

## **Chapter 1: What is Business?**

### **Chapter Summary**

In this chapter, we have described the nature of business and discussed the ways in which businesses create profits and interact with the marketplace in order to meet the needs, wants, and desires of targeted customers. Our discussion focused on the interaction of business as a commercial endeavour, guided by employee interaction and supported by organizational efficiency and structure, which results in the development of a business system and, ultimately, a business model designed to deliver desired goods and services to the marketplace. Utilizing productive resources at their disposal (assets, labour, capital, and managerial acumen), businesses seek to drive a profit from the sale of such goods and services and ensure long-term profitability and growth by continually seeking to make the most efficient use of their resources. While striving for profitability, businesses are being increasingly challenged by customers, and the marketplace at large, to be good corporate citizens, acknowledging their responsibility to act in a socially acceptable manner and respecting the finite nature and scarcity of resources. This new requirement of businesses is resulting in a significant emphasis on resource sustainability and environmental initiatives. To help you to understand why some companies are more successful than others, a significant portion of this chapter's focus emphasizes the importance of developing and communicating a value proposition to the customer group that a business is trying to attract in a manner that differentiates the business's products and services from those of its direct competitors, and that attempts to develop and sustain a competitive advantage in the marketplace. The creation of this value proposition takes into consideration both tangible and intangible benefits that the product or service offers, and looks to determine the extent at which price will become a key decision criterion within the customer's purchase decision. The chapter closes with a discussion associated with the importance and interrelationship between strategy and tactics and the need for managers to recognize that in order to be successful, businesses not only have to properly develop a plan for attacking the marketplace, but also must be effective in the implementation of this plan.

### **Learning Objectives**

This chapter is designed to provide students with:

- A base-level understanding of what business is
- Exposure to the four major components of the business model and their impact
- on an organization's competitive advantage
- An understanding of how businesses plan
- An introduction to the difference between profit and profitability
- Exposure to the importance of creating a well-differentiated value proposition as key to a business's success
- A cursory overview of the relationship between business strategy and tactics,
- and the importance of successfully executing both for a business to achieve its identified objectives

## **Management Reflection – Focus on Business**

Business is not about producing and distributing goods and services. It is about delivering value to customers in a manner that meets their wants and desires. With few exceptions, the marketplace provides customers with significant choice. The key is to ensure that the value you deliver to the customers you target via the products and services you offer exceeds that of your competitors. As managers, in conducting business we need to avoid the temptation to become predominantly focused on short-term results. Managers need to make decisions in recognition of both immediate needs and longer-term requirements in order to protect and grow the general health of the organization. A key aspect of this process is to understand that business (and the marketplace) is not static, but dynamic. It is changing all the time. What has worked in the past may not necessarily work in the future. As an example, Blockbuster Inc. built its market leader position in the movie rental marketplace on the basis of a bricks-and-mortar (physical store locations) business model. Successful in the 1970s, 80s, and 90s, this model is giving way to video streaming, downloading, and competitive intensity from new market entrants such as Netflix and cable companies. We can expect Apple and Google also to become more significant players in this market segment. This means that managers must continually assess and reassess market conditions and their own business's position in the markets they serve. Innovation and reinvention of how they do business and where to compete are becoming more fundamental to business planning than ever before. Visionary leadership and the ability to anticipate new market space and new market opportunities are necessary skills of today's managers. Managers must also recognize that the decisions they make impact both internal and external stakeholders. These stakeholders expect managers to conduct business in a manner that is ethical, socially responsible, and mindful of the sustainability requirements of our world. Having said all of this, building, growing, and managing a company is one of the most rewarding experiences an individual will ever have. The feeling of accomplishment of a job well done is second to none.

### **Business Updates**

- Google (Page 5)
- Research In Motion (Page 9), and competitors (Nokia, Emerson, Motorola, HP and Apple (Page 12)
- Apple Inc. (Page 10)
- Toyota (Page 11)
- Walmart and NRDC Equity Partners (Owners of the Hudson's Bay Company and its banner stores The Bay and Zellers) (Page 14)
- Sears, Coach Leatherware, Gucci, Prada (Page 18)
- Tim Horton's (Page 18)
- Booster Juice (Page 19)
- Airbus (Page 21)
- Blockbuster and Netflix (Page 23)

To synthesize the learning objectives covered in this chapter, conduct an in depth look at Apple's business model. Specifically, consider how Apple strikes a balance between profit, profitability, and responsibility, and how Apple creates customer value.

