BGame

Strategic Management Virtual Game for SMEs

Trainer's Guide

www.bgame-project.eu

Erasmus+

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Welcome to BGame!

BGame is a European initiative funded under the Erasmus+ Programme, designed for companies, especially SMEs, to understand basic rules of strategic management and market functioning.

In everyday business, entrepreneurs and business employees are facing fierce competition and try to be the best at responding to their customer's needs. These principles have led **BGame** partners through the design process of creating a strategic management game for companies, more specifically for their employees, that simulates how to effectively manage a company on the competitive market, while also providing efficient and relevant learning.

With a promise of creating an immersive experience in an entrepreneurial environment, **BGame** is based on business scenarios (based on real life industrial companies) that will lead players towards achieving their business goals successfully (highest revenue or highest market share, for example) and experiencing the consequences of taking a given action along the way in a risk-free environment. Moreover, players can make decisions, and through experimentation, can actively learn and practise the right approach to do things, while also being highly engaged in practising behaviours and thought processes that can easily be transferred from the simulated environment to real life.

It is through games, such as **BGame** that companies can rapidly capture and understand the connection between the learning experience and the real-life work and are drawn by an incredibly immersive and engaging environment where users further explore their skills and "learn by doing". Bearing this in mind, we present you an innovative learning tool, the **BGame**, a virtual online game where players (managers, representatives from SMEs and entrepreneurs) can select among eight business scenarios and lead their company towards successful internationalisation. The game is complemented with e-learning resources that help players take decisions in any round as it presents detailed explanations of the topics of the game, such as strategic management, international marketing, foreign markets, finances, among others.

We hope you enjoy **BGame** and we look forward to receiving your feedback!

The **BGame** Team

I. Introducing the training resources.

The human capital of employees is one of the principal factors that create the competitive potential for enterprises. Employees are required to function in uncertain and changeable conditions to which they must adapt. That is the reason why companies pay increasing attention to developing the skills and abilities of their staff and training is still the best method to develop employees' skills. To be effective, training methods should be closer to the real world of work. The most effective methods for diminishing the gap between theory and practice is using experiential methods based on Information and Communication Technologies (ICT), like virtual strategic games. A virtual strategic game is an educational method based on the involvement of the employees being trained, analysis of business world situations, creating a process of decision making by trainees, and feedback on the results of the business decisions.

BGame was designed as a training tool that allows players to understand basic rules of strategy and market functioning. The user not only has to fulfil customer needs by adjusting the product and service parameters but to coordinate all aspects of the enterprise holistically. The game allows its users to experiment and make independent decisions regarding the operation of virtual enterprises. This learning-by-doing approach is very effective, especially in business education. However, this approach can be complemented by in-depth discussions of some of the key concepts covered. The main aim of a virtual management game is not therefore winning but rather learning from the simulation and through the discussion of the decisions. The realities and reproducible situations, which are experienced in the game, lead to new knowledge. The pack of training resources utilises a range of training approaches and materials developed to enhance the profile and competency of trainers, to enable them to improve the quality of help provided to the target audience of this training programme on **BGame**.

1. Purpose of the trainer's guide

This trainer's guide (and all its resources) have been designed to support the initial training of CEOs, entrepreneurs, vocational teachers, teacher trainers and material developers and develop their skills and competences regarding strategic management. Moreover, **BGame** resources, including this guide, were also conceived to enable these users to cope in a better way with the future challenges of using virtual experiences and online virtual games to mentor start-ups entrepreneurs, collaborators, employees and students.

This trainer's guide provides thought-provoking and discussion-enriching background information on topics central to **BGame**, such as Strategic Management, Internationalisation, Human Resources, Sales, Finance, Marketing and Advertising.

This guide can be used as a training manual for organising internal training in Small and Medium Enterprises (SME), for self-study purposes or for material development. One can organise training courses for facilitators based on the information provided in this handbook along with the online virtual **BGame**.

Part of the activities and resources contained in this guide has been adapted from the European funded initiative entitled "Strategic Management Game (SMG)"[1], coordinated by the University of Poznan.

2. A framework for the training programme

The training programme suggested may be organised separately or can be integrated with basic or "refresher" training courses. It is our belief that most people learn best not just by studying but also by doing and, by trying out different hypotheses and discussing solutions. Here's a proposal on how to use the training programme.

- Please read the entire guide thoroughly before conducting the training.
- Use the visual aids suggested for the training.
- Arrange all required ICT resources and stationery/supplies for the sessions.
- Use local resources for materials production.
- Activate each participant in peer/group work.
- Give enough time for practice in the virtual environment of BGame.
- Spend time for review and feedback during the training programme.

3. Purpose of the training programme

The training resources presented were developed to assist the facilitators/trainers in developing training programmes for strategic management competences development through virtual games, within their own organisations.

This training programme bears in mind that "competitive advantage now relies more on skills and knowledge that on traditional assets such as brand names or big factories and simulations are essentially a way of helping people develop their skills and knowledge quickly" (Harvard Business School, 2000, p.4).

From the original **BGame** platform we have developed this trainer's guide with the help of all the teaching notes developed by the partners, as well as some visual aids that involve five multimedia presentations in PowerPoint, that contain several references, including short

1 ue.poznan.pl/data/upload/articles/20141204/.../**thestrategicmanagement**-final.pdf

2 ue.poznan.pl/data/upload/articles/20141204/.../**thestrategicmanagement**-final.pdf

videos that might illustrate and/or better contextualise some of the concepts presented in the 5 chapters of the second part of this guide: Introducing **BGame**. These visual aids are complementary of the teaching notes presented in this Trainer's Guide.

3.1. Objectives and Competences

Rather than offering traditional paper-based or online statistic courses, **BGame** training offers an incredibly immersive and engaging environment where users/trainees "learn by doing" and learn from their own mistakes in a controlled environment. This trial and error approach supports learning and potentiates teamwork, social skills, leadership and collaboration. The training resources conceptualised for this programme will include specialised modules that address specific skills and competences. This programme will be tested and updated so that it constitutes a sustainable and effective model to be disseminated and implemented in several European countries.

3.1.1. Objectives

On completion of the training programme, the participants should be able to:

- Implement the resources according to their organisation profile at local level;
- Conduct needs assessment for strategic management development;
- Prepare curricular units for tailor-made training;
- Understand the holistic nature of strategic management;
- Appreciate the importance of investing resources for return;
- Analyse the role of marketing and advertising;
- Adapt the role of sustainable growth;
- Understand the dimension of internationalisation;
- Understand the strategic importance of human resources' management;
- Understand the importance of interdisciplinary collaboration.

3.1.2. Competences

On completion of the training programme, the participants should develop the following competences:

- Lead and motivate employees;
- Develop critical thinking;
- Adopt sequential decision-making;
- Act responsibly and sustainably;
- Work in a team;
- Problem-solving and dealing with blockages;
- Process orientation;
- Creative thinking;

- Holistic system thinking;
- Use online virtual technology;
- Adapt to change;
- Reflect and be self-responsible;
- Give feedback.

3.2. Content outline

The training programme provides an overview of the following topics:

- An introduction to the trainer's guide and the training programme
- An Introduction to Bgame: virtual online strategic management game divided into 5 chapters:

Chapter 1: Understanding what Strategic Management is

I. What is strategic environmental analysis?
II. Knowing your external environment

Chapter 2: Going International

I. What does it mean to "go international"?
II. How should I go international?
III. International Product Strategies
IV. Going International: Success stories

Chapter 3: The importance of Human Resources

I. What are Human Resources?
II. Design of Job Positions
   a. Recruitment
   b. Retributive Policy
   c. Human Capital Development
   d. Human Resources Management Skills

Chapter 4: Understanding Sales and Finances

I. Introduction
II. Business Model Canvas
III. Methods and Sales Tecniques
IV. Writing a Sales Plan

Chapter 5: Advertising and Marketing

I. The Online Marketing
II. Finantial Reports

III. Project Appraisal Basic Elements

3.3. Participants

This training programme was designed for an ideal session that would contemplate a minimum of 10 participants and a maximum of 30 participants. We recommend that the sessions are not too large so that discussion can take place.

