

# CHAPTER 5

## Market Conditions and Business Environments

### KEY TERMS

law of demand  
complementary goods  
substitute goods  
supply  
law of supply  
equilibrium  
business cycle  
prosperity  
inflation  
recession  
depression  
recovery  
consumer protection  
false advertising  
misleading advertising  
illegal pricing  
competition

### Specific Expectations

After studying this chapter, you will be able to

- analyze the forces of supply and demand and explain how they affect market prices and the willingness of businesses to produce products
- explain how the number and quality of competitors in the market place can affect a business
- describe reasons for government policies and actions relating to the regulation of markets and business activity

In this chapter, we will investigate the conditions that affect the Canadian economy and market for business. The inter-connections between the forces of supply and demand are important factors in the economy. To be successful, businesses must be able to predict what consumers will demand and what price they will be willing to pay for goods and services.

The state of the economy and changes in the business cycle also affect demand and supply, as will the number and quality of competitors in the market. Competition in the marketplace should be fair, and both federal and provincial governments have laws to try to ensure that the rights of both sellers and buyers are protected.

## *Tim Hortons*

The Tim Hortons franchise chain has become a Canadian success story largely because it has continued to stay focused on supplying the demands of its market. Today, with 60 percent of the market, the company is the largest coffee and fresh-baked goods restaurant chain in Canada.

Tim Horton, the popular Maple Leafs' hockey star, opened the first Tim Hortons coffee and donut restaurant in Hamilton, Ontario, in 1964. Ron Joyce, a retired Canadian navy and police officer, became the first franchisee. After Tim's sudden death in 1974, Ron became president of the company.

Tim Hortons became popular because of growing consumer demand for the kind of products and services that it offers. Many Canadians—from Whitehorse in the Yukon to Cape Breton in Nova Scotia—stop at some point in their day for a Tim Hortons fresh-baked goods and a coffee. The company has also established itself as a meeting place in many communities—serving another consumer need, building up a loyal customer base, and gaining an advantage over its competitors.

Today, the more than 1900 Tim Hortons in Canada and 120 in the U.S. continue to focus on quality and consistency in their products and their service. They supply their market with fresh coffee, fresh baked goods, innovative products, and good service. As consumer tastes have changed over the years, so have Tim Hortons' products, from the introduction of low-fat muffins in the early 1980s, to Cappuccino coffee in the 1990s, to hot chicken soup in an edible bread bowl in 2000.

In the highly competitive franchise food services industry, Tim Hortons franchises are very much in demand. So much so that a license fee can cost up to \$400 000. The company also differentiates itself from the competition through its successful marketing campaigns—the Roll Up the Rim to Win promotion and true-story TV commercials.

As you read about market conditions and business environments in this chapter, consider how Tim Hortons managed to supply consumer demand by offering the service that consumers wanted when they wanted it.

**Figure 5-1** Tim Hortons is a successful franchise because it has been able to predict what consumers want. Can you think of a new product or service that Tim Horton's offers to its consumers?





## Supply and Demand

The operation of any market depends on both demand and supply. For a healthy economy to exist, the people who buy, or create demand, and those who sell, or supply that demand, must exchange money (or something of value) for a good or service.

For example, the hotdog vendor outside a school during lunch sells hotdogs and pop because students want them. There is a demand for them. She is willing to supply the hotdogs and pop because she can charge a price that covers her costs and lets her make a profit.

Because demand and supply influence each other and are each affected by so many factors, the relationship between them is complex. To make discussion easier, we will look at them separately.

### Demand

Demand is about you, the consumer, and your needs and wants, as you learned in Chapter 1. Demand refers to the quantity of particular goods or services that the market—which includes you and other consumers—is willing to buy. The **law of demand** states that when the market demands a high quantity of a good or service, the prices for that good or service will be high. When the market demands a low quantity, the prices will be low.

For example, when a new blockbuster movie first comes out, many people want to see it. The market demand is high. A multi-screen theatre complex may charge \$2.00 over the regular ticket price and may show the movie on four screens at once. And people will line up to buy tickets in spite of the higher price. However, once many people have seen the movie or a new blockbuster comes out, the demand for the first movie will go down. The market demand is low, and so the price drops back to the regular movie ticket price or even below.

Consumers' demand for a good or a service depends on a number of factors:

- the price of the good or service
- the prices of *substitute* or *complementary* goods
- consumers' *income*
- their *future expectations* about either income or price
- their *taste* or desire for the good or service

In order to understand how demand works, we'll look at each of these factors as though they changed separately. In the real world, all these may change at the same time and may be influenced by other factors. A change in one factor will often affect another.

### Price of Goods

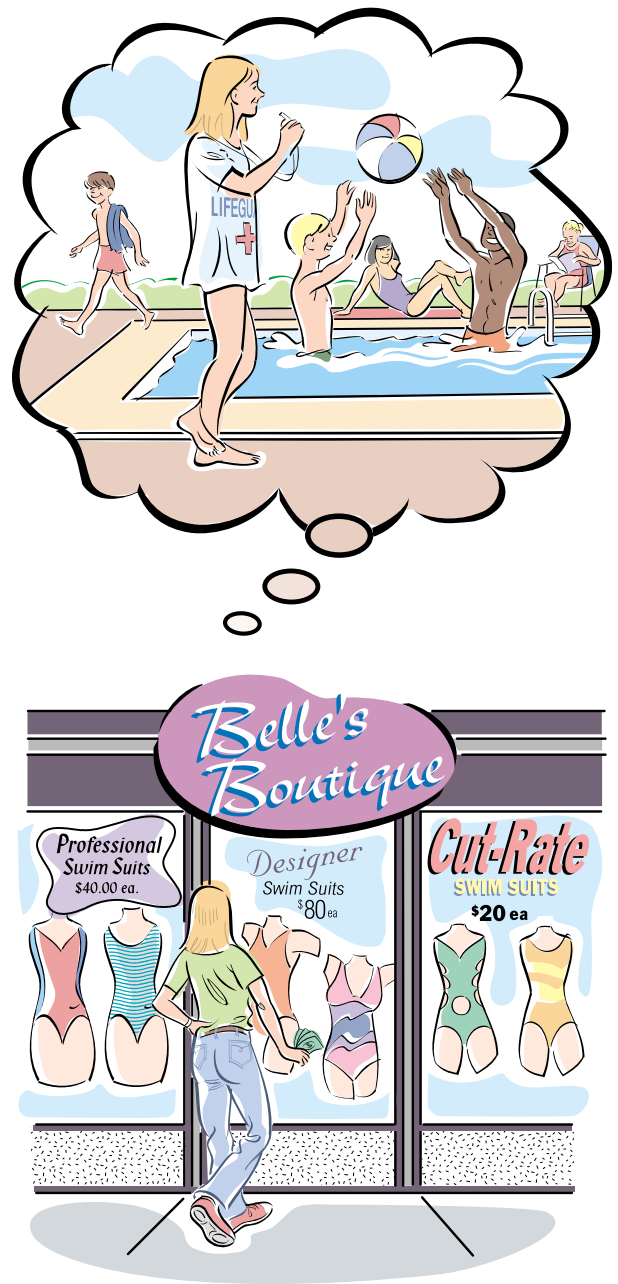
Karen has finished her training to be a life-guard and will soon start a summer job at the local pool. She is delighted but will need to buy herself at least two and preferably four good-quality, fast-drying bathing suits. If she has to jump into the pool to rescue a child, she'll get soaked. All of the guards keep at least one extra dry suit on hand in case they have to change.

