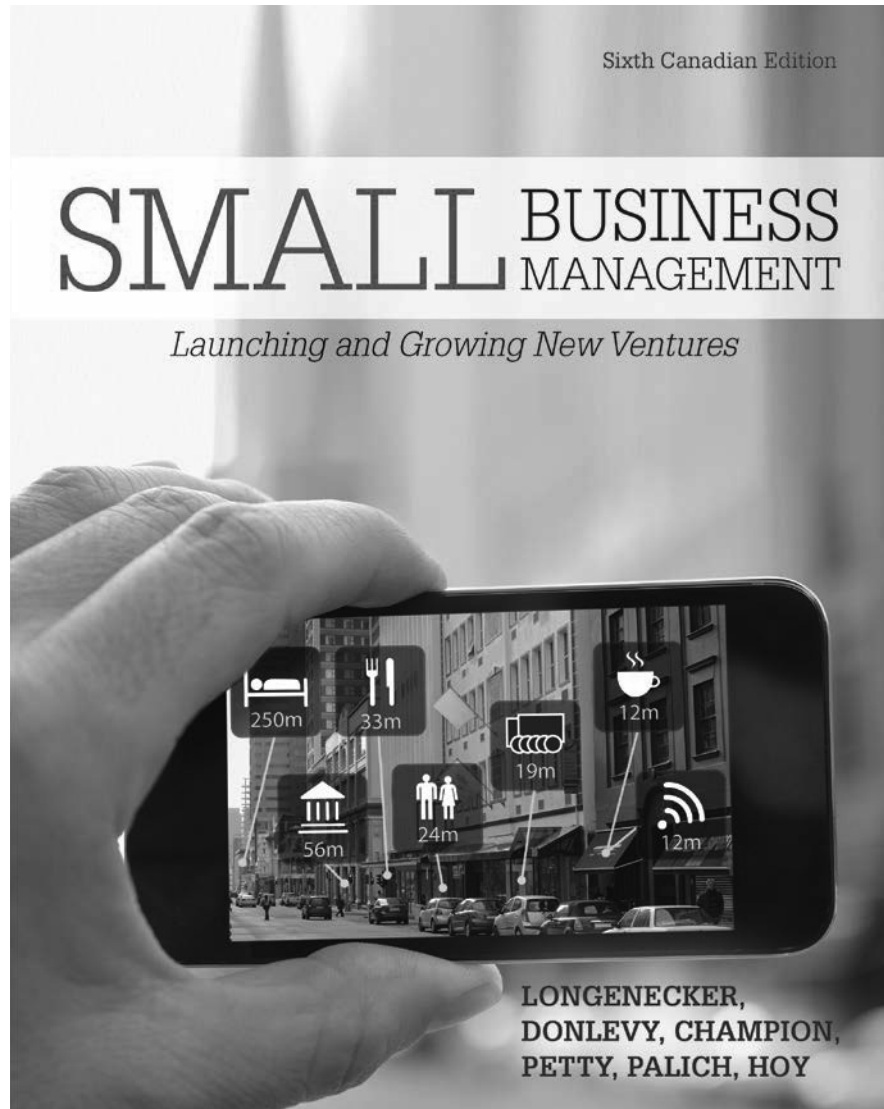


# Instructor's Manual

*to accompany*



*Sixth Canadian Edition prepared by*  
Jay Kryslar  
NAIT





**Instructor's Manual** to accompany  
***Small Business Management: Launching and Growing New Ventures, 6Ce***  
by Jay Kryslar

Available at <http://www.nelson.com/instructor>

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# Preface to the Instructor's Manual

This Instructor's Manual is intended to complement *Small Business Management: Launching and Growing New Ventures*, Sixth Canadian Edition, by Justin G. Longenecker, Leo B. Donlevy, Terri Champion, J. William Petty, Leslie E. Palich, and Frank Hoy. The Instructor's Manual is part of an extensive teaching package that includes the following resources:

- **NETA Test Bank:** The Test Bank was written by Richard Yip-Chuck of Humber College. It includes over 650 multiple-choice questions written according to NETA guidelines for effective construction and development of higher-order questions. Also included are true/false questions, essay, and short answer questions. Test Bank files are provided in Word format for easy editing and in PDF format for convenient printing whatever your system.
- The NETA Test Bank is available in a new, cloud-based platform. **Testing Powered by Cognero<sup>®</sup>** is a secure online testing system that allows you to author, edit, and manage test bank content from any place you have Internet access. No special installations or downloads are needed, and the desktop-inspired interface, with its drop-down menus and familiar, intuitive tools, allows you to create and manage tests with ease. You can create multiple test versions in an instant, and import or export content into other systems. Tests can be delivered from your learning management system, your classroom, or wherever you want.
- **NETA PowerPoint:** Microsoft<sup>®</sup> PowerPoint<sup>®</sup> lecture slides have been adapted for every chapter. This collection is a basic outline of the chapter and contains key figures, tables, and photographs from the sixth Canadian edition of *Small Business Management*. NETA principles of clear design and engaging content have been incorporated throughout, making it simple for instructors to customize the deck for their courses.
- **Image Library:** Exhibits and images from the text are provided, allowing instructors to create their own presentations.
- **LivePlan<sup>®</sup>:** Students can now learn how to use the award-winning, best-selling professional software *LivePlan* to create a business plan. This online resource provides all the essentials to create winning business plans, including step-by-step instructions for preparing each section of a plan. Ready-to-customize samples, advice, a detailed marketing analysis with links to demographic and marketing tools, and helpful financial tools make it easy to create a solid plan. Video and written tutorials from Palo Alto Software founder Tim Berry ensure that students fully understand how to maximize *LivePlan*'s dynamic tools.

- **Video (0-17-659122-2) and Video Guide:** A DVD has been prepared to accompany *Small Business Management: Launching and Growing New Ventures*. Designed to enrich and support chapter concepts, these new and exciting videos from the highly acclaimed CBC television show *Dragons' Den* explore many of the issues relevant to small businesses in Canada and bring the real world of entrepreneurship into the classroom to let students learn from the experts. Each of the video segments presents entrepreneurs who pitch their concepts and products to a panel of Canadian businesspeople. The video segments were selected by the authors to challenge the student and to stimulate a lively discussion. And nothing helps students master the lessons of small business and entrepreneurship as much as seeing them put into practice. The videos are also supported by a video guide, which includes a synopsis of each video, teaching notes, and case study questions with solutions.
- **DayOne:** Day One—Prof InClass is a PowerPoint presentation that instructors can customize to orient students to the class and their text at the beginning of the course.

This manual was adapted by Jay Kryslar of NAIT and contains lecture notes grouped by learning objective. It also contains answers to the “Discussion Questions” and “You Make the Call” situations, and teaching notes for the text and web cases.