These resources are teaching tools designed primarily for the following target groups of learners:

- SME’s and start-ups executives;
- SME’s and start-ups employees;
- Entrepreneurs;
- Strategic management students;
- Trainers from training companies;
- Human resources managers;
- Educators trying to better understand the dimensions of strategic management;
- Other stakeholders interested in strategic management.

3.4. Introduction to Methodology

The training programme should follow principles of adult long life learning and/or experiential learning.

The method suggested for each session would have 3 stages:

(1) Stage one: INPUT

Trainers should introduce the concept or present the information for consideration or action.

(2) Stage two: PROCESS

After getting input from the trainers, participants should put into practice their newly gained knowledge.

(3) Stage three: OUTPUT

In this stage, participants should demonstrate their achievements by completing the several turns of the game. It is recommended that trainers incorporate participatory training methods including pair or group work and highlight discussion among team participants.

These training resources should be used as a guide to better understand the game and how it works. Furthermore, the training resources provide background information that the facilitator and/or can use to make the most out of the game, building a solid understanding of strategic management. The trainer/ facilitator can emphasise all or a selection of elements covered in the training resources, including Strategic Management, Internationalisation, Human Resources, Sales, finance, Marketing and Advertising. The training resources and any explanations based on them not only will help the user to be more successful at the game but also in gaining a strong appreciation of the key issues. As such, the game provides a basis for future real-life success in strategic decision-making within the enterprise setting.

3.4.1. Prepare the Training Programme

The preparation of a training programme should take into considerantion the given conditions in terms of duration, facilities, resource person availability, and trainees' qualification. The following example illustrates the programming for a 5-day training course.

Example programme of a 10-days training course

Day	Programme	Handbook Reference
Day 1	Orientation to the course: introduction to the training programme objectives, structure of the game, scenarios and areas of decision Participants share difficulties in Strategic Management online games. - Trainer's input on the rationale in Strategic Management gaming skills and Strategic Management in general.	Trainers' Guide Pages 5-21 Pages-22-51 Presentation 1
Day 2	Trainer's input on internationalisation assessment: 1. What is Internationalisation? 2. Sharing Inspiring success stories of enterprises.	Trainers' Guide Pages 52 – 61 Presentation 2
Day 3	Analysis of the importance of Human Resources. Trainer's input on SMEs' Strategies for Human Resources and for the design of job positions.	Trainers' Guide Pages 62 – 79 Presentation 3
Day 4	Trainer's input on Sales and Finances and on Advertising and Marketing.	Trainers' Guide Pages 80 –109 Presentations 4 and 5

Days 5 to 10	Trainer's input on the **BGame** online virtual game: analysis of the decision areas, scenarios, roles and practical information about the game. Playing the game. The game has 10 rounds in total. The trainees could play two rounds per day. At the end of the daily rounds, the trainer should gather the trainees in small groups and let them go through their experience in the game. Try to understand which have been their main decisions and their main difficulties. If necessary, please resort to the **BGame** resources created and further explore each topic. Evaluating the game.	Trainers' Guide Pages 5 – 22 BGame website

3.5. Qualification and competences of trainers

It is expected that a minimum of 2 experienced trainers should be engaged in the whole training programme. Resource person(s) having related experience could be contacted for conducting the session.

III. An introduction to BGame

1. About the game

BGame was created after the European funded initiative entitled "Strategic Management Game (SMG)"[2], coordinated by the University of Poznan, which aimed to transfer experiential and innovative teaching methods based on ICT, contributing to the quality of strategic management education. Aware of the success of SMG project, which was designed to allow players to understand the basic rules of how companies and the market function, a group of experts in entrepreneurship and education has adopted this methodology and taken it to other European Countries, such as Portugal, Spain and Austria. And this was the starting-point of **BGame**.

In everyday business, entrepreneurs and their employees face fierce competition and battle for customers. Any model implemented in a game should not only push the user to fulfil customer needs by adjusting their own product and service parameters but also force them to coordinate all aspects of the enterprise.

These principles guided us through the design process of our strategic management game framework - a tool for trainers and for SMEs' managers, enabling them to simulate how to effectively manage an industrial company in a highly competitive market.

Like SMG game, a basic advantage of this method of business education is allowing the players (Business Trainers, SME's managers and project managers) to experiment and make independent and risk-free decisions regarding the operation of their virtual factory. "This is called the *learning by doing* principle which is very effective, especially in business education."

Through **BGame**, we want to encourage players to have an understating of how an industrial company operates as a whole – not just finances, not just human resources, not just operations, but as a whole. *"When a player invests (virtual) money into one domain of a company they have to realise that they must not invest it into another part of the enterprise which may cause a decrease in economic indicators. Therefore, all business and management decisions must consider the whole company, not as a set of independent functions or departments."*[3]

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2 ue.poznan.pl/data/upload/articles/20141204/.../**thestrategicmanagement**-final.pdf

3 Source – The Strategic Management: Virtual Game Method in Business Education, by Aleksandra Gawel and Maciej Pietrzykowski

2. Presenting the decision areas

Players can make decisions in six areas: Marketing & Sales, Research & Development, Operations, Human Resources, Finance, and Strategic Management, which will be presented next. For each decision area, a set of parameters should be carefully considered, to be as close to the reality as possible.

The game has been designed to be played in teams and therefore, decisions in certain areas can be made by independent players called ***decision makers***. There are five decision-makers positions, which are: Chief Executive Officer (CEO), Chief Marketing Officer (CMO), Chief Operating Officer (COO), Chief Financial Officer (CFO) and Chief Technology Officer (CFO).

"It must be highlighted that decisions taken in the different areas ought to be linked with one another and form a coherent whole, just like in real business. For this reason, during the game, it is important to emphasise not only on analytical skills but also on teamwork, which is essential for an effective management of the virtual company. The company can also be managed by a smaller number of players, but in such cases, it is important to assign all the decision-making positions to the players before the start of the game (if the minimum number of players is one, then one person makes the decisions in all the designated areas)"[4]

BGame is a round-based game (almost all scenarios have 10 rounds) which simulates competition between independent industrial companies. Each team (forming a company) starts with the same level of resources (money, inventory levels, sales offices, workers, etc.) and is obliged to submit decisions divided into six areas:

- ***Marketing and Sales***. All decisions made by the players in this area relate to specific product-to-market relationships; i.e. opening/closing sales offices, setting product prices, selecting advertising channels.
- ***Operations.*** All operational decisions made by the players are based on manufacturing and supply chain needs; i.e. setting the volume of production for each product, selecting suppliers, product transfers in the supply chain (from headquarters to sales office/s, from one sales office to other sales office/s).
- ***Research and Development*** of products and production lines with respect to their parameters; i.e. increase/decrease the production capacity of production line/s, increase/decrease of the index in a certain product.
- ***Human Resources.*** Players make decisions related to various aspects of human resource management; i.e. number of production and sales workers, salary and pension levels for each group, number of holidays, extra benefits (health programme, sports activities, etc.).

