


Raise the Bar

Grades and Standards



**Make the grade
Up to standards?
Who's the judge?**

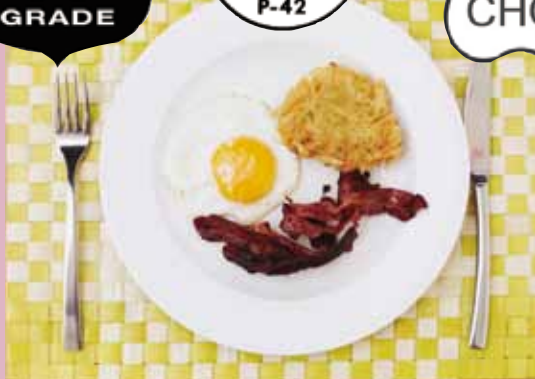


So What?

USDA
A
GRADE



USDA
CHOICE



Stockbyte/Stockbyte/Thinkstock

Think about the last meal you had—perhaps today’s breakfast or lunch. You might not realize it, but a system of standards and grades had a significant impact on what you ate. The milk you drank had to be inspected before it hit the grocery-store shelf. The farm that produced your eggs determined and declared their quality. Your fresh fruit was judged on its appearance and condition. Food and many other types of products are subjected to a system of standards and grades that benefits both businesses and customers. Learn more about what standards and grades are, how they’re used, and who creates them!

Objectives

A Describe the uses of standards and grades.

B Describe types of standards and grades.

Measure Up

Think about a product you recently purchased. It might have been a pair of shoes, a DVD, a new notebook for school, or even a soft drink from a vending machine. When you bought the product, did you have to compare it to all the others on the shelf that were the same size, color, or flavor? Probably not. You felt it was safe to assume that all the similar products had a standard level of construction and quality.

Both industrial and ultimate customers anticipate that products will meet certain expectations. To make sure that customers’ expectations are fulfilled, businesses guarantee that their products meet established criteria. Here are a few examples:

- Specific tire sizes permit customers to request a needed size and to know that they will receive a uniform product that fits their vehicle perfectly.
- Children’s fever-reducing medication contains the same ingredients and is taken in the same doses whether it is Tylenol brand or a generic brand.

▼ Name-brand, store-brand, and generic versions of a medication must all meet the same standards and specifications.



- A gallon of two-percent milk tastes the same and contains the same amount of fat as other gallons of two-percent milk.
- Parents of young children can feel confident about the content of a new G-rated Disney movie, even though they haven’t seen it, yet.
- A restaurant attracts diners by advertising its five-star rating.
- Jeep engines run well on gas with the lowest octane rating.

These examples exist because of standards and grades.



Standards and grades explained

The standards and grades used in marketing are much like those you're probably familiar with at school. Many schools use traditional grades of A, B, C, D, and F. These grades indicate how well a student performs on a test or in a course. A grade of "A" indicates that the student's performance was excellent. A grade of "C" indicates that the student's performance was fair or average. A grade of "F" indicates that the student's performance was failing or unacceptable. These grades are easily understood by anyone who sees them.

Before students get their grades, however, their teacher had to decide what was required of them to earn an A, B, C, and so on. S/He had to determine how many assignments, tests, and activities had to be completed and what level of performance was necessary for each grade. The teacher could then tell students, "Here's what you have to do to earn an 'A' in this class." These requirements became the standards by which students' work would be evaluated. So, at the end of the grading period, their work could be compared to the standards to determine the grade they'd earned.

Standards and grades are used in much the same way by businesses. The standards are set. Then, each product is rated against these preset standards and assigned a grade. Products that don't meet the lowest standards are scrapped, reworked, or sold at discounted prices.

Just as report-card grades are based on how well a student performed many different assignments and activities, standards and grades in business can be based on a number of factors. These factors will vary from product to product and from business to business. Examples of factors that are evaluated include quality, size, weight, taste, performance, etc.

So, let's review. **Standards** are specifications or statements that are used as a basis for comparing or judging goods or services. **Grades** are ratings assigned to products that tell to what extent standards were met. The result is that certain products should be uniform and consistent no matter what business is creating them.



Stockbyte/Stockbyte/Thinkstock

▲ Just as schools use grades to indicate a student's level of performance, businesses use grades to indicate the extent to which products meet certain standards.