## Student Ancillaries

**MindTap** for *Small Business Management* is a personalized teaching experience with relevant assignments that guide students to analyze, apply, and elevate thinking, allowing instructors to measure skills and promote better outcomes with ease. A fully online learning solution, MindTap combines all student learning tools—readings, multimedia, activities, and assessments—into a single Learning Path that guides the student through the curriculum. Instructors personalize the experience by customizing the presentation of these learning tools to their students, even seamlessly introducing their own content into the Learning Path. Instructors can access MindTap for *Small Business Management* through <http://www.nelson.com/instructor>.

# 1 Entrepreneurs

## LECTURE NOTES

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### 1. Discuss the availability of entrepreneurial opportunities.

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#### A. Entrepreneurial opportunities (pp. 4–5)

- An economically attractive and timely opportunity that creates value
- Keys
  - They must create value for customers.
  - Opportunities are not equally attractive to or motivating for everyone.
  - Entrepreneurs must have the interest, resources, and capabilities required to succeed.

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### 2. Explain the nature of entrepreneurship and how it is related to small business.

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#### B. Entrepreneurship and small business (pp. 5–6)

##### 1. Who are the entrepreneurs?

- People who launch, build, and/or operate a business are entrepreneurs.
- *Entrepreneur* and *small business manager* are not synonymous:
  - Some entrepreneurial ventures start as small businesses but grow into large businesses:
    - Clive Beddoe, WestJet
    - Chip Wilson, Lululemon
- All active owner-managers are entrepreneurs.
  - Entrepreneurs are not only founders of business firms; the term is applied to second-generation operators of family-owned firms and franchises and owner-managers who have bought out the founders of existing firms.
- Small business managers receive specified compensation and do not assume ownership risks.

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### 3. Define small business and identify the importance of small business.

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#### C. Definition of small business (pp. 6–7)

##### 1. What is a small business?

- Compared with the biggest firms in the industry, the business is small; in most cases, the number of employees in the business is usually fewer than 100.
- The entrepreneur/owner(s) is actively involved in the management of day-to-day business activities.
- Financing of the business is provided by no more than a few individuals.
- The business may begin with a single individual, but it has growth potential and may eventually grow to be a mid-sized or even a large company if the owner chooses to pursue growth.

##### 2. Why is small business important?

- In 2013, there were 1.08 million small businesses in Canada.
  - Over 98 percent of small businesses have fewer than 100 employees.
  - Small businesses with fewer than 100 employees contribute between 25 and 41 percent to Canada's GDP.
  - Small businesses employ approximately 7.7 million Canadians or 69.7 percent of the total labour force in the private sector.
  - Between 2002 and 2012, over 100,000 jobs were created by small businesses, accounting for on average 78 percent of all new jobs created.
  - Small business is responsible for \$87 billion in exports or about 23 percent of Canada's total exports.

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### 4. Identify rewards and drawbacks of entrepreneurial careers.

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#### D. The motivators of entrepreneurship (pp. 7–10)

- *Point out today's open door of opportunity: quality and customer service are keys to success.*
  - *Review Exhibit 1-2, Rewards of Entrepreneurship, page 10.*

##### 1. The reward of independence

- *Ask students to identify "employment constraints" entrepreneurs can avoid:*
  - *Inflexible schedule—no more time clock and 8-to-5 routine*
  - *Supervisory evaluation—no subjective performance review*
  - *Locked-in strategy—change direction if you have a better idea*
  - *Established policies—make your own policies, set vacations, and so on*
- *Ask students to identify "employment constraints" that entrepreneurs cannot avoid:*
  - *Customer demands*
  - *Government taxes and regulations*
  - *Need for long hours, hard work*
  - *Employee expectations*



- Key Small Business Statistics (*Entrepreneurial Experiences*, p. 8)
  - Discuss why the number of establishments per 1000 population is so much higher in Saskatchewan (91.4) and Alberta (92) than in Quebec (60.3).
- 2. The reward of profit**
  - Profit is a strong motivator, but it's a mistake to assume that it is the only motivator.
- 3. The reward of personal satisfaction**
  - *Ask students for examples of the personal rewards of the entrepreneurial lifestyle based on their observations of the lifestyles of their parents or others.*
  - Pride of ownership, self-esteem, and a sense of achievement
  - Chance to help the community in some way
- E. The drawbacks of entrepreneurship** (pp. 10–13)
  - Hard work, long hours, emotional energy, personal stress
  - Risk of failure
    - *What might accentuate drawbacks (e.g., lack of experience or resources)?*
    - *What types of ventures would present the greatest challenges (e.g., new ventures or innovative projects)?*
  - The Lure of Small Business Ownership (*Entrepreneurial Experiences*, p. 11)
 

Reasons for becoming small business owners, in order of importance:

    - I wanted to be my own boss.
    - I saw that it fit well with my lifestyle.
    - I wanted to make better use of my skills/knowledge.
    - I saw it as a path to financial freedom.
    - I had a great idea.
    - I could not find suitable job opportunities at the time.
    - I was committed to the family business.
- 1. Causes of business failure**
  - Start-ups and early-stage failure are attributable to a lack of managerial and financial abilities.
  - Older firms fail to adapt to a competitive environment.
  - Failure rates vary by industry.
  - A broad-based study found the following causes:
    - 32% inadequate research and development
    - 23% lacked competitive advantage
    - 14% uncontrolled costs
    - 13% poorly developed marketing strategies
    - 10% poor market timing
    - 8% succumbed to competitor activities
  - Challenges and Rewards (*Entrepreneurial Experiences*, p. 12)

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## 5. Describe the various types of entrepreneurs and entrepreneurial ventures.

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### F. The many varieties of entrepreneurship (pp. 13–16)

#### 1. Founder entrepreneurs versus other business owners and franchisees

- **Founders (or nascent entrepreneurs)**
  - “Pure entrepreneurs”
  - An entrepreneur who brings a new firm into existence
  - Typically the biggest risk takers, the most creative
- **Other business owners**
  - “Second-stage” entrepreneurs
  - Innovative, typically preside over ongoing, successful businesses
- **Franchisees**
  - Restricted in freedom but have invested money and time
  - Power limited by the contractual relationship with a franchising organization

#### 2. High-potential ventures versus attractive small firms and microbusinesses

- High-potential ventures (gazelles)
  - A small firm that has great prospects for growth
  - Example: *What is the next Facebook?*
- Attractive small firms
  - A small firm that provides substantial profits to its owner
  - A reasonable goal for most students
- Microbusinesses
  - They provide minimal profits to owners.
  - They have a subset known as lifestyle businesses, which permit the owner to follow a desired pattern of living.
  - Mompreneur has become a major trend in lifestyle business in Canada.

#### 3. Artisan versus opportunistic entrepreneurs

- Entrepreneurs display differences in degrees of professionalism and in management styles.
- Two basic patterns are artisan and opportunistic.
- The artisan entrepreneur is a person with primarily technical skills and little business knowledge who starts a business.
- The opportunistic entrepreneur is a person with both sophisticated managerial skills and technical knowledge who starts a business.
- *Ask students to discuss the differences between artisan and opportunistic entrepreneurs.*

#### 4. Entrepreneurial teams

- Two or more people who work together as entrepreneurs
- The value of combining resources
- The danger of possible conflict

#### 5. Four routes to entrepreneurship

- Starting a new business
- Entering a family business
- Opening a franchised business
- Buying an existing business
- *Ask students which path they would be most likely to follow. Why?*
- *Summarize overall patterns for the class.*

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## 6. Discuss the changing face of entrepreneurship in Canada.

