



Business Knowledge (a book on how to get ahead in any business)

by Tahir Iqbal © 2008

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1. The fundamental rule of Business

What is business? It's a free, open system that involves a simple rule. Make profit. And what is profit? Simply to sell at a higher price than something cost you. Essentially business is a value adding process (VAP). You buy some water and lemons for £1 and mix it together to make lemonade and sell it for £1.50. You make a profit of 50p.

So how can such a simple process which in fact anyone could accomplish be so difficult in practice. Why isn't everyone a millionaire? We will endeavour to answer this question in this book and hope to question and develop the role of business in society.

The key philosophy of business is given by William of Occam, who said "it is vain to do with more what can be done with less". Essentially if it takes you two people to make something then try it with only one person. Wage costs fall by half. If you can produce something with a complex method, then try to do it in a simpler and very often cheaper way. Consider the internet. While it may seem complex, in fact it is a simpler and more cost effective way of selling things.

The second general idea that is key to business is keeping up with the rest of them. Keep up with new technology, new ideas, new social movements and cultural shifts as well as your competitors. In other words, always look at the bigger picture.

The third idea you need is to focus on detail, seek complete understanding of your business and products. If you want to open a café then get a job for a few months in a successful café. Much knowledge involved in running a successful business is uncodified, in other words one cannot put into words and write a book about every aspect of this. Therefore hands-on experience of the sector you are working in is highly important.

The fourth general principal which is easy to forget once you get bogged down in the day to day running of a firm is networking. Everyone needs time off to socialise and the importance of building valuable client and business relationships over the long term should not be underestimated. Networking is essentially making friends with others and exchanging information. Good profitable networking involves building strategic relationships with other business'. For example you may own a guest house (bed and breakfast) and by tying up with a local restaurant so you can cross advertise for each

other and give a better impression of your business to likely customers. Always look to add value to your business in these kinds of partnerships.

The fifth and most important element of this introduction is to enhance and develop your understanding of people. What makes different people tick? Why do they do things sometimes and not other times? Try to develop rules of behaviour from your knowledge of people and what makes them do things, in other words whenever you see people, try to figure them out. Try different hypothesis', your guesses of what makes someone do different actions, on people as you come into contact with. In this way you will quickly get a handle on how you can get people to do things that you want them to do.

2. Strategy and Porter

Strategy is making a choice that is reasoned to provide a positive result for your interests. For a reasoned business decision to be made, you must look at the logic of going down a route. Is the route I am going down the best of all possible opportunities? Does it make sense given experience of both myself and others?

Porter has written extensively on key aspects of business strategy. He says that there are two important choices any business can make. Either you can be a high value adding niche business or a low value adding mass producer.

A niche business tries to dominate a small section of the whole market for a product. For example some shops sell only socks. They are trying to dominate a small section of the sock market. By specialising in this area they can provide a better range, more suited to their customers with more reliable and refined customer service and advice. These kind of business' often work on a higher profit per item.

This is the main difference to the low value adding mass producer. A supermarket stocks large numbers and varieties of goods and makes a very small profit on each item. A car manufacturer like Toyota is another mass producer.

Porter argued that if you are a big firm then you should focus on selling large amounts of goods at a low profit rate, while small firms are better in the high value added specialist niche markets.

Strategy is not just about following what one or other business guru says. As Porter puts it, firms are always striving for "competitive advantage", that is being better, in terms of what you can do, than the rest of the firms in the market. So anything you can read will likely already be known to the market. But if we look at Porter's argument for strategy, either niching or mass production, issues from the fundamental structure of the firm. So we see that to develop a winning strategy, we need to understand our own business and see what it would be good at.

To do this you need to draw a list of all the capabilities of your firm. You may have such and such technology, skills or workers with various skills. You then look at what kinds

of things you can do with those capabilities. Consider also what kinds of things others in the market can do. Then look at where you are better than them, where your super power lies, and then you can see what is the logical deduction for what your firm should do and where it should position itself within the market. That is business strategy.