First, Karen decides she has find out the price of bathing suits. She checks manufacturers' Web sites on the Internet and finds that they don't list prices, so she goes to a few of the retail Web sites. They list their prices, but she finds quite a range.

The problem is that the prices are high for the type of bathing suits that Karen needs. She has \$80.00 saved for her purchase. The best price she can find, at the moment, is \$40.00 per suit. So, she can buy two if she makes her purchase today. Or she can wait to see if the price will go down. If the price dropped to \$20.00, she could buy four suits. Waiting for a sale can be risky, however, because other people may buy the available suits. Stores tend to order a limited number of seasonal goods.

### Consumer Behaviour

In general, consumers have a sense of the value of each good or service they want. They may pay so much and no more. They are likely to



**Figure 5-2** Although price is an important consideration for a consumer who is purchasing a good or a service, it isn't the only factor. What are some of the other things you have to consider as you make a purchase?

buy if they expect the price of a good or a service to rise soon, or if they think the item will sell quickly. They may wait to buy a good or service if they expect that the price will go down, or if they think the manufacturer will soon make a special offer, such as a bonus gift with a purchase.

Sometimes consumers decide they can't wait. If they have a deadline, such as a trip, they may be motivated to pay more than usual or to get something they wouldn't usually buy. At other times, consumers will pay much more for an item because of the prestige attached.

However, if enough people think that a price is too high and they stop buying, the demand for the good or service will go down.

### Price of Substitute Goods

A good that can easily be replaced by another is called a **substitute good**. Examples of substitutes would be tea for coffee and margarine for butter. When the price of a good such as coffee increases, consumers will switch to tea, a substitute good. The result is an increase in the quantity of tea demanded, and a decrease in the quantity of coffee demanded.

Sometimes goods are substituted when the price goes down. When the price of portable compact disc players decreased, people began to substitute them for tape cassette players. Demand for the compact disc players increased, and demand for the cassette players decreased.

### Price of Complementary Goods

Two goods that are usually used with one another are called **complementary goods**. Demand for one of these products will affect the demand for the other. For example, compact disc players and compact discs are complementary goods. If you have a compact disc player, you are going to need compact discs. When the price of the players decreased and more people bought them, the demand for compact discs increased.

### Consumer Income

Generally, the more money consumers have to spend, the higher will be their demand for goods and services as they satisfy wants as well as needs. This also applies to communities and countries.

Our lifeguard, Karen, may have been able to afford only two bathing suits when she started her summer job. However, by the end of her first month she may be able to buy the two others she wants because she will have income from her job. If Karen works overtime and earns extra pay, she may buy a \$60 bathing suit made from a very quick drying fabric.

In Chapter 2, you learned that consumers' level of income has a direct effect on their standard of living and quality of life. As the level of income in a region or a country increases, so does the demand for goods and services. The higher level of income usually results in the purchase of costly items. When incomes decrease, the demand for luxury items decreases.

### Web Connect

<http://www.mcgrawhill.ca/links/exploringbiz>

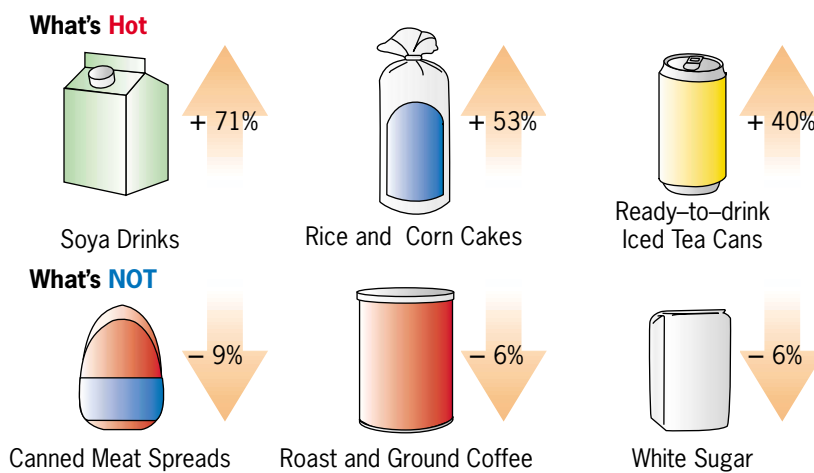
Using Statistics Canada data, compare the current Canadian level of income with that of a year ago. How might the change affect consumer demand?

## Tastes and Preferences

Individual tastes and preferences—what consumers like or choose—also affect demand. Consumer trends, such as an increased emphasis on health and fitness, have influenced the demand for certain goods and services. As Figure 5-4 shows, consumers still want the convenience of foods that can be prepared quickly. But as they become aware of the need for healthy foods, they also want the convenience food to be healthy, and may choose a frozen dinner labeled as “low-fat.”

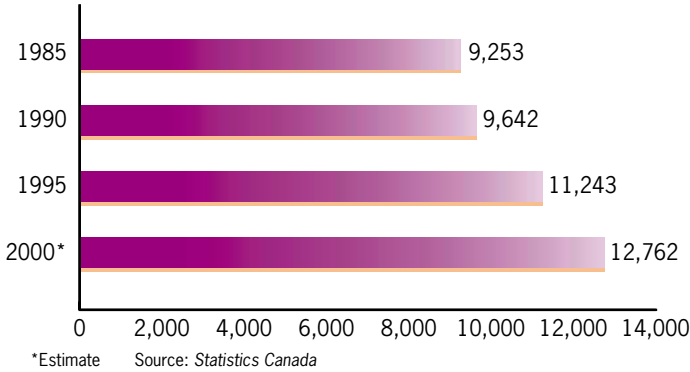
Image influences some people's choices. Loose roomy pants are the choice of many skateboarders, or of those who want to have that image. Some students like a “vintage” look and shop at second-hand stores styles popular in the past.

Advertising also influences consumers' tastes. The primary goal of advertising is to increase consumer demand for a particular that good or service. If a good or service is frequently advertised, the purchasing behaviour of consumers will likely be affected. For example, the demand for popular toys is created largely by television commercials aimed at children.



**Figure 5-3** Canadian shoppers increasingly want foods that are both convenient and good for them. People are buying fewer food products that they think are not nutritious. What effect is this trend likely to have on the manufacturers of food products?