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### G. The changing face of entrepreneurship (pp. 16–19)

#### 1. Younger and older entrepreneurs

- Refer to *Entrepreneurial Experiences* (p. 17) for insight into the youth trend in entrepreneurship.
- There is no specific age that is best to start a business. Opportunities exist for both younger and older entrepreneurs.

#### 2. The corporate refugee

- Other types of refugees: *Put list on board and have students try to give an example of each:*
  - Foreign refugee
  - Parental refugee
  - Feminist refugee
  - Housewife refugee
  - Society refugee
  - Educational refugee

#### 3. The social entrepreneur

- Refer to “*Entrepreneurial Experiences*,” *Free The Children* (p. 19).

#### 4. The serial entrepreneur

- Refer to “*Entrepreneurial Experiences*,” *Profile of a Serial Entrepreneur* (p. 20).
  - Give or solicit examples of serial entrepreneurs.
- 

## 7. Describe some characteristics of successful entrepreneurs.

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### H. Characteristics of successful entrepreneurs (pp. 19–21)

- Entrepreneurs do not give up easily.
- They are typically confident of their ability to meet the challenges confronting them:
  - Known as internal locus of control—a feeling that success depends on one’s own efforts
  - Contrast: an external locus of control reflects an attitude of dependence on luck or fate for success
- *Select a specific entrepreneur, preferably a local one, and identify that person’s apparent entrepreneurial characteristics. Focus on the characteristics listed below:*
  - Commitment and determination
    - Tenacious, decisive, and persistent in problem solving
  - Leadership
    - Self-starters and team builders who focus on honesty in their business relationships
  - Opportunity obsession
    - Aware of market and customer needs
  - Tolerance of risk, ambiguity, and uncertainty
    - Risk takers, risk minimizers, and uncertainty tolerators
  - Creativity, self-reliance, and adaptability
    - Open-minded, flexible, uncomfortable with the status quo, and quick learners
  - Motivation to excel
    - Goal oriented and aware of their weaknesses and strengths

## **ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS**

1. *Why has there been an increased interest in small business and entrepreneurship? (p. 4)*

Over the past decade, the number of self-employed in Canada has grown by 17 percent. Furthermore, 11.2 percent of Canadians intend to start a business at some point in time. Three incentives can be distinguished: independence, profit, and personal fulfillment.

2. *What is meant by the term entrepreneur? (pp. 5–6)*

*Entrepreneur* is a French term that dates back to the early eighteenth century. It refers to an individual who founds or starts a business firm. (The term also includes partnerships and entrepreneurial teams.) In this book, we extend the definition to include owner-managers who operate firms started by others. The characteristics of risk taking and innovation are associated with the image of the entrepreneur. Definition: *a person who launches, builds, and/or operates a business*

3. *Do you believe that all small business owners are entrepreneurs? (pp. 4–9)*

Answers will vary. When using a definition of entrepreneur that includes owner-managers, one can argue that small business owners are entrepreneurs; however, if one places emphasis on the risk-taking aspects of an entrepreneur, it might be argued that small business owners, once established with a survival goal, may limit their risk taking and reduce the number of entrepreneurial activities.

4. *Discuss the importance of small business to the Canadian economy. (pp. 6–7)*

Canadian small businesses are very important to the economy. As Exhibit 1-1 on page 9 shows, over a 10-year period, over 77 percent of all private sector jobs were created by small business. Small businesses also drive innovation and are key factors of economic vitality.

5. *Consider an entrepreneur you know personally. What was the most significant reason for his or her deciding to follow an independent business career? (pp. 7–12)*

Answers will vary. Some students should know some entrepreneurs—parents, friends, or employers—quite well. The instructor might ask students first to explain the basis of their relationship with the entrepreneur and then to discuss their perceptions of that person’s motivations.

6. *What is the difference between an artisan entrepreneur and an opportunistic entrepreneur? (p. 15)*

An artisan entrepreneur is a person with technical job experience (e.g., a painter becomes a painting contractor) who lacks general abilities in business management. An opportunistic entrepreneur has a more general education than the artisan entrepreneur and thinks in broader terms of strategy and financial planning.

7. *What would be your primary motivator for starting a venture? (p. 11)*

Discuss the results of the CFIB survey. Compare students’ answers with the survey results.

## **COMMENTS ON CHAPTER “YOU MAKE THE CALL” SITUATIONS**

### *Situation 1*

1. *Should this venture be regarded as entrepreneurial? Is the owner a true entrepreneur?*

Whether this is entrepreneurial depends on the definition used. Whether the owner is a founder is the key issue in some definitions of a “true” entrepreneur. In this text, we use a

looser definition of entrepreneur, which includes this owner-manager regardless of whether he founded the business. The venture is apparently not the high-growth, high-potential type. It may well be what we have called an “attractive small company.”

2. *Do you agree with the philosophy expressed here? Is the owner really doing what is best for his family?*

This question calls for opinions and permits some discussion of the conflicting values and rewards in business. Some may feel that the owner is insufficiently motivated to grow and even to serve his own family properly in that way. Others will see the family values and careful growth as appropriate. The question permits the instructor to discern the general orientation of students in a class. How many, after discussion, will give a vote of commendation to this owner? You might ask students to guess the owner’s age.

3. *What kinds of problems is this owner trying to avoid?*

The owner is apparently avoiding or reducing problems related to inadequate customer service and product/service quality—areas of difficulty in a rapidly growing business. Also, the personnel and management functions (e.g., delegating, finding qualified key people) are simplified by slow growth. Slow growth may either postpone a transition to professional management or permit a more orderly transition to it.

#### *Situation 2*

1. *What type of venture could this potentially be?*

This would be an entrepreneurial venture with high potential (gazelle) (p. 14).

2. *What type of entrepreneur would she be?*

Maria would be a young artisan entrepreneur (p. 15) and the founder (p. 13).

3. *What are the benefits that Maria would anticipate by owning her own firm? What are the risks?*

Maria, as the inventor and owner-manager, could find rewards of profit, independence, personal satisfaction, and personal fulfillment as she sees her idea grow into a successful product. The risks could possibly be personal stress as the idea develops and moves into commercialization, hard work and long hours, and the danger of financial failure.

#### *Situation 3*

1. *Is work–life balance for everyone?*

No, it is not. Work–life balance is an individual preference and a value. People are spurred into action by what motivates them. Whatever that driving force is will chart the course for how they balance their passion (work, exercise, education) with their other life obligations.

2. *Is work–life balance simply a preference, or is it a necessity when growing a business?*

Work–life balance needs to be considered as part of one’s personal goals at the beginning of the business. Many businesses may require greater care and nurturing to grow successful. The value given by the entrepreneur of work–life balance can have an impact on personal relationships of the entrepreneur as well as the growth of the business. Balance is always the best course of action.