3. The market; size, segments and solutions

A market is the abstraction for the sum total of customers for a product and the sum total of suppliers of a product. The most important thing to realise is that all markets are finite, at least within many time frames. You can only sell so many mobile phones in a year, people only need so many cars. Population growth and income distribution are essential to grow markets. But also new markets must be created if one is to continue profitability.

Each market can be abstractly divided into segments. A market can be divided along the lines of geography, the type and tastes of the consumer and the different benefits a product creates. In finding a niche of the market you must engage in an analysis of the market segments and seek to dominate that particular area through developing strengths relative to competing firms.

Thought must be given as to the definition of a product. This is inherently a subjective task. A mobile phone and a letter are two different products, yet they actually achieve precisely the same activity, communication. Clearly the mobile phone offers quicker exchange of communication, though it does not involve the receiver of a letter obtaining a written and thus legally binding record of the communication. We see that products can be defined in terms of the benefits they produce for the buyer. These benefits largely originate from the institutional and social-cultural structure of society. Some benefits can be seen to be involving analytical structures; lawyers and contracts they produce deal with overcoming asymmetry of information which implicitly affects the risks of engaging in a transaction.

You must be clear for analysis to understand the different benefits of your product and how other industry's ability to supply those benefits can make them competitors through the emergence of substitutes for your product. A bus service may enter the market which is so flexible that your product- the car, becomes obsolete. You must also begin your understanding of your firm's strengths from how they affect the benefits that the product may be involved in.

Your firm's product portfolio can be divided into two main areas. You have cash cows, that is products which are already popular and producing good revenue but little growth, and rising stars, which are products that generate good levels of growth and are profitable. Focus on creating/introducing new products at periodic intervals. Just because a product has been doing well does not mean that the market will not be satiated for it much later on. In this way we see that your firm's approach to the market must be dynamic, that is you must continually be innovating to avoid the disenchantment with material possessions that sets in, sometimes only moments after one has bought

something. Satiation of a market is sometimes the result of over capacity. That is an uncoordinated rush into a profitable market and expenditure on production capacity leads to uninformed businesses making investment decisions based on historical profit data rather than future forecasts given a projected number of entrants and development of capacity.

4. SWOT analysis

SWOT analysis is all about thinking clearly about your strategy in greater detail. Essentially you list your company's strengths and weaknesses. From your strengths you can deduce what opportunities your business has and from your weaknesses you can understand the threats to your firm. SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

The strengths of your firm are the capabilities it has, what it can do. The Weaknesses are what it can't do as well as the competition as well as areas which produce risk to the value adding process.

The opportunities are what strategies for getting into new markets, new places, new products and for developing the existing customer base. Threats are the potential events, organisations and people who could damage, disrupt or reduce your market share, dampen your value adding process or cause the company to lose money.

Porter's Five forces model of industry structure is an analytical way of deducing your firm's strengths, weaknesses and opportunities and threats. He argues that business analysis of strategy must be deduced from the structure of the market they are operating in. He adopts a broad definition of the market, including potential new producers of the product as well as producers of substitute products.

Porter's Five Forces that determine industry structure are; new entrants to the market, substitute products, buyer bargaining power, supplier bargaining power and the degree of competition within the market itself among existing firms. Market structure can be summarised as the degree of competition by producers of product benefits, within suppliers' industry, among buyers. To understand the underlying idea in Porter, we need a few concepts. One is the Value Chain. Industries produce inputs for other industries, adding value at each stage of the process. Buyer and supplier bargaining power, essentially coming down to the underlying level of competition among them, will affect the amount of value added along the chain. In determining the amount of value (profit) your firm can generate, the difference between supplier's prices and buyer prices will have a strong effect. The amount of bargaining power depends on the amount of competition in the industry.

The other area of simplification of Porter's model is in terms of viewing products as their benefits. A car supplies the needs of the person to go to work, take her children to school and go on short breaks to the country. Thus in business it is often the mistake to look too

closely at the technical aspects of the product, for example making a car that is incredibly aerodynamic but that does not have the practical application of serving the wants of the consumer. Thus a product benefit approach will start analysis of the product from the viewpoint of different kinds of people/buyers and what they want to achieve with the product. This process is often practiced in business by looking for the competitive advantage of one's product, its unique selling point (USP), looking from the standpoint of the buyer. As we look at the product as a beneficial thing we see that the entry of substitute products into the industry is aspect while the entry of new firms in the existing product of the industry is considered to also be a potentially increasing aspect to competition.