The discussion should focus on Apple's progression from computer hardware manufacturer to a 'computainment company' that is constantly striving to create new markets (blue oceans) as evidenced by their iPad launch in 2010. The discussion should also consider the idea that Apple's competitive advantage is multifaceted: it is rooted in the strength of the brand, the fit between

products and services, and the value that Apple products provide to the end user relative to competitive product offerings. To underscore this point, have members of the class create a value proposition for Apple, and a value proposition for a competitor (Nokia, Google, Dell). The differences between these statements will expose Apple's ability to create value across a variety of screens.

### **Key Takeaways (Chapter Highlights)**

#### *Page 5*

An efficient and effective operating platform (business system) will also possess three fundamental characteristics against which it can be assessed: its commercial endeavours, its human resource (employee) interaction model, and its organizational efficiency and structure.

#### *Page 7*

The role of the business owner or management team is to anticipate, recognize, or sense an opportunity to create a product or to deliver a service that is felt to be unique, important, and of value (meaningful) to a targeted customer or customers.

The failure to meet the objectives of a planning cycle can be the result of poor positioning, poor operational execution, or a combination of the two.

#### *Page 11*

Too much emphasis on short-term profitability may result in decisions that are detrimental to long-term market opportunities and fall short of social responsibility expectations.

#### *Page 15*

Companies develop value propositions for the purpose of communicating to customers how their products/services are different and the important benefits which they offer.

#### *Page 17*

In general, the more unique, important, and value-driven your product is, the greater the opportunity to communicate to the potential purchaser a value proposition which has a positive price/quality relationship, and which can be considered to be superior to those of your competitors.

#### *Page 19*

A key component of managing any business is in understanding the expenses that must be considered when setting the price of a product/service offering.

#### *Page 22*

Business is not only about producing and distributing goods and services; it is about delivering value to customers in a manner that meets their needs and desires.

### **Chapter Exercise**

#### *Exercise 1:*

Divide the class into three groups. Have the first group develop sample value propositions for a Sears' handbag. Have the second group develop a value proposition for a Coach Leatherwear

Handbag, and have the third group do the same for a Prada handbag. This exercise should highlight the different customer buying criteria that each of these companies targets.

Sears targets the value-conscious, product benefit oriented customer.

Coach's value proposition would likely be focused on emotional benefits; having a Coach handbag is a symbol of social status.

Prada's value proposition would focus almost entirely on the exclusivity of the brand, the product's heritage, and the fashion – conscious customers it serves.

### Exercise 2:

Lead an in class discussion about why has Tim Horton's been more successful in Canada than in the United States.

This discussion should highlight the importance of positioning. In Canada, Tim Horton's advertising leverages its distinctly Canadian heritage and values. This strategy cannot be employed in the United States, and as a result, Tim Horton's must focus on driving customer value through other channels (lower price to improve the price-value relationship).

This same exercise could be conducted with a variety of other examples. For instance, compare the success of Blockbuster to Netflix or Apple and Google to RIM. What are the drivers of success? Lead this discussion toward competitive advantage and the notion of sustainability. For example, while Netflix has responded to the customer's desire for effort-free delivery of content, their advantage is predicated upon partnerships with content creators. If these partnerships are not renewed, Netflix loses its advantage.

### Questions for Discussion

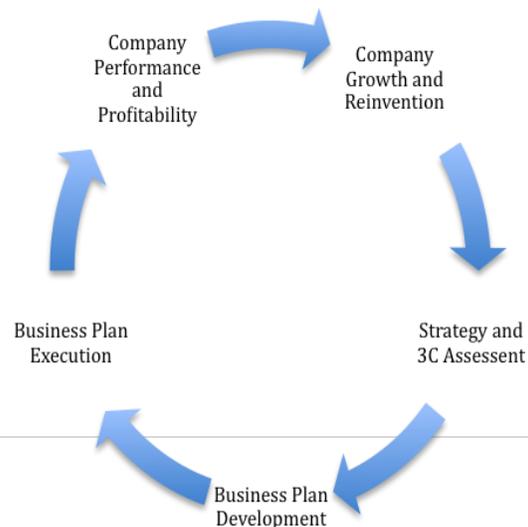
1. In your opinion, based on the concepts presented within this chapter, what key fundamentals do managers need to understand to successfully manage a business?

