Chapter one: Business fundamentals

What is business and how to create it
Structure models and organizational charts
Business cycle and business plan
Business plan implementation
Business operational and managerial cycle
Modern business: Impact of computer and computer networking
TPS, MIS and DSS
Business classification
Chapter one objectives

- Understanding business
- different types of business
- Understanding Business structures and organizational charts
- relationship within a structure
- Business charts and information flow
- Decision making and business structure
- business cycle
- IT and IS
- recognizing business classes

Dr. Nazih Abdallah: Modern business computer
What is business?

- **Definition:**
  - State or quality of being busy
  - Enterprise or firm
    - For profit
    - Not-for-profit
    - State owned
  - Company: business owned by many individuals or other companies
    - They all provide funds
    - They seek profit
  - A company is itself a legal person.

- **Jurisdiction and licenses**
  - Sole proprietorship
  - Partnership
  - Corporation:
    - publicly held (stock market) Wal-Mart, Microsoft, Boeing.
    - privately held like Publix and IKEA.
  - Co-op (cooperative) members nor shareholders
Creating new business - Priorities

- Legal status
- Name of the business
  - Related to activity
  - Attractive and popular
  - Beware of trademarked names
- Location
- Capital and break-even analysis
- Business plan
• Also known as hierarchical
• Information flows from top down
• More than 5 levels of hierarchy
• Decision making starts at the top level and moves down
Strengths:
- Easy to manage
- Distinct function at each organizational level.
- Easy promotion path
- Employees supervision is easier than other structure
- Minimize confusion in hierarchy relationship and employee loyalty.
Vertical model

- **Weaknesses:**
  - Heavy and slow decision-making process
  - Less flexibility in facing the changes of economic environment and market factors.
  - Mistake at higher level decision making has frustrating impact at all lower levels
  - Employees discontent of not being involved enough in the decision-making process
Horizontal model

- Also known as the “tall model” and “flat model”
- The number of hierarchy levels is less than four.
- Employees at all levels contribute effectively in the decision-making process.
Horizontal model Strengths:

- Team work and high team spirit with easiness of communications
- Flexibility and inventiveness
- High level mistakes are not catastrophic.
- Perfect for training and teaching
- Easier decision process
- Lower cost
Horizontal model weaknesses

- Hard to apply and implement
- Time consuming and more difficult to manage
- Require a lot of training especially on where and when employees can take initiative and make decision
- Confusing interdepartmental functioning results in confusing employees at different levels
- Fits only small and medium size businesses
Matrix organizational model

- A combination of both vertical and horizontal models.
- Chart reflects both ways communication.
- Vertical and horizontal axis of power.
- Employee reports to two immediate supervisor:
  - Functional supervisor
  - Project supervisor
Matrix organizational model case

- Launch 3 new products team was created for each of them:
- Each team manager can chose needed members from all departments
- Project employees may be working for the project full or part time
- Each team member has to be loyal to 2 managers.
Matrix model strengths

- Supervisors can focus on their areas of expertise.
- Employees can develop a wider set of skills.
- Information travels more fluidly between department functional areas.
- Eliminates the need for inter-department meetings, reducing the cost of the project.
- Optimize product quality because of the presence of specialists in different areas.
- Overcome traditional department barriers.

Dr. Nazih Abdallah: Modern business computer
Matrix model weaknesses

- Employee dual loyalty may be conflicting and put team members under heavy pressure
- Confusing accountability and responsibility
- Sharing resources may create a problem between team managers and others
- Difficult project monitoring with many team managers and independent projects.
- High cost? Because of necessary team staffing sometimes.
Business cycle

- The cycle include the following
- Planning & business plan: Market analysis and step by step strategy to do business
- Plan implementation that refers to carrying out of the plan.
- Control and correction
  - Warning system
  - Feedback system
  - Intelligence and counter-intelligence
  - Correction policy
SBA (Small Business Administration) suggested that business plan starts with a coversheet and TOC and comprises the following items:

- Business description: competition, operating procedures, personnel, marketing and insurance
- Financial data: capital, loans, break-even, profit & loss pro-forma cash flow
- Supporting documents: copies of Tax returns of owners and all contracts, licenses and permits and letters of intent from suppliers, lease or purchase agreement of building space and warehouses, etc...
Business plan implementation: (location and staffing)

- **Location**: Is the most critical decision to make (Business consultants say the 3 most important conditions for a successful business are: Location, location and location)

- **Mall location strengths**:
  - High exposure and effective marketing
  - Benefit from other businesses
  - Parking availability
  - Attract good team members and high level clientele

- **Mall weaknesses are**:
  - High cost
  - Business restrictions compromise flexibility.
  - Highly trained personnel and management needed to compete and make timely decision.
  - Adequate Information system needed.