3. *As an entrepreneur, would there be areas in your life that you would place at a higher priority than growing a business? Explain.*

Answers will vary as this is based on individual preferences.

## **CLASS ACTIVITIES**

### **Paint the Profile**

As individuals (or teams), paint (describe) the profile of the entrepreneur who is starting up one of the following businesses:

- flower shop
- pet grooming
- handyman service
- chocolate-making retail store
- comic book store
- coffee shop
- dry cleaning business

The picture should be realistic and include the entrepreneur's

- name
- age
- sex
- experience
- family status
- personality traits
- net worth/financial resources

Compare the results. Discuss each business, focusing on an area with wide variations and close similarities and suggesting reasons for these.

### **Why Is Small Business Important?**

Break the class into groups of four to six. Have each group brainstorm and then present evidence from your local community, their personal lives, and popular culture that small business is important in Canada.

This has traditionally been surprisingly difficult for students. Evidence examples include the following:

- magazines (*Profit*)
- *Dragons' Den* television show (CBC)
- small business centres
- grants from government
- this course/textbook
- community sponsorships (sports teams/events)

### **Scavenger Hunt**

One way to keep data fresh is to have student go on a data scavenger hunt. Students or student teams would set out to find the latest small business data. Included in the data to hunt would be job creation data or small business creation. Sources such Statistics Canada and Industry Canada can be included.

# 2 Start-Up and the Need for Competitive Advantage

## LECTURE NOTES

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### 1. Distinguish among the different types and sources of start-up ideas.

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#### A. The start-up: creating a new business (p. 28)

- *Discuss the typical reasons for developing a start-up rather than pursuing the other alternatives:*
  - Invention or development of a new product or service; major revision of an existing product or service
  - An existing advantage to exploit in the areas of location, employees, equipment, products and services, suppliers, and so on
  - Avoidance of undesirable precedents and commitments—that is, taking advantage of opportunities arising from the inadequacy of competitors

#### B. Finding start-up ideas (pp. 30–32)

##### 1. Kinds of start-up ideas

- *Discuss the three basic types of ideas that shed light on the entrepreneur's search for a start-up opportunity.*
  - New market ideas: providing customers with a product or service that is not in their market but already exists somewhere else
  - New technology ideas: using a technically new process that provides the basis for new product or service ideas
  - New benefit ideas: performing an old function for customers but in a new and improved way

##### 2. Sources of start-up ideas

- *Discuss the circumstances that tend to spawn the kinds of ideas listed above. In other words, where do these ideas come from?*
  - The origin of new product ideas was examined in a study by the National Federation of Independent Business Foundation. Prior job experience accounted for the largest percentage of ideas (45 percent).
  - Even though a new idea can come from virtually anywhere, the text has identified four categories:
    - Personal experience. *Recall the text example of RiNGLEY or any personal experience that you may have (consulting, business ideas you would start if you had more time, etc.).*
    - Hobbies. *Use the story of Ted Catherwood, who used his hobby of motorcycling to form a business. Ask students if they have ever come up with an idea for a new product or service while pursuing their own hobbies.*
    - Accidental discovery or serendipity. *This is the phenomenon of making desirable discoveries by accident (e.g., Matthew Basan from the text).*
    - Other idea leads. *Discuss the two general avenues of deliberate search: (1) a survey of personal needs and (2) a survey of needs in the marketplace. Elaborate on the top*

*10 sectors as covered in Profit magazine or Canadian Business or use the Hootsuite example from Chapter 1.*

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## **2. Describe external and internal analyses that can be used to identify and assess new venture opportunities and describe the factors that contribute to competitive advantage.**

---

### **C. Using internal and external analysis to identify and assess new business ideas** (pp. 32–37)

#### **1. Outside-in analysis**

- The general environment. *Refer to Exhibit 2-3, Trends in the General Environment (p. 33).*
- The industry environment. *Emphasize the five factors identified by Michael Porter as determining the nature and degree of competition in an industry:*
  - Bargaining power of buyers
  - Threat of substitutes
  - Bargaining power of suppliers
  - Rivalry among existing competitors
  - Threat of new competitors

#### **2. Inside-out analysis**

- Building on internal resources and capabilities
- Core competencies and competitive advantage

#### **3. Factors contributing to competitive advantage**

- *Ask students to identify a small firm that has a competitive advantage.*
- *Discuss how business strategy can identify a competitive advantage and provide direction for a small firm.*
- Price/value
- Unique service features
- Notable product attributes
- Customer service
- Accessibility
- *Discuss strategy and strategic decisions. Ensure that students have a good grasp of business level versus functional level strategies.*

#### **4. Integrating internal and external analyses.** *Refer to Exhibit 2-4, Examples of SWOT Factors (p. 37)*

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## **3. Identify and compare strategy options for building and sustaining competitive advantage.**

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### **D. Selecting strategies to gain competitive advantage** (pp. 37–40)

- 1. Cost-advantage strategy** (e.g., Tangerine)
- 2. Differentiation-based strategy** (e.g., Canada Goose)
  - *Discuss use of the Internet to create a competitive advantage.*



**E. Sustaining competitive advantage**

- *Describe the importance of sustainable competitive advantage.*
- Even if a company is successful, this is no guarantee that it will remain so.
- A value-creating industry position that is likely to endure over time only if it sustains competitive advantage
- To sustain competitive advantage, firms must adapt.

**4. Define market segmentation and its related strategies.****H. Market segmentation and its variables (pp. 40–42)**

- *Define market segmentation.*
- *Discuss examples where segmentation has recently emerged, such as the computer industry.*

**1. Types of market segmentation strategies**

- *Discuss the need for market segmentation and the two types of strategies:*
  - a. The multisegmentation strategy** (*see Exhibit 2-5, p. 41*)
  - b. The single-segmentation strategy** (probably the best strategy for small firms). This strategy was followed by I Love Rewards, which became one of Canada's Top 100 Employers and is ranked as one of the 100 Fastest Growing Companies by *Profit* magazine.

**5. Explain the concept of niche marketing and its importance to small business.****I. Niche marketing (pp. 42–44)****1. Selecting a niche market**

- *Discuss the examples from your experience or the two from the text: Spa At Home and Pacific Coastal Airlines.*

**2. Maintaining niche market potential**

- *Describe the four situations mentioned in Michael Porter's book, Competitive Advantage, in which a segmented market can erode.*

## **ANSWERS TO END-OF-CHAPTER DISCUSSION QUESTIONS**

1. *What are the three basic types of start-up ideas? What are the most common sources of inspiration for start-up ideas? (pp. 28–32)*

Three basic types of start-up ideas are new market ideas, new technology ideas, and new benefit ideas.

Common sources can include personal experience, personal interests and hobbies, and accidental discovery.

