ensure control and standardization across a large number of stores. The writer talks about how some Dunkin' Donuts stores are very good, while others are "dingy". In this situation the customer can get confused not knowing if the company is good or bad. If you have a lot of stores it is difficult to ensure that customers always receive the same experience. Another problem is that store numbers might increase but not in tandem (together) with sales or profits. This is because the numbers of customers might stay the same, just choosing to go to a store more convenient for them. Also, if a company expands too quickly they might run into financial difficulties. This is because opening new stores costs money. Where will this money come from and how soon will it be paid back? You might choose to sell franchises to others but you will still have to offer such things as operational, marketing and other support. With many stores this itself is not an easy task. Professional management will be needed, something that does not come cheap these days. A final problem is that with lots of stores you are then seen as just a chain store and not something unique or special.

The advantages of course are increased sales, reputation and efficiency – as well as lower costs. Generally, the potential to boost profits significantly is what drives most managers to seek out nation-wide expansion.

CHAPTER 19

Review

Well done! You have come to the completion of your course. In this lesson you have the opportunity to review with your teacher and/or complete the exercises provided below.

Please write definitions for the following words in the spaces provided. (Please try and complete this exercise without looking back or using your dictionary).

Target audience	
Deflation	
Merchandise	
Industry	
Leveraged	
Percentage point	
Forecast	
Price sensitive	
GDP	
Human capital	
Market share	
Developed world	

Subsidiary	
Domestic market	
Fiscal year	

Here you are provided with the definition for the word and you need to write the word in the space provided.

	A corporation's first offer to sell stock to the public.
	A person or company who occupies the top spot in politics or an industry.
	The increasingly complex worldwide interchange of goods, services, money and people.
	To rescue from financial difficulty.
	The person who buys the rights to use a company’s name and sell/rent its products in a certain area.
	Analysis of a country’s economy as a whole.
	A detailed list or record of things in one’s possession.
	Total sales for a period, before customer discounts and returns have been deducted.
	That part of the economy that deals with finance.
	Where foreign companies invest in a country by buying physical assets (such as plant and machinery).
	A situation where the ratio of output to input is high.
	Inputs that are essential to a production process.
	Those people that you want to reach with your promotional message.

	The money needed to start a new business.
	Examples include life expectancy, infant mortality and literacy rates.

Below is an article from BusinessWeek online (http://www.businessweek.com). You are to read the article and answer the questions that follow. Depending on your teacher's requirements you are to answer them verbally, or in writing.

High times for Hong Kong's airport

A public offering could help it fend off competition from mainland rivals

Opening day at Hong Kong International Airport in 1998 was a fiasco. Despite the facility's $4.6 billion price tag, baggage went missing, elevators stalled, and foul smells wafted from the bathrooms. Worse, within 24 hours the freight handling system collapsed, and cargo operations had to be shifted back to the old airport for six weeks. Today, though, all that is just a bad memory as the new airport's fortunes are taking off. Passenger traffic stands at a record high, cargo volume jumped 19% in 2004, and profits hit $63 million in 2003.

IPO IN THE OFFING. Now, city officials want to cash in on that success by floating the airport's shares. Although no details have been set, the government in November began a three-month consultation period on the issue. A sale of 25% of the airport's stock, the amount analysts say is being discussed, could raise $1 billion or more. That would help offset the $5.5 billion deficit the city is expected to amass this year, though officials deny that raising money is their goal. "The main benefit of the proposed privatization would be to subject the airport to even stronger market and commercial discipline," says Howard Lee, an assistant secretary in Hong Kong's Economic Services Bureau.

That newfound discipline might come in handy as the airport faces growing competition from the mainland. In August of 2004, Guangzhou's $2.4 billion Baiyun International Airport opened just 180 kilometres to the north. It could become a major cargo hub for the legions of manufacturers in the Pearl River Delta. And Shanghai's Pudong Airport is trying to establish itself as China's primary passenger gateway. Even closer, Shenzhen airport is mounting a challenge for freight, while Macau is emerging as a favoured centre for budget airlines. In a study for Hong Kong's Airport Authority, consultant GHK forecasts that while Hong Kong airport's cargo volume will nearly double by 2020, its share of the Delta's total will slide from 90% to less than half. Hong Kong will have to make do with "taking a smaller share of a larger pie", says GHK managing director Jonathan Beard.

