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Entrepreneurship in an Adverse Environment:

The Case of Taybeh Brewing Company - Palestine

This case was written by Dr Grace Khoury, Birzeit University. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

The case was made possible by the co-operation of Taybeh Brewing Company.

Executive Summary

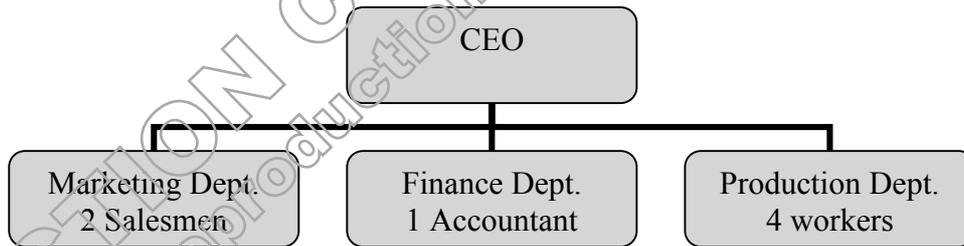
Taybeh Brewing Company (TBC), a nine year old Palestinian SME, is the first and only micro-brewery in the middle east and is currently being run by motivated and customer focused owners who are working very hard on improving customer loyalty towards Palestinian products in light of the fact that the only current competitors for it are foreign and Israeli products that are usually perceived as higher quality products in the local market. Furthermore, readiness to utilize information communication technology to better serve the customer and increase its global competitive ability is available and accessible at TBC.

The objectives of this case study are:

- 1) To analyse Taybeh Brewing Company's (TBC) vision and strategy.
- 2) To discuss the political, economic and sociological specificity of the company's macro-environment.
- 3) To criticize the relevance of business management best practices in such an environment
- 4) To allow students to recommend actions that would strengthen the company's ability in managing customer relations.

1. About TBC

Taybeh Brewing Company is a family owned microbrewery established in 1994 in Palestine and started operation in August 1995. It produces the only local Palestinian beer. Its entrepreneurial management, who was able to initiate change in the area and perceive opportunities that other business executives do not see or care about, differentiates the company. The two brothers Nadim and David Khoury along with their father Canaan Khoury were able to bring together the know-how, manpower, materials and the capital required to produce beer in Palestine after the Oslo agreement between Israel and the Palestinians in 1993. The founders had several motives and goals, which include wealth, prestige, self-esteem, power, freedom and service to the Palestinian society. They had a high need-achievement and locus of control. They were willing to take moderate risk and invest in an area that suffers of ambiguity and uncertainty. At present Nadim is the production manager and CEO, David is the financial manager and their sister Grace is the marketing manager. All of them have high degrees in business administration while David and Grace are professors of finance and business administration at Birzeit University. TBC's product is also differentiated from other imported and Israeli beers by focusing on being unique, naturalness of ingredients, freshness, high quality and small batch production process. TBC introduced the idea of micro brewing in Palestine and Israel. The simple functional organizational structure of TBC is identified in figure (1) below:



One of the biggest roadblocks to effective customer relationship management is that front office functions rarely would come together under one senior executive below the CEO, therefore, often causing fragmentation and lack of coordination in communication of goals, actions, strategies and other activities in the company. TBC is not confronted with these roadblocks due to it being a small sized family owned business where all front office functions that interact with the customers are overseen and controlled by the companies CEO.

Currently there are seven full time employees working at the brewery, there were 15 employees before the present uprising (Intifada) started in September 2000. TBC has been only working on 85% of its production capacity since 1995. During 2000-2003 this percentage dropped to 15% as a result of the deteriorating political and economic situation. 2002's turnover was half a million dollars and its profitability was 20%. If the political situation improves in the area it is expected to generate an annual growth rate of 25%. The company's financial position is strong as it has no debts and the brewery was completely financed by the owners who invested a total amount of \$1.5 million.

Throughout its history and during the nine years of operation, Taybeh Beer has been successful and able to build a reputation as a high quality local alternative to the imported beers. In the beginning, the product has gained recognition in the local market as a result of publicity made about the company in major T.V stations and newspapers. Numerous articles were written about TBC in English, Hebrew, German, Portuguese, Danish, Japanese but nothing in Arabic. In addition, tourists have helped in creating a positive image of Taybeh Beer in the local market when they ask for Taybeh instead of imported beer. This raises the confidence and pride of Palestinians in their local products. (see article in the appendix).

