

# INTRODUCTION TO BUSINESS

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## WHAT IS BUSINESS & ORGANIZATION

- “The regular production or purchase and sale of goods & services undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants” (Stephenson).
- An organisation is a social arrangement which pursues collective goals, which controls its own performance and which has a boundary separating it from its environment.

Eg:

- A multinational car manufacturer
- An accountancy firm
- A charity
- A local authority
- A trade union
- An army



# DEVELOPMENT OF THE BUSINESS



1



2



3



4



5

# DEVELOPMENT OF THE BUSINESS

## 1. Self Sufficiency System (Agriculture stage)

- The production of goods and services to fulfill own needs and wants.

## 2. Barter System

- People started to exchange production that resulted due to people's specialization. Therefore, the ownership of goods was changed due to barter system.

Ex: a person who wanted rice, but who produces only flour went and exchange flour with rice with a person who was in need of flour.

## 3. Trade

- Used an agreed-upon form of paper or coin money as an exchange system rather than directly trading goods and services.

## 4. Commerce

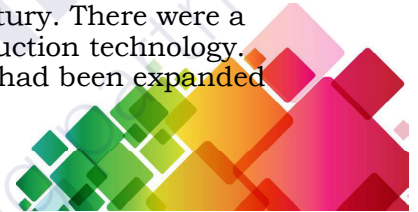
- The traders was to provide goods and services for customers at required time and required place.
- However, traders and customers both had face difficulties without the auxiliary services such as banking, insurance, transportation, warehousing and communication.
- The combination of auxiliary services and trading is known as 'Commerce'.





### 5. Industrial development

there was a massive development in European countries in late 18th century. There were a considerable amount of new invention and a significant increase in production technology. As a result, the factory system had been started. Large scale production had been expanded and production based on market demand (indirect production).



## HIERARCHY OF NEEDS

### Needs

A human need is a state of deprivation some basic satisfaction (P. Kottler). Needs are derived in the human body and included as a human nature and derived in the body.

### Wants

Wants are the desires and willingness, and they are not necessary to live. 'The desires for special satisfaction of these deeper needs' (P.Kottler)



## Demand

- Demand in economics is the consumer's desire and ability to purchase a good or service. Without demand, no business would ever bother producing anything. There are three main factors should be fulfilled to demand to arise,
- The willingness to buy a product
- The ability to buy a product (Purchasing Power)
- Desire to purchase

It is a combination of wants and purchasing power Then,

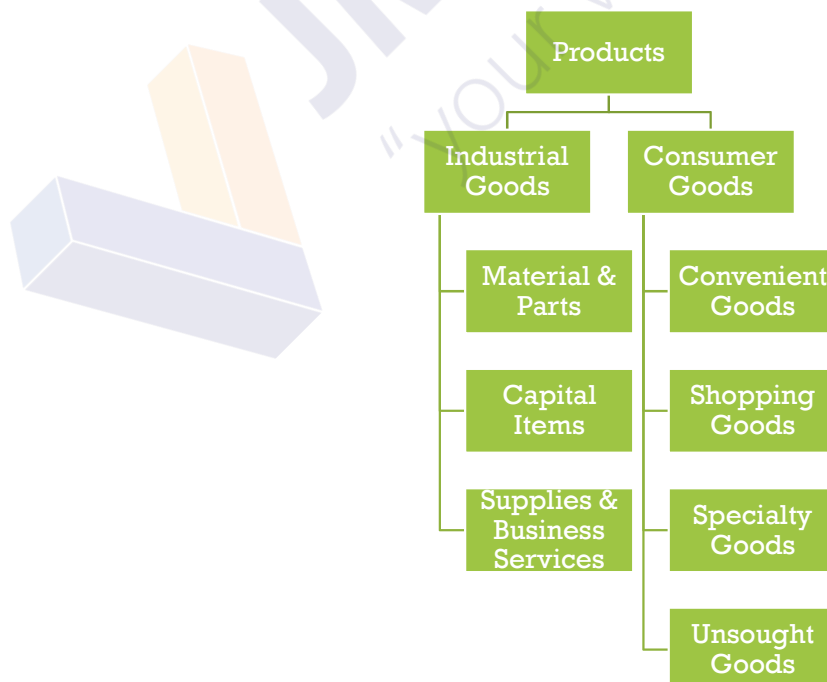
Wants + Purchasing Power = Demand



Definite Signs He  
Doesn't Like You



## CLASSIFICATION OF PRODUCTS



- **Consumer Goods** - Products that are visible and tangible are known as goods / Consumer goods are tangible goods that are purchased for direct consumption to satisfy a human need or want.