[4] Source – The Strategic Management: Virtual Game Method in Business Education, by Aleksandra Gawel and Maciej Pietrzykowski

- ***Finance.*** Players decide how much they want to borrow from the virtual bank to support their business. If a company has a debt the players can also increase the automatically calculated instalment for a specific turn.
- ***Strategic Management.*** In this area, the mission and goals of the company are defined. This data is qualitative. Additionally, virtual managers determine the market share forecast.

3. BGame Scenarios: selecting the best company to play

In **BGame** there are eight different scenarios, from which players can choose:

Scenario 1: Heat Pump Factory

You are running the restructured branch of the bigger company, which delivers the heat pumps to the market. You must compete with other firms to meet the preferences of potential clients and to make the company profitable the same time. The game takes place in two markets - Poland and Germany - and players compete against each other, considering the interests of the clients to gain more market share in the countries where they are operating.

Scenario 2: Paper Mill

For five years, you have overseen a paper bags plant at one of the main paper mills in Italy. You have learned about the business, and you have a vision. You are also done with following orders from your boss, but let's focus on your true vision. You can deliver better quality at better delays, but you need to innovate on the industrial processes and the organisation of your people. You have found the engagement of some workers and modest capitalists to start a paper cooperative. This is your chance to set your vision in motion, and making a real profit out of it. But you will need to compete with other firms to meet the preferences of potential clients and to make the company profitable. The game takes place in three markets – Italy, Slovenia and Austria.

Scenario 3: Cupcake Factory

You are running a global company that produces and sells cupcakes. You must compete with other firms to meet the preferences of potential clients and to make the company profitable the same time. The company is in Portugal and players must open sales offices in London, United Kingdom and in Vienna, Austria. There are 3 different target groups of clients to consider, each one with different needs and expectations regarding the cupcakes. The players compete against each other, considering the interests of the clients to gain more market share in the countries where they are operating.

Scenario 4: Orange Juice Factory

"Orange or Nothing" is the name of a Spanish orange juice factory, which delivers orange juice to the market. You must compete with other firms to meet the preferences of potential clients and to make the company profitable at the same time. The game takes place in four markets - Spain, France, Sweden, Poland and companies are compelled to make decisions in following areas:

- *Establishing sales offices, setting marketing actions and product prices;*
- *Upgrading production lines, creating new products and modify existing ones;*
- *Products manufacture and their transportation to the sales offices;*
- *Managing employees, setting salary policy, establishing training and extra benefits for workers.*

Scenario 5: Clothes Factory

You are running a clothes factory, "El Sur", which delivers clothes to the market. At this moment, the second business generation is immersed in the internationalisation process of the company. "El Sur" Textile Company, is based in Alcoy, Community of Valencia, the strategic location is one of the most productive regions of clothes production in Spain. You must compete with other firms to meet the preferences of potential clients and to make the company profitable at the same time. The game takes place in four markets - Spain, Italy, Austria and Romania.

Scenario 6: Energetic Drinks (Artificial intelligence is available in this scenario)

You are establishing and running a newly created company, which delivers the energy drinks to the market. You must compete with other firms to meet the preferences of potential clients and to make the company profitable at the same time. The game takes place in four markets – Bucharest, Madrid, Warsaw and Vienna. Your company and your competitors are obligated to make decisions in the following areas, in 10 rounds:

- *Establishing sales offices, setting marketing actions and product prices;*
- *Upgrading production lines, creating new products and modify existing ones;*
- *Products manufacture and its transportation to the sales offices;*
- *Managing employees, setting salary policy, establishing training and extra benefits for workers.*

As this is a fully automatized scenario we strongly encourage playing this scenario first.

Scenario 7: Canned Soups Factory

You are running a company dedicated to taking Finnish cuisine and ingredients to new markets. You must compete with other firms to meet the preferences of potential clients and

to make the company profitable at the same time. The game takes place in three markets – Finland, Denmark and Italy. Players establish the production line in Finland but they can sell their canned soups in two markets: Denmark and Italy. These markets have a different structure of target groups and acceptable price level. Running sales offices in each of these locations at the same time leads to different cost levels both of maintaining the sales space and hiring the employees.

Scenario 8: Brewery

You are running a brewery company, which produces beer. You must compete with other firms to meet the preferences of consumers and to make the company profitable at the same time. The game takes place in two markets – the USA and Europe. BeerMiller has been a leading beer maker in Europe for ten years. The Company was founded in Copenhagen, Denmark in 2000 and today has twenty subsidiaries in twelve countries in Europe and the USA. The Brewing Facilities are in Denmark and Germany. The Company invests a lot in marketing, which has enabled it to achieve a position as a global leader in the industry. The brewing industry is a global business, consisting of several dominant multinational companies and many thousands of smaller producers ranging from brewpubs to regional breweries.

4. BGame Players: understanding the role of each player

In the **BGame** project we foresee the following player roles:

- **Business managers and/or owners of Small and Medium Enterprises**, preferably belonging to the industrial sector (not exclusively though), who wish to:
  (1) play against the artificial player (1 game scenario pre-determined by the game) or
  (2) wish to involve their employees in the game, by dividing them into 2 teams of at least 2 players each.

- **Business trainers** who provide training in SMEs and wish to use **BGame** as a learning tool, especially when approaching the subject of Strategic Management.

In the next paragraphs, we will provide further detail about each role and we will propose methodologies for implementing it successfully.

4.1. For business managers and/or owners of SMEs

Every day, the actions, decisions and attitudes of the employees impact business success. With increased business expertise, they'll understand how departmental objectives and their own jobs fit into the big picture. And that means higher levels of commitment and motivation.

BGame simulation makes the learning come to life. Learners use the knowledge they have and insights from the simulation to look at their own company. They explore strategies, processes, financial concepts, terminology, profit drivers, cash flow, the competition and more. It's in **BGame** that learners also connect to their own behaviours – the day-to-day decisions and actions that impact their own virtual company. And this is where Strategic Management gains a deeper meaning.

Strategic Management means that the management team is going to gear employee activities towards the achievement of specific goals and implementation plans. Without using Strategic Management, your decision-making can be reactionary, which can lead to costly mistakes. These might include managers and employees making decisions that aren't in line with your goals, money being spent on unnecessary expenses and customers having different experiences each time they interact with your company. Build predictable patterns through Strategic Management because they're better for staff and customers.

Strategic Management begins with writing a plan that includes long-term goals. Assign each goal a deadline and a method of measuring whether you have achieved it. These are the targets that drive operations in the small business. Assign employees or departments to entire goals or their component parts. As part of your Strategic Management, align and realign employees and resources to your goals until they're accomplished. You also need

your management team to reinforce the importance of goal implementation. Employees must see that meeting their goals will help the organisation perform better and generate more profits. Sell benefits of this business growth such as having more funds available for employee compensation and benefits.

As a business manager, how you implement strategic goals impacts your organisation's performance. You'll need to create short-term goals for managers and employees that fit your overall strategic plan, as well as long-term goals. Motivate employees to perform well by setting high expectations for each of them and tying their goals to specific business goals. Make it easy for them to see the impact of their work on the profitability of your company.

With **BGame** we promise that you will never forget about the importance of Strategic Management and everything it entails:

- Defining your mission statement;
- Planning your organisational goals;
- Aligning your strategy and sense of direction.

In **BGame**, the scenarios will help players gain a clearer insight into the importance of the mission, goals and strategy of the company in their pursuit of success. In a risk-free environment, players will be able to take decisions of a variety of areas, including finances, human resources, promotion and advertisement, among others and understand the implications it has on the business.

Methodologic Suggestions:

Divide your employees into 2 teams (maybe try to use this competition between different departments) and allow the players to decide on the decision-maker roles they will take. If possible, have them agree to choose a role that is different from the role they have in the real world.