When looking for a firm's strengths, Porter would say that you have to consider what your firm's position is relative to competing firms in respect of market structure determined by the Five forces. Do you have special relationships with suppliers that allow you to have a lower cost per unit? Do you have better customer service so your buyers are less price sensitive, essentially that they have less power? Are your products differentiated so that substitutes and other competitors are not sought after by buyers? Do you have a strong brand identity and positive place in the community so that new entrants are discouraged from entering the market?

One's weaknesses are areas where you have a necessary disadvantage compared to other firms in the industry. While some aspects of the Five forces model, such as new entrants or substitutes emerging are industry wide, other parts of this, such as the fact that your business is small and thus may have a higher cost per unit, are your own specific weak points.

As we said above, your opportunities can spring from your relative strengths, given that the market has not matured (in other words everyone has the product already or there are very many competitors and thus over-capacity), so your good customer service is an area to promote and communicate to buyers. Your lower costs compared to competitors mean that you can offer seasonal discounts on some lines to capture more market share. You may employ the best researcher scientists in the business so your strategy may be to become the leader in innovation for that industry.

5. Consumer Psychology and Brands

Brand identity is sometimes seen as a core aspect of modern business. We discuss in a comparative analysis the similarity as a social concept of brands and the nation-state. Following the establishment of monarchical government the nation-state became one that legitimised itself through an identity of itself and this relationship with the people. Brands follow a similar strategy. It is against the law to force consumers to buy one's goods. The brand developed as a non-coercive method for legitimising a product through establishing an identity and relationship with society. Much of the conventional wisdom says that brands are an information channel, essentially we can say that they compress information built up by associations of ideas built up in society through advertising and customer service with the product or range of products. Brands are also a key feature of

luxury good product identification and the aligning of oneself with certain brands reflects the identity one ascribes to oneself and is ascribed to oneself by others.

Depending on the niche or segment of the market that one wishes to trade in, there are different concerns that motivate and formulate strategy for brand development. The similarity of monarchical government across the world, in assuming the relative good, noble qualities of the sovereign as compared to the individual as being the justification for greater power, leads one to understand the key issue in establishing support for one's brand is legitimacy. That is the relationship of contribution to the cause of production of one's product must be one of making the consumer feel good. Monarchical governments were successful in establishing legitimacy for some time, just as the great brands of the 20 th Century maintained a great deal of market share, but were replaced in the West by forces of Liberalism. Essential to the process of western development, one might also say human development, is the notion of progress, a teleological change for the better, we lived in caves once but now we live in houses.

Liberalism said that everyone could be noble and good, worthwhile and important. Everyone thus could have power. Thus the brand that empowers the people is often successful. A simple version of this is the luxury clothes market which gives people status through their classification in society as being "stylish". Being "stylish" rather than fashionable is a learning interaction between the consumer, various products, cultural images/trends, aesthetics and the peer group of the consumer. Being stylish is linked to the concept of being rich, artistic in ones image, respecting oneself, powerful among other concepts.

This linking of concepts together; whether images, cultural identities, methodologies and life processes, social forces and political economic institutions, political interactions, cultural information and associations, can be used to develop a map of society and different market segments which is crucial to our "idea map analysis". Formation of links is a key area of future research which must be based on historical identification of subjective values, whether present or past history. The idea map gives the brand developer the chance to understand ideational areas of the society that other brands have not entered into and create a unique and potentially popular image for the product. By making something different one overcomes the credibility filter of a consumer which in the present is the desire for "the authentic", the truth rather than hype through the strategy of being novel and different to competitors. In fact people do not like their "buttons being pushed" and so will be interested in something empowering and liberating, given a dominant liberal ideology in the target market. The fact that many competitors will not know this methodology of idea maps means that a niche player's closer relationship to the consumer can be a comparative advantage for them, even though their resources may be far smaller. This is the strategy of a small company competing well with the big players through strength in strategy, in other words thought. Thinking costs nothing.

