

IB Business Management HL

1.1 What is a Business?

CONTENTS

- The Nature of Business
- The four Business Sectors
- Entrepreneurship
- Starting up a Business

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The Nature of Business

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Creating Goods and Services

- The purpose of business activity can be broadly defined as the organisation of human, physical and financial resources to **produce goods or services** that **meet customer needs** while **adding value**

Produce goods or services

- The primary purpose of business activity is to **produce goods or services** that satisfy a need or demand in the market
 - **Goods** are tangible physical items capable of being stored such as cars or games consoles
 - **Services** such as insurance or hairdressing are intangible, cannot be stored and are provided to customers when they are needed

Meet customer needs

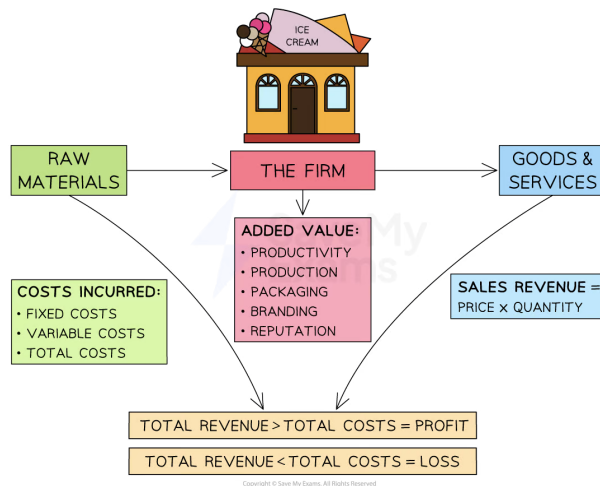
- The ultimate goal is to create products that **meet the needs and preferences of customers** and provide value to them
- By meeting customer needs, businesses can **build customer loyalty**, increase brand awareness, and generate revenue

Add value

- The third purpose of business activity is to add value to products or services
- Value-added features can differentiate products from competitors, create a unique selling proposition, and increase customer satisfaction
 - E.g. a product that is easier to use, has a better design, or is of higher quality than competitors can create a competitive advantage for a business

Business as a Transformation Process

- Businesses take **inputs** and **transform** them in order to produce **outputs** that customers will want to buy



The transformation process

- Thailand's Boon Rawd Brewery takes **inputs** including malts, hops and barley and uses the staff on the brewery premises in Bangkok as well as equipment such as mash tuns to **transform** by brewing these inputs into its **output** - beer
- Inputs** used in the transformation process can be classified as financial, human or physical resources as well as enterprise

An Explanation of the Resources used to Create Goods & Services

Resource Input	Explanation
Financial	<ul style="list-style-type: none"> Capital required to fund the production process <ul style="list-style-type: none"> Available cash (working capital) to purchase materials and pay bills Access to trade credit to improve cash flow Finance to purchase physical inputs (e.g. loans, owner's capital)
Human	<ul style="list-style-type: none"> Employees and managers to carry out and oversee production <ul style="list-style-type: none"> Suitably trained with relevant skills, qualifications or experience In sufficient quantity to meet output needs

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Physical	<ul style="list-style-type: none">• Materials, equipment and premises to use in production<ul style="list-style-type: none">◦ Enough space to produce and store inputs and outputs appropriately◦ Adequate and maintained machinery and technology infrastructure
Enterprise	<ul style="list-style-type: none">• A business idea and the desire to take the risk in turning it into a business idea

- The **transformation process** may require a **capital intensive** or a **labour intensive** approach
 - Capital intensive production is where the **proportion of machinery costs are higher** than any of the other resource inputs including labour
 - The generation of nuclear power is an example of a capital intensive process where a small number of workers oversee a large facility that is largely computer-controlled
 - Labour intensive production is where the **proportion of labour costs are higher** than the other resource inputs including machinery
 - The production of clothing remains a largely labour-intensive process, especially in countries where labour costs are relatively low such as south-east Asia

The Main Business Functions

- Businesses of all sizes have a range of **functions** that need to be take place in order for business activity to proceed
 - In **small businesses**, all of these functions are often all carried out by its **owner**
 - In **large businesses**, these functions are carried out by **departments** with their own targets that contribute towards the business achieving its overall objectives