The challenge for Hong Kong is keeping its neighbors from eating too much pie. Hong Kong already has some strategies in place. Ferry services now feed cargo and passengers to the airport from mainland cities. And Hong Kong officials are negotiating to acquire stakes in the nearby airports of Shenzhen and Zhuhai to help strengthen their hand in China. Hong Kong's airport has come a long way in six years. Making it a listed company may give it the edge it needs.

Simon Cartledge (in Hong Kong)
Source: BusinessWeek online, 2004 December 27

QUESTIONS

1. How do you think an airport is able to make such high profits?
2. What are the benefits to the airport of going public? Do you foresee any disadvantages?
3. Do you think that competition or collaboration is the best strategy for China’s different airports?
4. One issue not raised in the article is Hong Kong airport’s capacity. Why is this important?
5. If the airport’s management hired you as a consultant, what strategies would you suggest they adopt?

C H A P T E R 2 0

Final exam

Now for that time most feared by students, EXAMS!!! First of all don't stress. If you have been working steadily throughout the semester you have nothing to worry about. And if you haven't? Well, remember it's just an exam, not the end of the world. So, take it easy, read the following advice (from The University of Texas Learning Center's web-site at: http://www.utexas.edu/student/utlc) and I wish you good luck.

<u>How to keep calm during tests:</u>

1. PREPARE WELL IN ADVANCE. Keep up day-to-day, if you can, but don't judge yourself harshly if you don't. Avoid last-minute cramming. Don't go without sleep the night before (though 4 or 5 hours may be enough). Stop studying an hour or so before the test and relax and compose yourself.
2. KNOW TIME AND PLACE of the test and what you need to bring. Be on time, neither too early nor too late, with the things you need. Don't rush.
3. DON'T TALK ABOUT THE TEST with classmates immediately beforehand, if you know it raises your anxiety level.
4. Read over the test and PLAN YOUR APPROACH. Ascertain point values per part, time limits for each section, which question you'll start with, etc.

5. Don't hesitate to ASK FOR CLARIFICATION from the examiner if you have any questions. It is better to do this than to let anxiety build up because you aren't sure about what you are expected to do.
6. DEVELOP AN AGGRESSIVE, YET REALISTIC ATTITUDE. Approach the test determined that you will do your best; but also accept the limits of what you know at the moment. Use everything you know to do well; but don't blame yourself for what you don't know.
7. ACTIVITY REDUCES ANXIETY. If you go blank and can't think of anything to write, go on to another question or another part of the test. On an essay, jot (write) down anything you can recall on scrap paper to stimulate your memory and get your mind working.
8. RELAX YOURSELF PHYSICALLY during the test, if you notice that you are not thinking well then pause, lay your test aside, and take several slow, deep breaths. Concentrate on your breathing. Do this if you notice that you are worrying excessively about one problem, not reading carefully, forgetting information you know.
9. PAY ATTENTION TO THE TEST, not to yourself or others. Don't waste time worrying, doubting yourself, wondering how other people are doing, blaming yourself, etc. Don't worry about what you should have done; pay attention to what you can do now.

END

Writing this book would have been nearly impossible without the use of the Internet. It is indeed a most excellent tool and resource. As such I would like to list those sites that helped me along the way:

http://www.dictionary.com
This site provided me with a lot of the definitions for the general, as well as the business words.

http://www.investorwords.com
I used this site sometimes to help me with the business words.

http://en.wikipedia.org/wiki/Main_Page
This online encyclopedia is really fantastic and I used it to get a lot of information for the general info. words.

I tried to choose articles from a variety of sources although Business Week seemed always to have the best content. Nonetheless, here is a list of all the web-sites that provided articles:

http://www.businessweek.com
A great site that lets you read a lot of the content freely. The English magazine section of your university library probably also has copies of this magazine. I strongly suggest you read it if you are looking for a career in business.

http://www.fortune.com
Also essential reading if you are looking to get into business. You need to be a subscriber to access the online content, however your school university probably subscribes to the actual magazine.

http://www.economist.com
A top-notch business magazine published in England giving you a different perspective to that found in US-centric publications like Fortune and BusinessWeek. I highly recommend it, although it does have its drawbacks: more serious and therefore perhaps a bit boring for students, while the Internet site is hard to access in China.