Then select the scenario you wish to play and schedule one round per week. The game has 10 rounds in total. At the end of each week, you should schedule a meeting with the teams and let them go through their experience in the game. Try to understand which have been their main decisions and their main difficulties. If necessary, please resort to the **BGame** resources created and further explore each topic. At the end of the game, why not host a small award ceremony and award the players? In the end is not about who wins the game, but about understanding what managing a company entails!

4.2. For Business trainers

BGame contains a wide set of resources on Strategic Management that can be used and adapted by business trainers in their own sessions. The starting point for their training sessions should be the training resources that will be complemented by the game. Through the game, trainees can discuss their decisions with the trainer, who can further detail a specific topic or provide guidance in terms of the upcoming decisions. Combining the training resources with the game is a powerful learning investment.

5. Practical information about BGame

5.1. Creating a player account

To create a **Player Account** you should access **BGame Website** (www.bgame-project.eu) and select "**Let's Play** - Play BGame!" Then you should proceed as follows:

- Define your ***User Name***
- Insert your **email address** (this will be required for your login)
- Define your ***Passwor***d
- In the ***Users Group*** list, you should select "***No Group***".

To login, you will just need to insert your defined e-mail and password. Should you wish to have a different password (or have lost yours), you simply select "Forgot Password" and follow the procedures.

5.2. Playing the Game

After you create your account you will be assigned one scenario from the list you have previously selected. You will receive an e-mail once the game environment is ready to welcome you and your team! After receiving this e-mail, you should login to the platform using your **Player Account** credentials. On the main menu, you will be able to see a list of the games assigned to you as a player.

To start the game just select **Play**.

As the game starts, you and your team members should select the roles of the decision-makers from the box. As previously presented, these are Chief Executive Officer (CEO), Chief Marketing Officer (CMO), Chief Operating Officer (COO), Chief Financial Officer (CFO) and Chief Technology Officer (CFO). If a player is playing individually against the Artificial Player (only available in 1 scenario), the player should select all decision makers roles.

After the assignment of each player's role, the game will start with an introduction to the industrial scenario.

Chapter 1: Understanding what strategic management is.

1.Introduction

In this chapter, you will be able to explain the definition of strategic management, identify the importance of strategic management to your business, list the key tasks for strategic management, explain how to grow your business and finally, identify the differences between planned and unplanned growth, as well as managed and unmanaged growth.

Strategic management deals with organisational change. Every organisation and every business change over time. The changes inside the company reflect what happens in the surroundings of the business and how the business reacts to it but also changes that happens inside the business without outside interference. New opportunities arise, personnel leaves and new jobs are required, new relations are established, new customers acquired, etc. Change within the business is, therefore, as logical as a change in life itself.

There is an important difference now between changes that happen because of uncontrollable factors and changes that are a result of explicit and intended actions of the business entrepreneur and the employees within it. The former are reactive actions, while the latter constitute pro-active steps to influence the future state of the business.

Strategic management is about being proactive. It is developing goals for the business, as well as the strategy to get there. Strategic management is a concern with the planning and predicting the future of the business, accounting for the present and future of the surroundings of the business. Once the entrepreneur has an idea of how the future could look like and what the position of the business should be within that future than one could establish concrete objectives, as well as the road to follow to reach these objectives. These objectives and the strategy to achieve them are set such that they will lead to a maximum return on investment.

Nevertheless, the future changes and unexpected events happen which may influence our plans. Some people fell that it is useless to plan for the future or to practice strategic management. The result of that attitude is that one will be dependent on what happens and meanwhile remains static or reactive, waiting for the fate to occur. In this case, return on investment will be low and opportunities may be missed. The fact that the future is unpredictable only assures the need for continuous readjustment of the company' strategies.

2.Overview of Strategic Management

In the context of business education, management is focused on several functions that can be learnt separately – for example, finance, production, human resources, marketing, operations, logistics, etc. These functions, although studied separately, form part of a whole. When running a business, reference is made to all these aspects and to their overall contribution to the success of the company.

Strategic Management as a discipline focuses on:

- The direction that management intends to go, and the strategic plan for getting the enterprise moving in this direction;
- The total business including the internal and external environment in which it operates;
- The managerial tasks of implementing and executing the chosen strategic accordingly and successfully.

The main consideration in strategic management is "what" the entrepreneur must do to make the business prosper. The process entails that action follows careful thinking and mapping out of what has to be done before further development takes place.

2.1 Definition of Strategic Management

There are a variety of definitions for "management". The one we adopt here is the activity of maximising the input-output relation regarding resources, and performing activities to obtain best results and achieve the business mission and objectives. In brief, it is the process of formulating and implementing **strategies**. In general terms, strategic management helps in managing the business's resources to achieve long-term objectives. The definition emphasises the series of steps a manager, entrepreneur or business representative should take. These include:

- Performing an environmental analysis;
- Establishing strategic direction;
- Formulating strategy and implementing it;
- Exercising strategic control.

This definition suggests that strategic management is continuous. Moreover, it is an interactive, cross-functional process aimed at keeping an organisation as a whole, appropriately matching with its environment. The manager, entrepreneur or business representative should never finish the strategic work.

Remember!

Entrepreneurship entails knowledge of the business current and future competitive advantages. Lack of such clarity may result in failure to capitalise on your opportunities, and cushioning yourself from the forces threatening your business.

2.2. Some considerations about Strategic Management

Benefits of strategic management to growth-oriented businesses include:

- Better guidance to the entire business on the crucial questions – *"what are we trying to do?"; "what are we trying to achieve?"*
- Directions to improve your financial and management performance;
- Readiness to face the winds of change, new opportunities and threatening developments;
- Rationalisation to evaluate competing budgets;
- Integration of the numerous strategies-related decisions in the are of finance, human resources, marketing and production;
- Building a more pro-active management posture;
- Stronger business members' commitment to attaining long-term goals.

2.3. Strategic Management vs. Strategic Planning

Strategic Management is about managing the business in a strategically oriented manner, keeping the overview and steering the business in the right direction to achieve goals and objectives

Strategic Planning is about the planning process of developing strategies and how to implement them. Strategic planning is, therefore, process oriented. If the planning process is conducted well, it will be much easier for the entrepreneur to maintain the overview, and manage the business well towards set goals and objectives.

2.4. Checkpoint

Below are some important questions and issues you should consider when you want to expand your business.

- Think about the products you sell. How well do you produce and deliver them?
- Who is your customer?
- Do you have a clear strategy for your company? If yes, how would you describe it? What considerations have you got for implementing it?
- What do you want from your business? What are your businesses' strengths and weaknesses?

2.5. The strategic planning process

This process represents an overview of the complete strategic planning process for small and medium enterprises (SME) and it involves distinct steps, such as, developing the vision (mission,

goals and objectives), strategic analysis, strategy formulation, actions plans/budgets, strategy implementation and finally the monitoring and evaluation of the strategies. Although these various tasks are interrelated, they will be dealt with separately over the coming units to guide you in the process of strategic planning.