An Explanation of each Business Function

Human Resources	Marketing
<ul style="list-style-type: none">• The Human Resources function is responsible for organising, managing and developing all of the human resources<ul style="list-style-type: none">◦ It identifies the quantity of workers needed as well as required skills◦ Recruitment and selection of suitable employees◦ Training and staff development◦ Career development and dismissal◦ Pay and conditions negotiations and other rewards◦ Health and Safety	<ul style="list-style-type: none">• The Marketing function is responsible for promoting the products/services and brand to attract and retain customers<ul style="list-style-type: none">◦ Market research to establish customer needs and wants◦ Development and implementation of appropriate marketing mix strategies<ul style="list-style-type: none">▪ promotion▪ price▪ place (including distribution)▪ product (including packaging)
Finance & Accounts	Operations

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- | | |
|---|---|
| <ul style="list-style-type: none">• The Finance function manages the financial resources and ensures financial stability• It includes:<ul style="list-style-type: none">◦ Securing external finance such as loans◦ Accurate record keeping of revenue and costs◦ Construction of annual accounts and period financial reports◦ Budgeting◦ Collecting and making payments<ul style="list-style-type: none">▪ wages, salaries and bonuses▪ customer and supplier invoices | <ul style="list-style-type: none">• The Operations function focuses on the efficient management of the core activities and production process required to deliver products or services• It includes:<ul style="list-style-type: none">◦ Managing the production process◦ Sourcing raw materials and components◦ Managing stock◦ Overseeing quality◦ Seek improvements to efficiency◦ Dealing with waste◦ Transportation and delivery of goods◦ Health and Safety |
|---|---|

- Larger business structures often include **other functional areas** such as
 - Administration
 - IT Support
 - Legal Services

The Interdependence of the Functions

- Although each function has its own targets they all work towards achieving the businesses overall objectives and are therefore **interdependent**
 - E.g. **Market research** conducted by the **marketing function** may identify a change in customer needs that requires the product to be adapted in order to remain competitive
 - The **finance and accounts** function allocates and monitors a **budget** for research and development
 - The **human resources** function organises **training** for workers to adapt their working methods to produce the redeveloped product
 - The **operations** function designs or **amends production processes** to manufacture the product



Exam Tip

The ability of these key functions to work interdependently towards the overall business objective is a crucial factor in business success. It is worthwhile looking for evidence in case studies to suggest whether this is – or is not – the case. You may consider some of the following questions.

- Has the **finance** function allocated sufficient funds for another function to achieve its targets? Have budgets been monitored effectively?
- Has the **human resources** function properly identified the quality and quantity of production workers required? Is training effective? Are workers given opportunities to develop?
- How well has the **marketing** function conducted, interpreted and communicated market research to the operations function? Are marketing strategies appropriate and within budget?
- Are **operations** processes appropriate to meet demand? Have staff training and development needs been communicated effectively with the human resources function? Has waste been properly accounted-for?

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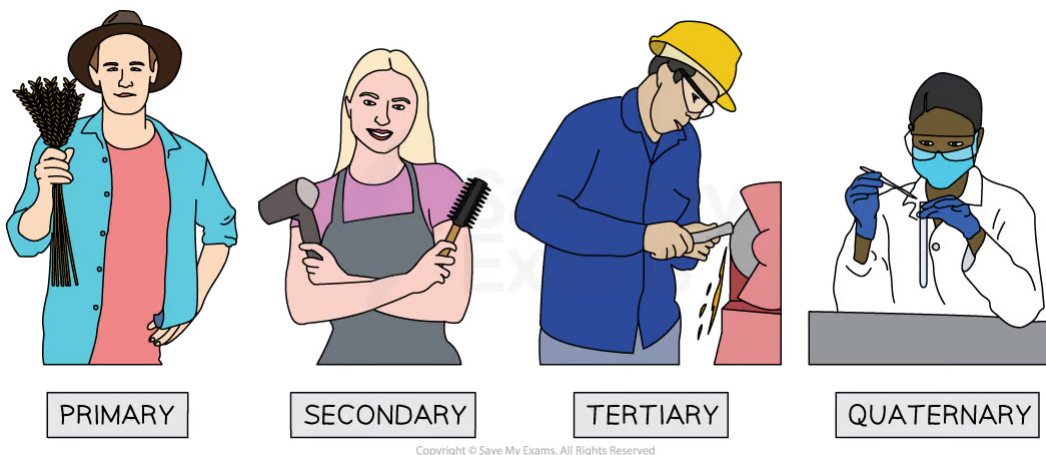
The four Business Sectors

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The Different Business Sectors

- Different businesses can be classified according to the **type of sector** in which they operate
- Classification into these sectors is a **simplified way of categorising industries**
 - It helps to provide a means of making comparisons between firms in the same sector
 - It does not capture the full complexity and interconnectedness of the business world
 - Many businesses operate across multiple sectors or may not fit neatly into a single category
- There are four main sectors of industry in which a business can choose to operate