Taybeh Beer Company has state of the art production facilities and equipment and has the capacity for future expansion. It imported the brew house from Canada and its bottling line from Italy. Other equipments were obtained from the U.S, Germany, Japan and France. Taybeh Beer has been able to compete with other premium beers in the world market and it is produced at present under license from Taybeh Brewing Company by a German brewery as the first Palestinian product, which was able to provide a

franchising agreement in a foreign country. TBC aims at improving customer loyalty in the local market and increasing market share in Palestine and Israel in addition to building global brand awareness and trade opportunities.

2. Market Positioning Strategy

Based on the information provided by Taybeh Beer's CEO Mr. Nadim Khoury owner and founder, it is understood that the company's strategy is to capture some of the more sophisticated and educated beer drinkers with higher income and education than average and who are health conscious. The target customer group who mainly drink imported beers such as Heineken, Amstel and Carlsberg, which are considered to have high quality and are more expensive than Israeli beers Macabee and Goldstar. The target customer groups are both sophisticated local beer drinkers and tourists who are expected to have an interest in local products. This target group of consumers is rather small which contributes to the small market share of the company's products in Palestine and Israel, which is around 2% at present dropping from almost 9% pre to September, 2000.

The company priced its product deliberately to be higher than Israeli beers in order to emphasize higher quality as well as to cover the higher production costs, and to be lower than quality imported beers to be able to sell in the local market. The company tried to select a unique positioning strategy that emphasizes both the high quality and image of a local product promoting the slogan "Drink locally think globally".

3. TBC Products & Product Development

Unlike mass produced beer, the product is produced in small batches to insure premium quality. Mass producers try to minimize the destructive influence of the time lag between production and consumption; thereby adding preservatives to make the fermentation process of beer faster. Taybeh Beer has some distinguished characteristics, as it is natural, un-pasteurized and without preservatives and additives. There are only four ingredients, malted barley, hops, yeast and local spring water. Taybeh beer is brewed in accordance with the German purity law of 1516 which allows only the previously mentioned four ingredients.

The first brand was Taybeh Golden with 4.9% alcohol, which was introduced in 1995 in 330ml brown bottles. The Golden brand contributes to 95% of the company's sales. In 1997 Taybeh Golden was introduced and sold as a draft beer in 50-liter kegs at popular places and well known tourism places. Then draft beer was introduced in 30 liter kegs for easy carrying and handling and for faster turnover at restaurants, hotels and bars. Beer packaged in bottles contributes to 70% of sales and draft beer is 30%. In 1998 and as a result of a market research, Taybeh light was introduced with 3.8% alcohol, this brand did not generate the expected sales results due to the lack of awareness among Palestinians for a low calorie beer. Since the local market was not ready for it, this brand was discontinued.

In 1999 Taybeh Dark was introduced with 6% alcohol and was accepted by local and foreign customers and the demand for it started to increase but especially in winter. Taybeh Dark was a quality product with lower price and a direct competitor to the Irish

Guinness Beer sold in Israel. In 1998, larger size 650ml brown bottles were also used to package the beer.

In 2003 as a result of the dramatic drop in beer sales, the limited local distribution due to closures, and the unstable political situation, TBC top executives started considering a diversification strategy but within the image of producing and packaging only natural products. TBC has a food and beverage license and was successful in exporting generic olive oil to France. It started to consider packaging olive oil and natural honey and exports it to Europe and the US. In the beginning of 2004, the company was involved in helping local farmers sell their olive oil. Actually it started packaging Palestinian olive oil in 750ml and 1 liter bottles and distributes it to wholesalers and retailers in the local market. TBC also started a good relationship with two organizations that support solidarity with Palestinians and promote Palestinian products through fair trade agreements. One of these organizations is located in the US and the other in France. These two commercial partners would receive orders for olive oil from customers by email, send the money to TBC and TBC would fulfill these orders by sending packaged olive oil in tin cans by air mail directly to each customer. While at the same time top management is thinking of investing in pasteurization equipment to be able to extend the beer shelf life and export the beer to other Arab countries.