The final result of this process is a strategic plan what will effectively guide the operations of the business over a set period of time. It is important to understand the need to regularly assess the validity of its objectives in relation to the business environment. As we go through this chapter, the processes and steps become clearer. We will also introduce you to simple and practical tools that will facilitate the analysis, formulation and implementation of your strategic growth plan in a smooth manner. During this process you will:

a) **Analyse the business environment:** you will analyse both the external and internal business environment to be able to assess the key industry success factors, core competencies and competitive advantage of the business. It is important to have a number of competitive advantages in order to be able to position the business successfully in the market and thereby achieve growth.
b) **Develop a vision/mission:** you will clarify and understand what your business is and specify what the organisation aims to achieve;
c) **Develop goals and from there, develop measurable objectives:** this allows you to then decide on the goals and objectives of the organisation. Translate the vision and mission into goals first and subsequently; translate these goals into measurable objectives;
d) **Develop a generic growth strategy:** strategies are the means of achieving the objectives that you have set for the business. By developing a generic strategy for the business, it positions itself strategically within the market and builds on its strategic strengths.
e) **Develop functional growth strategies, action plans and supporting budgets for marketing and Human Resources Management, and Finance as a support function:** based on the overall growth strategy and the set objectives specify the functional growth strategies and developing action plans for each function. Together, the growth plans from the complete strategic growth plan. Action plans for each function are required to ensure what will be done and by whom. Many businesses develop excellent plans but fail to put them into action. That is why action plans are crucial. In order to be able to implement the plans, it is also necessary to prepare a budget.

2.6. Monitor and evaluate performance

Businesses need to monitor and evaluate their performance to observe whether they are still on track with implementing their activities and reaching their objectives. If necessary, goals and objectives and/or growth plans and/or actions may need adjustments over time. From time to time, the business will, therefore, need to review how the strategy is being implemented.

2.7. Chapter Summary

Strategic management is about being proactive. It is concerned with setting goals to steer the business and maximise investor value. Strategic management focuses on the total enterprise, the direction to go and the managerial tasks of executing the chosen strategy.

The strategic planning process is concerned with the process of planning, developing and implementing a growth strategy 'through the process of strategic planning, the business engages in important activities such as predicting the future, setting goals for the business and designing and implementing a strategy to achieve these goals. Since the future can change, there is a need to review strategies from time to time and adjust where necessary. Strategic planning process comprises many steps as follows:

- Vision aid mission development
- Setting goals and objectives
- Analysing the business environment
- Choosing a generic growth strategy
- Developing functional growth strategies and action plans
- Implementing the growth strategy
- Monitoring and evaluating the growth strategy

Strategic management is important for the business as it reduces the chances for business failure, and increases the chances for higher profit margins and good financial performance. A strategic management approach helps businesses to be better organised, more focused, efficient and effective, be more an alert to opportunities and threats, more proactive, and better coordinated in its efforts.

3. Analysis of the environment

The first step in the strategic planning process is to analyse the market. Analysing the market will assist you in the identification of opportunities, and to assess whether the objectives you have set earlier are achievable. In this chapter, we will analyse both the external and internal environment that shapes your growth-oriented business, as well as the tools and methods that will make it possible.

The business environment is made up of all elements that surround an SME. The environment in which you operate is so powerful that failure to consider environmental factors would be dangerous to your business.

You, as an entrepreneur, need to appreciate that the process of strategic management takes place in a complex environment of business, political, economic, social and technological and ecological influences. The environment has become so dynamic and complex that at times, if not most times, it is difficult to determine how the environment will influence events and, in this case, your business operations.

3.1. What is strategic environmental analysis?

Your business operations are not carried out in a vacuum. You operate in a wider environment that influence whether your business succeeds or not. It is important for you to have an appreciation and understanding of the environment that your business operates in.

Strategic analysis is all about finding the optimal match between the competitive strengths of your business with the opportunities the business environment offers, thereby maximising business growth and profits.

The strategic environmental analysis is conducted by collecting and analysing information on the business, environment, by assessing how the environmental changes impact your business and by identifying how you can take advantage of opportunities that arise within this environment. In other words, this analysis assists you to position your business to become more competitive and achieve sustainable growth. With a good grasp of the environment, you will be in a position to anticipate events and strategize accordingly, in order to gain competitive advantage.

Leading a successful business and steering it in the right direction, takes place in a complex environment of business, economic, technological, social and political influences. The strategic environmental analysis is, therefore, only successful if it is carried out with relevant, accurate and updated information. You need information to understand the state your industry is in, who are the main players, and the overall growth trend in the industry, etc. Access to reliable and relevant information for your business makes it possible for you to start developing a picture of the industry to consider alternative strategic options for business growth.

3.2. Knowing your external environment

The external environment is a crucial factor that determines the success of your company. You should fulfil customer expectations, while on the other hand suppliers must provide you with important resources. Technology is the driving force behind your processes and your competitors want to expand their market shares at the cost of your company.

Porter´s Five Forces model will help you analyse all stakeholders and your company position in terms of the competition. Strategic groups are another, more detailed way to observe your company´s position with regards to market competition.

Customers are one of the most important stakeholders of your company. When running a business, you should obviously be aware of who your customers are and what bargaining power they can develop, depending on the characteristics of your products or services. The aggregation of customers is defined as "market". You can distinguish between different types of markets such as consumer markets and organisational markets and the type of market can have a major impact on your company success.

Technology, suppliers and synergies are the three important external factors that can have a major impact on your sectors and subsequently on your own strategies. Suppliers can influence the profits

of your company, depending on the negotiating skills of the supplier. Synergies can help you save resources in one process, but often at the cost of another process. Technology helps you produce and communicate.

Competition is often perceived as a threat, but at the same time, it can serve as a driving force in the development of your company. The labour market is a virtual marketplace, where employers and (potential) employees are matched. Labor Market Models focus on the bargaining power of each individual employee. Generally, you can say that the higher the education, the higher the wage.

3.2.1 What are key forces of the external environment?

Your company is affected by many forces, which must be observed to optimise your business strategy. Customers and their aggregation in the form of markets are defined as the demand side of business transactions. From a seller´s perspective, a market is the group of customers who are either actual or potential buyer of a respective product or service. Customers are the central stakeholders, and hence you should carry out a detailed analysis on them.

Suppliers, on the other hand, provide your company with raw materials, products and services, which are necessary for you to produce your goods. Suppliers influence the profitability of a sector/ business, since the products and services they sell, are used as input for the value creation process of a sector/business. Technology is the driving force behind a great number of processes in a company. You need technology not only in your production processes but also for communication procedures, logistics, etc. The labour market functions through the interaction between workers and employers. Newer models of the labour market focus on the bargaining power of both sides.

Competitors are also an important part of the analysis of the supply side of the market. Competitors can be found in similar sectors - e.g. transport - a bike can be a substitute for a car - and in the same strategic group.

Another opportunity to strengthen your competitive position is to perform a search for potential synergies. The whole process of performance creation - the so-called value chain - must be observed with regards to cost and differentiation advantages. Sometimes the advantage of the combination of value chains is contradicted by the increase of complexity of the process and accordingly higher coordination efforts and a loss of insight into every company parts.

3.2.2 Why is observing your competitors an important issue?

Your competitors play a decisive role in the analysis of the supply side of the market, as they can help you gain a better understanding of your position with regards to market competition.

3.2.3 Who are our products aimed at?

Knowing your customers is very important. You should also keep in mind that in a market, the needs and desires of different customers are manifold and therefore the same strategy should not be applied to all your customers. Obviously, it is impossible to satisfy all customer's needs in a specific market. Markets can be separated into two different types:

- Consumer markets, which consist of individuals and households that are purchasing goods and services for their personal needs;
- Organisational markets, which can be segmented into producer markets, reseller markets and government markets.

These market types have their own characteristics and operate under their own rules that are important for the strategic development of your company.

3.2.4. Checkpoint

Take some time to think about the following issues for your sector/company:

- What is purchased on the market?
- When is it purchased?
- Who exactly are the market participants?
- Who will purchase it?
- Why will it be purchased?
- How will it be purchased?

3.2.5. Analysing conceptual and perceptual environment

The following key factors must be considered when analysing your position in the market.