**Total Number of Canadian Households on the Rise**



**Figure 5-4** More Canadians are living alone or as members of smaller families. Each of these family units is considered a household.

households. The FCPMC predicts that this trend—along with the large number of women in the workforce—will continue to boost the demand for more prepared foods.

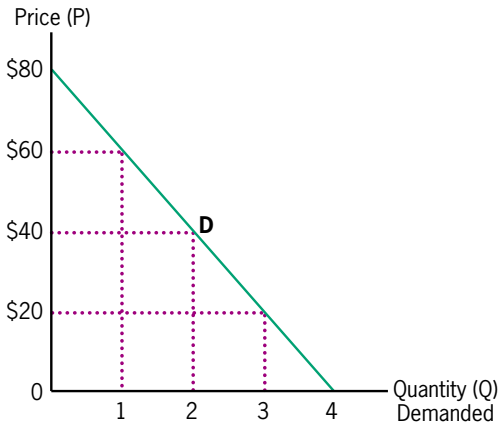
Another growing demographic group is people 65 years of age and older. Statistics Canada estimates that more than 16 percent of the population will be 65 or older by 2011. This increasingly important consumer group will eventually need more retirement and health care services. Some businesses recognize the opportunities in this demographic trend and realize that as an aging population will cause an increased demand for new products and services. Businesses that specialize in fitness, for example, would be wise to develop gentler exercise programs.

### Demography and Demand

In Chapter 4 you were introduced to demography, the study of statistics relating to populations or communities. Businesses study demographic trends to try to predict which goods or services will be in high demand among consumers.

For example, the Food and Consumer Products Manufacturers of Canada (FCPMC) have noted that Canada has a growing number of

**Demand Curve**



**Figure 5-5** Notice how demand decreases as the price goes up and increases as the price goes down. Remember that we are assuming that income and other factors remain constant.

### Charting Demand

To illustrate the relationship between price and demand, economists use a graph called a **demand curve**.

Let’s look again at Karen’s situation as she shopped for those bathing suits for life guarding. She had \$80.00 to spend. At a price of \$40.00 per suit, she was able to buy two suits. If the price had been \$60.00 or \$80.00 for each suit, she could only have bought one suit. And, if she had been very lucky and found a good sale price of \$20.00, she could have bought the four suits that she wanted.

The demand curve in Figure 5-5 illustrates the relationship between price and the quantity of suits Karen will demand as a customer. Price or P is charted on the y-axis, and quantity or Q is charted



on the x-axis. The line drawn between the points is called the demand curve (though the line may not have a curved shape).

In calculating the demand of a whole market—rather than of an individual—the total number of buyers determines the total amount of a good or service that is purchased.

## Supply

If demand is the consumer side of the market, supply is the producer's side. **Supply** refers to the quantity of goods and services that producers and sellers are willing or able to sell consumers. There is a direct relationship between the price of a good or service and the quantity offered for sale. The **law of supply** says that as prices rise, the quantity supplied by producers tends to increase. In turn, as prices fall, the quantity supplied tends to decrease.

Sometimes the cost of bringing a product to market may be too high compared with what consumers are willing to pay. In this case, suppliers drop out of the market. For example, in recent years, the cost of wheat farming has become so high relative to what farmers could earn that many farmers have stopped growing wheat.

Several factors in addition to price affect supply. A producer's decision to supply a good or service depends on

- the *costs* of producing the good or service
- changes in *technology* that affect the costs
- the producer's *desire* to own and operate a business
- *environmental* and *other conditions*

To see how the supply process works, let's catch up with Karen after she graduated from college. She decided to come an entrepreneur and produce high-quality, long-lasting swimsuits for lifeguards and professional swimmers. Karen called her company SwimSuit Pro.

For the business to succeed, Karen needs to sell enough of the kind of bathing suits that professionals want, at a price they will pay. She will have to earn enough revenue to cover her costs and allow her to make a profit. Price will be a big consideration for prospective buyers, so she has to find a balance between the price and earning a profit. If she can get a higher price, she will make more profit.

### Biz.Bites

In 1999 and 2000, the forces of supply and demand were at work in the increase of natural gas prices in Ontario. Just a few years ago, many people converted to natural gas furnaces. Natural gas was cheaper than electricity. By 1999, demand for natural gas had increased, but supplies were low. The same low gas prices—in 1997 and 1998—that had encouraged consumers to switch to gas also discouraged gas producers from drilling for more supplies.



## Web Connect

<http://www.mcgrawhill.ca/links/exploringbiz>

If you were running your own business, how would you figure out the price to charge your customers for goods? for services? What are some of the ways you might cut your production costs and still produce quality products?

## Production Costs

Karen needs to consider **production costs** on everything involved in making her swimming suits. She needs a place to manufacture the bathing suits. She will need materials and equipment: fabric, sewing machines, and office equipment. She will need to hire skilled employees, which means paying wages and benefits and buying insurance in case of accidents.

At some point, she will have to decide if she can afford to make changes. What would happen to Karen's costs if a new chlorine-resistant fabric is discovered? The material is likely to be expensive, at least initially. But if it results in superior products that her customers would want, Karen will need to use the material. The higher costs of this fabric will probably mean that the price of those suits will have to increase. She may decide to manufacture fewer suits at first, and the supply will be less.

Labour is one of the highest costs a supplier has. A wage increase to employees leads to an increase in the cost of supplying the product. In such circumstances, a supplier may be willing to continue supplying the market only if the selling price of the product is increased.

The change in any of these costs can affect the supply that Karen, or any supplier, makes available to the market.

**Figure 5-6** What would computerized production systems add to your production costs if you were running a manufacturing business?



## Changes in Technology

Changes in the type and efficiency of technology and machinery also influence the supply of goods and services. For example, the introduction of computers and other communication and information technologies has had a major effect on industry. Some manufacturers use robotics to reduce labour costs. Others use databases to keep track of inventory, or goods they have on hand, and to cut down on the length of time they need to store raw materials to make products. This saves storage and other costs. The savings in production costs means producers can make more profit, so they may want to increase the quantity of the goods or services that they supply to their markets.

## Owner's Desire

Some people assume that people and businesses supply goods and services only because they want to make money. In fact, people start businesses for a variety of reasons. Some want the control and flexibility of being their own boss. Others want to try out an innovative idea. Karen wants to draw on her knowledge of swimming to earn an income.

Although all businesses must make a profit to survive, these other reasons for going into business affect supply. For example, some people open small, specialized boutiques, even though they may not make as much money as a larger store would. These retailers want to sell the products they like in an environment that they create.

## Environmental Conditions

Environmental circumstances can also have an effect on a producer's ability to supply a good or a service. As you learned in Chapter 3, cod fishers off the east coast of Canada weren't able to supply cod to their markets because there were so few fish left.