The four sectors of industry

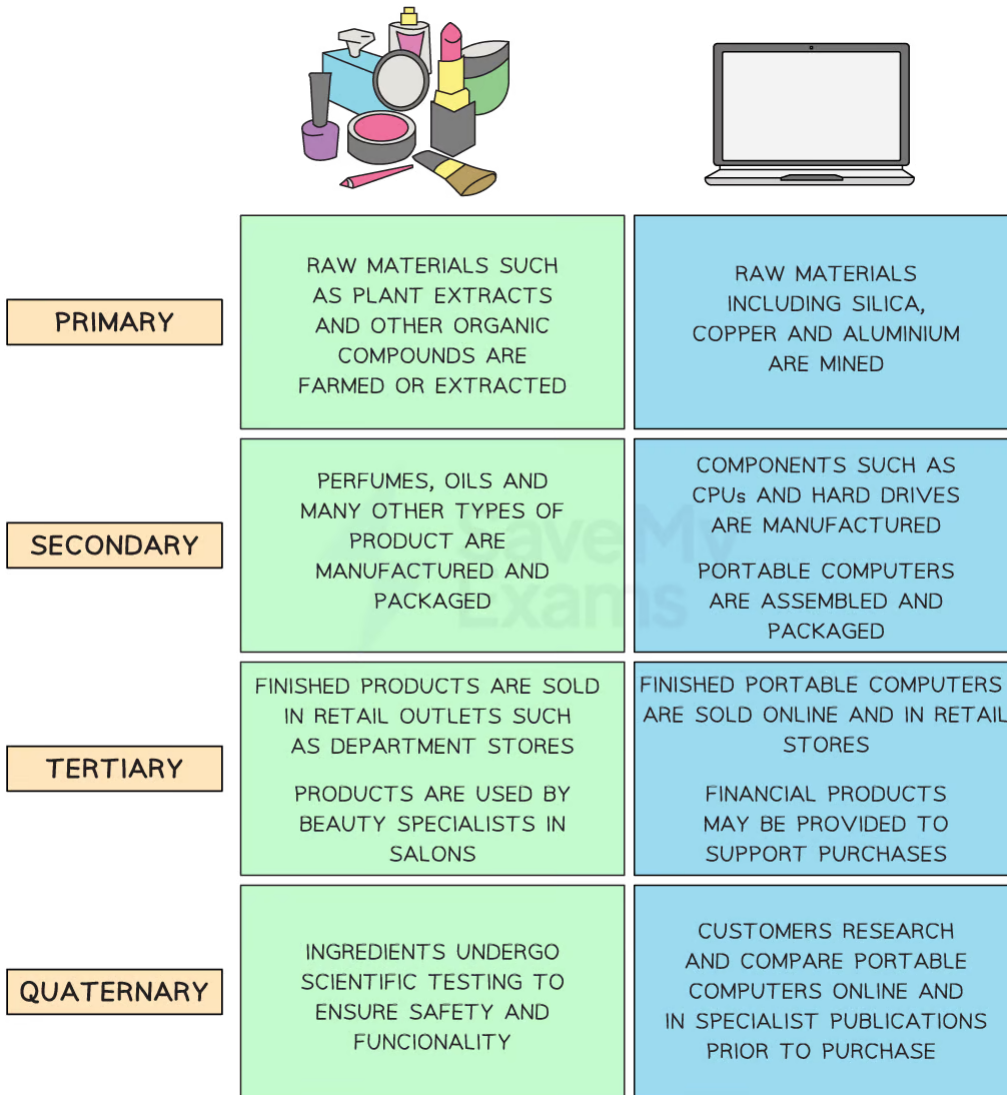
(Note: Secondary and Tertiary images are the wrong way around)

- The **primary** sector is concerned with the **extraction** of raw materials from land, sea or air such as farming, mining or fishing
- The **secondary** sector is concerned with the **processing** of raw materials such as oil refinement, and the **manufacture** of goods such as vehicles
- The **tertiary** sector is concerned with the provision of a wide range **services** for consumers and other businesses such as leisure, banking or hospitality
- The **quaternary** sector is concerned with the provision of **knowledge-focused services**, often related to IT technology, consultancy or research

The Chain of Production

- The four sectors are linked in the **chain of production** which is the series of steps taken to **turn raw materials into a finished product** that can be marketed and sold

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The chain of production in two different industries