- **Customers:** Knowledge about your customers is very important for your company. Here are some tips which can help to analyse your customers:
    - Your customers have needs that must be satisfied.
    - Distinguish between customer groups and undertake market segmentation.
    - Analyse the competition in your sector and determine how you differ from your competitors.
    - Keep the following question in mind: *Why do customers buy my products and not the products of my competitors?*
    - Finally, you must decide, which competitive strategy you use in specific markets: *Will you use a price leadership or differentiation strategy with regards to competition?* Decide, which markets you will enter and in what order.
    - Ask yourself the following questions: *Who are the target groups? How big are the markets? What are the factors that are decisive for customers when buying? What*

market share do I/my company want to achieve?

- **Suppliers:** The success of your company depends heavily on the prices of your suppliers. Below are some important tips about suppliers:
  - The degree of concentration: The lesser the number of suppliers in a sector, the bigger their influence in this sector. However, if there are many suppliers and only a small number of customers, the demand side of the market can define the prices.
  - The degree of standardising: The design of products and services are also an important factor in terms of the bargaining power of suppliers. The more standardised they are, the easier it is to substitute them. If they are very specific in their design there is normally a high substitution cost? Due to the high expenses, which will occur, when changing the supplier, e.g. the introduction of new logistics software.
  - The possibility of forwarding integration: The bargaining power of a supplier is increased by his ability to increase his activities in your sector, as it may be easier for him to find other customers.
  - The importance of the sector: bargaining power also depends on the importance of the sector for the supplier. If a producer earns a major part of his profits or his revenues in your sector, then you can expect that he will care about the companies in your sector and that he will try to respond to your needs. If on the other hand, the sector is of minor importance for him, his bargaining power is strengthened.

- **Technology**: In observing the technology used in your sector, you should consider the following points:

  - **Production technology:** Observe the trends in the development of process engineering. Being ahead of your competitors can be a decisive success factor for your company. *Is it possible for you to innovate your processes or products while using the current production technology? Can you atomise or standardise production with the help of new technologies? Do you undertake process control with the aid of computers?*
  - **Substitution technologies:** Substitution technologies are technologies that can replace other technologies in different sections and processes of your company. *Is an existing substitution technology an innovation to the technology you are already employing in your processes? What is the cost of the substitute technology when compared to your current technologies?*

    Product innovation: *What are the development trends in product technology? Is there further potential for product innovation?*

- **Labour market**: Your employees are one of the most important resources your company has. As the labour market is the source of potential employees, it is worthwhile to observe the labour market regularly. The behaviour of workers and labour unions can influence the performance of your company significantly.

3.2.7. Porter's Model of Five Forces

Porter identified five competitive forces that have an impact on every sector and every market. The characteristic of each of the five forces determines the intensity of the competition in one sector and therefore its profit potential and its attractiveness for potential entrants.

Therefore, your business strategy should seek to weaken the threat of these competition forces with regards to your company. Porter´s model serves as a tool for analysing the driving forces in the respective market sector. Based on this information, you can decide about appropriate strategies for your business.

Porter´s Five Forces model is an analysis tool, which focuses on five competitive forces in an industry. Porter´s model of Five Forces enables you to analyse the competitive position of your company in the sector in which it operates.

The five forces are:

- Threat of new entrants
- Bargaining power of buyers
- Threat of substitute products or services
- Bargaining power of suppliers
- Rivalry among existing firms

The following diagram depicts the interaction between Porter´s Five Forces:

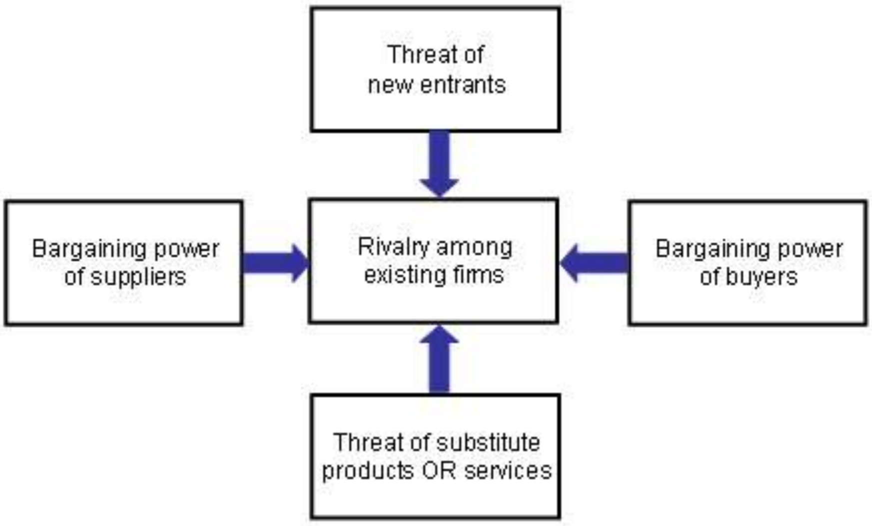

Figure 2: Porter's Five Forces

Porter's model is suitable for any company regardless of its size and the industry in which it operates. According to Porter, the five forces model should be used on an industry level. It is not designed to be used with regards to an industry group or industry sector level. As you will see strategic groups weakens the importance of Porter's five forces, as an industry consists of a large

diversity of companies. The most important issue in corporate strategy is the selection of industries (lines of business) in which the company should compete; and each line of business should develop its own, industry-specific, five forces analysis.

3.2.7.1 How do I implement this Analysis Method?

This section provides a detailed overview of Porter´s Five Forces as well as questions and definitions, which can help you, analyse them.

Threat of new Entrants

New entrants are always a potential threat to existing companies. This could result in a possible decline in prices and a possible loss of market share, which can put pressure on established companies. Competitors can try to establish their position and generate customer loyalty by employing various strategies. A higher capacity for innovation, franchising and brand differentiation are only a few ways helping which you can establish yourself in the sector in which your company operates.

Keep in mind that, if you are a new competitor you will be always confronted with entrance barriers. These barriers can be divided into two categories: existing barriers and reactions of established companies in the sector:

- **Economies of scale:** This occurs when production technology generates high fixed costs in relation to the running costs. As your company increases production costs will be much lower and hence, you can produce more profitable products than a small company.
- **Product differentiation:** Product differentiation means that your products differ greatly in comparison to the products of the competitors. This can happen through differentiation in aspects such as the technology employed, materials used, product appearance and equipment.
- **Capital requirements:** Here you should be especially aware of sunk costs. Sunk costs are past costs which can´t be recovered if a company decides to leave the market. You also should observe sector specific issues.
- **Switching costs:** Switching costs apply to your customers when they consider switching from your product.
- **Access to distribution channel:** Existing relationships and agreements between manufacturers and key distributors in a market may also create barriers to entry. Companies aspiring to enter a market may look for a unique distribution channel to provide market access as well as to differentiate their products.
- **Cost disadvantages independent of size:** Established companies often bear advantages because of production technologies employed, access to low priced resources, advantageous locations or subsidies.

Rivalry among existing Firms

Intense competition is the result of a set of interacting structural factors, such as:

- Numerous or equally equipped businesses: Competitive pressure rises automatically by a high concentration of competitors. Market conditions are often unstable; if businesses are of similar size and are equipped with similar resources. In such an environment, small changes (i.e. in prices) can have a noticeable impact on all competitors.
- Slow sectoral growth: In phases with slow (or nonexistent) growth cutthroat competition begins, whereby a battle for key markets occurs.
- Lack of differentiation or low switching costs for customers: If it is hard for customers to differentiate between products, then the competition will take place through advertising more than on a unique selling proposition. With low switching costs, customers are more likely to switch to products of other competitors.
- High storage costs or highly perishable products force a producer to sell goods as soon as possible.
- Strategic stakes are high when a firm is losing its market position or has the potential for great gains. This intensifies rivalry.
- High exit barriers can place a high cost on abandoning a product. The firm must compete.
- A diversity of rivals with different company culture, histories, and philosophies can make an industry unstable.
- Industry Shakeout. A growing market and the potential for high profits induces new firms to enter a market and incumbent firms to increase production.