- **Convenient Goods** - Goods that are purchased by consumers on regular basis are consumer goods.

**Example-** soap, Toothpaste, Newspaper

- **Shopping Goods** - Goods that are purchased after comparing similar products on features such as price, Quality, Appropriateness.

**Example –** Clothes, Electronic Items, Footwear

- **Specialty Goods** - Goods that requires a special effort to buy. Generally these goods are very expensive. There are no alternatives for such goods

**Example –** Automobiles, Jewelry, Computers

- **Unsought Goods** - Goods that are available in the market but of which the consumer is not aware

**Example –** Newly introduced Insurance Policy, New Book, fire extinguishers

- **Business Goods/ Industrial Goods** - Goods that are bought for manufacturing other Goods and services by manufacturers.



## **Product**

- **A physical aspect**, which relates to the components, materials and specifications (colour, size etc.) of the product: for example, a size 12 pullover made of 100% pure wool in a natural colour.
- **A functional aspect**, which describes how a product performs and for what purpose it is likely to be bought: for example, a pullover which gives warmth and comfort and lasts well through washing.
- **A symbolic aspect**, which represents the qualities the product suggests to, or offers, the buyer: the '100% pure wool' label may represent quality, status or eco-friendliness.

## **Product attributes**

For the marketer, the total benefit package will include:

### (a) Tangible attributes

- Availability and delivery • Performance (usefulness, effectiveness, efficiency) • Price • Design (in the senses of appearance, feel etc) • Packaging (durability, convenient size, information given) • The range of complementary products in a 'line' • The availability of accessories and suppliers for product use or maintenance

### (b) Intangible attributes

- Image • Perceived value





## Services

The following characteristics of services distinguish them from goods.

- **Intangibility.** Services cannot be touched or tasted.
- **Inseparability.** Services cannot be separated from the provider.
- **Heterogeneity** (or lack of 'sameness'). The standard of service will vary with each delivery; a decorator painting two houses will not do so in precisely the same way
- **Perishability.** Services cannot be stored for provision 'later'; for instance, a seat on a particular airline flight cannot be sold once the flight has departed.
- **Ownership.** Service purchase does not transfer ownership of property.

## Other value offerings

Event	Person
Experiences	Place
Property	Information
Organization	Idea



## **GOODS VS. SERVICES**

COMPARISON	GOODS	SERVICES
Meaning	Goods are the material items that can be seen, touched or felt and are ready for sale to the customers.	Services are amenities, facilities, benefits or help provided by other people.
Nature	Tangible	Intangible
Transfer of ownership	Yes	No
Evaluation	Very simple and easy	Complicated
Return	Goods can be returned.	Services cannot be returned back once they are provided.
Separable	Yes, goods can be separated from the seller.	No, services cannot be separated from the service provider.
Variability	Identical	Diversified
Storage	Goods can be stored for use in future or multiple use.	Services cannot be stored.
Production and Consumption	There is a time lag between production and consumption of goods.	Production and Consumption of services occurs simultaneously.



# RESOURCES

- Money
- Men
- Materials
- Method
- Machine
- Market
- Minutes

## FUTURE DIRECTIONS OF BUSINESS

### **Vision**

A vision is a Big Picture Idea of “What” the organization wants to achieve.

- McDonald's® Brand vision is "To be the best quick service restaurant experience".

### **Mission**

A Mission is about what the organization does to achieve the vision. Mission is the purpose or reason for the organization's existence.