Taybeh Golden



Taybeh Dark



Taybeh Light

4. TBC 's Best Marketing Practices

TBC was able to educate local customers about the quality of its product Taybeh Beer and upgrade the consumer taste from drinking mass- produced to micro brewed quality beer. This education process was difficult since promotion was not allowed through advertising in public media, in addition to having a culture that consists of a majority where drinking alcohol is not accepted. Therefore, the company emphasized the natural ingredients of its product with no preservatives or additives added in the production process.

TBC encouraged having tour visits to the brewery where tour guides explained the production process and provided beer-tasting opportunities to visitors. TBC personnel also depended on contacting customers directly talking about their competitive advantage to hotels, restaurants, wholesalers, retailers and bartenders and educating them about the characteristics of the product and offering them sales promotion items such as t-shirts, bottle openers, pens and neon signs with the company's logo and name. TBC participates in foreign and local exhibitions regularly, emphasizing public relations and word of mouth promotion. The company also made signs, brochures and banners.

Other than educating local customers, the company is involved in post selling services. Sales people visit retailers where they do facing and displaying. They take old beer off

the shelves and replace it with new fresh beer because TBC's aim is to have only fresh beer manufactured within approximately three months on the market. The company is planning on a freshness guarantee campaign by printing on all its beer products the phrase "Freshness Guaranteed Within 110 Days".

5. Main Market Segments

The main group of customers are: wholesalers, retailers, bars, restaurants, hotels, and end consumers who buy directly from the brewery. All come from different local geographic locations in the West Bank and Israel. Hotels and restaurants are the most important customers. TBC uses a direct distribution method where its drivers send the product to its customers. The driver is the salesman in total control of selling, delivering, invoicing and collecting payments. Drivers are allowed to handle other problems in a way to guarantee customer satisfaction by issuing credit on the spot and collecting old beer and replacing it with fresh beer. In Palestine, the product sells in certain geographical areas more than others such as Jerusalem city, Bethlahem and Ramallah where sales are high. In some areas the beer doesn't exist at all as a result of religious, cultural and political barriers such as Gaza Strip and Hebron city, although TBC was successful in selling Taybeh Beer in Gaza Strip by Al-Bahr Company prior to the current uprising. In Israel sales are limited for two reasons, one is the siege and closures which don't allow free movement and distribution of Palestinian products in Israeli borders and second because the majority of Israelis are not fond and not willing to support Palestinian products especially after September, 2000 considering that TBC was able to obtain Kashrut certificate that its beer meets the Jewish dietary law requirements.

6. Important Commercial Partners

In 1997, TBC signed a franchise agreement with the House of Beers company in Germany after the contact had been established during the International Gastronomical Trade Fair, the Internorga held in Hamburg, Germany. The other partners are the local distributors (wholesalers and retailers), hotels, restaurants, bars and suppliers of raw materials, supplies and equipment. In addition to the two recent organizations which facilitate exporting Taybeh olive oil to the US and Europe.

7. Raw Materials and Supplies

Regarding raw material, large size bottles are bought from Israel after facing difficulties with the Israeli harbour of Ashdod. Once 150,000 bottles remained for 20 days at the harbour as the Israelis claimed the shipment did not adhere with Israeli standards although TBC had been buying bottles from the same supplier for several years. TBC was obligated to pay storage fees during that period. Small size bottles are still being bought from Portugal. The germinated malt is imported from Belgium, the yeast is from England and the hops are from the Czech Republic and Bavaria. Supplies such as glue, labels, carton boxes and cleaning chemicals are bought from Israel and the Palestinian Authority.

8. E-Business at Taybeh

E-Business at Taybeh Brewing Company (TBC) began with a small initiative by using electronic mail to build a B-2-B relationship with suppliers of raw material and equipment. Then the company grew towards customer recognition through starting other initiatives such as having a corporate web site at www.taybehbeer.net. The web site helped the company establish brand awareness especially as it is forbidden to advertise alcoholic products in local newspapers and T.V stations since the Jordanian law prohibits advertising alcoholic beverages. Advertising through Israeli media was considered costly for the company at that early stage. As a result of a successful growth, TBC now is planning to do business much more efficiently and effectively through customer relationship management initiatives such as marketing and sales-force automation. In addition to developing a better interactive marketing web site that allows better tracking, profiling and predicting of consumer behavior. Other initiatives to improve the supply chain management and the enterprise resource planning may also be needed in the future.

