IB Business Notes

Content

1.0 Business organization and environment

1.1 Introduction to business and management

- Input -> process -> Output
  - **Input**: Resources and raw materials
    - **Human:** right quantity and quality of people required to make product or service
    - **Physical:** right quantity and quality of materials, machinery and land to make product or service
    - **Financial:** right quantity and quality of cash or other forms of money used to make product or service.
    - **Enterprise:** Business idea
  - **Production:** process of creating product or service
    - **Capital intensive:** use of large proportion of land or machinery
    - **Labour intensive:** use of large proportion of labour
  - **Product:** output
    - **Good**: tangible (can be touched)
      - **Primary sector:** Raw materials
      - **Secondary sector:** Processed raw materials
    - **Service**: intangible (can't be touched)
      - **Tertiary sector:** Services (such as banking, insurance…)
      - **Quaternary sector:** Specialized services (such as media and web based)
- **Role of business departments:**
  - **HR:** Ensuring the right people are employed
  - **Finance and Accounts:** Ensuring the appropriate funds are made available to make the product or service
  - **Marketing:** Making sure the business offers the right product or service to the right customers
  - **Operations and management or production:** ensuring the right process is used in order to make the product or service
- **Integration**: business growth strategy
  - **Vertical**:
    - **Backward vertical**: when a business purchases another business that produces something that they sell (for example: when a potato chip shop buys farm where the potatoes are made)
    - **Forward vertical:** when business purchases another business that sells what they produce (for example: when a potato farm buys the potato chip shop)
  - **Horizontal**: when a business merges or acquires another business that is doing the same thing
- **Entrepreneurship**: individuals that are self-employed and are risk takers as they exploit business opportunities to make a profit
- **Intrapreneurship**: individuals that sell their business idea and are employed by a larger business.
- **Reasons to start a business**: reward, independence, necessity, challenge, interest, finding a gap, and sharing an idea
- **Process of starting up a business**:
  1. Organizing the basics: What is the business going to be?
  2. Researching the market: Market research
  3. Planning the business: Make a business plan
  4. Establishing legal requirements: Making sure the business is legal and taking legal actions
  5. Raising the finance: Get money to star-up the business

6. Testing the market: Start the business and see how it goes.
   - **Problems with start-ups:**
     - Not many customers
     - Lack of name recognition
     - Not much capital
     - Hard to find support
   - The elements of a business plan (6):
     - Business idea, aims and objectives
     - Business organization
     - HR
     - Finance
     - Marketing
     - Operations

1.2 Types of businesses organizations

- $Profits = total\ revenue - total\ costs$
  - **Profits**: financial gains of a business
  - **Total revenue**: total cost of product or service
  - **Total costs**: total finance needed to produce the product or the service
- **Sole trader:** individual that starts up his/her one business and thus they are their own boss (they can still employ)
  - **Advantages**:
    - Full control over the business
    - There is a lot of flexibility and privacy
    - Close to customer
    - Not many legal formalities
  - **Disadvantages**:
    - Competition is hard and thus stressful
    - Owner has **unlimited liability** (= full responsibility over business thus there is no limit to what can be taken from you)
    - Lack of continuity in case of a problem
    - Limited opportunity of expansion
- **Partnership**: Business owned and controlled by two or more people (up to 20)
  - **Sleeping partner**: provides finance and gets a percentage of the profit but doesn't do anything else
  - **Advantages**:
    - There is more expertise between the partners
    - They can help each other in case of emergencies
    - Higher chance of continuity compared to sole trades
  - **Disadvantages**:
    - Unlimited liability
    - Compared to companies: lower continuity and access to finance
    - Profit has to be shared between partners that may disagree
- **Companies (corporations):** it is when the liability of the business is distinct from the liability of who owns it (thus they have limited liability)
  - Company can be:
    - **Private limited company**: Business owned by shareholders with shares that cannot be bought by or sold to the general public.
    - **Public limited company**: business owned by shareholders with shares that can be bought in the stock exchange
  - **Shareholders**: Owners of the business

- **Shares**: fractions of the company that are sold on the stock exchange (market)
- **Dividends**: Distribution of earnings to shareholders
- Advantages:
  - Accessing finance is usually easy
  - Limited liability: can lose value of shares
  - There is continuity as there are usually many owners
  - If new shares are sold the managers stay in the same place
- Disadvantage
  - In order to create a company money and time is necessary
  - Owners risk complete loss of control of the business
  - Loss of privacy
  - No control of the stock market