Seasonal weather conditions can also affect supply. For example, too much rain or not enough sun can have a very serious effect on Ontario farmers' ability to supply strawberries to markets in the early summer. On the other hand, just the right amount of sun and rain can result in an abundant supply of strawberries.

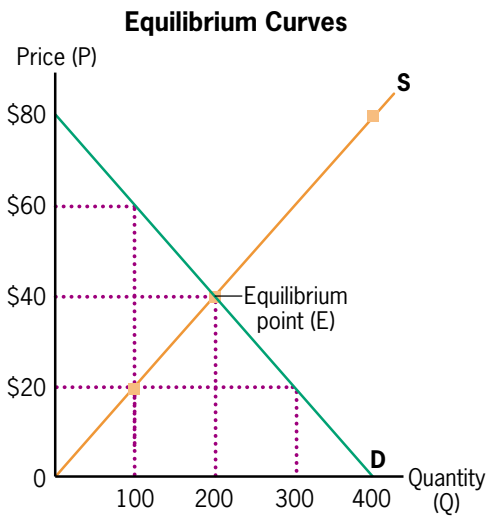
## Charting Supply

To illustrate the relationship between price and supply, economists use a graph called a supply curve. Supply curves are used along with demand curves to demonstrate balance in markets.

Let's look again at Karen's situation at SwimSuit Pro. Karen has decided to sell her suits directly to customers over the Internet. By selling directly, she won't have to discount the price as she would if she sold to retailers. If she charges \$40.00 per suit and sells 200 suits per season, she can cover her costs and make a decent profit.

**Figure 5-7** Note how producers supply more goods as the price increases and fewer goods as the price decreases.





**Figure 5-8** As you can see, consumer demand and SwimSuit Pro supply are balanced—or in equilibrium—at \$40.00 per suit.

Market research tells her that if SwimSuit Pro charges more than \$40.00 per suit, consumer demand will decrease. And, if she sells them for less than \$40.00, her profits will disappear, and she won't be able to cover all of her costs.

## Equilibrium

Economists use the concept of **equilibrium** to describe the point where the forces of supply and the forces of demand are balanced. Think of demand as a market force that tends to increase the price of a good or service. Supply is the force that tends to reduce the price.

When the two forces are in balance, or equilibrium, prices tend to remain stable. Consumers can afford and are willing to buy a product at the price charged. Producers can afford and are willing to supply a product at the price consumers will pay.

The equilibrium of supply and demand can be shown in a supply and demand chart, as in Figure 5-8.

## Check Your Understanding

### Knowledge/Understanding

- 1 Explain, in your own words, the concepts of demand and supply.
- 2 Give five examples of the costs involved in supplying the market with a product or service. You could choose from goods such as racing bikes or posters, or from services such as hair styling or tennis lessons.

### Thinking/Inquiry

- 3 You are a summer camp counsellor and have to organize the food for a barbecue. You must provide hamburgers and hot dogs to 100 children. Work out a system to predict the things the camp needs to buy, and in what quantities, to satisfy everyone's needs but not have a lot of leftovers. What conclusions can you draw about predicting demand?
- 4 Brainstorm the ways that a drop in availability of a natural resource would affect supply and demand. What would happen if a country supplying a

**Skills**  
**Appendix**  
critical thinking

rare metal had a civil war? Or if a province declared that a forested area was to become a conservation area?

### Communication

- 5 Write a paragraph explaining how demand and supply interact to produce the right amount of goods at the right price. Draw a supply and demand chart to illustrate your explanation.
- 6 Using the newspaper, find articles relating to events that create demand. Choose one and summarize it. How do you know the article discusses demand? What is the relationship between price and demand in the article?

### Application

- 7 Working with three other students, write and perform a role play to illustrate the impact on a consumer and a supplier who owns a retail store when a factor that affects demand or supply changes. You could work with the price of substitute goods or services, consumer tastes, production costs, or changes in technology.

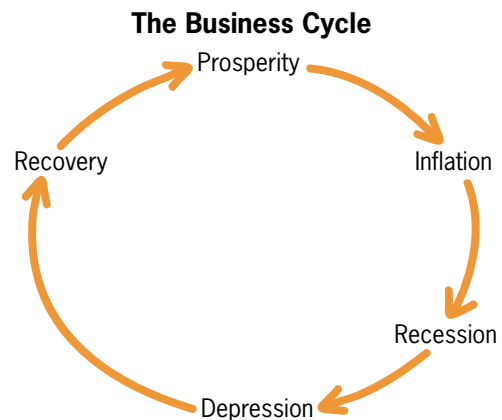
**Skills**  
**Appendix**  
brainstorming

## The Business Cycle

The economic condition of a person, family, town, or country never remains at the same level. Economies move from prosperity to inflation to recession, sometimes into depression, and then to recovery. The term **business cycle** is used to refer to this series of changes.

### Prosperity

Good economic times are called periods of **prosperity**. During them, the economy is doing well, levels of employment are high, and workers are well paid. As businesses grow and flourish, companies that supply them also experience prosperity.



**Figure 5-9** What effect do you think a recession would have on our economy right now?

## Connecting Business with *Ecotourism*

### *North Nahanni Naturalist Lodge*

As the part owner and operator of the North Nahanni Naturalist Lodge, Ria Letcher has brought to life her dream of sharing the beauty of the Nahanni Region. The Lodge is part of one of the fastest growing segments of the tourism industry: ecotourism. It also offers “world-class accommodations in the middle of nowhere.”

Ecotourists demand sites that show respect for fragile environments and that allow them to interact with the local people and learn something about their traditions and culture. Because Ria, her husband, Loyal, and other aboriginal people own and operate the lodge, their Dene culture is part of daily life at the lodge. Guests are welcome to participate in Dene music, dance, and traditional crafts.

Visitors from around the world stay at the lodge to enjoy the region’s glacier lakes, the Nahanni mountain range and deep 3000 to 4000 foot canyons. Guests that go out on guided hiking, fishing and skiing expeditions are likely to see grizzly bears, trumpeter swans, woodland caribou, and bald eagles.

However, getting the lodge operating was no easy task. Ria and her family knew that the demand existed for the services their lodge could offer, but they did not foresee all of the challenges that they would face as suppliers of that service.

Construction in remote areas is difficult. Although local people provided the labour and took building materials from nearby forests, the other supplies had to be brought in by plane or boat. That was costly and resulted in a number of frustrating delays. Ria and her husband kept reminding themselves that “a plane takes off against the wind.” They persevered and completed their lodge in 1998.



**Figure 5-10** “We felt that we shouldn’t be the only ones to experience this scenery. The air is so fresh. The water freezes and is so clear, you can see the rocks at the bottom of the lake. The northern lights are breathtaking and visible all winter.” (Ria Letcher)

### ACTIVITIES

- 1 How have Ria Letcher and her family responded to the demands of today’s ecotourists in running North Nahanni Naturalist Lodge?
- 2 How might production costs, changes in technology, the lodge owners’ desire, and weather conditions have affected the process of opening the lodge and of keeping it functioning? Consider both the pluses and the minuses of these different supply-side factors.