The most used information and communication technology is the email, website, fax, telephones and cellular phones (especially with sales people). The company continuously communicates with its suppliers through email and through searching the web, and so orders are placed. The website is used as an advertisement tool for Taybeh Beer. Through the website, customers from all over the world ask for the product, and how they can get the product in other European countries. The franchisee in Germany handles all the orders in Europe. The company can't sell through the site yet but is currently working on improving the website and making it more interactive with customers from all over the world. It does so by providing additional features such as frequently asked questions, by allowing them a tour through a short video that is available online as well as providing the space for viewers to inquire about the products or promotional tools where TBC responds to all of these inquiries and mails out the requested materials using regular mail if necessary.

Currently, the software used for information gathering about customer profiles such as customer identification data, accounting information regarding sales per customer or geographical area as well as marketing data including customer preferences and behaviour for TBC products is Microsoft Excel which is sufficient for the current needs of TBC. Meanwhile the company is considering the Oracle Financial package to help in future enterprise resource planning however there are other pressing matters that need to be considered.

The company along with its partners have gained the following benefits from the limited ICT applications:

- 1- Fast customer service and improved customer care and problem solving.
- 2- Minimised the cost and time of order filling and transportation.
- 3- Increased profit.
- 4- Retention and loyalty of customers.

9. Future plans

TBC top management is currently considering the following plans

1. Introducing a non-alcoholic brand.
2. The company is exploring the opportunity to export its product to other countries such as the United States where demand is increasing for such products. TBC may establish a joint venture with a US brewery to brew it under license as they are producing in Germany.
3. Bottling mineral water or other flavored drinks.
4. Pasteurisation is the technique the company is planning to apply in order to extend the shelf life of the product.
5. Start with small recycling initiatives.
6. Exporting natural honey and olive oil to Europe.
7. Improving its ICT information and communication technology initiatives to enhance its position and market share locally and globally. The company uses the B2B e-commerce. It buys all its materials and machinery from abroad through email and after reviewing suppliers' websites. The company is planning for a B2C, where it would be more able to interact with the customer through a marketing website to encourage revisits and run fresh news and special offers. As soon as the local markets open, TBC is planning to offer free delivery service to its customers who place orders on the internet within 24 hours. It also plans to track salespeople and interact with them through palm pilots to have accurate billing, better inventory control, tracking sales and faster delivery. Furthermore, TBC seeks to build a stronger database for customers, which allows the company to predict future trends and consumer behaviour patterns to better make decisions.
8. Open another production facility in Jordan and have a regional brewery with better access opportunities to other countries especially after receiving an offer from a brewery that was recently shut down.

10. Barriers and Obstacles

The political situation and the instability in the area surely will affect the ability of the company in achieving its goals. Roadblocks, closures and siege are common especially since September of 2000. There are no Palestinian ports; all Palestinian manufacturers are suffering from similar situations where they can only import raw material, equipment and supplies through the Israeli port Ashdood at Hifa. High Fees are being paid to the Israeli authorities in order to clear imported raw materials, get the bottles checked up for quality standards and obtain the required health certificates every time the company imports raw materials. As a result, delays in these processes are always expected which adds up to the total costs and has negative consequences on the company's operations and customer service.

As all Palestinian made products, Taybeh Beer although a quality product is still suffering from a "mind set" problem which stereotypes all Palestinian made products as low quality. It requires time to educate and change the Palestinian consumer's perception towards their national industries and the products manufactured by Palestinians. This cultural barrier may influence local consumption negatively. In addition, competition is high in areas currently under the Palestinian authority. The

market is open for foreign and Israeli products such as the mass produced Israeli beer Macabee, which sells for lower prices than Taybeh Beer. Taybeh Beer is not competing based on price but on the quality of a micro brewed beer. In 1997, Amstel Beer brewed in Jordan was able to enter the Palestinian Authority Territories with 76% tariffs, while TBC was charged 181% tariffs to enter the Jordanian markets. This has limited TBC opportunities to export to Jordan or through it.