http://www.iht.com
The International Herald Tribune is a serious newspaper that makes for good reading. You can access it online, while you can also buy the real thing (or maybe pick it up for free) in top hotels in Shanghai and Beijing. It might also be available in your university library, while there are certainly copies of it in your local public library.

http://finance.yahoo.com
The business area of Yahoo. Personally I find it a bit boring but it does have its advantages: it is freely available, there is a lot of information, with some of the content provided by other top-class publications.

http://joongangdaily.joins.com
If you are interested in keeping up-to-date with what's going on in Korea, then I recommend you read this online version of the newspaper.

http://economictimes.indiatimes.com
I am not familiar with this newspaper but it seems like a pretty good source if you wish to know what's going on in India's business world.

http://www.reflector.com
A small, regional newspaper of little interest to students; but it is the source of one article for the book so it is acknowledged here.

Finally, I recommend you go check out the English magazine section at your university library. You will probably find that they subscribe to a lot of top-class magazines. Even at my small university in Nanjing I was surprised to find Harvard Business Review. Allocate one or two hours a week just to go to the library and relax while reading some of the magazines there. At first just leaf through one, look at the pictures, and read the headlines. Soon you will see something that interests you. Start to read it. Don't see it as learning; regard it as entertainment. You may want to take this book with you as I have included a glossary at the end with additional business words. There is also space after each word for you to write Chinese characters.

Thank you for reading this book. I hope you have learnt something along the way. If you have any questions or comments (or wish to point out any mistakes) feel free to e-mail me at: gypsymale@gmail.com. I wish you all the best in the future, Justin Palmer.

G l o s s a r y

Accounts Payable: The amount a company owes for goods already received. Not unlike a person's credit card balance; you've got the VCR, but you haven't taken the money out of the bank yet.

Accounts Receivable: The amount a company is owed for goods it sold on credit.

Amortization: Paying off debt in regular installments over a period of time, or deducting certain capitalized expenditures over a specified period of time.

Assets: Things a company controls, which usually means it owns these items.

Balanced Scorecard: A Balanced Scorecard (BSC) provides a framework for defining, implementing and sustaining organizational strategy at all levels and throughout the organization by linking that strategy to the performance measurement system.

Balance of Trade: An accounting of a country's exports versus imports.

Balance Sheet: A reckoning of a company's financial health at a given time. Lists assets, liabilities and equities.

Barriers to Entry: Conditions that create difficulty for competitors to enter the market. For example, copyrights, trademarks, patents, dedicated distribution channels and high initial investment requirements.

Bear Markets: Markets where prices on stocks are on the overall decline.

Benchmarking: A comparison of an organization's performance or of its processes with that of other organizations that represent a “best practice”.

Bond: A written promise to repay a loan plus interest, usually more than one year after the bond is issued. Investors buy bonds from a company or government entity, essentially loaning the company or government that money.

Bottom-Up Planning: An ineffective planning methodology, describing the approach taken when middle- and lower-echelon managers alone conduct the planning activities with little or no input from senior management.

Boutique Business: A small company or firm that specializes in a particular industry or provides a limited service, such as investment banking firms that concentrate solely on technology companies.

Break-Even Point: The point at which revenues are equal to expenses.

Bull Markets: Markets where prices on stocks are on the overall rise.

Business Plan: A planning document that describes a company, its market, its management team, its potential, its competitors, and all other relevant information about its business and its prospects.

Buying on Margin: For those who don't have lots of money, but believe that's what it takes to make a killing on the stock market. Stock buyers purchase stocks with borrowed money, gambling the share price will rise enough to pay off the loan and then some.

Call: An option to buy a certain amount of stock at a specific price during a specific time.

Capital: Money needed to start or grow a business. This pool can come from securities offerings and retained earnings.

Capital Budget: Shows plans for buying long-term assets – machinery and other things you expect to last several years – and estimates the costs of those purchases.

Cash Flow: Money coming into a company and being paid out by the company. Ideally you'd want to take in at least as much as you pay out.

Core Competencies: Core Competencies are the set of the most strategically significant and value-creating skills within an organization.

Collateral: Something of value pledged to support the repayment of an obligation or loan. Examples include real estate and certificates of deposit.

Collective Bargaining: The process by which labor leaders and management iron out agreements on pay and working conditions.