- McDonalds - to be our customers' favorite place and way to eat and drink

### Qualities of Mission

- (a) Brevity, which will make them easier to understand and remember.
- (b) Flexibility, which will enable them to accommodate change.
- (c) Distinctiveness, which will enable the firm to stand out.



# CONTENTS OF A MISSION STATEMENT

- Nature of the Business/s
- Scope of the Business/s
- Nature & scope of Market/s
- Nature & scope of Product/s
- Nature & scope of Technologies
- Nature & scope of Core-competencies
- Strategic Priorities
- Key Stakeholder Expectations

## The role of Mission

- Planning
- Evaluation and screening.
- Implementation



	<b>Mobitel</b>	<b>Walmart</b>	<b>JMC</b>
<b>Vision</b>	To lead Sri Lanka towards an info-com and knowledge rich society through our service offerings	To become the world wide leader in retailing	To become the <i>Pioneers in Professional Education</i>
<b>Mission</b>	To Care, Share & Deliver These are the 3 key ingredients in our relationship with our Shareholders, Employees, and Customers. Committing to these 3 principles as an individual and as a team and by regularly practicing them as an organization, we can truly achieve our vision to lead.	To help people save money, so they can live better	To lead the nation in professional education enabling students to acquire Marketable skills, in order to face the oncoming challenges in the competitive global market.





## Objectives

A specific result that a person or system aims to achieve within a time frame and with available resources. An objective is time sensitive statement to achieve the goals of the organization and defined in measurable terms.

Ex - To gain 25% of the market for sports shoes by September 2021 - to increase the firms profitability in 2021 by 16% over 2020

### **SMART Criteria in setting objectives**

- Specific – target a specific area for improvement.
- Measurable – quantify or at least suggest an indicator of progress.
- Achievable – specify who will do it.
- Realistic – state what results can realistically be achieved, given available resources.
- Time-related – specify when the result(s) can be achieved.

Question: Develop 5 objectives for the restaurant



### **The purpose of organizational objective setting**

- (a) **Planning.** Objectives are the targets which the plan aims to meet.
- (b) **Responsibility.** Objectives are given to individuals and departments for which they have responsibility.
- (c) **Integration.** If objectives are consistent then they should aid goal congruence within an organization.
- (d) **Motivation.** The setting of targets (especially when success is linked to promotion or bonuses) may increase motivation.
- (e) **Evaluation.** Senior management control the business by evaluating the performance of the managers responsible for each of its divisions.

### The hierarchy of objectives

- Primary objectives
- Secondary objectives
  - Market position
  - Product development
  - Technology
  - Employees and management



## Strategies and types of strategies

Strategies are long term implementation plans to achieve the goals and objectives. These statements define how you can succeed in achieving your mission and stay along in the completion.

Strategy	Description	Example
Corporate Strategy	Corporate strategy encompasses a firm's corporate actions with the aim to achieve company objectives while achieving a competitive advantage.	Cost Leadership Product differentiation Increase market share
Business Strategy	Business level strategies translate corporate strategies into more tangible actions	Increasing the marketing budget Improving product quality
Functional Strategy	Functional level strategies are the actions and goals assigned to various departments that support your business level strategy and corporate level strategy. (To maximize resource productivity within the function)	HR: increase hiring of highly-trained employees Marketing: improve brand Production: reduce rejections

### Tactics

Tactics are short term implementation or action plan to deliver the long term strategy. A grass root level action plans are defined to ensure daily activities are in line with achieving the relevant strategy.

Eg:

A sales staff member is expected to do 10 social media activity daily, could be an example to deliver a long term strategy.

## Business Organizations

An organization is a social arrangement which pursues collective goals, which controls its own performance and which has a boundary separating it from its environment.

**Eg:** • A multinational car manufacturer • A local authority • An accountancy firm • A trade union • A charity • An army

### The common characteristics of organizations

- Organizations are preoccupied with performance, and meeting or improving their standards.
- Organizations contain formal, documented systems and procedures which enable them to control what they do.
- Different people do different things, or specialize in one activity.
- They pursue a variety of objectives and goals.
- Most organizations obtain inputs (eg materials), and process them into outputs (eg for others to buy).