- **Staffing** is hiring knowledgeable employees to perform the different functions:
  - The most critical experience will be computer skills.
Plan implementation
Operating equipment

- Office equipment:
  - Office furniture
  - Office supply

- Information system equipment
  - Computer and networking server and databases
  - Telecommunication equipment
  - Software packages used for payroll, accounting, management and services

- Production and packaging equipment
  - Production line equipment
  - Packaging equipment
  - Labeling and marking equipment and supplies
Operating equipment continued

- Training equipment
- Storage equipment
  - Shelving conditioning equipment
  - Lifting equipment
- Power equipment
  - Generators
  - Transformer, surge protector an other.
- Transportation equipment
  - Delivery
  - Moving
  - Support
Plan implementation other elements

- **Products**
  - Concepts and analysis
  - Design
  - Manufacturing
  - Quality inspection and correction
  - Feedback design, collection, analysis and correction

- **Services**
  - Analysis and orientation
  - How is it provided: quality, cost, requirements
  - Feedback, inspection and correction

- **Operating inventory of products and services.**
Marketing and promotion

- **Target market:**
  - Information available inspection and analysis
  - Market trend: offer, demand and availability
  - Pricing policy

- **Competition awareness**
  - Product quality and price
  - Competitor policy and advertisement campaign
  - Supply availability: Different sources and competitor supply sources and cost
  - Procedures:
    - Promotion and advertisement
    - Policy towards customers and suppliers.
• **Warning system:** any control system must be fed by a warning system and feed that warning system as well.

• **Weaknesses must be detected and replaced ASAP by more convenient products or policies.**

• **Market feedback system rely heavily on customers and intelligence.**
Control and correction

- Every effort should be made to include in the information system solicitation and motivation to get customer feedback.
- The feedback provides most ingredients of the correction policy as well as the warning about errors.
- In case of franchise we must have a copy of the franchise correction policy and work it out with the franchisee.
Operational and managerial cycle

- Sale and supply
- Inventory awareness
- Timing of supply orders
- MIN and MAX quantity of order no shortage permitted
- Follow-up with the supply market:
  - Price
  - Quality
  - Delivery delay
- Secured and synchronized financial transactions and supply transactions
- On the fly study of revenue and expenses
• Arsenal of business applications convinced decision makers to invest heavily in information system
• Business folders moved from drawers to databases and diverse storage media
• Easy information processing and data retrieval
• The marriage between computers and telecommunications changed the way we used to do business
Networking crowned by the WWW created Ecommerce phenomenon that imposed itself as complementary and sometimes substitute to the bricks and mortar business and changed the way we do business by:

- Leveling the playing field and minimizing the competition gap between small and large companies
- Advancing a faster and more convenient way of business-customer communication.
- Offering as fast as the speed of light transactions
- Information technology is now a must have to have efficient clicks and mortar business wing
- Business prosperity is now based on:
  - Customer satisfaction
  - Successful formula
Modern business

- Importance of clicks and mortar wing that complement the bricks and mortar to make the company fly and prosper
- Modern business is striving to have a share of the huge online market (many trillions of dollars)
- Global competition highlighted the importance of the information system
- Most modern businesses have IT departments
- Most modern businesses assess and hire using the IT skills criteria.
- Focus on the different types of information systems handled by the IT (Information Technology) department
  - TPS (Transaction Processing System) known as the lifeline of the business
  - MIS (Management information system)
  - DSS (Decision support system)
TPS (Transaction Processing System)

- Known as the business lifeline
- Collects raw data by recording all business transactions that may be divided into 2 categories:
  - Internal transactions
  - External transactions
- Edit data looking for erroneous or misleading things
- Correct mistakes and errors then re-edit
- GIGO (Garbage In Garbage Out) used as computer jargon to insist on having correct and reliable data at the input.
- Produce final version of reliable data and convey it to the MIS
MIS (Management Information System)

- Consists of a collection of applications designed by the MIS specialists
- Produce and interpret information
- Produce reports covering all business activities:
  - Supply chain
  - Financial
  - Marketing
  - Human resources
  - Etc...
- Convey all decision tools to the DSS (Decision Support System)
Business classification
SIC (Standard Industrial Classification)

- Classify businesses by their activity and expertise that relate to the category of business
- Use 4 digit code:
  - First 2 digits indicate the major industry: agriculture, mining, chemical, nuclear etc...
  - The last 2 digits indicate specific activity within the major activity like diary industry, petrochemical
- Used by most countries around the world and sometimes also used by USA who with other north American countries developed and are now using another system known as NAICS.
- See annex A
NAICS (North American Industry Classification System)

- More specific than SIC because it uses a 6-digit code for industry classification as follow:
  - First 2 digits indicate the major activity
  - 3rd digit designates a sub-activity sector
  - 4th digit designates specific group
  - 5th digit NAICS group code
  - 6th digit designates national industry group
- Used by North American countries sometimes along with the SIC
- See annex B