Businesses spend money on research and development and often expand their facilities to supply the markets that want their goods and services. People start new businesses.

When people have jobs that pay well, they are willing to borrow money to make large purchases, such as houses. They are confident that their incomes will allow them to pay back the loans.

Society as a whole benefits from the strong demand for consumer goods. The increased amount of tax dollars from successful businesses mean that there is money for social programs, education, health care, and the arts.

## Inflation

Prosperity, however, can lead to inflation. **Inflation** refers to a rise—over time—in the price of goods and services. Because they can earn more money, businesses are willing to increase the quantity of goods and services they supply.

Inflation also increases the cost of doing business. The prices that businesses pay for supplies go up. This is not a problem when people can pay the new prices and have money left for other needs and wants. However, if wages do not go up at the same rate as prices, employees don't have the income to buy the same quantity or types of goods and services. Then suppliers end up with unsold stock and lose money. Sometimes a competitor from another country offers similar goods at lower prices, and the domestic supplier's profit drops.

## Recession

In a **recession**, the whole economy slows down and business no longer creates as much wealth as it did during the period of prosperity. A recession occurs for a number of reasons. The government may introduce changes, such as price controls, to fight inflation. Or a shift in the economy may affect a large number of businesses at the same time.

Businesses may feel under pressure because of the cost of the wages paid to workers. When businesses can no longer afford higher wages, they stop hiring and may lay employees off. Consumers are reluctant to spend money because they are not sure their jobs are secure. They already feel uneasy because their incomes no longer keep up with the

### Biz.Bites

In 1918, a typical Canadian family—father, mother, and three children—needed about \$20 a week for such basics as food, lighting, and rent. The family spent about \$10.00 for food. Since then, some prices have gone up 1000 percent. In 1918, a pound of cheese cost about 30 cents. A quarter pound (113 g) of coffee cost 10 cents.

### Biz.Bites

The last two recessions in Canada occurred in 1982 and 1990. In the 1982 recession, GDP dropped 6.7% over a period of 18 months. In the 1990 recession, GDP dropped 3.2% over 12 months.





**Figure 5-11**

Dorothea Lange, a photojournalist, captured the human tragedy of the Great Depression in this famous photograph of a migrant worker and two of her seven children.

cost of living. As demand drops, so do prices (although usually not immediately).

Both businesses and individuals pay less income tax because their earnings have dropped. At the same time, governments need more income because more people need government assistance. Thus, the overall standard of living drops during a recession.

## Depression

If a recession is severe or lasts a long time, it may become a depression. A **depression** occurs when economic activity is very low and unemployment is very high. Few people are able to buy goods and services, and companies cannot stay in business.

The demand for government services is very high, but, because the main source of government revenue

is from taxes, social services suffer. The need for welfare and unemployment insurance rises sharply, and drastic cuts must be made to other social services. The quality of people's lives is often greatly reduced.

During the Great Depression, from 1929 to 1939, prices dropped drastically. In spite of the low prices, people could not afford to spend their limited money on anything but the most basic necessities. With demand so low, fewer and fewer goods were supplied by a shrinking number of companies.

So many people lost their jobs and so many companies went out of business that there was too little commercial activity to start a recovery until the outbreak of the Second World War in 1939. The need for military equipment stimulated industry and created new demand that helped the economy grow stronger.

## Recovery

A **recovery** occurs when the economy starts to improve. The fall in national income lessens. Manufacturers slowly begin production again. However, unemployment remains high until businesses feel confident enough to hire more employees.



After doing without for so long, people are interested in spending again. Cautiously, businesses begin to produce a few more goods and services and to hire employees. People begin to feel a bit more optimistic. The economy gets healthier, although the process is usually slow.

## Competition in the Market Place



Competition has a strong influence on the market because of its effect on prices and choices of goods and services. **Competition** in business is a rivalry among suppliers of a good or service. Each supplier tries to make a profit by best satisfying consumer demands. New suppliers enter the market because they believe that the market is large enough for them to earn a profit. But if they want to succeed, businesses have to offer consumers an attractive alternative to the goods or services that are already in the marketplace. That is why businesses use all the means at their disposal to convince consumers to buy from them and not from their competitors.

Let's suppose you are in the market for a new stereo system. You can choose from six electronic stores and each one is trying to convince you to buy from them.

- One store offers lower prices than another.
- A second offers products of a higher quality.
- A third provides better service, perhaps an extended warranty or free installation.
- A fourth has a location that is the most convenient for you.
- A fifth stays open the longest.
- A sixth has a convincing advertising campaign on radio, television, and the Internet.

What would influence your choice of store?

## Number of Competitors

The number of competitors in a market affects consumer demand and supply. For the consumers, fewer suppliers often means less choice. For example, when large suppliers try to win customers by cutting prices, small suppliers may not be able to keep up with the price cuts. The smaller businesses—even if their products are better than the competition's—may not have the financial resources to survive a period of lower profits.



**Figure 5-12** How does this editorial cartoon reflect some Canadians' frustrations with not having many competitors for air service in Canada?

Having few competitors in the market can cause problems for the consumer. In 2000, Air Canada and Canadian Airlines merged. Air Canada became the only major airline in Canada. Since the merger, customers have complained loudly about everything from prices for tickets to lost luggage and long lineups at airport check-in counters. Some consumers believe that because Air Canada has little competition it does not need to hurry to provide better service for its customers.

On the other hand, what happens when the number of competitors in a market increases to the point where the supply is much greater than the

demand? The answer can be major problems for the supplier. In February 2001, Cineplex Odeon announced that it would be shutting down many of its theatres in Canada. Movie-goers had not come out to the theatres in the numbers that Odeon had expected. The decline in number of patrons and the building of multi-screen theatres meant that more movie theatres existed than the number needed to meet consumers' demand. There was just too much competition for the same pool of customers.

## Quality of Competitors

The market defines quality differently for different products. So, suppliers who compete for the same customers have to be aware of how those customers define quality for their products. Remember those MP3 players in Chapter 4. What were consumers most interested in? Quality of sound and length of playing time? Once MP3 suppliers provide consumers with these two features, the suppliers have to find other ways to differentiate themselves from their competitors.

As you saw in the Business Profile that opens this chapter, Tim Hortons has built a successful reputation and business by differentiating itself from its many competitors. For over 35 years, it has provided fresh coffee, a community environment, and products that matched consumers'

demand. The company has continued to change its product line to adapt to changing consumer needs and wants. Because Tim Hortons has been consistent in providing quality goods and services, it has loyal customers who keep coming back for more.