▲ Many apparel manufacturers offer different grades of clothing under different name brands.

Why use standards and grades?

Standards are used to establish reliability in products. For example, DVDs and Blu-ray discs fit players made in a number of different countries. The same light bulbs will fit into light sockets in Washington, Florida, and Maine. Get the idea?

Grades and standards can be used to:

Indicate how the product can be used. Grades on milk indicate whether people can drink it or if it requires additional processing so that it can be used in other dairy products (butter, cheese, etc.). Grades of motor oil indicate whether it is for use in warm or cold climates.

Indicate where the product will be sold. Manufacturers often use product grades to determine where they will offer their products for sale. Apparel manufacturers might sell below-standard items through discount outlets rather than through department stores. Gap, Inc. offers higher grade clothing in its Gap stores, while it offers lower grade clothing in its Old Navy stores.

Indicate who the user can/should be. The ratings on some products indicate that they are appropriate for industrial use or home use. Television and movie ratings indicate targeted viewer audiences. The use of standards and grades, therefore, aids the buying and selling process. Their use actually speeds up this process because customers can buy products without having to inspect each item. Imagine how much time it would take to make purchases if every item had to be inspected to find out whether it would meet the person's needs. Customers, therefore, rely on standards and grades as a common language for product information.



Help salespeople. Standards and grades furnish information that salespeople can use to justify price, to sell benefits, and to meet customer needs. After salespeople have determined how a product is to be used by a customer, they can use product ratings to recommend one product over another. For instance, if a salesperson learns that a customer is buying lumber to build a house, the salesperson could recommend appropriate materials based on the weight that the lumber is expected to support.

Indicate product safety. Some standards and grades can be used to indicate product safety. Customers know food is safe to eat when they see the product's grade. They also know that they can safely use appliances that have been manufactured according to industry standards.

Help sell products abroad. The importance of standards and grades increases as international trade increases. Remember your report-card grades? They are meaningful to anyone who sees them. The same is true of grades on products that are traded internationally. They need to mean something to the people who buy and sell the products. Standards have become so important to manufacturers who trade internationally that most of them adhere to international standards for quality known as **ISO 9000**. These standards guarantee that the manufacturers have met certain requirements for producing and shipping their products, and they are recognized internationally.

Who sets standards and grades?

Standards and grades are developed by three primary groups—government agencies, trade associations/professional organizations, and businesses.

Government agencies. Government agencies are often responsible for setting standards and providing grades. Many of the foods you eat have been graded by the government. All of the over-the-counter pain medicines that you take have had to meet government standards. When businesses sell their products across state lines, they must meet government standards for interstate commerce and transportation. Advertisers are expected to adhere to the government's standards for fair advertising. What you'll find is that whenever the government is involved in the regulation of business activities, government agencies have set up standards to guide the way those activities are carried out.

Government agencies are generally responsible for grading. They use agreed-upon words, numbers, or letters to indicate grades. Government inspectors are often the ones who score products to determine grades. They assign points for various factors that,

when added together, determine a score. The higher the score, the higher the grade. Poultry, for instance, would receive a high score from the U.S. Department of Agriculture (USDA) if it met the required standards for shape, texture, color, size, and maturity. Another example of grading by the government is the inspection of restaurants, salons, etc. If these establishments don't meet minimum standards, they face the risk of being closed down.

Trade associations and professional organizations. Trade associations and professional organizations have spent years developing and promoting standards. Their goal is to guarantee product quality, safety, and uniformity. Their standards are applied to raw materials, parts, and finished products. On occasion, they also develop their own grading systems to rate products by the standards they have set. The AAA automobile club, for example, has established a rating system for hotels.

- Public health professionals inspect restaurants, stores, daycares, salons, tattoo parlors, and many other types of businesses. The inspectors' ultimate goal is to protect the health and well-being of the public.



George Doyle/Stockbyte/Thinkstock



Businesses. Businesses also set standards and grades that they require their own products to meet. For example, mattress manufacturers rate their own mattresses according to firmness. Businesses also set standards that they require their suppliers' products to meet. McDonald's requires its suppliers to produce hamburger buns to exact specifications. These standards cover everything from texture to uniformity of color. Ford Motor Company requires its suppliers to meet its standards before they can supply Ford with parts and materials. Ford employees inspect potential suppliers' facilities to determine whether their operations meet these standards. If so, the suppliers qualify to do business with Ford.

