

TU-A1300

Introduction to Industrial Engineering and Management

Week 2 Pre-lecture Reading

Where Does Business Begin?

In the long term, a company will endure only if it is profitable. In order to be successful, a company has to provide products and services that are sufficiently attuned to the needs of its customers, for them to be willing to pay. If there are enough customers, and they are willing to pay more than it costs to produce the products or services, the company fills the precondition for profitable, long-term business. In other words, a successful business is built on the company's production, meeting the needs of the customer.

Establishing a company (legally) does not mean that the business has started, although it's usually closely coupled with starting the business. The starting point of a business can be defined as the moment when the company first produces something - either a product or service - which it delivers to the customer and for which the customer pays something in return. However, the success of a business is largely determined by the job done by the entrepreneur before the founding of the company, before the business is started. The entrepreneur and the founder(s) of the future company typically start preparing for the business long before it is actually started, by identifying and understanding customer needs, by selecting what needs to address and by developing the product or service that addresses those needs. Generally, the more complex and novel a product is, the longer it takes to develop it before starting a business.

The time and skills required in this initial work are not always apparent in the products and services already on the market. While existing products and services may appear to address obvious and clear needs, the new needs that entrepreneurs may be able to meet with the resources available to them are rarely well-defined or obvious in the early stages of development. Needs may be obvious to the people experiencing them, but unless the entrepreneur builds solutions for people just like him (which Understand customer needs / develop solution The company is established (legally) Business starts is how for example snowboards and mountain bikes have evolved), there is a significant amount of work involved in understanding, let alone addressing the potential customer's needs.

The reason why this initial work is so laborious is that the basis for customer value is not in the characteristics of the product or service, but in its correspondence with the needs of the customer. For the customer, the value of a product or a service is derived from how useful it is to the customer, i.e. from the value-in-use, that the customer can achieve with it. Value-in-use is a combination of functional, social and aesthetic value that the product creates for its user. Functional value is rooted in the ability of the product to solve a concrete challenge which leads the customer on step closer to his or her goal. For example, the functional value of a snack biscuit is based on the challenge of maintaining your energy level and keeping your hunger at bay. While social media may have functional value, it primarily addresses your social needs, and hence creates social value. Respectively, a painting primarily has aesthetic and social value, but if it covers a stain or hole in the wall, it also has functional value.

These sources of value spring from our daily lives, and are deeply rooted in our practices and the meanings we construct. Value-in-use is thus a highly subjective quantity, based on the practical value that the individual user derives from the product or service. The same product will thus have a different value to different users, depending on their individual's needs. The exchange value on the other hand, is the price the customer is prepared to pay for a product or service. Although value-in-use cannot be readily expressed in money, we can assume that the exchange value of a product is never higher than its value-in-use. Understanding your customer's needs is crucial, however, when starting a business, you also need to consider which of these needs are worthwhile to meet. Thus, in addition to value-in-use, you need to understand your own ability to produce it, in a way that leaves you with a profit, also in a competitive market. If the costs of production are higher than the competitive exchange value of the product or service, you will not be in business for long. Therefore, when starting a business, you also need to consider your production capabilities, and whether they need to be developed in order to match the needs.

In other words, whether a business is worthwhile to pursue, depends on the resources available to the company. These resources include tangible resources, such as facilities, equipment and tools, as well as intangible resources such as capital, expertise, reputation and networks. In the beginning, a business primarily has intangible resources, with the exception of research-based companies which may also have specialized equipment. The most significant differences between starting companies when considering their potential for successful business, are the intangible resources they have at their disposal. The availability of resources, and how suitable they are for production which satisfies customer needs, can be a significant source of competitive advantage. For example, it takes time for a novice designer to obtain the same skills as a professional who has several years of experience, something that you need to take into account if you have the novice designer, and your competitor has the professional. It does not prevent you from starting the business, but does affect the needs that your business can target, and the products it can produce.

The business model of the company can be understood as the combination of customers, their needs, the products that respond to these needs, the company's resources and its production. A business model also includes how various functions of the company are interrelated, and what interfaces the company has with its customers, partners and suppliers. By describing the business model of a company, we produce a structured account of how the company works.