### **Why do organizations exist?**

- (a) Organizations overcome a person's individual limitations, whether physical or intellectual.
- (b) Organizations enable people to specialize in what they do best.
- (c) Organizations save time, because people can work together or do two aspects of a different task at the same time.
- (d) Organizations accumulate and share knowledge.
- (e) Organizations enable synergy: by bringing together two individuals, their combined output will exceed their output if they continued working separately.
- (f) In brief, organizations enable people to be more productive.

### **How organizations differ**

- |                        |                                      |
|------------------------|--------------------------------------|
| (a) Ownership          | (b) Control                          |
| (c) Activity           | (d) Profit or non-profit orientation |
| (e) Legal status       | (f) Size                             |
| (g) Sources of finance | (h) Technology                       |



### **Types of Business Organizations**

- Profit versus not-for-profit orientation
- Private vs public sector –
  - Private sector. Organizations owned by individuals or other businesses.
  - Public sector. Organizations owned or run by central or local government or
- government agencies.
- Private sector commercial business organizations
- The public sector
- Non-governmental organizations
- Co-operative societies and mutual associations



Criteria	Sole Proprietor	Partnership
Ownership		
Commencement		
Capital		
Legal Personality		
Registration		
Liability		
Profit / Loss		
Decision Making		
Tax liability		
Accounting & auditing		
Going concern		
Special Laws		

## **PARTNERSHIP**

- Generally two or more people start a business together called as partnership. “The relation that subsists between partners carrying on a business in common with a common view to profit”. A partnership is mainly governed by the Partnership Act of 1890. A partnership could have a **maximum of 20 partners.**

### **Laws and regulations that effect to Partnership:**

- Partnership Act of 1890
- Prevention of Frauds and Ordinance (It says that any partnership start with a capital more than Rs. 1000.00 should have a written agreement)
- Business name registration Act of 1918 (It says that business carried under the name other than the partners’ names should be registered under)
- Companies Act 2007 (It says that partnership cannot have more than 20 partners)

## Partnership Agreements

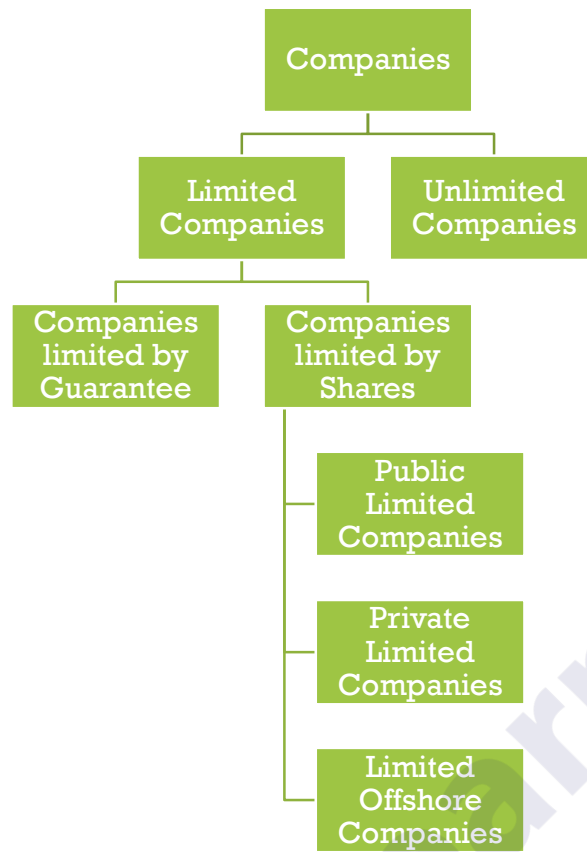
(a) Written                      (b) Verbal                      (c) Implied

### Partnership agreements should include

- Business name
- Names and addresses of partners
- Nature of business
- Capital contribution of each partner
- Drawings of partners
- Interest to be provided for the capital
- Interest to be provided for the drawings
- Rights of the partners
- Duties of the partners
- Salaries to partners
- Profit / loss sharing ratio
- The base to calculate business Goodwill (when a new partner comes in and exiting partner moves out or death of a partner)
- Accounting procedure
- The procedure and cash settling method when the partnership is to be ceased
- The procedure to settle any disagreements