To set their own standards, businesses gather information from their own departments, their suppliers, and their customers. Often, businesses that sell to other businesses set their standards based on those provided by government agencies or private professional organizations.

Summary

Standards are specifications or statements that are used as a basis for comparing or judging goods or services. Grades are ratings assigned to products that tell to what extent standards were met. The goal of standards and grades is to create uniform, consistent products. Standards and grades can be used to indicate how a product is used, to indicate where it should be sold, to indicate who the user should be, to help salespeople, to indicate product safety, and to help sell products abroad. The three primary groups who develop standards and grades are government agencies, trade associations/professional organizations, and businesses.



1. What are standards?
2. What are grades?
3. What is the purpose of using standards and grades?
4. How are standards and grades helpful?
5. Who sets standards and grades?

THE GRAY ZONE



Pixland/Pixland/Thinkstock

Charlie's supervisor has set a standard for the sales team. She wants each salesperson to spend at least two hours per day working on new sales leads. Charlie rarely spends two full hours per day working on this job task. However, he creates enough new sales leads that his supervisor seems satisfied with his performance. Charlie figures that as long as he is getting the job done, the time standard isn't a big deal. What do you think? Is Charlie being ethical?

Setting the Standard

Standards and grades are everywhere. You even use them at home. If you wash the dishes, for example, and one of the plates still has food stuck to it, it has not met the standard of cleanliness and must be washed again before it can be used. The use of standards and grades is also a marketing activity that occurs in all types of businesses. Standards and grades are important to businesses that produce goods as well as to businesses that provide services.

Types of standards

Businesses set standards for performance levels that they try to meet to obtain their goals and make profits. The most common types of product standards include quantity standards, quality standards, time standards, and cost standards.

Quantity. Quantity standards specify the amount of work to be done. Production managers determine the minimum number of units to be produced each hour, day, or month by individual workers or groups of workers. Sales managers establish the number of prospects that sales representatives must contact daily or weekly. Office supervisors may set an acceptable day's quota for telemarketers.

Quality. The quality of the work performed is often just as important as the quantity produced. Therefore, many businesses establish quality standards. These standards indicate the degree of excellence to be expected from a good or service. Quality has always been a primary factor for service businesses. Now, it has become a major issue for other businesses as well. Managers have recognized that they can reduce costs if employees do their jobs right the first time. Not only is time saved by not redoing work, but fewer products end up as scrap.

In some cases, perfection may be the only acceptable standard for a business's goods or services. A battery that does not work will not sell. An invoice with pricing errors cannot be sent to a customer. An accountant should not incorrectly calculate the taxes of a client. Perfection may be the standard for some businesses, while others will allow for a small margin of difference. For example, the amount of starch that a dry cleaner uses in a laundered shirt may vary a little without affecting the appearance or quality of the shirt.



Comstock Images/Comstock/Thinkstock

▲ Telemarketers and sales representatives may be expected to reach specific quantity standards.

Time. Time standards are closely related to quantity and quality standards. These standards monitor the amount of time it takes to complete an activity. Most business activities can be measured by the amount of time they take to complete. For instance, hair stylists schedule their appointments and expect to complete them within a certain amount of time, such as an hour to an hour and a half. Not completing activities on time can result in fewer products being produced or being available for sale. Have you ever heard the phrase, "Time is money"? Well, it's true—businesses that do not maintain time standards may experience financial loss.

Cost. Cost standards are used to specify project or product costs. They are important because the measure of a business's success is profit. Increased costs, without a proportionate increase in sales, decreases profit. Wasting material or taking more time than necessary to perform a task adds to the cost of doing business.

Graded products

As you know, standards are used as the basis to grade products. Although some standards are required by government agencies, grading is often optional. However, many purchasers prefer to buy graded products because they know those products have met specific quality standards. Grading has become an accepted practice throughout the United States although it is not required by law.

◀ Time and cost standards are often related. After all, "Time is money."