Differentiating yourself from the competitors can be tough. Kellogg Company, General Mills, Inc., and The Quaker Oats Company all sell breakfast cereals. Many of the products sold by one of these large companies are similar to those sold by the other two. The products also cost about the same. So, to compete for consumers, the cereal suppliers advertise that their products are the highest quality, the best tasting, or are the most nutritious.

Sometimes competing in a new market can be very difficult, even for a company with a well-established reputation for quality in its own market. In March 2001, Roots, the Canadian fashion company, opened Roots Air. Roots had formed an alliance with Skyservice Aviation. By May 2001, Roots Air was out of business, after Air Canada bought a 30 percent interest in Skyservice.

## Check Your Understanding

### Knowledge/Understanding

- 1 Explain, in your own words, prosperity, inflation, recession, depression, and recovery.
- 2 What is the relationship between the number of competitors in the marketplace and consumer supply and demand?

### Thinking/Inquiry

- 3 If a recession began today, what kind of businesses do you think would be affected first? Explain your opinion.
- 4 Work with a partner to predict how consumers' purchasing decisions would change during each stage of the business cycle. Discuss your conclusions with another pair of students and then revise your original conclusions if need be.

### Communication

- 5 Create a diagram with illustrations to represent each stage of the business cycle.
- 6 Find an article—in a Canadian newspaper or in an online newspaper from another country—on the state of the economy. The article could discuss

### Skills Appendix

building an argument

### Skills Appendix

analysing media

- inflation, depression, recession, or recovery. Summarize the article and present it to your classmates in a 1-minute radio report.

### Application

- 7 If you wanted to buy a pizza, a coffee, or a new pen, what would influence your decision? List the factors. Create a chart comparing similar choices and service in three stores. Identify the one you would shop at.

## Consumer Protection

As a consumer, you try to find reliable, dependable products that will do what they are supposed to do and satisfy your needs or wants. Yet, no matter how carefully you research your purchase, things sometimes go wrong. It is not always possible to discover the truth about every aspect of every good or service you buy.

When unscrupulous business practices and fraud are added to this situation, the need for **consumer protection** is obvious. In Canada, the federal and provincial governments try to protect consumers by making sure that the buying and selling of goods and services is fair. You have rights as a consumer, and you should know what they are.

### Federal Legislation

At the federal level, the agency that primarily oversees consumer protection is the Office of Consumer Affairs, which is a department of Industry Canada. Regional offices across Canada handle consumer complaints and help consumers in the marketplace.

The Office of Consumer Affairs tries to make sure that the marketplace is fair and that it supports and advances the interests of Canadian consumers. The office researches and analyses consumer products and passes on information to consumers.

The Office also publishes its warnings and findings on its Web site. A recent investigation covered email hoaxes. The Web site even lists the names of offenders. For example, air carriers who do not maintain airplanes properly or who fail to follow the rules about noise levels, can be fined and have their names posted on the site.

## Competition Act

The Competition Act is a federal law that governs advertising and business practices. Anyone who violates this law may be prosecuted in criminal court. A conviction will result in a fine or imprisonment.

A large part of the Competition Act is concerned with mergers and acquisitions, but it is also devoted to controlling unfair business practices that eventually hurt consumers. The Act outlaws false and misleading advertising and illegal pricing practices.

## False and Misleading Advertising

Advertising is legal, but advertisements have to be truthful. Consumers can have difficulty detecting advertising that is deceitful. A good rule to remember is that if something sounds too good to be true, it probably is. **False advertising** is making an untrue statement about a product or service. Unfortunately, false advertising is not usually clear-cut. A store that advertises that its purses are all leather might be selling purses made of a synthetic which looks so much like leather that the ordinary consumer cannot tell the difference.

Misleading advertising is also hard to detect. **Misleading advertising** distorts the truth about the goods being offered so that consumers are led to believe one thing through wording or promises, but something else turns out to be true. Imagine this scenario. A sale is advertised in which an item is being sold at 70 percent off the regular price. When you get to the store, the item is sold out. The rule is that a retailer has to keep the same number of products in stock as they would sell in a normal day. But, in fact, only a few of these items were available and were quickly sold. It is also misleading advertising to announce a 20-percent-off sale when all the prices in the store were raised by 20 percent just before the sale. Obviously, there is no sale. The goods are being offered at their regular price.

## Illegal Pricing Practices


**Illegal pricing practices** lessen competition and give consumers less choice than they should have. The following are some examples of such practices.







**Figure 5-13** The Competition Bureau offers services for businesses and consumers in both domestic and international businesses.

**Figure 5-14**

A set of universal warning symbols has been created, and the appropriate symbol must appear with the written warning to inform consumers of the danger.

 Health Canada Santé Canada





## Do you know what these symbols mean?

**They are symbols (or pictures) that mean DANGER!**

You will find them on the labels of products in and around your home. You will see them on paint thinners, drain cleaners, windshield washer fluid and different kinds of polish.

Look for them on labels. Learn what they mean.

 <b>CORROSIVE</b> This can burn your skin or eyes. If you swallow it, it will damage your throat and stomach.	 <b>FLAMMABLE</b> This product or the gas (vapour) from it, can catch fire quickly. Keep this product away from heat, flames and sparks.
 <b>EXPLOSIVE</b> This container will explode if it is heated or if a hole is punched in it. Metal or plastic can fly out and hurt your eyes or other parts of your body.	 <b>POISON</b> If you swallow or lick this product, you could become very sick or die. Some products with this on the label can hurt you even if you breathe (or inhale) them.

### Safety Tips

- Teach children that these symbols mean **Danger! Do not touch.**
- Keep all products with these symbols where children cannot **SEE** or **REACH** them.
- Read the label and follow the instructions. If you have trouble reading the label, ask for help. Do not cover up or remove the labels from these products.

**Copy emergency phone numbers from the first page of your phone book. Keep the numbers close to the phone.**

If someone is hurt by a product that has these symbols on the label:


- Call the Poison Control Centre or your doctor right away.
- Tell the person who answers the phone what the label says.
- Bring the product with you when you go for help.


**For more information, contact the Product Safety Bureau, Health Canada, at:**

Vancouver, British Columbia (604) 666-5903	Hamilton, Ontario (905) 572-2845	Moncton, New Brunswick (506) 851-6638
Edmonton, Alberta (780) 495-2626	Toronto, Ontario (416) 973-4705	Dartmouth, Nova Scotia (902) 426-8300
Calgary, Alberta (403) 292-4677	Ottawa, Ontario (613) 952-1014	St. John's, Newfoundland (709) 772-4050
Saskatoon, Saskatchewan (306) 975-4502	Montreal, Quebec (514) 283-5488	
Winnipeg, Manitoba (204) 983-5490	Quebec City, Quebec (418) 648-4327	<a href="http://www.hc-sc.gc.ca/psb">http://www.hc-sc.gc.ca/psb</a>

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- *Price fixing* is an agreement between or among businesses to charge the same price for similar products rather than competing on price. When prices are fixed the consumer can't choose among alternative products based on price.
- *Price discrimination* is the practice of selling goods more cheaply to one person or business than to another. If you own a retail store and your competitors can buy goods more cheaply than you can, you may be forced out of business.
- *Predatory pricing* is the practice of charging very low prices in order to reduce competition. Predatory pricing can put companies out of business. Once there are fewer competitors in the market, the businesses that remain can increase their prices again.
- *Resale price maintenance* means that a manufacturer sets the price at which wholesalers and retailers must sell the product.
- *Bait and switch* occurs when a business offers a product at a very low price to draw customers. Once customers arrive they are told the product is sold out and are offered another product at a higher price.