Threat of Substitute Products or Services

This can take place if a customer can substitute a product or service with an equivalent product or service. If the prices in your organisation increase, customers will likely search for substitutes in another organisation. When analysing substitute products you should consider the following (Anwander 2002):

- How great is the threat that substitutes can have on your products or services?
- How high is the quality of possible substitutes?
- What research & development is being undertaken in the sector and which may result in possible substitutes?
- What is the price-performance ratio?

Suppliers and Customers

Bargaining Power of Suppliers

Suppliers are an important factor in the Porters analysis, as your company is dependent of the quality of the products and services of your suppliers. You should consider the following questions to analyse, how suppliers affect your sector and your company (Anwander 2002):

- What pressure can the supplier put on you? (e.g. in terms of your dependence on the product)
- Can they find new customers and if so, how fast?
- How is the dependence relation with your suppliers?

Bargaining Power of Customers

Lastly, analyse your customers. The following issues should be considered:

- How important is your product or service to your customers?
- Are you dependent on specific customer (groups)?
- What is the fraction of the revenue that you gain by several customers (groups)?
- How high is the likelihood that your customers will buy substitute products?
- How much information do customers have access to, regarding substitutes?
- Which trends do you expect as far as the needs of your customers are concerned?
- How important is your brand for your customers?
- What is the level of demand with regards to quality?

3.2.8 Unit Summary

After reading this unit you should be accustomed to the external environment of your company and key analysis methods which can be employed to gain a better understanding of it. The starting point is the introduction of the contextual and perceptual environment of your company. Furthermore, the observation of technology, suppliers, synergies, competition and the labor market should lead you to Porter´s model of Five Forces, which covers the afore mentioned factors and how they influence your company. Let´s have a look at some points to consider when applying the five forces model:

- You may do more than one analysis using the Five Forces Model if you are in more than one industry or market. In principle, you do one analysis for each product line;
- Look at the competitive forces not in isolation, but in terms of how they interact with one another. For instance, your buyers may seek to enter the market via backward integration. Or suppliers may also seek entry via forward integration. Equally, buyers may look wider for sources of supply if competitive rivalry is low, enticing new entrants in.
- When industry changes significantly it is frequently not because of one competitive force, but actually because of changes to two or possibly three forces combined.

3.2.9 Checkpoint

1. Analyze your industry using the five forces model and draw conclusions on the impact of the forces on your business.
2. Over the past two years of operations, has your company faced any challenge from competitors? Were these new or old competitors? List the competitors indicating new/old competitor, and areas in which they posed challenges to your business.
3. What steps did you take to protect your market position, and were you successful?

3.3 Internal Environment

It is important that you not only know the internal environment of your company extremely well but that you are also able to analyse the business processes and the organisational and hierarchical structure of your company, as analysis is the first step towards improvement. Break-even analysis and cost-benefit analysis are techniques that focus on your company, your suppliers and your customers while benchmarking and SWOT analysis techniques give you insight into your competitors. An early warning system that can help you identify weaknesses in your company is the so-called balanced scorecard. This system operates through observing key figures. Another integral part of a company is management. A company depends mainly on its staff and most importantly on its management and its leadership style.

There are two different ways of looking at your business structure; organisational structure and operational structure. While the organisational structure viewpoint offers a static view of your resources, the operational structure provides insight into the structure of a process.

Company resources are classified as material resources (e.g. machines, employees) and immaterial resources (licenses, know-how, corporate culture etc.). Material resources can only be used in one location at one time, while immaterial resources can be used simultaneously in various locations. Machines, employees, raw materials etc. are counted among material resources, while licenses, company culture etc. are counted among immaterial resources.

3.3.1 Analysing the Internal Environment

This subsection presents different methods to help you analyze the internal environment of your company. You do not need to include all of them, but each of them is helpful in providing a detailed picture of your company.

- **Benchmarking** helps you learn from other companies or organizations.
- **SWOT** deals with strengths and weaknesses of your company as well as with opportunities and threats posed by the external environment and it analyses the internal processes of company as well as external factors.
- **The Balanced Scorecard** allows managers to have a wider overview of an organization since it contains financial and non-financial measurements in a single report.

3.3.2 Which are the most important Analysis Methods?

Analysing your company´s internal environment is crucial for your business success. There are different methods with different objectives, which can help you analyse the internal environment of your company. Using only one of these methods is often not enough. This section deals with the following methods: Benchmarking, Balanced scorecard and SWOT-analysis.

Benchmarking.

There are numerous definitions for benchmarking. One of the most popular definitions, established by the pioneer in benchmarking, Robert C. Camp, describes benchmarking as "the search for the best industry practices which will lead to exceptional performance through the implementation of these best practices" (Camp, 1989). Camp considers benchmarking as a good tool for organisations aiming to improve their processes. (Daschmann 1996)

SWOT analysis

The SWOT Analysis is an important tool that links the external analysis (Porter's Five forces Model) with the internal capabilities of your business SWOT analysis assists in identifying what the company is doing right or wrong what it can do well, what it can't while laying that against the external environment. It forces management to make a candid list of internal strengths and weaknesses as well as a compilation of external opportunities and threats. These pave the way for strategy creation. This analysis will assist the business to take advantage of opportunities identified in the external environmental analysis, to position the business strategically in the market, and to avoid threats. It will also allow the business to capitalise on it strong areas and identify those areas that require further development.

Balanced Scorecard

Robert Kaplan and David Norton proposed the concept of a balanced scorecard (BSC) as a methodology for measuring an organisation performance beyond profit margins and dividend yields. (Rivenbark & Peterson 2008) The balanced scorecard measures four dimensions of an organisation financial, internal business, innovation and learning, and customer. For each of these dimensions the scorecard demand managers to develop metrics, performance targets and at the end of each period collect and analyse the data gathered.

3.3.3 Why should I employ these techniques in my company?

The key idea behind benchmarking is that companies (competing or non-competing) shall improve business processes by comparing performance measures and learning about best practices. Benchmarking takes place within the company, against competitors and against companies from other sectors.

There are different perspectives that you have to consider when developing a balanced scorecard. The balanced scorecard has helped managers to recognise and understand that measurements supported only by numbers are not sufficient to explain the entire performance of an organisation. "As much an art as a science, the balanced scorecard is a living process that must be adaptive to constantly changing external forces and internal course corrections. You learn as you go" (Buytendijk).

The SWOT analysis technique can help you find out if your strategy has the potential for success under certain circumstances. Furthermore, your company-specific strengths and weaknesses are tested, to see if they can react to transformations of your company´s environment. In business situations, you are often confronted with more than one option. In this case, a cost-benefit analysis is very helpful in evaluating different alternatives such as potential investments. Furthermore, with the help of cost-benefit analysis, it is possible to estimate if an investment is profitable.

Break-even analysis is often used to help plan your production and purchasing, as it is simple to use. It is also used to find the minimum amount of sales needed in order to make a profit.

3.3.4 How can I implement analysing methods in my company?

Strategic benchmarking: Strategic Benchmarking involves 7 steps, and several of these steps can be run simultaneously:

Step 1:

Identification of the benchmarking object: Companies, structures, working places, products, components, individual parts, core processes and supporting processes can be subject to the benchmarking process.

