|  |
| --- |
| **BUSINESS PLUG-IN B1**  **Business Basics** |

**LEARNING OUTCOMES**

* 1. **Define the three common business forms.**
* **Sole proprietorship -** The sole proprietorship is a business form in which a single person is the sole owner and is personally responsible for all the profits and losses of the business.
* **Partnership -** Partnerships are similar to sole proprietorships, except that this legal structure allows for more than one owner. Each partner is personally responsible for all the profits and losses of the business.
* **Corporation -** The corporation is the most sophisticated form of business entity and the most common among large companies. The corporation (also called, organization, enterprise, or business) is an artificially created legal entity that exists separate and apart from those individuals who created it and carry on its operations. In a corporation, the business entity is separate from the business owners.
  1. **List and describe the seven departments commonly found in most organizations.**
* **Accounting** provides quantitative information about the finances of the business including recording, measuring, and describing financial information.
* **Finance** deals with the strategic financial issues associated with increasing the value of the business, while observing applicable laws and social responsibilities.
* **Human resources management (HRM)** includes the policies, plans, and procedures for the effective management of employees (human resources).
* **Sales** is the function of selling a good or service and focuses on increasing customer sales, which increases company revenues.
* **Marketing** is the process associated with promoting the sale of goods or services. The marketing department supports the sales department by creating promotions that help sell the company’s products.
* **Operations** **management** is the management of systems or processes that convert or transform resources into goods and services. Transportation (also called logistics) is part of operations management.
* **Management** **information** **systems** (**MIS**) is a general name for the business function and academic discipline covering the application of people technologies, and procedures—collectively called information systems—to solve business problems.

**CLASSROOM OPENER**

**Forbes Business**

From recent grads to senior managers, Forbes.com offers an overview of business basics. The site offers several video clips on introducing business.

<http://www.forbes.com/2005/10/26/careers-work-executives-05bizbasicsland.html>

**CLASSROOM EXERCISE**

**Diagram a Business**

Break your students into groups and ask them to choose a business to analyze. Have them begin by answering the following questions:

* What is the business type?
* How does the business operate?
* What is the primary product or service the business sells?
* How does each department contribute to selling the product and meet the business goals?

Once the students understand the business ask them to diagram the business showing all departments along with the flow of information.

**CORE MATERIAL**

The core chapter material is covered in detail in the PowerPoint slides. Each slide contains detailed teaching notes including exercises, class activities, questions, and examples. Please review the PowerPoint slides for detailed notes on how to teach and enhance the core chapter material.

**CLOSING CASE ONE**

**Battle of the Toys – FAO Schwartz is Back!**

1. **Why did FAO Inc. have to declare bankruptcy?**

FAO Schwartz did not keep up with the changing landscape of business. Businesses today can compete on price, customization of products, and a number of other factors not possible a decade ago. Wal-Mart and Target offer toys at discounted prices that are almost impossible to match. FAO Schwartz was selling the same toys at much higher prices causing the business to eventually declare bankruptcy.

1. **Describe the issues with FAO’s original business model.**

The company failed to embrace technology and the competitive environment offered by the Internet and was selling common products that can be found at any toy store or retail store such as Target and Wal-Mart. The new business strategy offers customers – local, visitors, and Internet – a unique shopping experience in which they can spend thousands of dollars or just twenty, but still purchase an exclusive item (something not available at Target and Wal-Mart).

1. **Identify the toy retailer’s new business model. Do you believe it will keep the new company in business? Why or why not?**

The company has learned from its previous mistakes and is moving forward with a new business strategy of offering high-end, hard-to-find toys along with outstanding customer service.

FAO’s new business strategy does not guarantee success. Wal-Mart is an expert at supply chain management and can sell toys far cheaper than any of its competitors. Target is close behind. The unique and customizable toys featured at FAO Schwartz will have to be enough of a competitive advantage to keep customers returning. At this point, it is difficult to tell if the company has changed enough to remain competitive.

1. **What strategy can Toys `R’ Us follow that will help it compete with big discount chains like Wal-Mart and Target?**

Toys ‘R’ Us either needs to find a way to differentiate its products from those available at Wal-Mart and Target or find a way to compete on price. Offering unique customizable products such as FAO Schwartz has done is one way for Toys ‘R’ Us to differentiate itself in the marketplace.

**CLOSING CASE TWO**

**Innovative Business Managers**

1. **Choose one of the companies listed above and explain how it has achieved business success.**

Answers to this question will vary. The important part of the answer is the student’s justification as to why the company has achieved business success.

1. **Why is it important for all of DreamWorks’ functional business areas to work together? Provide an example of what might happen if the DreamWorks marketing department failed to work with its sales department.**

If the functional business areas of an organization do not work together the business will remain siloed and gaining an enterprise wide view of the organization would be impossible. Sales must work with marketing to determine which incentives and discounts should be offered. Accounting must work with finance to make solid strategic decisions. MIS must work to support all of the departments across the organization.