2. *List and describe the five approaches outlined in this chapter that can be used to generate creative new business ideas. What are the most important features of each of these? (pp. 32–35)*

Approaches include looking outside-in and inside-out through an examination of the external and internal environment. By looking outside-in, entrepreneurs can examine the needs in the marketplace and then determine how to use their own capabilities to pursue those opportunities. They can also look inside-out by evaluating their capabilities and then identifying new products or services they might be able to offer to the market. In purposeful exploration, both an outside-in analysis and an inside-out analysis can be used. An outside-in analysis features the exploration of the external environment in both the general environment and the industry environment. An inside-out analysis features the resources and capabilities of a firm.

3. *List the six most important trends of the general environment. What are some ways in which each trend might affect a small business? (p. 33–34)*

The six most important trends of the general environment are political/legal, sociocultural, demographic, economic, global, and technological.

Examples of ways in which each trend might affect small business will vary. Certainly included in political/legal examples could be the no smoking bylaws in bars and restaurants in some jurisdictions. Examples on economic trends could include issues on disposable income of the target market.

4. *What are the primary factors that shape competition in an industry, according to Porter's model? In your opinion, which of these factors will have the greatest impact on industry prices and profits? (pp. 37–40)*

Small businesses can create competitive advantage through (1) price/value, (2) unique service features, (3) notable product attributes, (4) customer experience, and (5) accessibility. For the successful implementation of these, answers will vary depending on students' experiences.

5. *What is a SWOT analysis? How can a SWOT analysis help the entrepreneur match opportunities in the external environment with organizational capabilities? (pp. 36–37)*

A SWOT analysis examines a firm's internal strengths and weaknesses and its external opportunities and threats. When two primary components are identified, a strategic direction can be suggested.

In the case where internal strengths are great and good opportunities exist, then the firm takes advantage of its situation. Where internal weaknesses outweigh a firm's strengths and good opportunities exist, then the strategic direction would be to fix the internal weaknesses.

6. *Why is it important to consider sustainability in the development of competitive advantage? What measures can a small business take to ensure sustainability?*

From the beginning, the entrepreneur should plan sustainability into strategy by leveraging the unique capabilities of the firm in a way that competitors will find difficult to imitate. The entrepreneur must recognize that sooner or later rivals will discover a way to duplicate any value-creating strategy. It is important to think of new ways to invest performance outcomes so that the basis of the competitive advantage can be renewed over the long run.

7. *What are the two basic strategy options for creating a competitive advantage? (p. 38)*

One option involves creating a cost advantage by producing a product at the lowest cost within the market. The second option is achieving a marketing advantage by creating a product or service that can be differentiated in the marketplace.

8. *What is meant by the term focus strategy? What are the advantages and disadvantages of a focus strategy? What must an entrepreneur know and do to maintain the potential of a focus strategy? (pp. 40–44)*

Focusing on a specific market niche is a strategy that small firms often use successfully. The advantage of doing this is being able to exploit in a market rather than going head to head with the competition. The disadvantages to this strategy are that the dangers from imitation can materialize; the target segment may erode or disappear; differences with other segments narrow; or new competition further subdivides the target segment.

In order to maintain the potential of a focus strategy, an entrepreneur must do the following:

- a. Restrict focus to a single market segment
  - b. Limit sales to a single geographical region
  - c. Emphasize a single product or service
  - d. Concentrate on the superiority of the product or service
9. *Explain the difference between a multisegmentation strategy and a single-segmentation strategy. Which one is likely to be more appealing to a small firm? Why? (pp. 40–42)*

A multisegmentation strategy involves approaching two or more homogeneous market segments with a tailor-made strategy for each segment. The single-segmentation strategy targets one segment that the firm believes will be most profitable. The single-segmentation strategy usually allows small firms to use their limited resources more efficiently.

10. *What is meant by the term niche marketing? (pp. 42–44)*

Niche marketing is exploiting a target market area in which there is little or no competition.

11. *What are four challenges a firm might face if using a niche marketing strategy? (pp. 42–44)*

1. The focus strategy is imitated.
2. The target segment becomes structurally unattractive because of erosion of the structure or because demand simply disappears.
3. The target segment's differences from other segments narrow.
4. New firms subsegment the industry.

## **COMMENTS ON CHAPTER "YOU MAKE THE CALL" SITUATIONS**

### *Situation 1*

1. *How would you classify Sandler's start-up idea?*

Sandler's idea will make use of a recent technological advance: the computer. Nevertheless, his concept is still a type C idea because students in special education have received lessons from other sources for years; Sandler's idea is to perform the function in a new, improved way.

2. *What was the source of Sandler's new idea?*

This idea was born from a combination of personal experience and deliberate search. Sandler's previous experience with his successful company certainly influenced his perception of his children's education "school." Aboard the train in France, Sandler found inspiration for a new venture and therefore had the "readiness of mind" mentioned in the textbook. Although education was not necessarily Sandler's hobby, his idea identified this potential to teach young children, based on examples of what he saw in Russia and in parts of Europe.

3. *Do you think Sandler might develop his idea with a start-up or a buyout? Why?*

If distribution becomes the key element to the success of the venture, he may consider a buyout of an existing educational business that could provide vital links to ultimate consumers.

Otherwise, Sandler may select the start-up route. It would seem that the creation of specialized knowledge in the children's education field is his main challenge. He might be capable of creating his vision and operating the business out of his home.

#### *Situation 2*

1. *What particular niche market, if any, do you think Singh can successfully reach with this product? Why?*

The suitcase should appeal to frequent flyers if it is modified to be more attractive. Such potential customers would not have so much baggage that they would need to check it. Also, their short trips would make it desirable to have their belongings immediately available and to avoid mistakes in the routing of their bags.

2. *Do you think he will face an immediate challenge from local or global competitors? If so, how should he react?*

Until this product attracts much more attention, the makers of Samsonite and other major brands are likely to ignore or be unaware of it. If and when competition does appear, Singh may emphasize product superiority to differentiate his suitcase from those of competitors. This approach may be preferable as it is typically difficult to compete with large corporations on a cost basis. Quality may also be more important than low cost to Singh's potential customers.

3. *What type of quality concerns should Singh have regarding the product?*

Some of the primary concerns are durability, ease of use (e.g., easy rolling), convenience in handling (e.g., lifting into aircraft storage bins), attractiveness (e.g., colour and shape), and security (e.g., type of lock).

#### *Situation 3*

1. *Will the market for Sanderson's product continue to grow in the years ahead?*

Market growth of Sanderson's product probably will expand as international business continues to expand. The offset of this would be greater use of non-travel communication.

2. *Given the company's success so far, what sources of competition should he expect?*

Competition could come from different quarters. "Me too" companies could appear; hotel chains could start their own products; and indirect competition may be reducing travel using technology such as Skype.

3. *What steps would you recommend that Sanderson take to protect his company from the onslaught of competition that is likely to come?*

In order to protect his company from competition, Sanderson should sign noncompete agreements with hotels, develop copyright procedures connected with treatment, and start developing brand awareness.

## ***CLASS ACTIVITIES***

### **What Is the Advantage?**

Break the class into groups and assign each a local or well-known small business. Have each group discuss and then present the following:

- Identify relevant direct competitors.
- What is the competitive advantage they seem to have?
- Describe how it fits into being either a cost or a market advantage.
- Does it seem like a viable strategy? Why?

