

Digital Business

What is a Business?

Learning Objectives

- ▶ Define what is a business
- ▶ Describe the characteristics of a business
- ▶ Identify the different types of businesses, business sectors, business ownership forms, and business activities
- ▶ Define what is a business model
- ▶ Describe the different types of *traditional* business models
- ▶ Identify examples of businesses and their business models

What is a Business?

A Business is 'the **organized effort of individuals** to produce and sell, **for a profit**, the goods and services that **satisfy society's needs**'

- W.Pride, R.Hughes, J.Kapoor

Characteristics of a Business

1. Profit-Seeking

- ▶ Seeks to make a profit

2. Organised Effort of Individuals

- ▶ Through people or resources working together in an organised way towards some common goals

3. Satisfy a Need for Society

- ▶ To provide a good or service that satisfies the need of consumers
- ▶ E.g. Grocery store satisfies the need for consumers to purchase food/groceries for themselves & their families

Types of Businesses

1. Service Business

- ▶ Provides intangible goods, e.g. professional skills, expertise, advice, and other similar products.
- ▶ E.g. auto-repair shops, hair salons, schools, banks, law firms, etc.

2. Merchandising Business

- ▶ Buys goods at cost price and sells the same goods (without changing its form) at higher price
- ▶ E.g. grocery stores, convenience stores, clothing distributors/retailers, etc.

3. Manufacturing Business

- ▶ Uses raw materials or component parts to create a new good.
- ▶ E.g. car manufacturers, medical equipment manufacturers, etc

Types of Businesses

4. Hybrid Business

- ▶ Businesses that may be classified in more than one type of business.
- ▶ However, businesses are usually classified according to their major business interest.
- ▶ E.g. a Restaurant may combine ingredients to make a dish/meal (manufacturing), sell a bottle of wine (merchandising) & fills customer orders (service). However, it's usually classified as a Service Business, i.e. provide *dining* service.

Business Sectors/ Industries

- ▶ **Businesses can operate in one of these industries:**
 - ▶ **Financial Services** – including banks, brokerage firms, investment companies, credit cards companies, insurance companies, etc.
 - ▶ **Retail Services** – including retailers, wholesalers, distributors, etc. who buys the goods from one party and sells them at a profit to another party.
 - ▶ **Healthcare Services** – including GP clinics, polyclinics, hospitals, long-term care services, etc.
 - ▶ **Transportation Services** – including airlines, railways, shipping companies, etc.
 - ▶ **Entertainment Services** – including film/ books/ magazines/ newspapers/ music production houses, cable television network, media/ advertising agencies, etc.
 - ▶ **Industrial Manufacturer** – including manufacturers that produce tangible goods such as car, medical equipment, TV, etc. from raw materials or component parts
 - ▶ Etc.

Business Ownership/ Forms

- ▶ **Business entities can exist in the following forms:**
 - ▶ **Sole Proprietorship**
 - ▶ Owned by one person
 - ▶ Owner may hire employees
 - ▶ Owner usually have unlimited liability for all obligations incurred by the business
 - ▶ **Partnership**
 - ▶ Owned by two or more people
 - ▶ Owners usually have unlimited liability for all obligations incurred by the business
 - ▶ **Corporation**
 - ▶ Can be either government-owned or privately owned
 - ▶ A privately owned corporation can be either privately held by a small group of individuals or publicly held (shares publicly traded on stock exchange) by shareholders
 - ▶ Directed by an elected board of directors & managed by hired managerial staff
 - ▶ Owners have limited liability for all obligations incurred by the business
 - ▶ Etc.

Business Activities

- ▶ **Businesses typically conduct the following activities:**
 - ▶ **Production/ Manufacturing**
 - ▶ Focuses on creation of the good/service
 - ▶ Includes assembling components into a finished product/ good, defining the steps of a service process
 - ▶ **Marketing & Sales**
 - ▶ Focuses on selling the goods/services to the end consumers
 - ▶ Includes advertising, product pricing, etc.
 - ▶ **Finance & Accounting**
 - ▶ Focuses on managing the company's finances
 - ▶ Includes P&L reporting, investment, etc.
 - ▶ **Research & Development**
 - ▶ Focuses on development of new good/service
 - ▶ Etc.