Common Stock: Regular old stock. Owners of this bottom rung of stocks have a piece of the company and get to vote for the board of directors and on corporate policy.

Consumer Price Index (CPI): Measures price changes of common goods and services, including such things as housing and food. What you quote when you're trying to convince your boss you need a raise to keep up with inflation.

Convenience Goods: Goods often used by the consumer, but the consumer is unwilling to spend "shopping time" to acquire them. This covers a broad spectrum of products including candy, cigarettes, drugs, newspapers, magazines and most grocery products.

Cost of Goods Sold (GOGS): How much it cost the seller to make or buy the goods sold. Same as "cost of sales".

Cost of Sales: The cost of goods plus the expenses involved in selling and delivering the product or service.

Coupon: A detachable part of traditional bond certificates. You present these to the issuer to collect your interest payments.

Credit Rating: A formal evaluation of an individual or a company's credit history and capability of repaying debt.

Critical Success Factors: Critical Success Factors (CSF) are a set of factors that are essential to the organization for gaining and maintaining a competitive advantage. CSFs are also sometimes referred to as Key Success Factors (KSFs).

Current Assets: Cash and assets that are expected to be used, sold or converted to cash in the near future, usually one year.

Current Liabilities: These liabilities must be paid in a relatively short time, usually one year. Taxes are one example.

Current Ratio: The ratio of the company's current assets to its current liabilities. A current ratio of less than 1-to-1 typically indicates a poor credit risk. A current ratio of greater than 2-to-1 typically indicates a good credit risk.

Customer Relationship Management (CRM): CRM is a business strategy based on selecting and proactively managing the most valuable customer relationships. It requires a customer-focused philosophy to support effective marketing, sales and customer service processes.

Customer Delight: Measure or determination that a product or service exceeds a customer's expectations, considering requirements of both quality and service.

Customer Satisfaction: Measure or determination that a product or service meets a customer's expectations, considering requirements of both quality and service.

Data Mining: A technique for analyzing data in very large databases and making new connections between the data in order to reveal trends and patterns.

Debentures: You need to trust in a company and its strength to give this type of loan, which isn't backed by collateral.

Debt Financing: The provision of long-term loans to small business concerns in exchange for debt securities or a note.

Debt-Equity Ratio: To get it, you divide liabilities by stockholders' equity. This is a general measure of how safe creditors can feel about their loans. Creditors often avoid lending to companies with a high debt-equity ratio.

Deflation: Opposite of inflation. Decrease in the general price of consumer goods and services.

Demographic: A descriptive classification for consumers, such as age, sex, income, education, household size, home ownership or other defining characteristics.

Depreciation: Dividing the cost of an asset over that asset's usable life. When dealing with a $200,000 factory expected to be used for 10 years, you would count $20,000 a year as expenses. Assets are considered unusable if they don't work well anymore or are obsolete.

Derivative: A type of investment whose value depends on the value of other investments, indices or assets. A stock option is a common type of derivative.

Direct Marketing: The process of sending promotional messages directly to individual consumers, rather than via a mass medium. Includes methods such as direct mail and telemarketing.

Diversification: An investing technique. The idea is to buy lots of different types of investments so if the value of one nosedives, you're not suicidal.

Dividends: Payments corporations make to their shareholders. The per-share amount is determined by corporate earnings.

Double-loop Learning (or Generative Learning): In contrast to single-loop learning which involves using knowledge to solve specific problems based on existing assumptions and often based on what has worked in the past, double-loop learning goes a step further and questions existing assumptions in order to create new insights.

Dumbsizing (or Downsizing): The act of or attempt to "streamline" an organization, typically through the reduction or elimination of layers or levels of management, without regard for preservation of those layers or levels with distinct function and critical responsibilities.

Earnings Per Share (EPS): The amount of money a company makes per share of common stock. This figure is calculated by taking net income and dividing it by the number of common shares outstanding.

Effectiveness: Measure of the ability of a program, project or work task to produce a specific desired effect or result that can be qualitatively measured. Relates to outcomes, not the efficiency of performance.

Efficiency: Measure of production or productivity relative to input resources. Efficiency refers to operating a program or project, or performing work tasks economically. Relates to resources expended or saved, not the effectiveness of performance.

Employee Stock Ownership Plan (ESOP): A retirement-type plan in which a trust holds stock in the employees´ names. Employees receive cash from the stock only when they leave the company or perhaps when the company is sold.