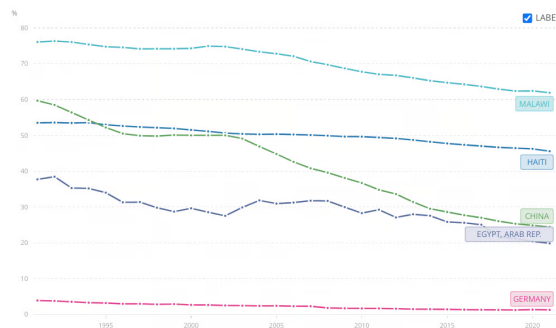


The Impact of Sectoral Change on Business Activity

- As economies **grow and develop**, many of the firms within that economy will **change their sector of operation** (sectoral change)
- Generally speaking, there are successively higher levels of profits to be made in **each subsequent sector**
 - The reason for this is that each sector **adds more value** than the previous sector
 - Higher added value equates to higher profits

Less developed economies

- A **less developed economy** will primarily be focused on the **primary sector** – with most people employed in agriculture and the production of food
 - There has been a global trend away from employment in primary sector industries over the last two decades
 - Only in the least developed nations is the proportion of the workforce employed in the primary sector consistently high
 - This is partly as a result of **lower participation rates in education** and a **lack of** infrastructure to support manufacturing or service provision



Employment in Agriculture in a Range of Economies since 1991

(Source: [WorldBank](https://www.worldbank.org))

Graph Analysis

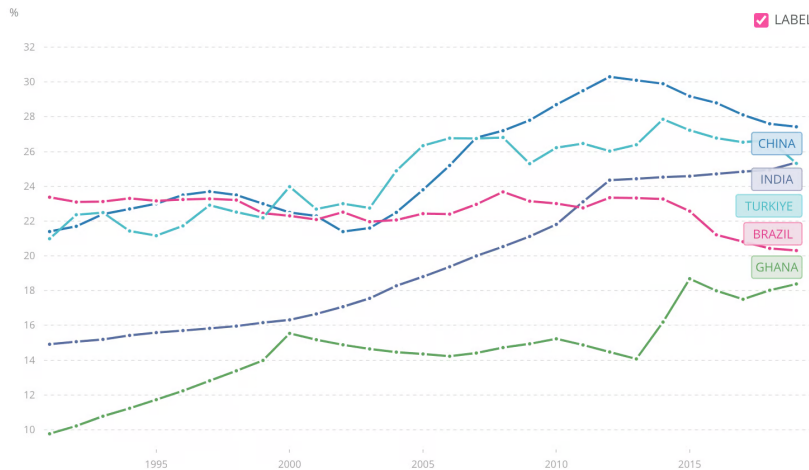
- From these countries, Malawi still retains the highest proportion of employment in the primary sector
- China has seen a significant decrease in primary sector activity
- Germany has had very low primary sector and will have likely been in manufacturing and services well before 1991

Emerging Economies

- In **emerging economies** improved technology enables less labour to be needed in the primary sector and more workers are involved in manufacturing



- The proportion of workers employed in manufacturing has risen over the last few decades
- Many businesses have relocated production facilities to take advantage of the **lower average wage rates** in these economies
- **Emerging economies** have experienced growth in the tertiary and quaternary sectors in recent years, with many businesses now focused on the provision of consumer services



Employment in industry in a range of economies since 1991

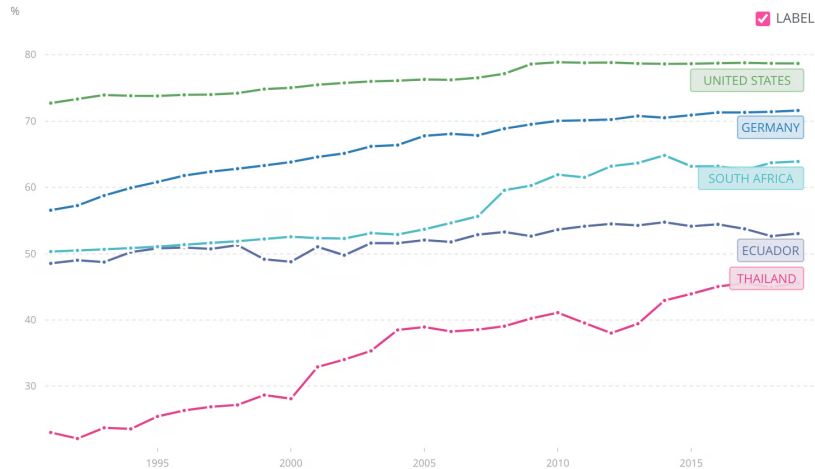
(Source: [WorldBank](https://www.worldbank.org))

Graph Analysis

- From these countries, China has the highest proportion of employment in the secondary sector
- Ghana and India have seen significant increases in secondary sector activity
- Brazil and Turkey's secondary sectors have remained relatively stable over the period 1991 to 2019