Although TBC was exempted from income tax for the first five years according to the Palestinian law that encourages investment in Palestine, it is now required to pay income tax and 40% production tax. In accordance with the Paris Economic agreement, the Palestinian authority is asking for a 40% production tax on beer produced with more than 3.8% alcohol to meet Israeli standards. This is expected to affect Taybeh Beer's prices and market share.

Concerning ICT applications at TBC, the main challenges are the infrastructure in Palestine; Internet connection is not always easy and affordable. The cultural barrier in comprehending new methods such as paying with credit cards where privacy and legal protection are unavailable is another barrier. The current customers are not yet ready for this new view of buying or selling through the websites. Customers need to see the product before purchasing it and need to test it, all of this means that things will take some time to change customer's way of comprehending the new technology. In addition, TBC has to consider the cost of software and training programs that should be provided to its staff and salespeople.

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Appendix 1 : A microbrewery grows in Palestine.(Imported Beer Update)(Nadim Khoury's microbrewery in the Middle East)

Modern Brewery Age, July 19, 1999, by Jessica Steinberg

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Nadim Khoury straddles political and religious borders with his microbrewery, the first in the Middle East.

In the town of Taybeh, just down the hill from Ramallah, the defacto capital of the Palestinian Authority on the West Bank of Israel, sits the first microbrewery in the Middle East, brainchild of Nadim Khoury, a Palestinian entrepreneur with a great love for beer.

A microbrewery would seem to be an unlikely venture for the fledgling Palestinian economy, particularly given its mostly Muslim population that abides by the religious ban on drinking alcohol. But Khoury doesn't seem concerned partly because Taybeh is a Christian village but mostly because he doesn't think of himself as an alcohol producer.

"I only make hand-crafted, naturally alcoholic beer," he says of his light, 5% alcohol, amber-colored beer.

The father of four returned to Taybeh four years ago after nearly two decades in Boston, where he owned a chain of liquor stores with his brother David and worked on perfecting his beer recipe. He came back to Taybeh after the Oslo peace accords between Israel and the Palestinians in 1993, one of the approximately 12,000 Palestinian families who returned to the region to help kickstart the emerging Palestinian economy.

Khoury, an affable 39-year-old with a wide grin, first discovered his passion for beer while studying business administration at Hellenic College in Brookline, Massachusetts, just around the time when the U.S. began its big boom of home brewing a microbrewing.

"I was always reading about beer and home brewing and I used to go to exhibitions, beer fairs and taste events," he says, "tasting and learning as much as possible."

On a few visits home to Taybeh, Khoury brought some home-brewing kits for friends and family and the taste for beer was planted among the traditionally arak-imbibing population. By 1995, he was back in Taybeh, setting up the state-of-the-art, fully automatic \$1.2 million Taybeh Brewing Co., a three-way partnership of Nadim, his brother David and their father, a well-to-do landowner.

Taybeh is a simple Arab town, with a winding main street that meanders up the hill, dotted with a couple of grocery stores, a beauty parlor and some unidentified storefronts. It seems an unlikely site for a microbrewery, until visitors encounter a large, American-style billboard, with an arrow that points the direction toward "Taybeh Beer - The Finest in the Middle East."

At the top of the hill sits the brewery's white, two-story building, a simple concrete space filled with brewing tanks from Italy and kegs and cases of Taybeh Beer. Operated by 12 full-time Palestinian workers, the brewery's bottling line can produce 5,000 bottles an hour, while the four tanks can handle double to triple that volume. At the moment, Khoury is operating well below capacity due to distribution limitations.

Taybeh - which means delicious in Arabic - is a light colored but full-bodied beer, made according to the German purity law, according to Khoury. He imports malt from Belgium, hops from Bavaria, yeast from England and uses natural spring water from the nearby spring of Ein Samia. The beer's brown bottles come from Portugal and the labels were designed and printed in Ramallah. While the cost of importing the ingredients is high, Khoury is dedicated to producing a natural, quality beer.