Equity: An ownership interest in a business. For example, stock in a corporation represents equity in the corporation.

Exit interview: A survey that is conducted with an employee when they leave an organization. The information is used to provide feedback on why employees are leaving, what they liked about their employment and what areas of the organization need improvement.

Explicit Knowledge: Knowledge that can be easily expressed in words or numbers, and can be shared through discussion or by writing it down and putting it into documents, manuals or databases. Examples might include a telephone directory, an instruction manual, or a report of research findings.

Externalisation: The process of making tacit knowledge explicit.

Fixed Assets: These are usually non-liquid assets that are integral to the enterprise's day-to-day business operations such as plants, equipment, furniture and real estate.

Fixed Costs: Costs of doing business, such as rent and utilities that remain generally the same regardless of the amount of sales of goods or services.

Flattening (of the Organization): Referring to the process of flattening the organizational hierarchy through the intentional and calculated reduction or streamlining of processes by eliminating waste and redundant functions, often while decentralizing decision-making.

Flow Chart: A graphical representation for the definition, analysis, or solution of a problem, in which symbols are used to represent operations, data, flow, equipment, etc.

Foot Traffic: Consumer activity produced by visitors at stores, trade show exhibits or by popular retail locations.

General Agreement on Tariffs and Trade (GATT): An international accord meant to stimulate trade. It encourages lowering tariffs and abolishing quotas that restrict imports.

Generally Accepted Accounting Principles (GAAP): Rules and procedures generally accepted by accountants. The rules guide them in assessing and reporting on a company's finances.

Gross Domestic Product (GDP): Key indicator of an economy's health, this is the total market value of all final goods and services produced in a country in a given year, equal to total consumer investment and government spending, plus the value of exports, minus the value of imports.

Gross National Product (GNP): It is important to differentiate GDP from GNP. GDP includes only goods and services produced within the geographic boundaries of a country, regardless of the producer's nationality. GNP doesn't include goods and services produced by foreign producers, but does include goods and services produced by that country's firms operating in foreign countries.

Gross Profit: Sales revenue minus the cost of making or buying the things that were sold (cost of goods sold). If a manufacturer sold 10 bikes for $300 a piece, and each bike cost him $250 to make, the company's gross profit is $500.

Hard Metrics: Hard metrics seek to measure factual issues and generally refer to Input and Output or Efficiency metrics.

Hard Sell: Aggressive, high-pressure sales techniques.

Horizontal Hierarchical Structure: A process form of management utilizing the concept of focusing on common objectives that transcend traditional departmental boundaries to meet customer or stakeholder requirements.

Human capital: The knowledge, skills and competencies of the people in an organization. Human capital is one component of intellectual capital.

Income Statement: A record of the financial performance of a company over a period of time. It records all the income generated by the business during the period and deducts all its expenses for the same period to arrive at net income, or the profit for the period.

Inflation: An increase in the general price of consumer goods and services. What the Federal Reserve chairman is always trying to keep under control so it doesn't harm the economy.

Information: Data that has been organized within a context and translated into a form that has structure and meaning.

Innovation: The creation of something new or different; the conversion of knowledge and ideas into a new benefit, such as new or improved processes or services.

Intangible Assets: The non-physical resources of an organization. An example might be the reputation linked to a brand name such as Mercedes or Microsoft. These assets are not generally accounted for in an organization's financial statements, but are still of great value.

Intellectual Capital: The value, or potential value, of an organization's intellectual assets (or knowledge assets).

Intellectual Property: Explicit intellectual assets that are protected by law. Includes things like patents, trademarks, copyrights, licences.

Internalisation: The process of absorbing explicit knowledge and making it tacit.

International Monetary Fund (IMF): An international lending institution that focuses on stabilizing currencies. The United States contributes heavily to the fund and has the greatest number of votes about where to lend money. This is the group trying to resuscitate Asia's troubled economies by pouring in billions so the countries can repay debt.

Inventory Turnover: A ratio for evaluating sales effectiveness. For a given accounting period divide total revenue for the product by the average retail value of the product inventory.

Knowledge: Knowledge is derived from information but it is richer and more meaningful than information. In organizational terms, knowledge is generally thought of as being "know how", "applied information" or "information with judgement".