### **Hazardous Products Act**

The Hazardous Products Act was passed to ensure consumer safety. The Act is concerned with the labelling, advertising, and sale of hazardous products. It prohibits the manufacture and sale of very dangerous products and regulates the sale of products that might be harmful.

Products such as cleansers, bleaches, and polishes may be hazardous to both children and adults and must be labelled with warnings that show the danger. The product label must also contain first aid information. The labels are intended as a warning only. The user of the product is responsible for using the product as directed and for keeping it out of the reach of children.

### **Textile Labelling Act**

With the development of synthetic fibres came the need for more information. Natural fibres—cotton, silk, wool, and linen—have certain qualities and require certain types of care. Synthetics such as nylon, acrylic, polyester, and rayon have different qualities and require different care. Consumers can check the labels to see if the product will fit their needs. For example, a marathon runner might check a label to be sure that the material is light and durable.



## Biz.Bites

The Textile Labelling Act requires that the labels of all clothing, household textiles, and fabric sold by the piece include information on

- the types of fibres contained in the fabric
- the amount of each fibre present in a quantity of 5 percent or more
- the identity of the dealer by name and address or identification number

## Consumer Packaging and Labelling Act

The Consumer Packaging and Labelling Act establishes guidelines for the packaging and labelling of all consumer products sold in Canada. Packaging can be misleading. The Packaging and Labelling Act prohibits the packaging of a small article in a large box in order to make the consumer believe that the package contains a greater amount than it does. Some package sizes have been standardized to avoid confusion.

According to this Act, labels must contain the following information:

- all ingredients listed in descending order by proportion or as a percentage on food products
- information in both French and English
- net amount in metric units
- the name and address of the company responsible for the product in case consumers have any questions, complaints, or comments about the product
- a best before date on most perishable foods, except fresh fruit and vegetables

## Food and Drugs Act

The Food and Drugs Act regulates harmful products that could cause injury or illness if not used properly or if swallowed. The Act also regulates matters such as packaging and advertising of food and drug products.

## The Canadian Food Inspection Agency

The Canadian Food Inspection Agency (CFIA) is Canada's federal food-safety, animal-health, and plant-protection enforcement agency. It enforces regulations on a wide variety of food related products such as dairy products, fresh fruit and vegetables, honey and maple syrup, livestock and poultry.

The Agency was created in April 1997 to bring together inspection services for four federal government departments. It now has inspection programs related to food, animals, and plants. Its activities range from inspecting meat-processing facilities and looking for foreign diseases in imported foods to enforcing practices related to fraudulent labelling. The CFIA also ensures the humane transportation of animals and performs laboratory testing and environmental assessment of seeds, plants, feeds, and fertilizers.



**Figure 5-15** Look over this label carefully and identify the items required by the Consumer Packaging and Labelling Act. Are there any that you can't find? Why might that be?

## Provincial Legislation

Every province has passed laws to protect consumers. A Consumer Protection Act usually includes the following regulations on credit charges and door-to-door sales.

Consumers who sign a contract to make a purchase on credit must be told the total credit charges in dollars and cents, as well as the true rate of interest. If you're buying a car, you'll need to know if you can afford all the payments. You'll learn more in Chapter 12 about the benefits of comparing interest charges on credit cards and loans.

Door-to-door salespeople must be licensed to protect buyers from fraudulent selling and misleading sales. The consumer, however, must ask to see the licence. The Act provides for a cooling-off period. During this time, consumers may cancel the contract, but must do it in writing. The law does not apply to sales made in the seller's place of business, because the buyer always has the option of leaving. The length of cooling-off periods ranges from two days in Ontario to 10 days in Newfoundland.

All provinces have a Trade Practices or Business Practices Act, which outlines unfair or misleading business practices, such as

- claiming service or repairs are needed when they are not
- claiming that a product has a specific use when it does not
- using a celebrity to endorse a product if he or she does not, in fact, use it
- misrepresenting the price at which a product is sold

If a consumer can prove that a contract involves an unfair practice, he or she has the right to cancel the contract. These Acts also establish ways for consumers to claim compensation if they have been subjected to an unfair business practice.

### Web Connect

<http://www.mcgrawhill.ca/links/exploringbiz>  
Go to Ontario Ministry of Consumer and Business Services site and investigate some current consumer protection issues.

### Check Your Understanding

#### Knowledge/Understanding

- 1 How does the Hazardous Products Act protect consumers?
- 2 How does the Textile and Labelling Act protect consumers?

### Thinking/Inquiry

- 3** Identify the unfair business practice in each of the following situations:
- Alain receives an advertising flyer that offers leather boots at 70 per cent off the regular price. When he gets to the store, there is only one pair, in a small size.
  - Gina reads an advertisement for a ten-carat gold chain. The price is only \$10, so she sends away for it. When she later receives the chain, she realizes it is definitely not gold.
  - Paul travels across town to a sale featuring 30- to 50-percent price reductions on stereo equipment. When he gets to the store, he is told that there was only one model on sale and that was sold a day ago.

### Communication

- 4** In groups of two or three, prepare a collage or bulletin board display on the theme of consumer protection. Collect materials from magazines, newspapers, and the office of Consumer Affairs. Present your collage to the class, explaining your choices.

### Application

- 5** Work with a partner to retell an anecdote of your own experience with misleading or false advertising. You may want to focus on the advertisement in the media or false statements on packaging or in labelling. Practice your oral storytelling techniques to make the story vivid and interesting. Then tell your story to a larger group.

### What's for Dinner? Globalization Gives Farmers New Challenge

Like his neighbours, grain farmer Marcel Bouchard had assured himself all summer that he could look forward to a good crop in 2000. He knew he wouldn't get as much for his rye as in other years. Grain prices were down because of good crops around the world. Also, the U.S. and European countries were supporting their farmers with government grants or subsidies. But Bouchard thought that a good crop with a high yield might help offset the low prices. That might be enough to get him through another year." These fields were looking really good," Bouchard said. "Really good."