They need managerial acumen (page 5), which refers to the foresight, drive, knowledge, ability, decision – making ability, and ingenuity of the organization's key individuals. Managers also need to embody a visionary leadership style, establishing and executing a direction for the organization to pursue based on the market's needs and the organization's core purpose (reason for being). Furthermore, management is responsible for deploying a company's assets, labour, and capital in the most efficient method possible.

A successful business manager will anticipate, recognize, or sense an opportunity to create a product or to deliver a service that is felt to be unique, important, and of value (meaningful) to a targeted customer.

2. Define what is meant by a business planning cycle. What are its key components?

See page 6 in the text.



Business Planning Cycle (Figure 1.3,

The business planning cycle is the process through which an organization creates a business plan. The business plan outlines the focus and methodology for using an organization's resources to create valuable products and services that will create a unique position in the marketplace.

The business planning cycle begins with a **strategy and 3C assessment**. A strategy is a specific set of objectives that an organization plans to achieve during the planning cycle. A 3C assessment involves an analysis of the organization's capabilities, competencies, and capacity. Next, the organization **develops a business plan**, and **executes the business plan**. The organization will monitor **company performance and profitability**, and seek further **growth by making adjustments of the business plan**.

*3. What are the three fundamental objectives of the business, How are they interconnected? Why is each so important in ensuring the long-term viability of a business entity?*

See page 10 in the text.

The three fundamental objectives of the business are **short – term profit, long – term growth and profitability**, and **social and environmental responsibility**.

Short – term profit is essential for a business to pay its bills, and reinvest in the company. Long – term growth and profitability recognizes that the markets a business serves, the products/services it sells can change. As such, businesses need to constantly search for new markets and opportunities to drive profitability. Finally, social and environmental responsibility captures the need for business to satisfy the customer/ non-market environment's growing demand for products and businesses to employ responsible practices in product development, operations, and resource consumption. Businesses are increasingly expected to act in the interest of all stakeholders, rather than simply shareholders. Stakeholders are those individuals who are effected by a business' activities.

These three objectives are interconnected; focusing on one objective implies reducing focus on the others. For example, a focus on short – term profitability may sacrifice long – term profitability and responsibility, as we saw in the collapse of the financial services sector in 2008. Conversely, a long – term focus may prevent a business from meeting the current customer's demands. Thus, management must strike the appropriate balance between these objectives.

*4. What is the difference between profit and profitability? How are the two interrelated?*

See page 10 in the text.

First, let us define these terms.

**Profit** is the bottom line result an organization has realized for an identified, immediate period of time. It is equal to total revenue minus total expenses.

**Profitability** measures how well a company uses its resources over time to generate earnings relative to its competitors. Profitability analysis employs metrics like return on capital invested (ROIC), return on equity (ROE), and pre-tax income, to name a few. These metrics allow management to determine whether or not the operation has improved the efficiency of capital and asset utilization.

Thus, profit focuses on the bottom line, while profitability allows for benchmarking, and indicates the efficiency of resource deployment. Furthermore, profitability analysis allows companies of different scale (revenue) to be compared using the aforementioned profitability metrics.

These two dimensions are interrelated in the sense that, all else being equal, increasing profit will drive profitability. Profitability relative to competitors will enable the business to earn higher profits and grow in the future, because they have greater access to low-cost capital.

*5. Why is developing a value proposition for the products/services offered so important for a business? How much impact do you think a well-developed value proposition has on the success of a product or service?*

See page 15 in the text.

Simply put, a value proposition communicates to customers how a company's products/services are different from those of the competition, and the important benefits that they offer. An effective value proposition will highlight the purchaser's key decision criteria, and communicate how the product/service solves their needs.

A well-developed value proposition has a significant impact on the success of a product or service. A great value proposition will enable a company to deliver a consistent message to customers, and focus on those areas it believes the customer holds in the highest regard. In addition, a complete positioning statement (see Figure 1.10 – Sample Positioning Statement Template, page 16) provides a pragmatic way to ensure that positioning is unique, and that the competitive advantage is sustainable (if it exists).

Finally, effectively communicating the value of your product to the customer may enable your company to charge a higher price, thereby increasing profits.