### **We Have an Advantage Over You**

This exercise is based on the traditional game of jacks played with a ball and jacks, which are easily available in the party section of most dollar stores (although any small object that is fairly easy to pick up can be substituted for the jacks). To play, bounce the ball off the ground, then pick up jacks, and then catch the ball before it bounces for a second time. Whoever picks up the most jacks wins. The traditional rules can be found at <http://en.wikipedia.org/wiki/Jacks>.

- Divide the class as evenly as possible into teams of four to six members.
- Begin by demonstrating the game. Bounce the ball, pick up some jacks, and catch the ball.
- Give each team some balls and a pile of jacks.
- Instruct students that the object is for the team to pick up as many jacks as possible in one minute. Jacks can be picked up only while the ball is in the air.
- Give groups five to 10 minutes to practise and strategize, ideally away from each other.
- Run a timed round.

### Notes

- Do not over-explain the rules. We are deliberately being vague so that they can find some sort of advantage the others haven't thought of. Examples include having one person bounce the ball while others pick up jacks or bouncing the ball off a high surface, such as a table, and catching it near the floor.
- Keep a pile of jacks and balls at the front in plain view but make no reference to them. Some of the groups may come and take extras to give them an advantage.

### Variation

Run multiple rounds but introduce some sort of barrier. Examples include allowing only one person to talk, insisting everyone must be sitting, and removing a person from the group.

### Discussion

- What advantages were used?
- What barriers to finding or using an advantage did teams experience?

## TEXT CASES

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### ***SUGGESTED SOLUTION TO CASE 1:***

#### ***DORI'S DIAMONDS***

1. *If you were Dorian, what steps would you take to grow the business?*

Right now the business relies solely on Dorian, and there is only so much of her to go around. While she does get assistance from several of her contractors, she needs to add management capacity to the various parts of her business to free her up to plan and execute a growth plan.

The diamond business is growing well through the channels she has chosen. There appears to be limited potential with Dori's Dolls, but the marketing services business would seem to have great potential.

2. *What do you see as the greatest challenges facing Dorian as she moves her business forward?*

Dorian's biggest challenge is how to develop management capacity to help run the various businesses. While she is clearly the architect of her own success, she is also the limiting factor in growing the business. Her strengths lie in the artistic and strategic sides of the business, so the logical first employee would be an operations manager to help organize the various events and marketing activities. Other business functions, such as bookkeeping and accounting, can be contracted out.

Establishing mainstream business credibility for the marketing services business is the second challenge. As a relatively new business, it lacks a big-name "reference" customer that would generate that credibility. One route to get this would be to leverage her work with charities by providing some services for free or at cost in return for their endorsement.

3. *How does Dorian's approach to marketing differ from that of traditional jewellery retailers? Do you think this approach is more successful or less?*

Traditional jewellers rely on bricks-and-mortar locations, conventional advertising, and sometimes trade shows, such as bridal fairs. They attempt to serve several market segments. Dorian's approach started with targeting a specific younger demographic with quality, but less expensive, products. Her channels have been direct channels. Starting with displays at college and university student centres, expanding to event-based marketing, and using the Internet, Dorian has made a firm decision to avoid the challenges and costs of a physical store.

## ***SUGGESTED SOLUTION TO CASE 2:***

### ***DILLON'S SMALL BATCH DISTILLERS***

1. *How would you classify the type of start-up idea that was present for Geoff Dillon?*

The start-up idea Dillon used could be considered a new benefit idea, which is to provide customers with improved and unique distillery products.

2. *Which factors and trends in the general and industry environment will be the most important for Dillon's?*

In terms of the general and industry environment, Dillon's can be affected by many. One significant general environment factor would be related to political/legal trends affecting the sale of craft distillery products in Ontario, where regulations reduce margins for the products compared to other alcohol products, such as wine.

Using social media to market takes advantage of technological trends as well as certain sociocultural trends.

In the industry environment, the two key factors to consider would appear to be the threat of substitute products and the threat of new competitors.

3. *How would you describe Dillon's competitive advantage? What type of strategy would be best to pursue based on that?*

One could describe Dillon's competitive advantage as delivering a quality distillery product that is constantly changing or improving over time.

The strategic focus in terms of product would be to maintain an active but broad-quality product line and continue to develop new tastes and experiences for the customer.

In terms of place considerations, the focus would continue being local but not missing opportunities to grow and expand.

The price focus must be to maintain margins while lobbying the Ontario government to reduce restrictions against distillers.

The promotional face would concentrate on building brand awareness through continued use of social media.

4. *What type of market segments exist for Dillon's? Which would you consider pursuing in the future?*

One could argue that Dillon has a niche strategy. While maintaining this connection with a growing target market of craft distillery product users, Dillon should not ignore the possible growing market on such a broader scale through online sales.

## ***SUGGESTED SOLUTION TO CASE 3:***

### ***SMITTY’S LI’L HAULERS***

Leo Donlevy prepared this teaching note as an aid to instructors in the classroom use of Case 3: Smitty’s Li’l Haulers. This teaching note should not be used in any way that would prejudice the future use of the case.

It was October 1998, and Jeff Malott, a young, aspiring entrepreneur, had just toured the rustic factory and retail store of Smitty’s Li’l Haulers, a Shedden, Ontario–based manufacturer of children’s toy wagons. Jeff was very impressed with what he had seen. Smitty’s was for sale, and Jeff wondered if this was the right opportunity for him.

#### **Teaching Objectives**

1. To illustrate the opportunity identification process
2. To introduce concepts required for opportunity analysis
3. To illustrate the need for a fit between the entrepreneur and the opportunity
4. To examine the buy versus start-up trade-offs

#### **Immediate Issues**

1. Jeffery Malott has been recommended to the owner of Smitty’s, John Smith, as a potential buyer. Jeff has toured the assembly facility and had extensive discussions with John and has to make a decision whether to look seriously at the Smitty’s opportunity.
2. Buying Smitty’s would mean abandoning a long-held dream, one for which he now has a full business plan, for a new bar/nightclub concept for London, Ontario.
3. Since being exposed to the idea of buying a business, Jeff is wondering if there might be better opportunities than Smitty’s out there.

#### **Basic Issues**

1. Looking at the entrepreneur’s process for finding opportunities
2. Examining the fit of the various options with the entrepreneur
3. Examining what information and process to go through to assess the different opportunities
4. Examining the trade-offs between buying and starting a business

#### **Suggested Student Assignment**

1. What do you think Jeff did well in looking for opportunities? How would you improve on this process?
2. What steps would you take to examine the Smitty’s opportunity and see if it might be worth entering into negotiations to buy the business?
3. How would you go about determining if the \$100,000 asking price is realistic?
4. If you were in Jeff’s shoes, which alternative would you choose? Why? What criteria or factors did you consider in making your choice?