Knowledge Assets (or Intellectual Assets): Those parts of an organization's intangible assets that relate specifically to knowledge, such as know-how, best practices, intellectual property and the like.

Knowledge Economy: An economy in which knowledge plays a predominant part in the creation of wealth.

Knowledge Management (KM): One definition of KM is: "The creation and subsequent management of an environment which encourages knowledge to be created, shared, learnt, enhanced, organized and utilized for the benefit of the organization and its customers."

Knowledge Worker: An employee whose role relies on his or her ability to find and use knowledge.

Lagging Indicator: Series of indicators that often follow changes or movement in a given direction.

Leading Indicator: Series of indicators that indicate movement in a given direction and which generally precedes the movement of other indicators in the same or in a similar direction.

Learning Organization: An organization that views its success in the future as being based on continuous learning and adaptive behaviour.

Letter of Credit: A document issued by a bank guaranteeing payment of a customer's debt up to a set amount over a set period of time. Letters of credit are used extensively in international trade.

Leverage: To realize the inherent value of an asset beyond what is currently being realized. In short, to get more value out of it.

Leveraged Buyout (LBO): The purchase of a company using borrowed money. Usually the buyer secures the loan with the assets of the company to be purchased.

Line of Credit: Financial institutions offer this to some customers. It allows the customer to borrow up to a certain amount of money without applying for another loan.

Liquidity: The percentage of an enterprise's assets that can be quickly converted into cash.

Lockout: When union-management disagreements get ugly. Management prevents union employees from entering the workplace and doing their jobs.

Long-Term Assets (or Fixed Assets): These are usually non-liquid assets that are integral to the enterprise's day-to-day business operations such as plants, equipment, furniture and real estate.

Long-Term Liabilities: All debts that are not current liabilities, that is, debts that are not due until at least one calendar year in the future.

Market Life Cycle: The period of time that a substantial segment of the buying public is interested in purchasing a given product or service form.

Market Penetration Pricing Strategy: If near term income is not critical and rapid market penetration for eventual market control is desired, then you set your prices very low.

Market Share: The percentage of the total sales (from all sources) of a service or product represented by the sales made by your enterprise. i.e. your sales divided by total sales.

Material Goods: Normally raw or processed materials such as coal or steel that will become part of the purchaser's end product.

Mediation: Using a neutral third party to settle a dispute by fostering compromise among battling groups. Can be used in labor-management disputes.

Mentoring: Mentoring is a one-to-one learning relationship in which a senior member of an organization is assigned to support the development of a newer or more junior member by sharing his or her knowledge, experience and wisdom with them.

Merger: Typically, a combination of two or more corporations into one corporation.

Monopoly: What you tried for in the game with the same name: complete domination of a market. When you have a monopoly, you have no competitors for what you’re selling.

Net Income: The bottom line, after everything is paid up, including taxes. What's left after all expenses are deducted from total revenue. Dividends are paid from net income.

Net Worth: Equity. Fair market value of total assets minus total liabilities.

Nonprofit Corporations: Organizations that don't exist to make a profit. Usually the groups are dedicated to charitable or educational efforts, and are therefore exempted from having to pay income taxes.

Oligopoly: Not quite a monopoly, but getting there. A small group of large suppliers dominate a market, providing similar versions of a product, like cars.

Operating Expenses: In real estate, the costs of maintaining a property, such as utility charges and property taxes.

Option: The right to buy or sell stock at a given price within a certain period of time. Options are often traded.

Organizational Culture: In short, "the way we do things around here". An organization's culture is a mixture of its traditions, values, attitudes and behaviours.

Over-the-Counter Market (OTC): A virtual marketplace for trading securities. Dealers conduct transactions via computer or telephone, rather than through an auction at a central location, like the New York Stock Exchange.

Parent Company: A company that owns a majority stake (51 percent or more) of another company's shares. It may have its own operations, or it may have been set up solely for the purpose of owning the operating company.

Performance Gap: The difference between the present position of performance at the project/work task levels and its desired future position.

Point-of-Purchase (POP): A POP display is advertising material located in a retail store, usually placed near the checkout counter.

Poison Pill: Companies resort to poison pills when someone is trying to take them over. To discourage the suitor, the takeover prospect takes on a heap of new debt or does something else to make the stock less attractive.