***Sales*** is the function of selling a good or service and focuses on increasing customer sales, which increases company revenues. A salesperson has the main activity of selling a product or service. Many industries require a license before a salesperson can sell the products, such as real estate, insurance, and securities.

***Marketing*** is the process associated with promoting the sale of goods or services. The marketing department supports the sales department by creating promotions that help sell the company’s products. Marketing communications seek to build product or service awareness and to educate potential consumers on the product or service.

If sales and marketing failed to communicate and work together the marketing department might develop products and discounts that did not correlate to what was occurring in the field and what the salespersons were actually selling. Sales might sell products that are not developed or offer discounts that are too low causing the firm to lose money. At DreamWorks, the marketing department could market a film that the sales department had not heard about and was unprepared to sell.

1. **Why is marketing important to an organization like the Boston Red Sox? Explain where Major League Baseball is in the product life cycle.**

Every organization needs marketing to remain successful. Without marketing the company would have a difficult time attracting and retaining customers. The Boston Red Sox is a business and just like any other business it required marketing to keep it running. MLB is in the maturity stage of the product life cycle. As more and more sports offer customers a new experience, such as new indoor football teams, lacrosse teams, soccer teams, the MLB market share is maturing and possibly beginning to decline.

1. **Which types of financial statements are most important to Home Depot’s business?**

All types of financial statements are important to Home Depot’s business. Without financial statements it would be impossible to determine how the organization is performing.

1. **Identify the marketing mix and why customer segmentation is critical to PepsiCo’s business strategy.**

The classic components of marketing include the four Ps in the marketing mix: product, price, place, and promotion. The marketing mix includes the variables that marketing managers can control to best satisfy customers in the target market.

1. **Product** – the physical product or service offered to the consumer. Product decisions include function, appearance, packaging, service, warranty, etc.
2. **Price** – takes into account profit margins and competitor pricing. Pricing includes list price, discounts, financing, and other options such as leasing.
3. **Place** (distribution) – associated with channels of distribution that serve as the means for getting the product to the target customers. Attributes involved in place decisions include market coverage, channel member selection, logistics, and levels of service.
4. **Promotion** – related to the communication and selling to potential consumers. An organization can perform a break-even analysis when making promotion decisions. If an organization knows the value of each customer, it can determine whether additional customers are worth the coast of acquisition. Attributes involved in promotion decisions involve advertising, public relations, media types, etc.

Market segmentation is the division of a market into similar groups of customers. It is not always optimal for an organization to offer the same marketing mix to vastly different customers. Market segmentation makes it possible for organizations to tailor the marketing mix for specific target markets, hence better satisfying its customer needs. Not all attributes of the marketing mix need to be changed for each market segment. For example, one market segment might require a discounted price, while another market segment might require better customer service. An organization uses marketing research, market trends, and managerial judgment when deciding the optimal way to segment a market. PepsiCo needs to understand its different market segments to create products that fit each segment such as Diet Pepsi vs. Pepsi.

1. **Explain business process reengineering and how a company like GE can use it to improve operations.**

A ***business*** ***process*** is a standardized set of activities that accomplishes a specific task, such as processing a customer’s order. ***Business process reengineering (BPR)*** is the analysis and redesign of workflow within and between enterprises. In business process reengineering, the project team starts with a clean sheet of paper and redesigns the process to increase efficiency and effectiveness. GE can use BPR to create best-in-class processes giving it a competitive advantage over its competition.

**MAKING BUSINESS DECISIONS**

**Instructor Note**: There are few right or wrong answers in the business world. There are really only efficient and inefficient, and effective and ineffective business decisions. If there were always right answers businesses would never fail. These questions were created to challenge your students to apply the materials they have learned to real business situations. For this reason, the authors cannot provide you with one version of a correct answer. When grading your students’ answers, be sure to focus on their justification or support for their specific answers. A good way to grade these questions is to compare your student’s answers against each other.

1. **SETTING UP A BUSINESS**

**Project Purpose:** To understand the different types of businesses.

**Potential Solution:** An LLC is probably the best business for Lindsay to start since it protects her from liabilities.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Sole Proprietorship** | **Partnership** | **Corporation** |
| **Licensing** | Local license, $25–$100 | Partnership agreement, legal fees | Articles of incorporation through the Secretary of State |
| **Income** | Business flows directly into personal income | Distributions taken by partners, as agreed by partners | Business and personal earnings separate, depending on corporate structure |
| **Liability** | Owner is liable | Owners are liable | Only business is liable |

1. **GUEST LECTURING ON BUSINESS**

**Project Purpose:** To understand how organizations are structured and the different departments work together.

**Potential Solution:** The following departments are found in most organizations:

* Accounting provides quantitative information about the finances of the business including recording, measuring, and describing financial information.
* Finance deals with the strategic financial issues associated with increasing the value of the business, while observing applicable laws and social responsibilities.
* Human resources management (HRM) includes the policies, plans, and procedures for the effective management of employees (human resources).
* Sales is the function of selling a good or service and focuses on increasing customer sales, which increases company revenues.
* Marketing is the process associated with promoting the sale of goods or services. The marketing department supports the sales department by creating promotions that help sell the company’s products.
* Operations management (also called production management) includes the methods, tasks, and techniques organizations use to produce goods and services. Transportation (also called logistics) is part of operations management.
* Management information systems (MIS) is the function that plans for, develops, implements, and maintains IT hardware, software, and applications that people use to support the goals of an organization.

