

PREDICT

7. Could the relationship between producers and consumers succeed without money? What do you think might have to happen if there was no such thing as money?

THINK

8. List five goods and five services that you or members of your family have purchased in the last week.
 - a. Identify one good from your list, and name the business that most benefited from that purchase.
 - b. Examine the components that make up that particular good. Identify any other businesses that might have benefited indirectly from the purchase of that good.
 - c. Identify a service from your list, and name the business that most benefited from that purchase.
 - d. What equipment did the supplier of that service use? Identify any other businesses that might have benefited indirectly from the purchase of that service.

1.2 Responding to consumer demand

Any producer wishing to be successful in business must supply goods or services that correspond with the needs and wants of consumers. It is no use trying to sell something that nobody wants to buy. The ability to understand and act on consumer preferences is an important skill for anyone wishing to go into business.

The marketplace

A market is any organised exchange of goods and services for money. This can occur in a physical marketplace such as a shopping centre, but it can also occur without any actual physical location. When we purchase goods or services online or over the telephone, we are still participating in a market.

A market has to provide a means for consumers to find out about the goods and services available. This can occur when consumers physically walk into a shop and examine the goods on display. It can also occur when consumers visit a website, or look up different businesses in a telephone directory such as the Yellow Pages.



FIGURE 1 A collection of contact details for businesses, such as the Yellow Pages, works as a marketplace.

A market also has to provide a means for consumers to pay for the goods or services they are purchasing, and a means for them to receive those goods or services. In a physical shop, this is fairly simple: we visit the premises, receive the good or service, and then pay (by handing over cash or using a card or smartphone) as we leave. An online market usually requires some means of online payment, and a postal or other delivery service to bring the goods to the consumer.

We usually think of a market in relation to the particular goods and services being sold. For example, there is a market for groceries, where different businesses compete with each other to provide consumers with different products. There is a market for takeaway food, with different restaurants offering a variety of choices for consumers. If one shopping centre has two or more hairdressers, this constitutes a market for hairdressing services. For a business to be successful, it must compete in its market by providing the goods or services consumers want. To do this, it has to be aware of consumer preferences and respond to those.



FIGURE 2 Hairdressers compete with each other in a market for hairdressing services.

Responding to consumer demand

How does a business owner find out what consumers want?

- *Analyse business's sales.* There is no point in stocking products that no-one wants to buy, so a business owner will always be monitoring sales to identify the most popular products and ensure that sufficient quantities of them are held in stock.
- *Carry out market research.* This includes surveys of consumers to identify possible future consumer preferences.
- *Examine social trends.* This requires finding out what sorts of issues people are concerned about and then responding to those concerns. Examples include the desire for a healthy lifestyle, environmentally friendly products and organic food.

Healthy lifestyle

We regularly see and hear stories in the media suggesting that much of our modern lifestyle is harming our health. Obesity is a growing problem, and eating unhealthy foods and not exercising are seen as a danger to wellbeing. As consumers become more aware of possible health issues, they are likely to look for healthy options when buying goods and services. Producers respond to these concerns by trying to make their products appear as healthy as possible.

We see this most commonly in food packaging. Phrases such as 'low in cholesterol', '98 per cent fat-free' and 'no added sugar' are all designed to appeal to the health-conscious consumer. Packaging laws in Australia require that all ingredients are listed on food packets, so we have a way of checking some of these claims and comparing different products. While not all health claims on food packaging are necessarily honest or accurate, competition between similar products in the marketplace allows consumers to make the healthiest choices if they wish to do so.

Concerns about health also lead to new goods and services being introduced into the economy. Next time you visit a supermarket or pharmacy, take note of the huge number of vitamins and other dietary supplements on sale. This has been an area of enormous growth in recent years, with millions spent on TV advertising to promote the latest products. In addition, gyms and personal trainers have increased in number as consumers try to adopt healthier lifestyles. All of this growth in the businesses providing such goods and services is an example of the way markets can respond to consumer preferences.



FIGURE 3 Gyms and personal trainers have increased in number as consumers become more health conscious.

Environmentally friendly products

Over the last 40 years, we have become more aware of our impact on the environment and the need to reduce pollution. Businesses that can demonstrate that they used environmentally friendly methods to produce the goods and services they provide might be more appealing to consumers. You may have seen cans of tuna with the claim 'pole and line caught' on the packaging. For many years, tuna fishers have used methods that accidentally caught many other types of fish, some of them endangered species. Pole and line fishing allows only tuna to be caught, and so is more environmentally friendly. Consumers have shown a preference for this type of product.

Other examples include cosmetics produced by the Body Shop, which endorses environmentally sustainable production methods and has always promoted the fact that none of its products are tested on animals. Washing detergents will often advertise that they are biodegradable and so will not harm the environment. Electrical goods are often sold with a sticker indicating their level of energy efficiency. All of these are examples of producers responding to consumer concern for the environment.



FIGURE 4 Consumers have shown a preference for environmentally friendly methods of catching tuna.

Organic food

Combining both environmental concerns and a desire for healthy food options is the growth in demand for organic food. It is generally understood that food labelled as 'organic' has been grown without the use of pesticides and other chemicals, and so is a more healthy choice. In addition, if the grower has not used these chemicals, there is less risk of them causing damage to other plants or animals, or harming the environment in other ways. As well as fresh fruit and vegetables, many packaged foods now carry the word 'organic' on their packaging to appeal to consumers. Successful businesses will always make sure they are aware of consumer preferences, and will attempt to adapt their goods and services to meet these preferences.



FIGURE 5 Organic fruit and vegetables are seen to be both healthier and more environmentally friendly.

ACTIVITIES

REMEMBER

1. What is a market?
2. Outline two ways in which a business owner can find out what consumers want to buy.

EXPLAIN

3. Identify and explain two conditions that are required for a market to work.
4. Explain one way in which producers have responded to consumers' desire for a healthy lifestyle.

5. Why does the demand for organic food demonstrate both a desire for healthy food options and an awareness of environmental issues?

DISCOVER

6. Visit your local supermarket and identify four food products that claim to be healthy options.
 - a. Explain what particular claim is made for each product.
 - b. How does the labelling for each product attempt to get across a healthy message?
7. Use internet resources to find:
 - a. how pole and line fishing is more environmentally friendly than other methods
 - b. the name of three brands of canned tuna that use fish caught by pole and line.

THINK

8. The types of businesses that operate in the hairdressing market include hairdressing salons; manufacturers of shampoo, conditioners and hair dyes; manufacturers of scissors and combs; suppliers of electrical goods such as hairdryers and electrical trimmers; towel suppliers; and furniture businesses. Identify as many businesses as you can that operate in the following markets:
 - a. takeaway food market
 - b. bicycle sales and repairs market
 - c. gymnasium and fitness market.

1.3 Determining prices

One of the most important decisions that any business owner has to make is how to determine the prices at which goods and services are provided to customers. These will have a major impact on the success of the business, as prices set too high may drive away potential customers while prices set too low may make it difficult to achieve a **profit**.

Businesses can determine their prices by using the recommended retail price, following price leaders, using percentage mark-ups, pricing according to what the market will bear, or offering quotes to customers.

Recommended retail price

Sometimes the manufacturer of a product may provide a recommended price that can be used by **retail** businesses selling that product to consumers. Manufacturers of electrical goods often do this. This price is known as the recommended retail price (RRP). Such a price can only be a