Developed economies

- The **most developed economies** have a very high proportion of the workforce employed in the provision of services, increasing focused on the quaternary sector
 - Developed economies use their wealth to fund advanced **education** and **higher-level skills training** which further supports the growth of these industries
 - Some **exceptions** such as Australia (viticulture, or wine production) and Norway (forestry and oil extraction) continue to have significant primary sectors



Employment in services in a range of economies since 1991

(Source: [WorldBank](https://www.worldbank.org))

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Graph Analysis

- The most developed countries have the highest proportion of their workforces employed in the service industry
- Thailand's service sector employees twice the number of employees in 2019 as it employed in 1991
- Around half of Ecuador's workforce is now employed in service delivery

Traditional Service Economy versus the Digital Service Economy

- The **traditional services sector** – bricks and mortar shops and face to face banking services, for example – is in **decline** across much of the developed world for several reasons
 - The development of the **internet** has provided a global platform for virtual storefronts which are increasingly able to provide many of the features of bricks and mortar stores
 - For example, some online clothing and accessories retailers allow customers to try on items virtually
 - Instant chat allows customers to ask questions and receive immediate responses
 - The increased use of **portable devices** such as mobile phones and tablet computers means that customers can access services offered by online providers anywhere
- The **digital service economy** is becoming more pronounced with some businesses maintaining both an online and digital presence (E.g. clothing retailers Zara and H&M)
- Others (e.g. Netflix) no longer having a physical presence but are providing intangible entertainment services online



Exam Tip

As economies develop, we see a movement away from the primary sector towards the secondary sector. Post-industrial economies are focused on the tertiary and quaternary sectors.

It is easy to assume that tertiary sector employment is higher-paid than jobs in the secondary sector. This is not necessarily the case. Value-added is certainly higher in most tertiary industries than in secondary sector industries but in many tertiary sectors (such as hospitality and healthcare) pay is very low and a cause for concern.

Portugal and Greece, whose economies depend upon tourism, as well as the UK suffer from low pay in the tertiary sector with many workers relying on government support to cover basic living costs.

In contrast, high-paid secondary sector engineering and construction sectors in economies such as Germany and Norway make employees in these economies some of the highest-paid in the world.

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Entrepreneurship

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The Role of Entrepreneurship in a Business

- Businesses are usually started by an **entrepreneur**
- An entrepreneur is a person who is **willing and able to create a new business idea** or invention and **takes risks** in pursuing success
- Successful entrepreneurs can identify and pursue opportunities, **create value for customers** and build thriving businesses

What do Entrepreneurs do?

What do they do?	Explanation
They organise resources	<ul style="list-style-type: none"> • An entrepreneur must be able to gather and coordinate the resources necessary to start and operate a business <ul style="list-style-type: none"> ◦ E.g. When Michael Dell started his computer company from his garage, he had to organise resources such as space, computers, software tools, and employees, and manage the finances
They make business decisions	<ul style="list-style-type: none"> • Entrepreneurs must be able to make decisions that will determine the success or failure of their business <ul style="list-style-type: none"> ◦ E.g. A restaurant owner may need to decide what type of food to serve, where to locate the restaurant, and what prices to charge. These decisions require a combination of market research, creativity, and business skill • Making the wrong decisions can lead to wasted resources, lost opportunities, and ultimately business failure
They take risks	<ul style="list-style-type: none"> • Entrepreneurship involves taking risks – financial, personal, or professional <ul style="list-style-type: none"> ◦ E.g. An entrepreneur may invest their life savings into a new venture or quit a secure job to start their own business • They may also take risks by introducing new products or entering new markets • These risks can pay off with great rewards, but they can also lead to failure and financial loss

- There are many examples of successful entrepreneurs who have been **brought in to run or expand an existing business**
- These individuals bring a unique **entrepreneurial spirit** into the business which helps to drive it forward and expand

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Examples of entrepreneurial CEOs

- **Howard Schultz** was hired by Starbucks in 1982 as Director of Retail Operations and Marketing. He later left to start his own coffee company but **returned to Starbucks** in 1987 as CEO. Under his leadership, **Starbucks expanded globally** and became one of the most recognised brands in the world
- **Marissa Mayer** was brought in to lead Yahoo! in 2012 as CEO. She implemented several initiatives to revitalise the struggling company, including acquisitions, product improvements, and a renewed **focus on mobile**



Exam Tip

Starting up and running a business isn't just a financial risk – it's hard work that often personally challenges even the most resilient individuals. It takes a special kind of person to become an entrepreneur.