Jupiterimages/Liquidlibrary/Thinkstock

Farm and food products are graded by federal agencies responsible for their inspection. These products must pass inspection to be eligible for grading. Some examples are:

Agricultural raw materials such as wheat and cotton. The USDA grades these products. The grades enable buyers to easily determine the farm product's quality. For example, there are approximately 1,500 varieties of cotton. By requesting a certain grade of cotton, textile companies can be assured that they can purchase the type and texture of cotton they want or need to make their products.

Food products such as meat, dairy products, eggs, fruits, and vegetables. The USDA has identified different grades or degrees of quality for about 300 different food products. These grades determine how the products can be used. Some examples of these food products are:

- **Meat**—After meat is inspected and approved for human consumption, it is graded based on its expected taste and flavor characteristics and its expected yield. The top three meat grades are prime, choice, and select. Lower grades are not usually sold in grocery stores.
- **Dairy products**—Many dairy products are not graded. However, milk is graded for bacteria count, appearance, odor, and taste.
- **Eggs and poultry**—These food products are graded on a voluntary basis. Poultry grades describe only the appearance of the bird.
- **Fresh produce**—The USDA's Agricultural Marketing Service is primarily involved in grading fresh produce. The agency grades produce for appearance, condition, and quality. Virtually all fresh produce items have a grade; however, produce shippers are not legally required to have products graded.
- **Fish**—The National Marine Fisheries Service is responsible for a quality-grading service for fish products. They place a grade stamp on fish to indicate that it is clean and safe, of a specified quality, produced in an acceptable establishment, processed under supervision by federal food inspectors, and truthfully and accurately labeled with its common name.



▲ Many of the foods that we eat are graded according to their level of quality.

Other products commonly graded are:

Oil. Oil for use in automobile engines is graded by standards developed by the Society of Automotive Engineers (SAE). In this system, oils are assigned numbers in relation to their thickness. Thinner oils are given low numbers, and thicker oils are assigned higher numbers. These numbers are important because low-numbered oils are designed for use in cold climates, whereas high-numbered oils are meant to be used in warm temperatures.

Fuel. Gasoline used as fuel in automobiles is graded according to its octane rating. The octane number assigned to a fuel indicates how well the gasoline will operate in a certain type of engine. Jet fuel is subject to standardization as well. A plane that takes off from New York can refuel in Prague and still run efficiently; the fuel is of the same type and quality.

Coal. Coal is graded according to its carbon and sulphur content. Sulphur content is important because it determines whether the coal can be used in certain states. Burning coal with a high sulphur content is banned in many states because it contributes to air pollution.

Lumber. There are two basic categories of lumber—hardwoods and softwoods. They are graded on different factors. Hardwoods are graded according to size, quality, and type of wood. Hardwoods are often used to make furniture. Softwoods are graded according to appearance and the weight they can support when being used as beams in construction. Grading helps contractors to select quality lumber for use in building houses and other structures.

Other building and construction materials. Steel, insulation, roofing materials, concrete—these and other construction products are subject to standards and grades. Grading ensures that contractors can create homes and buildings that are safe, sturdy, and fire-resistant. Many of the products used to create and resurface highways and other roads are also graded for quality and consistency.

Electronics such as televisions and computers. Many television manufacturers assign grades to their products. The higher the grade, the clearer the picture and the faster the processing time. The same goes for many computer processors. The faster and higher quality the processing, the higher the grade. These grades make it much simpler for customers to make buying choices.

Make It Pay!



Pick a product you have purchased or used this week. How was it influenced by standards and grades? For instance, did its grade help you know how to use the product or whether it would meet your needs? What types of standards were imposed on this product by the government? By the business itself?



▲ Can you believe that the U.S. Department of Defense expects felt-tip markers to meet set standards for quality and performance?

Miscellaneous household products. Many of the products you see or use every day have been standardized and graded—art materials, sports equipment such as bike helmets, playground equipment and children's toys, for examples. You can use these products with the reasonable assurance that they are safe and well-made.

Summary

Standards and grades are important to businesses that make goods as well as businesses that provide services. Common types of standards include quantity standards, quality standards, time standards, and cost standards. Many different types of products are graded, including agricultural raw materials, food products, building materials, electronics, and more.



1. What are the four common types of standards that businesses set?
2. List a few examples of products that are graded.