## TYPES OF PARTNERS

Partner Type	Capital Provided	Profit & Loss	Liability	Participation to Business Activities	Salary?	Public known as a Partner
Active Partner						
Sleeping Partner						
Silent Partner						
Secret Partner						
Nominal Partner						
Limited Partner						



Criteria	Limited Companies
Ownership	
Commencement	
Capital	
Legal Personality	
Registration	
Liability	
Profit / Loss	
Decision Making	
Tax liability	
Accounting & auditing	
Going concern	
Special Laws	





## **Registration of Limited companies**

All limited companies should be registered at the office of the Registrar of Companies under the Companies Act No. 07 of 2007 and following documents to be submitted

- The promoters of the company should sign and hand over the form duly, issued by the Registrar of Companies
- Companies Article of Association
- Statement of Shareholders regarding the name of the companies
- The statement of consent obtained from directors regarding the willingness to work as directors.
- The statement of consent obtained from the first secretary to function as the secretary



## **Advantages and disadvantages of limited companies**

### **Advantages**

- More money available for investment.
- Reduces risk for investors, thanks to limited liability.
- Separate legal personality. A company can own property, make contracts, etc.
- Ownership is legally separate from control. Investors need not get involved in operations.
- No restrictions on size. Some companies have millions of shareholders.
- Flexibility. Capital and enterprise can be brought together.

### **Disadvantages**

- Legal compliance costs. Because of limited liability, the financial statements of most limited companies have to be audited, and then published for shareholders.
- Shareholders have little practical power, other than to sell their shares, although they can vote to sack the directors.



## **Off Shore Companies**

Companies that are registered to conduct operations away from Sri Lanka are called off shore companies. These companies are registered under a Company act of another country and Sri Lanka as well.

Benefits of such companies are:

- Foreign Exchange income
- Market Expansion
- Expansion of international relations
- Foreign employment

## **Foreign Companies**


Companies that are registered under another country's law and carry business operations in Sri Lanka.

Eg: Unilever, DHL, HSBC, Nestle, Coca-cola

### **Key characteristics of the public sector**

- Accountability - ultimately, to the legislature.
- Funding - The public sector can obtain funds in three main ways.
  - (i) Raising taxes
  - (ii) Making charges (eg for prescriptions)
  - (iii) Borrowing
- Demand for services. There is a relationship between the price charged for something and the 'demand'. In the public sector demand for many services is practically limitless.
- Limited resources. Despite the potentially huge demand for public services, constraints on government expenditure mean that resources are limited and that demand cannot always be met.

### **Benefits of public sector**

- Fairness. The public sector can ensure that everyone has access to health services.
  - Filling the gaps left by the private sector, by providing public goods such as street lighting.
  - Public interest. Governments once believed the public interest was best served if the state ran certain services.
  - Economies of scale. Costs can be spread if everything is centralised.
  - Cheaper finance. Taxes or borrowing backed by government guarantees might be cheaper than borrowing at commercial rates.
  - Efficiency. The public sector is sometimes more efficient than the private sector. The UK's National Health Service, despite its well-publicized problems, has lower administration costs and serves more of the population than the private sector does in the US.
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### **Non-governmental organizations**

Non-governmental organizations (NGOs) are bodies which are not directly linked with national government. The description 'NGO' generally applies to groups whose primary aim is not a commercial one, but within this the term is applied to a diverse range of activities, aimed at promoting social, political or environmental change. However NGOs are not necessarily charities and, although they may have political aims, they are not political parties.

Eg:

- Staffing by volunteers as well as full-time, paid, employees
- Finance from grants or contracts
- Skills in advertising and media relations
- Some kind of national 'headquarters'
- Planning and budgeting expertise

### **Co-operative societies and mutual associations**

Co-operatives are businesses owned by their workers or customers, who share the profits.

- Open membership
- Democratic control (one member, one vote)
- Distribution of any surplus in proportion to purchases
- Promotion of education



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