Many entrepreneurs have to be prepared to take on a wide range of roles, at least initially, and will probably have to work very long hours. The need to earn a living whilst building a business is also likely to be a constant concern. Being responsible for every decision and picking themselves up after failure will be challenging.

Intrapreneurship

- **Intrapreneurship** refers to the practice of **promoting entrepreneurial thinking and behaviour** within an existing business
 - It involves empowering employees to **think and act like entrepreneurs**
 - The business encourages them to **take risks, innovate, and develop new ideas** and projects that may benefit the business
- Intrapreneurship allows businesses to **tap into the creative potential** of their employees and generate new products/services or processes that can drive growth and competitive advantage
- This helps to create a **culture** that generates a sense of ownership and engagement among employees which **increases motivation** and helps to retain top talent
- To promote intrapreneurship businesses may provide resources to employees or offer **incentives/rewards** for successful projects

Examples of Intrapreneurship in Business

Example	Explanation
Google	<ul style="list-style-type: none">• In 2004, Google introduced Gmail, a free email service that quickly gained popularity due to its large storage capacity and intuitive interface• Gmail was developed by a team of Google employees as part of the company's "20% time" policy, which allows employees to spend 20% of their work time on personal projects• Gmail became a huge success and is now one of the most widely used email services in the world
Sony Playstation	<ul style="list-style-type: none">• In the early 1990s, a group of engineers at Sony proposed the idea of creating a video game console to compete with Nintendo and Sega• The proposal was initially rejected by senior management. The engineers persisted and a senior executive supported them• Sony PlayStation was launched in 1994 and quickly became one of the most popular gaming consoles of all time

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3M

- **3M's "15% rule"** is a policy that allows employees to spend up to 15% of their work time pursuing projects outside of their normal job
- **Post-It Notes** were developed by two employees, Spencer Silver and Art Fry
- Post-It Notes were initially marketed as a solution for bookmarking pages in books, but they quickly became popular for all sorts of purposes
- Today they generate **billions of dollars** in annual revenue for 3M

**Exam Tip**

Intrapreneurship requires **encouragement to grow** within a business – it doesn't 'just happen'.

- Senior management needs to lead by example, be prepared to delegate and provide support for employees through mentoring or teamworking opportunities, for example
- Innovation and problem-solving should be rewarded either financially or with other appropriate incentives
- Key decision makers need to ensure that employees have the resources to allow them to unleash their innovative ideas

Overall a business culture that encourages intrapreneurship is essential – and this, in itself, isn't easy to create!

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Characteristics & Skills Required by Entrepreneurs

- Entrepreneurs require a **unique set of characteristics and skills**

SKILLS	CHARACTERISTICS
<ul style="list-style-type: none">◦ COMMUNICATION◦ TEAM WORKING◦ PROBLEM SOLVING◦ ORGANISATION◦ NUMERACY◦ INFORMATION TECHNOLOGY	<ul style="list-style-type: none">◦ CREATIVITY◦ HARD WORKING◦ RESILIENCE◦ INITIATIVE◦ SELF CONFIDENCE◦ RISK TAKER

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The skills and characteristics required by entrepreneurs

- Perhaps one of the most valuable skills of an entrepreneur is the ability to **communicate persuasively**
 - Persuade potential financial backers of the merits of their idea
 - Persuade people to join them in creating the product/service
 - Persuade customers of the value of their product/service
- All of the skills work together to **create and drive an innovative idea** towards success

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Starting up a Business

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Reasons for Starting up a Business

- People set up businesses for a variety of reasons

Financial Reasons for Setting up a Business

Financial Reasons	Explanation	Example
Necessity	<ul style="list-style-type: none"> • Following redundancy or changes in personal circumstances an individual may decide to start their own business to provide stability or flexibility and income 	<ul style="list-style-type: none"> • Following the sudden death of her entrepreneur husband, Sandra Chandler took over the running of his sport coaching business RuggerEds and has led the business to significant growth
Profit maximisation	<ul style="list-style-type: none"> • People want to create a profitable business that generates substantial revenue and profit for themselves and their shareholders 	<ul style="list-style-type: none"> • Amancio Ortega, the founder of Zara, built a fast-fashion empire that has become one of the most profitable clothing retailers in the world
Profit satisficing	<ul style="list-style-type: none"> • Occurs when the entrepreneur is not solely focused on maximising profits but rather achieving a satisfactory level of profit • This is common among small businesses, where the owner may prioritise their work-life balance 	<ul style="list-style-type: none"> • Yvon Chouinard, the founder of Patagonia, created a successful outdoor clothing and gear company that was initially built to help finance his climbing expeditions