Preferred Stock: If you own this higher class of stock, you get your dividends before common stockholders. If the company folds, you also get assets before common stockholders do. The one thing you usually don't have is voting rights.

Price-Earnings Ratio (or PE Ratio): One measure of how much faith investors have in a particular stock, it shows how much they're willing to pay for each share of a corporation's earnings. You calculate it by dividing the current price per share by the earnings per share for the last year.

Primary Market: Market where new issues of securities, like stocks, are sold and the proceeds go to the issuer. A secondary market is where people trade securities after they've been bought from the issuing company.

Process: Method of accomplishing activities including all of the integral steps that are required. A process is "how things get done".

Productivity: Value added by the process, factored against the value of all labor, capital or other resources consumed by processes.

Profit: Same as income, the difference between revenue and expenses, before taxes.

Profit Margin: A good measure of a company's efficiency, this essentially tells you how much the company makes off sales after expenses are paid. Generally, the higher the profit margin, the more efficient the company. Net profit margin is net income divided by net sales. Gross profit margin is gross profit divided by net sales.

Profit-Sharing Plan: If your company's doing well, this is one great perk. The company gives employees bonuses tied to the amount of profit it makes.

Pro-forma Income Statement: A statement of revenue and expenses that includes some hypothetical values. It shows what could be expected to happen if a corporation decided to go through with a takeover, for example.

Proxy: A shareholder's written statement designating someone else to vote for him or her at a corporate meeting.

Pull Promotional Strategy: A process that requires direct interface with the end user of the product or service. Use of channels of distribution is minimized during the first stages of promotion and a major commitment to advertising is required. The objective is to "pull" the prospects into the various channel outlets creating a demand the channels cannot ignore.

Purchasing Power Parity (PPP): PPP is the exchange rate at which the goods in one country cost the same as goods in another country. The PPP exchange rate will be different depending on what goods are chosen to make the comparison. Typically, the prices of many goods would be looked at, weighted according to their importance in the economy.

Push Promotional Strategy: A process of maximizing the use of all available channels of distribution to "push" the product or service into the marketplace. This usually requires generous discounts to achieve the objective of giving the channels incentive to promote the product or service, thus minimizing your need for advertising.

Put: An option to sell a certain amount of stock at a specific price during a specific time.

Raw Materials: Raw as in unfinished. The stuff that finished products are made of.

Recession: A time when business is slow, people lose jobs and sitting presidents worry about their re-election prospects as people tend to blame them for economic woes. Technically speaking, six months or more of a decline in the gross domestic product.

Resource Management: Ensures that each process has necessary level of resources to meet its expected contribution to overall organizational goals and objectives.

Retained Earnings: What's left of earnings after dividends are paid. These are cumulative; they're additions to capital earned since a company's birth.

Return on Investment (ROI): An estimate of the financial benefit (the return) on money spent (the investment) on a particular initiative.

Service/Product Mix: This business, while involving both service and product, is distinct in that the quality of the service is often more important than the product received. Examples of this type of service would be: fast food, catering, telephone, etc.

Service Goods: Goods viewed by the consumer as competitive products offering a standard "service" and are basically similar, so they will "shop" to get the best price. This would include such products as lawnmowers, refrigerators, television sets, automobiles, etc.

Silo: An individual group within an organization, such as a department or unit. The term is often used to suggest that such groups tend to be inward-looking, in that they do not take into account what other similar groups are doing or how their work affects other such groups.

Single-Loop Learning (or Adaptive Learning): Single-loop learning involves using knowledge to solve specific problems based on existing assumptions, and often based on what has worked in the past. In contrast, double-loop learning goes a step further and questions existing assumptions in order to create new insights.

Skimming Pricing Strategy: If you desire quick cash and have minimal desires for significant market penetration and control, then you set your prices very high (this is sometimes called "skimming").

Soft Metrics: Soft metrics seek to measure perceptions and may include use of Outcome or Effectiveness metrics.

Soft Sell: The technique of using low-pressure appeals in sales.

Sole Proprietorship: An enterprise that is owned by a single individual.

Stakeholder: Those individuals, groups, and parties that either affect or who are affected by the organization. Stakeholders as a general rule, include all internal and external customers.

Standard & Poor's 500 (S&P 500): A stock-market thermometer of sorts. Helps gauges the health of the overall market by measuring the performance of 500 popular common stocks.