*6. Which is more important in ensuring a successful planning cycle for a business, the direction in which its strategy is moving the organization toward, or the tactics the organization must employ to get there?*

See page 20 in the text.

A business planning cycle is designed to direct the positioning of the company within the marketplace, orchestrate the creation of a business plan that will achieve the objectives set for the planning period, ensure that vision and mission are linked, and develop the required operational tactics to achieve growth and profitability. It follows that strategy and tactics are inextricably linked. While tactics help a firm meet the objectives set out for the current planning cycle, strategy is responsible for creating these objectives. Thus, we must view strategy and tactics as interrelated processes.

#### *Additional Discussion Questions*

*Being in business is always about having the lowest price. Comment on this statement making reference to theory presented in this chapter.*

Answered on page 17 of the text.

*Briefly describe the three fundamental characteristics of a business. Use an organization of your choosing to provide examples of these essential characteristics.*

Answered on page 4 of the text.

*Describe the interconnection between competitive advantage and the business planning cycle. Do you believe that a clear competitive advantage is essential for a business to be successful?*

Answered on page 6 of the text.

### **Case for Discussion**

Cruiser Laptops Inc.

### **Questions**

a) What does this trend in the laptop industry imply about the way manufacturers have been marketing their products to customers? What have they failed to do?

With this particular question, instructors would generally look for students to comment on the failure of manufacturers to develop and market value propositions based on differentiation. In essence the customer is viewing the product offerings as commodities with little differentiation on the basis of uniqueness, quality, importance....overall value. Manufacturers have also failed to differentiate their product/service offerings via marketing in a way which is meaningful to the consumer and which possesses a perception of superior quality and/or performance.

b) If Sylvie decided to position Cruiser Laptops Inc. as a premium price laptop manufacturer, what sort of things must she do if she is to be successful in this regard?

The idea behind this question is to try and get students to identify what it takes to be successful as a premium price laptop manufacturer. Common focus will be on:

- Using quality materials and components
- Personalizing or customizing the laptop being purchased for specific customer needs and uses
- Using the latest technology in order for the laptops to deliver superior performance...speed, memory, processing time, minimal crashing, touch pad technology, etc.
- Looking to segment the market and/or using marketing research in order to identify and target customers who are less price sensitive and more inclined to pay a premium price.
- Selling through exclusive distributors where additional add-on services can be offered in order to provide purchasers with a total solution (training, support, etc.), beyond the basic laptop features.
- Ability to move beyond the “windows” platform and embrace alternate operating/processing options.

Overall, instructors are generally looking to see if the student understands that the value proposition must extend beyond the product as the solution and incorporate into the solution being offered other aspects of the value proposition including service benefits, emotional benefits (status, psyche, etc), quality benefits, brand benefits.

c) If positioning as a premium price manufacturer is not possible, what other options does Sylvie have? What sort of things must she do in order to be successful with this alternate position?

Similar to question b), except that instructors would be looking to see if students understand the basics associated with a price-focused or cost-leadership strategy. Common responses here would point towards an emphasis on:

- Product standardization and simplification
- Process standardization and commonality of components to keep costs down
- Economies of scale to drive volume
- Ecommerce marketing and mass marketing focus to ensure a broad, inexpensive reach into the marketplace
- Minimal deviation and distinction between various models being offered
- Full focus on cost reduction and cost management...total adherence to the bottom line

A second option which some students may take will be to consider a value driven strategy, or niche market strategy.

d) If you were Sylvie, what type of analysis would you conduct first prior to determining a strategic direction? What key questions would you ask?

This response is taking directly from chapter 1, "What is Business". Students should focus their discussion on the following 5 points.

- What is my cost base for producing and/or delivering this product/service to the marketplace, and how does this compare to my main competitors?
- Do I have a strong brand profile in the marketplace which I can leverage as part of the benefit to the customer when purchasing this product?
- Are there emotional benefits which the customer will attach to this product/service offering...if so, how can I use this to assist in strengthening my value proposition?
- Are there unique service benefits, which I can incorporate into this value proposition, that will assist me in supporting potential and existing customers?
- In analyzing the above-mentioned questions, can I create a strong enough value proposition which will enable me to successfully compete against other competitors in the market segment in which I choose to compete?