It is important that all of the departments work together and are not siloed. Processes and business activities operate across departments or enterprisewide. For this reason alone, the different departments must work together to complete business processes and activities.

1. **EXPANDING MARKETS**

**Project Purpose:** To analyze market share.

**Potential Solution:** Measuring the proportion of the market that a firm captures is one way to measure a firm’s performance relative to its competitors. This proportion is the firm’s market share and is calculated by dividing the firm’s sales by the total market sales for the entire industry.

**Reasons to Increase Market Share**

* Economies of scale—an organization can develop a cost advantage by selling additional products or higher volumes.
* Sales growth in a stagnant industry—if an industry stops growing, an organization can increase its sales by increasing its market share.
* Reputation—a successful organization with a solid reputation can use its clout to its advantage.
* Increased bargaining power—larger organizations have an advantage in negotiating with suppliers and distributors.

**Ways to Increase Market Share**

* Product—an organization can change product attributes to provide more value to the customer. Improving product quality is one example.
* Price—an organization can decrease a product’s price to increase sales. This strategy will not work if competitors are willing to match discounts.
* Place (Distribution)—an organization can add new distribution channels. This allows the organization to increase the size of its market, which should increase sales.
* Promotion—an organization can increase spending on product advertising, which should increase sales. This strategy will not work if competitors also increase advertising.

**Reasons Not to Increase Market Share**

* If an organization is near its production capacity and it experiences an increase in market share, it could cause the organization’s supply to fall below its demand. Not being able to deliver products to meet demand could damage the organization’s reputation.
* Profits could decrease if an organization gains market share by offering deep discounts or by increasing the amount of money it spends on advertising.
* If the organization is not prepared to handle the new growth, it could begin to offer shoddy products or less attentive customer service. This could result in the loss of its professional reputation and valuable customers

1. **SEGMENTING CUSTOMERS**

**Project Purpose:** To understand what marketing segmentation is and why organizations use them in product development and marketing.

**Potential Solution:** Market segmentation is the division of a market into similar groups of customers. It is not always optimal for an organization to offer the same marketing mix to vastly different customers. Market segmentation makes it possible for organizations to tailor the marketing mix for specific target markets, hence better satisfying its customer needs. Not all attributes of the marketing mix need to be changed for each market segment. For example, one market segment might require a discounted price, while another market segment might require better customer service. An organization uses marketing research, market trends, and managerial judgment when deciding the optimal way to segment a market. Market segmentation typically includes:

* Geographic segmentation—based on regional variables such as region, climate, population density, and population growth rate.
* Demographic segmentation—based on variables such as age, gender, ethnicity, education, occupation, income, and family status.
* Psychographic segmentation—based on variables such as values, attitudes, and lifestyles.
* Behavioral segmentation—based on variables such as usage rate, usage patterns, price sensitivity, and brand loyalty.

|  |  |  |
| --- | --- | --- |
| **Brand** | **Product Type** | **Demographic Marketing Segment** |
| Juicy Fruit | Sugar flavor | Children through Adults |
| Spearmint | Mint flavor | Adults |
| Extra | Sugar-Free | Adults |
| Big Red | Cinnamon | Adults |
| Hubba Bubba | Sugar | Children |

1. **PRODUCT LIFE CYCLE**

**Project Purpose:** To understand how a product’s place in the life cycle can impact sales and revenues.

**Potential Solution:** The product life cycle includes the four phases a product progresses through during its life cycle including introduction, growth, maturity, and decline. An organization’s marketing of a product will change depending on its stage in the product life cycle. An organization can plot a product’s profits as a function of the product life cycle. Laundry detergent is in the maturity/decline stage of the product life cycle. Entering the market at this point of time is risky. There are many established brands and loyal customers. Carl should think twice about entering this mature market.

1. **REDESIGNING A BUSINESS**

**Project Purpose:** To mitigate risk.

**Potential Solution:** A business process is a standardized set of activities that accomplishes a specific task, such as processing a customer’s order. Business process reengineering (BPR) is the analysis and redesign of workflow within and between enterprises. In business process reengineering, the project team starts with a clean sheet of paper and redesigns the process to increase efficiency and effectiveness. The project team does not take anything for granted and questions all the aspects of the process and the business. The reengineering project team obtains dramatic process improvement by redesigning processes that cross departments. Most of the major opportunities for process improvement exist in cross-departmental processes. Information technology usually plays a key role in process improvement by making possible a radically faster and almost paperless process. However, IT is only an enabling factor. It will take the work of all employees to make true BPR a success.