Then the fog rolled in. A light mist, really. It blew around the Prairies for three or four days around Labour Day, just as the harvest was getting under way. Until then, the expected good crop was coming in as planned. But the rain that followed the mist forced farmers off their fields when they needed to be there most. They could only watch as the cool, wet days ruined their hopes. By the time the sun finally allowed farmers back on their fields, their worst fears were coming true.

As their combines cut through fields of grain, farmers could see that the once bountiful kernels had begun to sprout. They had taken the wet fall weather as a signal to start germinating. Those kernels that hadn't sprouted were bleached by the damp weather. In a little over a week, bad weather reduced a very promising crop to animal feed.

The price of Bouchard's rye, which he had expected to bring about \$2 a bushel, dropped to less than a dollar in a matter of days. Other farmers growing other grains saw their crop values drop the same way. At one time, a bad crop could be at least partly offset by higher prices as reduced supplies failed to meet demand. But no more.



**Figure 5-16** Marcel and Konner Bouchard's livelihood, like many Canadian farmers, depends on economic as well environmental factors.

Today's farmers compete on the world market, with countries that have government subsidies that Canada doesn't match.

"We don't take care of our farmers," Bouchard said. In other parts of the world, the harvest was good this year, with the U.S. reporting ideal growing conditions and large crops in the American midwest. That was enough to keep prices down for all farmers. It was the second year in a row that wet weather and bad prices have caused farmers to lose money.

In 1999, the wet weather came at the start of the year. Severe flooding in the spring kept farmers in southern Saskatchewan and Manitoba off their land during the crucial planting season. More than 2 million acres went unplanted, including three-quarters of Bouchard's 4500-acre farm. These conditions forced the federal and provincial governments to come up with a \$1 billion subsidy package.

Bouchard didn't get a cent. He was told that because he had a livestock operation, he didn't need any money. "I guess they figure that the cattle offset the grain," he said, shaking his head, unable to grasp how he could be denied aid. "I'm still trying to figure it out."

In 1999, farmers took to the highways in their combines to protest the low level of aid they were offered. They held rallies in Regina and Ottawa, with one farmer driving his combine to Parliament Hill in a plea for more help. But their protests didn't do any good.

The central issue to Bouchard and other farmers is heavy subsidies in other countries. Canadian farmers have no problem competing on the open market. They just want a level playing field. And that, say Canadian farmers, means that if Canada cannot convince the U.S. and Europe to cut their subsidies, it must match them.



**Figure 5-17** George Godenir, another Canadian farmer, was involved in farm protests in 1998. He says that protests don't do any good though. He believes Canadian farmers need more government support.

## ACTIVITIES

- 1 Briefly describe the problems faced by Canadian wheat farmers.
- 2 How has global competition influenced the supply and demand for Canadian wheat?
- 3 Should our government provide more financial subsidies to farmers? Will this make them globally competitive? Write an opinion on this issue and include factual evidence to support your opinion.
- 4 With a partner develop an economic solution that will help farmers achieve their goals of turning profits. Report your solution to the class.

# Chapter Review

## Points to Remember

- Supply and demand and their inter-relationship influence market activities and the economy.
- The level of demand affects the health of a market. In general, the lower the price the greater the demand.
- The supply of goods and services produced relates to price. Generally, the higher the price, the greater the supply.
- An economy changes over time. The typical business cycle starts with prosperity, and then moves through inflation, recession, depression, and finally recovery.
- The number and quality of competitors in a market has a direct effect on the market.
- The federal and the provincial governments have passed acts to protect consumers.

## Activities

### Knowledge/Understanding

- 1 Name the federal government agency that regulates consumer protection, and describe its function.
- 2 Why is there a need for packaging and labelling regulations for food?

### Thinking/Inquiry

- 1 In your local newspaper or a magazine, find an article on the regulation or restriction of business by government. Summarize the article and discuss how it benefits consumers.
- 2 Identify the factor of supply that each of the following situations demonstrates.
  - a) A neighbourhood store is going out of business because a new one charges less than it can afford to charge.

### Skills Appendix

critical thinking



- b) Electronic calculators, which used to cost hundreds of dollars, are now being given away by businesses as gifts.
- c) A manufacturer warns that increased taxes could result in layoffs.
- d) Insects have destroyed the coffee crop in Colombia.
- e) Kwok says he doesn't care how hard he has to work at his doughnut franchise. It's better than the job he left.

**3** Marie works as a computer programmer in a medium-sized company. Her husband, Doug, is also employed, and they have two small children. Day care has always been a hassle. Marie and Doug agree that their quality of life would be much better if one of them could take the children to day care in their workplaces. They decide to find out how many other people at their work are in this position.

- a) How can they learn whether there is any demand for day care at the places they work?
- b) What factors of demand are likely to affect day care?
- c) What benefit is there to the company in providing day-care for its employees?

**4** Obtain and read a copy of a consumer-oriented magazine or visit a consumer Web site that rates products and services by testing them. Choose a product that interests you and summarize the testing that was conducted. Include information about

- a) the types of product and brand names tested
- b) the kind of testing that was done
- c) the results by brand names, listing them from best to worst buys
- d) the relationship, if any, between price and quality
- e) the relationship, if any, between the most popular brand and testing results
- f) whether your perception of this product has changed as a result of the tests

What conclusions can you draw about the relationship between price and quality?

## Communication

**1** In small groups, identify three businesses that could be considered as competition for a movie theatre. Suggest how the theatre could attract customers. Create a newspaper advertisement that the theatre might run. With the rest of the class, prepare a bulletin board display of the advertisements.

## Skills Appendix

researching



- 2 In groups of two or three, compare the brand names, prices, and quality of three different products in different stores. Compare the stores' service and reputation. Visit at least one local store, a large department or grocery store, and two smaller specialty chain stores. Choose three products. Organize your findings in chart form and create a bar graph to compare the different stores on the scales of price, quality, service, and reputation.

### Application

- 1 Your friend's parents operate a small retail clothing store in the local mall. They sell the same quality of goods as stores belonging to large chains, and they have difficulty competing because the big stores are so well known. Outline ways they can compete with the big stores and suggest how they should advertise.
- 2 Pilar operates a restaurant. Costs have been rising on all her supplies and business has not been good lately, but she has a plan. She will start to cut down on the size of portions she serves and raise her prices. Because she has regular customers, she believes she will make a higher profit this way. Advise Pilar.
- 3 At a factory, the workers are worried that there will soon be many lay-offs. They have heard that management is considering buying a computerized production system to replace 50 people currently doing the production job. Form groups of three or four to discuss this problem and answer the following questions.
  - a) What factors of supply are affected in this case?
  - b) What has probably caused the company to consider this change?
  - c) What options may be open to these workers if the company goes ahead with the plan?

Write down the answers you come up with, and report these answers to the class. Individually, write up the discussion as a newspaper article.

### Internet Extension

- 1 Using Internet resources, analyse how the forces of supply and demand are affecting some current market prices.

#### Skills Appendix

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problem solving

#### Skills Appendix

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writing reports