"To me, there's an art and a science to producing quality beer," he says. "It's a challenge to educate people about good beer and it's my mission to open Middle East minds to what I'm doing."

Good beer is old news to the Europeans and Americans, but it's taken slightly longer to catch up in these parts. Israel boasts two retail breweries - Maccabi and Goldstar - which also import several European brands. There are also a handful of home brewers and the first brewpub opened its doors in Tel Aviv a few months ago. But beer was actually invented in the Middle East, reminds Khoury. The Egyptian pharaohs knew that beer was good against kidney stones and other illnesses, he says, "so I'm only going back to our origins."

Until last year, most of Taybeh's sales were in Jerusalem and Tel Aviv, outside the Palestinian cities and towns in the West Bank, which runs along Israel's Western border, and the Gaza Strip, a large Palestinian area in Israel's south. However, sales were low and profits were nonexistent, given the narrow sales margins during times of political tension when borders between the Palestinian Authority and Israel were closed, blocking import and export deliveries.

Khoury would often set out in his truck to deliver cases and kegs of beer to stores and bars in Jerusalem and Tel Aviv, only to be turned away at the border crossing. During those times, it wasn't unusual for an Israeli visitor to end up taking back several cases of beer to liquor stores and bars in Jerusalem, a half-hour ride from Taybeh. At the same time, while Khoury was depending on Israeli - not Palestinian - sales, it was still a fairly small market, as many Israelis wouldn't and won't drink a Palestinian beer for political and ideological reasons.

Ironically, while Khoury's brew has always been somewhat political, particularly given its label which states that the beer is brewed in Palestine, a state that doesn't yet exist according to Israel. Yet the beer is certified as kosher. Its certification comes from a rabbi in Ofra, a Jewish settlement nearby, who verified that the beer's all natural ingredients were kosher.

It's an odd partnership, considering that on the political front, the Palestinian and Israeli governments are constantly opposing Jewish settlements in Arab areas. But Khoury also distributes Taybeh beer through Tekoa Agriculture Technology Ltd., another Jewish settlement that grows and markets mushrooms. The Tekoa connection allows him to sell the beer to Jewish hotels in West Jerusalem, a market that would be otherwise unavailable.

At present, about 70 percent of Khoury's sales are to Palestinian establishments in the West Bank, and to heavily populated Arab areas, such as Nazareth and Haifa up north, while the remaining 30 percent are Jewish-Israeli establishments and wholesalers in Jerusalem and Tel Aviv.

In addition, after being written up by a local correspondent in the German magazine Der Spiegel, several German beer producers contacted Khoury and he licensed it for sale in Germany and is exporting it to next-door neighbor Jordan as well.

"It's a beer that doesn't scare people away," said Khoury in his office overlooking the stark, cool brewery. "People have been brainwashed and mouthwashed into drinking inferior beers. They're drinking mouthfuls of preservatives."

Including the region's rainy winter season and the month-long Ramadan fast, during which the region's observant Muslims don't partake of any alcohol, the brewery sells about 20 Hiktoliters a week. All told, the emphasis is still on micro rather than macro, as Khoury only sold 50,000 cases in 1998 at \$24 a case, and he has yet to make a profit.

With three years of brewing under his belt, Khoury recently developed several new products, including a family-size bottle and two new beers, one light and one dark, which will be launched this summer. He first created a quality ale that he felt could compete with the heavier lagers. Now he's using a slightly different recipe for the dark beer, making it a bit hoppier, but keeping it nice and malty.

"I had to get to know the taste of the people before I could get into the serious beers," he said.

Jessica Steinberg is a freelance writer based in the Middle East. This is her first story about beer.

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Expected contribution from students

Students exposed to this case study are expected to:

1. Conduct a SWOT analysis for TBC.
2. Visit the TBC website at www.tabehbeer.net and make necessary suggestions to increase effectiveness in building customer relations.
3. Develop a business plan that helps TBC grow in the next five years taking into consideration the major challenges facing the company.
4. Develop a marketing strategy for TBC to strengthen sales in the local market.
5. Provide technologies that can be introduced by TBC to help in efficiently managing and promoting TBC's products.
6. Act as a member of TBC administration and consider the implementation of any growth strategies and in what direction?

Appendix:

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