Non Financial reasons for Setting up a Business

Non-financial Reasons	Explanation	Example

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Gap in the market	<ul style="list-style-type: none"> Some entrepreneurs start a business because they have identified a customer need that is not yet being fulfilled In many cases starting a business provides an opportunity to pursue an interest or passion 	<ul style="list-style-type: none"> Professional dancer Miriam Drechsler was keen to open her Balance 1 Dance Academy in Berlin in 1996 because she had identified that there were very few opportunities in Germany to study dance on a professional basis
Ethical stance	<ul style="list-style-type: none"> Some entrepreneurs may have a particular ethical stance (e.g. environmental sustainability or social justice) that they want to build their business around 	<ul style="list-style-type: none"> Anita Roddick, started The Body Shop, as she wanted to create a company that would promote environmental sustainability, fair trade and human rights
Social entrepreneurship	<ul style="list-style-type: none"> These entrepreneurs aim to create a business that seeks to address a social or environmental problem while also earning a living 	<ul style="list-style-type: none"> Blake Mycoskie, the founder of TOMS Shoes, created a business model that donates a pair of shoes to a child in need for every pair sold
Independence & personal challenge	<ul style="list-style-type: none"> Many people want to be their boss and have control over their work They may be dissatisfied with traditional employment structures or desire the freedom and flexibility that comes with running their own business Starting and running a business can be a fulfilling experience 	<ul style="list-style-type: none"> Travis Kalanick and Garrett Camp, the co-founders of Uber, started their business with a desire for independence and the ability to work from anywhere

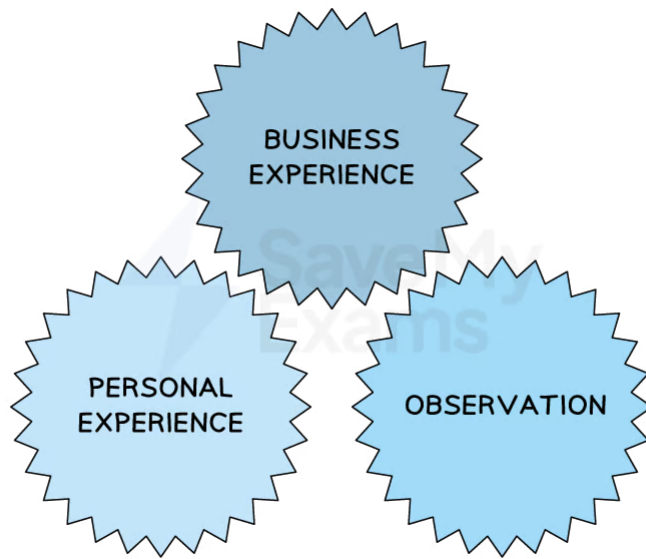
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**Home working**

- With the advent of technology, many people have started businesses from their homes and this offers them **more flexibility** and a better work-life balance
- **Sara Sutton**, the founder of **FlexJobs**, had a desire for independence and the ability to work from home and this led her to create a successful online job board that **specialised in remote and flexible work** opportunities

The Process Involved in Starting a Business

- All businesses start with an **idea** that fundamentally identifies a product or service that the entrepreneur intends to offer
- Ideas can be generated from a **range of sources**



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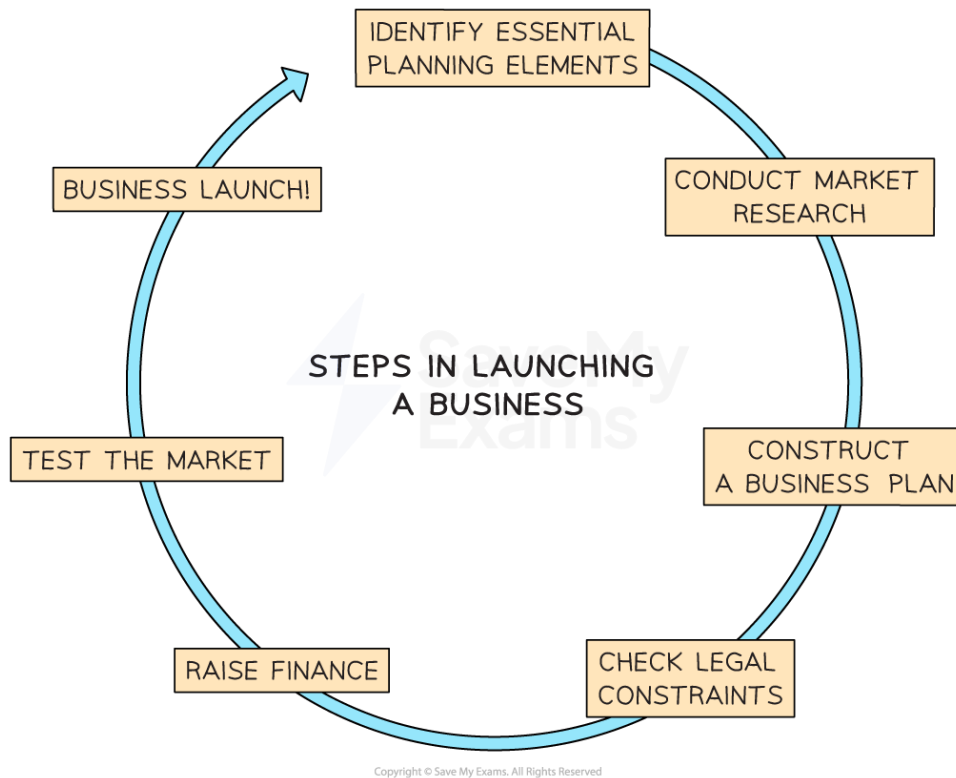
Sources of business ideas