- For-profit social enterprise: business that has a social purpose
  - Its aim takes priority over making a profit as it wants to improve human, social or environmental well being
    - Advantage:
      - Anyone can engage in activities
      - Employees know they are doing good
      - They help government and stakeholders because they solve community problems
    - Disadvantage:
      - Decision making Is complex and time consuming
      - Since it is not profit based there is not always enough capital to expand
      - Not always enough financial strength
  - Cooperatives: it is a form of partnership that can have more than 20 members
    - Financial cooperative: lending money at lower rates of interest
    - Housing cooperative: own an apartment where each member owns his/ her own unit
    - Workers cooperative: business operated by the workers
    - Producer cooperative: maximize the use of expensive equipment
    - Consumer cooperative: provides service to a consumer that is also an owner
  - Micro-financiers: the aim is to provide finance to those two traditionally would not have access to it with low interest rates (it is to low-income individuals, rural communities…)
  - Public-private partnership (PPP): Businesses that constructs facilities that have a social aim (school, hospitals…)
    - Profit is not the main aim
    - There is collaboration between the business and the local community
    - Decision making is transparent
- Non- profit social enterprise: the main aim is for a social purpose and it is different from for-profit because it doesn't generate profit but surplus ($total\ reveues - total\ costs = surplus$)
  - Advantages:
    - It helps people or causes in need
    - The positive attitudes improve the business climate
    - They help the surrounding community
  - Disadvantages:
    - Funding is irregular as it vastly depends on donations
  - Non- governmental organization (NGO): its aim is to support a cause that is considered socially desirable

- **Charities**: the aim is to provide help to those in critical need of it and they differ from NGO because they help those who can't help themselves

1.3 Types of businesses organizations

- **Vision and Mission statement:**
  - **Vision**: long-term aims and highest aspirations of the business and it should never change (motivates employees)
  - **Mission**: short-term aims to accomplish objectives to achieve the vision statement (it can change)
- **Objectives**: medium to short term goals that clarify how the business will achieve its aim
    - **Strategic**: set by senior managers to achieve its aims (long to medium term goals)
    - **Tactical**: set by managers to achieve the strategic objectives (medium to short term goals)
    - **Operational**: set by floor managers to achieve the tactical objectives (day-to-day objectives)
  - SMART objectives
    - S: specific
    - M: measurable
    - A: achievable
    - R: Relevant
    - T: Time-specific
- **Business strategy**: A plan to achieve a strategic objective in order to work towards the aims of the business
- **Ethical objectives**: goals that are based on codes of behaviours that do good
  - Advantages:
    - Build up customer loyalty
    - Create a positive image for business
    - Positive work environment
    - Satisfied customers
    - Thus increase in profit
- **Corporate social responsibility (CSR):** when a business takes measures in order to be more ethical and be considered a role model in this sector
  - Different from ethical objectives because it is a commitment the business makes
- **Change of objectives:** businesses grow and have to change objectives due to
  - **Internal environment**:
    - Leadership
    - HR
    - Organization
    - Product
    - Finance
    - Operations
  - **External environment** (**STEEPLE**):
    - Social: changes in society or culture
    - Technology: Innovation
    - Economy: Changes in the market conditions
    - Ethical: changes in values of society
    - Political: changes in political system
    - Legal: changes in legislation
    - Ecological: changes in environmental awareness

- SWOT analysis: Helps to brainstorm objectives (**Qualitative** form of research= doesn't use numerical data)
  - SWOT matrix:

	Positive factors	Negative factors
Internal to business	Strengths	Weaknesses
External to business	Opportunities	Threats

- Strengths: Positive things that the business controls
- Opportunities: Positive things that the business can't control
- Weaknesses: Negative aspects that business has control over
- Threats: Negative aspects that the business doesn't have control overs

  - Market position:

	Strengths	Weaknesses
Opportunities	Growth strategies	Re-orientation strategies
Threats	Defusing strategies	Defensive strategies

- Growth strategy: Strategy business uses when it knows that it has no big issue (short- term)
- Re-orientation strategies: Addresses weaknesses to use them for the opportunities in the market (long term)
- Defusing strategies: focuses on strengths of the business to eliminate the threats (medium to short term)
- Defensive strategies: business is very vulnerable and needs to survive (short term)

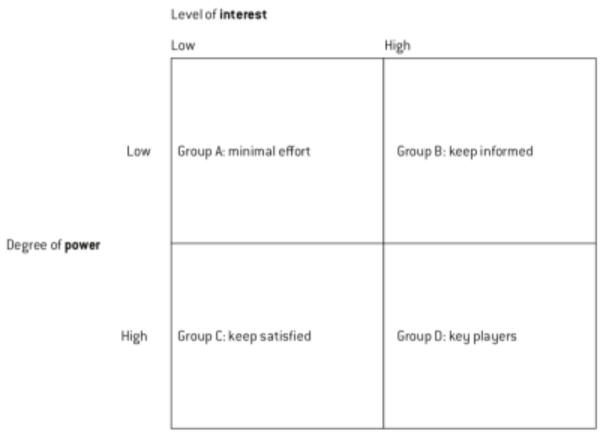
- Ansoff matrix: It is an Analytical tool and looks at the growth potential of business (qualitative)