Business Model

A Business Model is ‘the architecture with which an organization **creates value** for customers, how it **delivers that value**, and how it **captures that value**’

- Alex Osterwalder

Business Model

A blueprint for how an organization **creates, delivers and captures value**. A simple, high-level business model has four components. Two are externally facing: **value proposition and customers**; and two are internally focused: **capabilities and financial model**.

- Gartner

Business Model

- ▶ In short, it explains,
 1. How the business creates & delivers value to the customer (i.e. What's the **Customer Value Proposition**)?
 2. How the business makes money?

- ▶ E.g. In the **transportation** business, value is **created** by moving people/ goods from one place to another and **delivered** through a bus/taxi/ship/airplane/etc., and **captured** by the fees paid for the transportation service.

- ▶ E.g. In the traditional **mobile phone manufacturing** business, value is **created** by manufacturing the phone (which allows users to make calls & send text messages), and **delivered** through the phone itself, and **captured** through the sale (\$) of the phone.

Business Model

- ▶ Different companies can have similar offerings but different business models
 - ▶ E.g. certain companies may sell their goods through brick-and-mortar retail shops (e.g. Lock & Lock), whereas certain companies may sell the same kind of goods through direct sales (e.g. Tupperware).
 - ▶ E.g. certain companies may prefer to sell their goods (e.g. Poh Kim Video), whereas certain companies may prefer to rent the same kind of goods (e.g. VideoHub), or earn through membership subscription (e.g. NetFlix)
- ▶ The business model affects the company's strategy & way of operating

Example of *Traditional* Business Models

Type of Model	Description	Examples
Manufacturer (Manufacturing Business)	Creates finished goods from raw materials or component parts. It may sell directly to the customers (B2C) or sell it to a middleman (B2B).	Apple, Samsung, LG 3M
Distributor (Merchandising Business)	Buys products from manufacturers in bulk and resells them to the retailers (B2B) or the customers (B2C).	FJ Benjamin, Wing Tai Holdings
Retailer (Merchandising Business)	Buys products from distributors and resells them to the customers (B2C).	Harvey Norman, Best Denki Metro, Isetan, BHG

Retailers, Wholesalers & Distributors



Source: <https://youtu.be/jzLoo8cFjBI>

Example of *Traditional* Business Models

Type of Model	Description	Examples
Franchise	A franchise can be a manufacturer, distributor or retailer. Instead of creating a new product, the franchisee uses the parent business's model and brand while paying royalties to it.	McDonald's, Subway, Ya Kun, Kumon
Direct Sales/ Multi-Level Marketing	Leverage friends, family, and other personal networks to recommend products and act as a sales force. Include door to door sales.	Tupperware, Mary Kay Make-up
Subscription	Require the customer to sign up for automatic payment plans, and they may charge a cancellation fee for a contract that ends prior to the preset time frame.	Singapore Powers (Utilities), Singtel/ MI/ Starhub (Phone Companies)

Example of *Traditional* Business Models

Type of Model	Description	Examples
Advertising	Businesses buy space on traditional media (TV, radio, newspapers, magazines, etc.), and these purchased "spots" generate revenue for the production houses or media agencies.	MediaCorp
Razor-razorblade	Consumer purchases a low-margin item like a razor handle or inkjet printer. Sale of necessary consumables such as replacement blades or ink are sold at a very high markup.	Gillette, Hewlett-Packard Printers, Nestle Coffee Makers
Nickel and dime	Price the most cost-sensitive item as low as possible and then charge for every little extra.	Budget Airlines

Summary

- ▶ A Business:
 1. Profit-Seeking
 2. Organised Effort of Individuals
 3. Satisfy a Need for Society

- ▶ Types of Business – Manufacturing, Merchandising, Service & Hybrid

- ▶ Business Sectors/ Industries – Financial Services, Healthcare Services, Retail Services, Entertainment, etc.

- ▶ Business Ownership – Sole Proprietorship, Partnership, Corporation, etc.

- ▶ Business Activities – Production/ Manufacturing, Sales & Marketing, Finance & Accounting, etc.

Summary

▶ Business Model:

1. How the business creates & delivers value to the customer
2. How the business makes money?