6. Business systems theory and Time-space Geography

A business must be seen as a system, that is a set of interconnected parts that relate to connections between society, the business, input costs and output costs. When you make your business model, you must develop an understanding of the social process(es) that you are engaging in and how they relate to financial flows in and out of the business. In essence you must look at how the business is systemically.

Consider a simple system such as a fountain. The water from the outputs of the fountain sprays water out into the base of it and goes down into a pipe that has a pump that brings the water back up to the spraying part of the fountain. We can analyse a set flow of water moving round the system. Assuming no water evaporation this system does not require any more water to be added. It is a closed system that neither grows nor reduces.

Now consider a system of feedback, say when one plays an electric guitar next to the speaker it is connected to. The sound from the speaker affects the guitar which then outputs more sound into the speaker which then outputs more sound from the guitar and so on ad infinitum. This is an open system, one that is constantly growing.

Using these two strategic concepts, that is maintaining a closed system for existing customers (i.e. retaining them) and enhancing the amount of feedback in your business system, i.e. setting off processes that snow ball and lead to a chance of massive product sales, you can develop more value for your business.

Drawing out the system of interrelationships of flows of money through your business and also your development of relationships with consumers; through brand development from idea map analysis, good will and product development, along historical lines as well as forecasted lines, can give you a clearer idea of what your business is doing and what its place is in society. Interestingly enough such an analysis applied to all firms in society can give one the basis for a True economic macro theory.

Time Space Geography

This is developed from an idealisation in quantum physics, whereby one draws a line of an individual's movement across space through time. Alongside idea maps this can be a useful tool for capitalising on opportunities that others may have missed or have only learned through trial and error. Producing a complete analytical model for your business is vital for the development of strategy and evolving your business system to take into account time space geography is a smart way to get ahead of the competition.

7. Innovation

How do you come up with something no one else has ever come up with? There are several methods for developing new ideas; Khunian paradigm shifts, "Joining the dots" and Critical component theory.

Khun said that technological leaps, such as from horse to steam engine, occur because there is a paradigm shift. That is that the thing which blocks the development of new ideas is mostly the models and established ways of thinking that hinder change in the way people do things. So to create a new idea one must challenge the conventional wisdom, the very beliefs people hold strongly to. In essence one must free one's mind and do the crazy thing that people would judge as being "not the done thing".

"Joining the Dots" is derived from the economist, Schumpeter. He also wrote about technological change and suggested that great leaps in thinking occur when a cluster of small changes interact and create new changes. He also underlined the importance in investing in developing new ideas. The key idea though is to draw a number of technologies as dots on a page and then look for different ways to join them together. Try this again and again and you will come up with new ideas. Whether they will necessarily take off depends on another aspect, the beneficial effects of the product on the buyer. That is to say the second stage of joining the dots is to put onto paper a number of beneficial effects that the created product would have and then seeing what kinds of consumers would be willing to buy them. From here you can do cost projections for the product and then do market research to see how much people would be willing to pay for the product. If it costs less to produce than people are willing to pay for it then you have a potentially successful product.

Critical component theory is partly related to creating barriers to entry to a market. Everyone knows that water is in Coca-cola. But not everyone can make it since they don't have the secret ingredient for it. This is the critical component of Coca-cola. Therefore once you have "joined the dots" you then need to isolate areas of the technology that are required for the production of this product which can be kept under your control, for example through seeking a patent on this area of the process. This creates a barrier to entry for the market for your product and therefore stops other business' from taking your idea. Innovation is useless unless you can keep the intellectual property for your own firm.

A strategy of continual innovation, whereby you become the innovation leader in an industry and deter rivals and new entrants through continually reinvesting your profits in research and development, is an approach where there are no critical components of production that can be patented and protected. This has the benefit that research and development may throw open new avenues for revenue growth by enhancing the number of benefits of the product. A key concern in this strategy is to make sure that your R&D department are focused on product benefits rather than technical improvements. By lowering the amount of profit in the industry to remain competitive since your competition will be forced to invest in high levels of R&D, new entrants will be discouraged from entering an industry since their perception of rate of return is low. However, your firm is investing in the hope of opening up new markets for new products which is where the return occurs.