#### **Responses to Suggested Student Assignment**

1. Jeff committed himself to the process by giving up his apprenticeship and taking a part-time job to have time to explore the bar/nightclub idea. He networked very well in the local business community. Jeff recognized the need for guidance and undertook to educate himself in the business skills



necessary to both assess opportunities and to run a business. However, he had become overly committed to bar idea, which blinded him to other possibilities until the Smitty's opportunity was presented to him

2. Jeff needed to understand the business more: the distribution network, the competition, the customers, and he needed to write a new business plan. He had only met the owner once, so he needed to spend more time with him and the business in order to assess his character.
3. If you look at Exhibit C3-1 and take an average of about \$200 per unit, the company only had normal revenues of around \$100,000. Since we don't have access to the financial statements (Jeff did at the time, but no longer has them), we have to do some rough estimation. If we assume a generous 5 percent net income of \$5,000 and use a rule-of-thumb of 3–5 times earnings, we get a price of \$15,000–\$25,000. The two large orders have no guarantee of repeat, but the owner is obviously factoring them in. If we do, then we get a net income of \$40,000 and a value of \$120,000–\$200,000. However, the big orders were likely heavily discounted, so the \$100,000 asking price may be on the high side.
4. In order to answer this, you could do a decision matrix and assess the options. Criteria would be things like riskiness, ability to finance, profit potential, growth potential, fit with Jeff's background, etc. The bar is inherently risky and Jeff's father is not in favour, so love money may not be available for the bar. It should be for Smitty's. Smitty's also has current sales and a motivated vendor, and Jeff sees lots of ways to improve the product and to grow the business. It appears to be a fit, given his mechanic's background.

## ***SUGGESTED SOLUTION TO CASE 4:***

### ***TWO MEN AND A TRUCK®/INTERNATIONAL, INC.***

1. *Limiting sales territories is one of the common restrictions that franchise contracts impose on franchisees. Do an Internet search for TWO MEN AND A TRUCK franchises in your immediate area. How many are there? Does this number reflect the company's population requirements?*

Students' answers should demonstrate that they accurately identified the number of franchisees and the relevant population for the area. If there are no Two Men and a Truck companies in the local area, the instructor could propose an alternative location or an alternative company to investigate.

2. *Which moving companies compete with TWO MEN AND A TRUCK in your area? Are there differences in their rates of success? How could you measure those differences? Are there differences in their advertising? In their rates for items such as boxes and packing supplies? Which companies have an advantage, and why?*

This answer is similarly dependent on the local region. Students should be expected to identify leading firms in the moving industry serving the area and should be able to identify from their marketing approaches how the firms are attempting to differentiate themselves. The critical component of the student responses is their ability to justify their answers.

3. *Suppose that after owning a TWO MEN AND A TRUCK franchise for five years, you decided to go out on your own with a new moving company called Four Movers. What kinds of legal issues would you face?*

The essential response should address whether or not the franchisee signed a noncompete clause with the franchisor. If so, the former franchisee will face legal restrictions based on what is in the signed agreement. Typically, the restrictions are for the type of business started (should not be a direct competitor) and for a specified geographic territory (often equivalent to whatever the former franchisee's territory was but could be a city or state or some other relevant area) and will be limited to a period of time (usually 3 to 5 years, but there are exceptions). There may also be legal problems if the new business owner infringes on trademark or copyrighted material—copying the designs or verbiage of the franchisor too closely. And there could be a problem with patents or trade secrets if the former franchisee uses something that the franchisor is protecting as intellectual property.

***SUGGESTED SOLUTION TO CASE 5:***

***THE ULTIMATE GARAGE***

1. *What marketing strategy is Ultimate Garage pursuing? Which target markets do you think the company is pursuing?*

Primary target market: garage owners in the Calgary area

There are several subsegments or niches within the overall target market:

- families
- car collectors
- carpenter hobbyists
- ultimate gardeners
- sports enthusiasts
- fitness buffs
- wine collectors
- games room players
- home-based business owners

Secondary target market: commercial work spaces

Tertiary target market: retail work spaces

Product

Garage transformations: cabinetry, storage, flooring

• <u>Garage Cabinets</u>	Redline, Baldhead, Challenger Designs, Geneva Garage Gear, Proslat Garage Cabinets , Ultimate Garage Cabinets
• <u>Garage Storage</u>	Onrax Overhead Storage, Proslat Wall Storage, Tuff-E-Nuff Slatwall Wall Storage
• <u>Garage Flooring</u>	Floor coating

Price

- Varies depending on product/service selected
- 20-year guarantee offered on some products/services

Place

- Serve clients (garages and workspaces) from Calgary base extending to Red Deer (north), Medicine Hat (east), Lethbridge (south), and Banff (west)
- Use of skilled installers and contractors
- Computer-generated drawings

Promotion

- Trade shows
- Website
- Flyer (direct mail)

2. *Visit Ultimate Garage's website, and analyze its effectiveness. Which alternative promotional venues would you recommend?*

The website is very clean and visually appealing. Compared to competitor's web sites, the graphic quality and layout are excellent. There is some ability to move around in the graphics as if you were moving around in a garage. Web site enhancements would be possible in terms of allowing prospective customers to use some of the company's computer-generated drawing capabilities.

The URL has some issues as the link [ultimategarage.com](http://ultimategarage.com) belongs to a U.S. company. The website has some issues of functionality on smartphones, although it views well on such browsers as IE, Netscape, and Firefox.

Detailed analysis of the website on key factors:

- *Accessibility:* content separate from navigation but lacks some text-based alternatives (within images and files); full-screen and normal versions available
- *Navigation:* some user-friendly movement available; only a few clicks to reach maximum depth; quick response to mouse clicks; visually easy to find things; readable and intuitive
- *Design:* aesthetically appealing; customers may want the ability to click on the pictures as opposed to the menu on top
- *Content:* succinct and informative; speaks well to target market; text size may be a bit small
- *Security:* may want a client/member area in the future
- *Technical:* loads quickly; all links are valid and active; scripts are free from errors; no site map function
- *Marketing:* Could be better optimized for search engines; no shopping cart or online purchasing ability

Alternative Promotional Venues

- Web 2.0/social media: blogs, Facebook, Twitter, online forums, and so on
- Television: national (Home and Garden TV [HGTV], DIY network), local (community stations)
- Radio: advertising during peak driving hours
- Referral programs
- Partnerships with major home/automotive retail establishments
- Corporate social responsibility: line of green products, more responsible/sustainable business practices

### Recommendation

Budgetary issues may lead away from TV and radio. Referral programs are an easy adaptation, but the power of social media is something for Ultimate Garage to embrace.

Ultimate Garage could begin using Twitter, set up a Facebook page, monitor and contribute to online forums, and so on.

3. *Evaluate your local market to determine if a similar service is available. If so, compare the advertising communication. Which firm is more effective?*

Student answers will vary depending on the location of the market.