Storytelling: The use of stories in organizations as a way of sharing knowledge and helping learning.

Stock Option: Popular form of employee compensation, most often given to executives. The options allow executives to buy stock for a number of years at or below the share price when the option was granted. This is an added incentive for executives to maximize company profit and increase share prices.

Stock Split: Corporations do this to make shares more affordable. They multiply the number of shares, while keeping the aggregate value of stock even. In a 2-for-1 split of shares worth $50, an investor would have twice as many shares as he had, but each would be worth $25.

Strategic Management: The process by which an organization determines its long-run direction and performance by ensuring that careful formulation, effective & efficient implementation, and continuous evaluation of strategy and performance takes place.

Subsidiary: A company owned by a parent company, a subsidiary is a separate legal entity listed as a corporation or LLC that is required to file its own taxes.

Tacit Knowledge (or Implicit Knowledge): The knowledge or know-how that people carry in their heads. Compared with explicit knowledge, tacit knowledge is more difficult to articulate or write down and so it tends to be shared between people through discussion, stories and personal interactions. It includes skills, experiences, insight, intuition and judgement.

Target Market: A specified audience or demographic group that an ad, product or service is intended to reach.

Tariff: A federal tax on imports or exports. Japan's import tariffs drive U.S. trade negotiators nuts. The tariffs protect Japan's domestic industries by raising foreign producers' expenses–and usually the price of their goods.

Telemarketing: Using the telephone to sell, promote or solicit products and services.

Top-Down Planning: An ineffective planning methodology, describing the approach taken when senior management alone conducts planning activities with little or no input from the rest of the organization. This approach typically is lacking in internal environmental information and analysis.

Top-Down / Bottom-Up Planning: A "best practice" approach to organizational planning that draws upon the skills, strengths and knowledge of the entire organization. This approach maximizes planning effectiveness through the successful integration of both internal and external environmental information and analysis.

Trade Deficit: What the U.S. has with Japan. Imports exceed exports–or we buy more than we sell.

Trade Surplus: Exports exceed imports–or you sell more than you buy.

Transformational Change: One of three types of organizational change. The hierarchically highest of the three types of organizational change. Involves implementation of an evolutionary new state, which requires major and often on-going shifts in organizational strategy. Examples include reengineering, major restructuring, downsizing, consolidation, and major shifts in business focus.

Unsought Goods: Products that are usually purchased due to adversity rather than desire. For example coffins, life insurance and medicine are all unsought goods.

Upsell: A technique to increase the value or quantity of a sale by suggesting additional options or upgrades. For example, a fast-food restaurant may upsell by suggesting that a customer buy a larger drink or an order of French fries.

Value Added: The amount added to sales value through production. It's considered good for an economy to produce lots of value-added goods, which adds jobs, rather than shipping raw materials elsewhere to be processed.

VAR (Value Added Reseller): A company that modifies or improves a system in some way and then resells it. A VAR might, for example, integrate a software application with its clients´ other systems or it might buy hardware components and build complete systems.

Value Chain: A framework for examining the strengths and weaknesses of an organization, and for using the results of this analysis to improve performance.

Venture Capital: Money used to support new or unusual commercial undertakings; equity, risk or speculative capital.

Vertical Hierarchical Structure: Traditional hierarchical pyramid structure, vertically oriented and using traditional concepts such as division of labor, standardization of parts and products, mass production and control as basic or primary function of management.

Vertical Integration: The potential within an enterprise to incorporate all aspects of management, production, sales and distribution into their business operations. In theory, the greater the vertical integration, the less vulnerable an enterprise is to outside forces.

World Bank: This international bank focuses its lending on helping developing countries develop.

Working Capital: The difference between current assets and current liabilities. Working capital finances the cash conversion cycle of a business – the time it takes to convert raw materials to finished products to sell and receive cash.

The author of this book is Justin Palmer, an English teacher at East China Normal University in Shanghai, China. Prior to teaching there he taught in Nanjing, as well as Korea. He has taught all sorts of people from children to adults, business people and teachers. To answer the usual questions asked: he is from South Africa (yes, there are white people speaking English in that part of the world!), his parents had a one-child policy (so he has no brothers or sisters), he is unmarried, and he enjoys Asia; its food, its culture, its history and – most especially – its people ☺