- Once a suitable idea has been identified the entrepreneur is likely to take a series of steps to **reduce risk** and improve the chances of **success**

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Steps to Successfully Launch a Business

Step	Explanation
1. Identify essential elements	<ul style="list-style-type: none"> Essential elements that need to be decided include <ul style="list-style-type: none"> Business and product name The location of the business The form of ownership the business will take Equipment required Operational format and infrastructure

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**2. Conduct market research**

- Market research should be carried out to **determine the needs of customers**
 - Price, design and quality expectations
 - Desirable product features and benefits
 - Suitable promotional activity
 - Preferred distribution options
- As well as this research into the **nature of the intended market** should be conducted
 - Competitors, their products and prices and level of threat
 - Rate of market growth
 - Potential market niches
 - Relevant external factors that may impact on success
 - economic conditions
 - legal factors
 - demographic structure

3. Construct a business plan

- A business plan sets out how the entrepreneur intends to **realise their objectives** and **run the business**
- Without a business plan it may be **difficult raise money** from financial institutions or investors
- A business plan fulfils a range of **internal purposes**
 - It encourages the entrepreneur to **think through** the business in a logical and structured way and to set out the stages in the achievement of the business objectives
 - It enables the entrepreneur to plot business progress against the plan
 - It identifies both the resources needed and the time when they are required
 - It is a way to make all stakeholders aware of the businesses direction

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4. Check legal constraints	<ul style="list-style-type: none">• Before starting the business the entrepreneur should ensure that all legal requirements have been met and that legislation related to the product or market in which it is to operate have been reviewed• The package of laws to which a business must adhere will depend upon the country in which it operates though there are several areas where legislation commonly exists around the world including<ul style="list-style-type: none">◦ Employment, pay and conditions◦ Health & Safety◦ Consumer protection◦ The provision of financial products◦ Company formation
5. Raise finance	<ul style="list-style-type: none">• The entrepreneur is likely to invest some of their own capital into the business• Other sources of funds commonly used by start-up businesses include<ul style="list-style-type: none">◦ Banks◦ Friends and family◦ Investors<ul style="list-style-type: none">▪ Business angels▪ Crowdfunding▪ Peer to peer lending
6. Test the market	<ul style="list-style-type: none">• Initially launching the business on a small scale or selling a limited range of products is a sensible option, especially for first-time entrepreneurs• The entrepreneur can establish whether the business idea will be well-received and can identify at an early stage the relative popularity of products



Problems that a new Business may face

- Starting a new business can be exciting but it also comes with its own **set of challenges**
- Overcoming these issues requires **effective strategic planning**, hard work and a willingness to adapt and learn as the business evolves
- Some of the **common problems** that new businesses may face include

1. Lack of funding

- One of the biggest challenges for new businesses is securing enough funding to get started and **sustain operations** until they become profitable

2. Lack of market demand

- A business idea may seem great on paper, but if there is no market demand for the product or service, it may not be a viable business

3. Competition

- New businesses may face competition from established players in the industry, making it **difficult to attract customers** and establish a foothold in the market

4. Hiring and retaining talent

- Finding and retaining skilled employees can be challenging, especially for new businesses that may not have the resources **to offer competitive salaries and benefits**

5. Legal issues

- New businesses may need to follow to a range of laws which can be complex and time-consuming to navigate

6. Operational issues

- Running a business requires a range of operational skills such as **managing finances, marketing and sales**
- New business owners may struggle to manage all of these responsibilities

7. Scaling

- As a business grows, it faces new challenges such as **managing increased demand** and expanding into new markets