		Product	
		Existing	**New**
Market	**Existing**	Market penetration	Product development
	New	Market development	Diversification

  - **Market penetration:** Sell more of the same product
  - **Market development:** Sell more of the same product to a different market
  - **Product development:** Sell a different product to the same market
  - **Diversification:** completely different product to a completely different market

1.4 Stakeholders

- Stakeholders: Individuals/group that have a direct interest in a business as the actions of the organization affect them
  - Internal: individuals or groups that work within a business
    - Shareholders, managers, employees…
  - External: individuals or groups that are outside the business
    - Government, suppliers, customers, media…
  - competitors are not stakeholders
- Stakeholder analysis: divides stakeholders based on how "close" they are to decision making (right)
  - Stakeholder mapping:
    - Power-interest model: puts stakeholders in group based on their level of interest in the business and their degree of power

- 

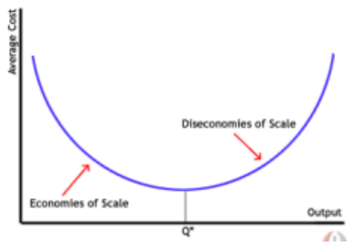
  - Group A: Minimal effort -> Low interest and power
  - Group B: Keep informed -> high interest and low power
  - Group C: Keep satisfied -> low interest and high power
  - Group D: Key players -> high interest and power

1.5 External Environment

- Environment: It refers to the conditions that are external to the business
- STEEPLE: Elements of an external environment
  - S: Social
  - T: Technological
  - E: Economic
  - E: Ethical
  - P: Political
  - L: Legal
  - E: Ecological

1.6 Growth and Evolution

- Scale operations: it is the size or volume of the output that a business produces
  - $Total\ costs = \ fixed\ costs + variable\ costs$ $(TC = FC + VC)$, TC are all the costs that a business has to produce a product, FC are the costs that do not change as the production changes, and VC are the costs that change as production changes
  - $Average\ cost\ per\ unit = \frac{total\ cost}{quantity\ produced} = \frac{fixed\ costs + variable\ costs}{quantity\ produced}$ $(AC = \frac{TC}{Q})$
- Economies and diseconomies of scale:
  - **Economies of scale:** Reduction of the average cost per unit as the scale of the production increases (**Optimum production**= when business reaches its lowest cost of production per unit possible)



    - Internal economies of scale (6): Efficiencies that the business can itself make
      - Technical: bigger units of production can reduce the costs because of the **law of variable proportions** (=when the business has its variable costs spread against set of fixed costs)
      - Managerial: as the business expands it has the opportunity of having specialized employees
      - Financial: bigger businesses are less in risk compared to small ones
      - Marketing: more effective marketing
      - Purchasing: businesses are given discounts because of **bulk buying** (=by buying in large quantities the business gains discounts)
      - Risk baring: businesses can **hedge their bets** (=when they have a large product range so if one fails it is ok because they have many others)

        - External economies of scale:
            - Consumers
            - Employees: higher concentration of employees in areas
    - Diseconomies of scale: Increase of the average cost per unit as the scale of production increases
- Big business:
    - Advantages:
        - Higher chance of surviving
        - Often reach economies of scale
        - Higher status
        - They have control over the markets
        - Easier access to finance compared to small ones
- Small business: businesses that offer high-end products tend to stay close to customers
    - Advantages:
        - Are more focused on what they believe in
        - Greater sense of exclusiveness
        - Employees are more motivated
        - More flexibility
        - Less competition
- Internal growth (organic growth) of a business (slower): Selling more products and developing them
- External growth (fast-track growth) of a business (quicker)
    - Merge and acquisition: when two businesses integrate or acquire another one (**takeover/hostile takeover**= when the acquisition is unwanted by the business that is being acquired)
        - Integration: Horizontal, and backward and forward vertical
        - Conglomeration: when two completely different businesses integrate
    - Joint venture: When two businesses combine resources for a specific goal during a time period, and as a result create a separate business
    - Strategic alliance: Two or more businesses working together to create a product or a project together
        - Different from Joint venture because:
            - More than two businesses can collaborate
            - No new business is formed
            - Businesses involved remain independent
    - Franchises: The right given by one business to another to sell their goods or service
        - Franchisee: the business that buys the right to sell the franchisors good/service
            - Advantages: the product is already known, set-up costs are reduced, and the format of selling is already established
            - Disadvantages: He/she has unlimited liability, have to pay the franchisor, and has little control on decisions (what to sell and supplies)
        - Franchisor: the business that gives the right to the franchisee to sell their product/service
            - Advantages: He/she gains access to big markets, doesn't assume risks of running the franchise, and gains more profit
            - Disadvantages: he/she loses some control of business, and can see its image suffer if it fails
- **Globalization**: the process by which the world's regional economies are becoming one integrated global unit