## **Test Bank**

### **1. Choose the definition that best describes commercial endeavours:**

- a) The markets an organization serves, the products and services it offers, and the needs it professes to meet in the marketplace
- b) The T.V., radio, and print advertising that an organization produces
- c) A joint venture with a supplier
- d) Any profit-seeking initiative that a business pursues
- e) None of the above

### **2. What are the three fundamental characteristics of a business?**

- a) Accounting, Marketing, and Finance
- b) Commercial Endeavours, Employee Interaction, and Organizational Efficiency and Structure
- c) Sales, Costs, and Profitability
- d) Market Activity, Human Capital Management, and Operations Management
- e) Strategy Formulation, Implementation, and Monitoring/Review

### **3. What are the four core fundamental resource areas of a business?**

- a) Assets, labour, capital, and managerial acumen
- b) Land, labour, technology, and capital
- c) Business model, resources, business planning cycle, and operational efficiency
- d) Land, buildings, processes, and infrastructure base
- e) None of the above

### **4. What are the 3Cs?**

- a) Capacity
- b) Customers, Complements, and Collaborators
- c) Capabilities and Competencies
- d) Capacity, Capabilities, and Customers
- e) A and C

### **5. Which of the following is NOT a stage of the Business Planning Cycle?**

- a) Strategy and 3C assessment
- b) Company growth and reinvention
- c) Business plan execution
- d) Vision statement creation and goal setting
- e) Company performance and profitability

### **6. Objectives should be:**

- a) Realistic, Time Constrained, Concrete, Relevant
- b) Smart, Meaningful, Actionable, Collective
- c) Achievable, Concentrated, Supportive, Management-driven
- d) Measurable, Actionable, Specific, Controllable
- e) None of the above

**7. When implementing a business plan, which of the following questions must be answered?**

- a) Can we do it?
- b) How will we do it?
- c) Where will resources be allocated?
- d) What systems require fine-tuning?
- e) B and C

**8. Profitability takes into account which of the following factors?**

- a) Return on Capital Invested
- b) Return on Equity
- c) Financial Leverage
- d) Return on Assets
- e) All of the above

**9. Which of the following statements best resembles an effective value proposition for an iPod MP3 player?**

- a) An iPod costs between \$100-\$500.
- b) iPod is the industry standard MP3 player, although it is functionally the same as all other MP3 players
- c) The iPod is the cornerstone Apple Inc.'s powerful brand. It offers unsurpassed memory, an intuitive user interface, and is supported by the largest online music distribution portal, iTunes and Apple Store retail locations, together providing value that no other MP3 can offer
- d) The iPod delivers value to users because of its emotional benefits – everyone has an iPod
- e) None of the above

**10. Which of the following are elements of the value proposition?**

- a) Brand Benefits
- b) Emotional Benefits
- c) Customer Benefits
- d) Two of the above
- e) None of the above

**11. A positioning statement should include which of the following?**

- a) Target market
- b) Customer need
- c) Demonstrating a solution to the customer need
- d) Key benefits provided
- e) All of the above

**12. Which of the following does NOT qualify as an operating expenditure?**

- a) Employee salaries/ wages
- b) Franchise fee
- c) Cost of raw materials
- d) Leasing space for a billboard
- e) Running a 6 month long advertising campaign

**13. Which of the following does NOT describe strategy?**

- a) Guiding the direction of the firm and determining its long – term performance
- b) Focusing the firm’s vision on an opportunity in the marketplace
- c) Assessing whether the firm has the competencies and resources to compete in the target market
- d) Reacting to a competitor’s product launch**
- e) All of the above describe strategy

**14. Which of the following statements best describes what business is about?**

- a) Business is about producing and distributing goods and services
- b) Business is about making profit, and increasing shareholder wealth
- c) Business is about delivering value to customers in a manner that meets their wants and desires**
- d) Business is about managing the environmental and social impact of its actions on stakeholders
- e) All of the above are effectively describe the purpose of a business

**15. Which of the following statements best describes the notion of competitive advantage?**

- a) An advantage an organization has over its competitors that provides some form of revenue, cost, or customer benefit**
- b) Having more effective cost control systems in place than the competition
- c) More effective customer retention than competitors
- d) Competitive advantage refers to the ability to generate greater sales than a competitor because of brand benefits
- e) Greater operational efficiency than the competition, enabling the organization to create more outputs with fewer inputs.