4. *How could Ultimate Garage expand its services?*

New product, same customers: offer such things as HVAC (heating, ventilation, and air conditioning), expand the line of accessories to include tools and equipment for the do-it-yourselfer, and so on

New product, new customers: offer services for customers with disabilities, such as wheelchair ramps, in-house mobility solutions, and so on

Same product, new customers: extend the area served by establishing a second location in a surrounding market, such as Edmonton

5. *Assess the franchising potential for the venture. Would you recommend that Ultimate Garage expand through franchising?*

Franchising potential can be assessed by looking at the key factors from the text:

#### Positives

- Increase the speed of expansion: a slower speed is fine for Ultimate Garage Inc.
- Reduction of capital requirements: being a capital-intensive business, it would lower the financial risk
- Increase in management motivation: the risk here is in management expertise lowering and affecting the reputation of the whole group; the success of the business is to a large extent the result of the experience and quality of the existing management and contractors.

#### Negatives

- Reduction in control: This is also an issue in terms of product/service quality.
- Sharing of profits: Given that capital investment risk would be lowered, this is likely not a bad trade-off.
- Increase in operational support: To ensure the standards are met, training and ongoing support would need to be increased.

Generally, it is recommended that more gradual growth would be advised rather than franchising, unless a senior contractor who has worked for a long time with Ultimate Garage Inc. wanted to set up a franchise.

6. *Design a CRM process for the company. Identify the benefits a CRM system would provide.*

### CRM Process

It is important when designing a CRM system to design it from the inside-out as well as the outside-in. The internal focus relates to helping companies manage their relationships with their customers. The external focus of becoming more prominent with an eCRM initiative lets customers manage their relationships with the company.

The two building blocks from the text are

1. Outstanding transactional relationships with customers:
  - Customer service
  - Technology support
  - Customer information
2. Knowledge of customer behaviour:
  - Decision making
  - Psychological influences
  - Sociological influences

Many CRM systems are not designed with users in mind—the sales reps and customer support personnel who enter and maintain information in the system. Too often the systems simply add work without providing valuable information for managers and executives to analyze. Ensure that the users are involved in system design and deployment so that they will see how it will make their lives easier. It is important to understand the business processes that are to be automated. Starting with a more simple system at first and adding new capabilities later will ensure a more successful implementation.

#### CRM Benefits

- Acquisition costs for new customers are high; it pays to keep existing customers.
- Long-time customers spend more money than new ones.
- Happy customers refer their friends and colleagues.
- Order-processing costs are higher for new customers.
- Old customers will pay more for products.

CRM systems are not inexpensive, but they reduce overall customer costs in the long run and improve the overall relationship between the customers and the organization.

## ***SUGGESTED SOLUTION TO CASE 6:***

### ***NAPIER ENTERPRISES***

1. *What is Napier's current approach to market research? What is the company doing right? In which areas could the company improve?*

Napier is trying to balance the use of both secondary and primary research. The company is making use of secondary research from SEMA and the Outdoor Industry Foundation, which is a cost-effective approach in terms of obtaining industry-related data. However, it is not doing much in terms of accessing primary research, relying on the mail-in warranty cards that some customers send in for demographic information and conversations with customers at industry trade shows. There is nothing being done on a more in-depth level to gauge consumer opinion, attitudes, or lifestyles—information that could be valuable in terms of developing new products and knowing where to spend marketing dollars.

2. *What types of secondary data and primary data could Napier benefit from?*

Napier could benefit from more specific secondary research in a number of areas. Information specifically related to other potential geographic markets that may provide expansion opportunities for the company would be useful (such as the number of camping and outdoor enthusiasts, demographic profiles, competitors). The information from SEMA is strictly automotive related; therefore, more data relating to outdoor sports would be useful. In terms of primary research, more in-depth information from current customers would be helpful (purchase motivation, purchase criteria, lifestyle) to assist with the development of an in-depth customer profile and marketing strategy planning. The use of surveys and focus groups would be primary research considerations.

3. *How can market research help Napier in terms of sales forecasting?*

Market research that helps further define the company's target market will help the company in developing a sales forecast. In particular, market research may provide much needed insight into the Canadian market and help identify strategies that may be used to penetrate this somewhat elusive market.

4. *Could Napier benefit from a customer relationship management (CRM) strategy?*

A customer relationship management strategy would be helpful in dealing with retail customers; however, at this point, the costs involved would likely be better spent on market research aimed at improving sales in the consumer market.

## ***SUGGESTED SOLUTION TO CASE 7:***

### ***RODGERS CHEVROLET***

#### **Activity**

*Purpose:* The case gives students the opportunity to apply their understanding of consumer behaviours to create a program to prevent customer defection to a competing product.

*Setting It Up:* The first activity can be used either as a small-group activity or as an individual project with work in and out of class. As a small-group activity, allow students 15 minutes to do items 1 to 3; item 4 is something that is probably best created outside class. The visual can then be turned in or presented to the class. You may use the completed assignment as the starting point for a class discussion on customer satisfaction and retention.

For this activity, imagine that you are the customer service manager at Rodgers Chevrolet. You have begun sorting customer comments into groups based on the type of vehicle owned. Going back through a couple of years of feedback, you have discovered that Corvette owners do not feel they are being served as well as their friends who own foreign sports cars. Many comments mention the service level of Lexus and indicate that customers may be considering changing to a Lexus SC just to get the white glove service. In this activity, you will develop a way to serve your high-end clients better (base price of a Corvette is \$45,000, compared with \$10,500 for a Chevy Aveo).

1. *Identify the elements of consumer behaviours affecting your situation.*

The elements of consumer behaviours that affect a dealership trying to retain its high-end customers include the influence of *reference groups* and *opinion leaders*. The customers have provided feedback that they are being swayed by their friends who own other luxury cars. Those friends are part of the Corvette owners' reference groups. Corvette owners also are working under the *perception* that a Corvette purchase is a luxury purchase, equal to the purchase of a foreign sports car, and should be accompanied by a high level of service. *Needs* are also influencing the reactions of the Corvette owners, who see their vehicle as helping fulfill their need for social status. Students may identify other factors as well.

2. *Outline the criteria that car owners use to evaluate service to their vehicle. Do those criteria change as the vehicle sticker price rises? If so, how?*

In any purchase, the consumer's principal objective is to establish evaluative criteria—the features or characteristics of the product or service that the consumer will use to compare brands. Students' lists of evaluative criteria will vary, but common items they may identify for the car itself include price, durability, styling, and speed. For the service support, students might list free rental cars, pick-up and delivery of the car for service, and a free car wash and/or detailing after every service.

As the sticker price of a vehicle rises, it moves closer to being a luxury vehicle targeted toward higher-income consumers and perhaps more attractive to different social classes. Social classes with higher levels of income and education may be more discriminating and have higher expectations of the service experience. Consumers accustomed to luxury experiences tend to expect luxury treatment in every purchase transaction they make. A driver who has spent \$50,000 on a car will likely expect to be treated better than if he or she spent only \$10,000 on a car. Whereas the owner of the Aveo may evaluate the dealership's service only on price, the owner of the Corvette may consider such things as the additional services of free car washes, free driver service when the car is in the shop, and online scheduling.