Step 2:

Formation of a benchmarking team: A project leader is designated and a team of 5 to 6 people is formed. The team members need certain preparation and training.

Step 3:

Intern (Internal / interim) analysis of the benchmarking object: The benchmarking team defines the key data required (time, financial, quality and input/output).

Step 4:

Determination of the benchmark best practice case/company: Best practice cases/companies can be found within the company (Intern benchmarking) as well as within (competitor benchmarking) and outside your sector (functional benchmarking). It is your task to find an appropriate benchmarking partner.

Step 5:

Analyses of the best practice case/company: This step is the most difficult and time-consuming one in the benchmarking process. The analysis of best practice cases/companies happens on two levels. First, the "What" (key data, objectives) will be determined, secondly the "How" (proven, good practice processes). The focus of the questionnaire deals with the question of "How". The best way of data collection is to have a personal conversation with the benchmarking partner.

Step 6:

Evaluation of results and analysis of outcomes: You should consider structural differences between the best practice case/company and your own company in the evaluation. The main task here is to find out how the results are affected by internal and external conditions. The more both companies are alike regarding size, complexity, structure, life expectancy of the products, ownership structure etc, the easier it is to implement successful benchmarked processes.

Step 7:

Determination of new goals and processes and implementation of recommendations: based on the results of the previous steps, the benchmarking team sets goals with the management. The team proposes measures (action plans, communication, controlling etc.) and is also responsible for their implementation. Benchmarking against a competitor is difficult and will take a lot of resources when the competitor does not cooperate. Indeed, cooperation will happen quite rarely.

SWOT Analysis

Strength is something that a company is good at doing or, a characteristic that gives it an important capability that others may not have. Strength can be a skill, important expertise, a valuable organisational resource, patents, and connections. Strengths should be those internal factors that matter in the competitive business environment! Strengths that do not ultimately help the business to compete in the market are not very relevant strengths. For example, being able to attract and recruit qualified employees is not an important strength if the labour market supply is such that there is ample supply of qualified labour.

A ***weakness*** is something a company lacks or does poorly (in comparison with others) or a condition that puts it at an internal disadvantage. A weakness is an internal deficiency that creates a competitive vulnerability in the business environment. A weakness that does not create vulnerability is not so important.

Opportunities include any favourable current or prospective situation in the organisation's external environment, such as a trend, a change or overlooked need that supports the demand for a product or service and permits the organisation to enhance its competitive position. They could be available to others as well. To b; an opportunity to be considered as part of a SWOT analysis it should be an opportunity that is available to the company. For example, access to a new cost-reducing production technology could be an opportunity only if it is affordable to the company. Opportunities usually involve a level of risk-taking. The new technology, for example, is not proven in the market yet. Other examples of opportunities could be new product development with high sales and profit potential (but at a risk of succeeding), national distribution expansion (but at a cost).

Threats include any unfavorable situation, trend or impending changes in an organisation's external environment that is currently/ potentially damaging or even threatening its ability to compete. It may be a barrier, constraint, anything that might inflict problems, damages, harm, financial losses, or injury to the organisation. Threats could, for example, be the entry of new competitors, obsolete technology, upcoming strict government regulations on safe production, changing consumer habits away from the business products, etc.

Steps in the SWOT analysis are as follows:

- Identify an exhaustive list of internal strengths and weaknesses, and list them in two columns;
- Rank the strengths and weaknesses; focus on the top four of each that you consider having a significant impact on your business. Remember, they are only significant if they impact on your ability to compete in the market;
- Identify a list of all opportunities and threats, and list them in two columns;
- Rank the opportunities and threats; focus on the top four of each that you consider having a significant impact on your business. Remember, opportunities and threats are only significant in their ability to affect your competitive strength.

EXERCISE: Can you identify the success factors in your sector? Which are your strengths and weaknesses, opportunities and threats?

Balanced Scorecard

The balanced scorecard offers a holistic and detailed view of the performance of any organisation by framing strategic objectives within specific dimensions, which should be aligned with the business vision of the organisation. Consequently, the card emphasises vision, strategy, competitive demands, and the need to keep the organisations looking and moving forwards "rather than the more traditional focus on control".

The following steps will help you to develop a Balanced Scorecard:

- Ask yourself, what your visions and strategies are.
- Consider the success factors that can be identified and realised by using this strategy.
- Based on the success factors goals are formulated.
- These goals need to be measurable. For this purpose, indicators (key figures) are identified, e.g. your profit.
- The last step is the most important one. You should implement measures to achieve the target value of the key figure.

3.3.6 Unit Summary

This chapter explains and applies the main techniques and concepts of strategic environmental analysis. Environmental analysis is the process of assessing the business environment, both externally and internally. This analysis allows the business to match its strengths with the opportunities in the market. The aim of environmental analysis is to identify competitive advantage for the business. The strategic environmental analysis provides the core input for the business strategy, and is, therefore, essential for business expansion.

The Strategic Environmental Analysis consists of the following steps:

- Assessing the macro-environment;
- Assessing the industry (or industries) in which your business operates in. (Five Forces Model);
- Identifying Industry Key Success Factors;
- Matching external and internal environment (SWOT analysis for example);
- Identifying core competencies;
- Identifying strategic competitive advantage.

3.3.7 Checkpoint

Choose one of the analysis methods and assess whether your business has a strategic competitive advantage.

4. Establish your strategic direction

Module 2 looked at the macro and micro environments that influence the operations of your business. It emphasised the need for you to understand the environment that you operate within, to develop appropriate and effective strategic business objectives. The macro and micro environment analysis give you an important background to think ahead about your operations in the future.

In this module, four important steps of the strategic planning process are discussed: vision, mission, goals and objectives. We will introduce practical tools to guide you to describe what business you are in, and how you see the business developing over time. Describing the current position of the business is important as a starting point for developing strategies.

4.1. What are the vision, mission, goals and objectives?

A vision and mission try to describe what the organisation does, and how it sees its role and position within society. These form the basis for establishing the longer-term goals of the business. Objectives are a translation of these general goals into more specific and measurable objectives

Vision: is a term that encapsulates the organisation's values and aspirations in the most general terms without specific statements about strategies used to attain them.

A vision provides a longer term and more general idea of the business. The vision can be described as your goal, your ideal status for the business. It is a state of being and provides the basis for setting your mission.

A vision:

- Provides a picture of the enterprise in 5, 10 or 15 years with an idea of the position of the enterprise in the industry as perceived by its environment (customers, suppliers, shareholders, society);
- Provides a focus for long-term organisational goals;
- It cannot be realised in the short-term but is sufficiently provocative to be achievable and measurable challenge;
- Assist in creating commitment of individuals in the business;
- Assists to the business to create a better image in the society.

A mission broadly outlines what business you are in, specifies the organisation’s future direction and how you will satisfy the needs of your customer. It specifies activities to pursue and the course of the future. The mission provides the basis for the business goals in the mid-term future.

A mission:

- Is result oriented and gives direction;
- Is both concrete and visionary;
- It defines the main activity of the business (the needs, wants of the customer, customer segments, denotes which technology is applied);
- It states the future position of the company in the industry H States the business' values and philosophy.

Important: the difference between the vision and mission is that mission is relatively short term oriented and more concrete, whereas the vision is long term and inspirational in nature. There are businesses that have both a vision and a mission, while other businesses combine the two.

Goals:

Goals are defined as open-ended statements of planned accomplishments. Goals are directly derived from the mission of the company.

Objectives are specific performance targets or results to be achieved within a certain time frame. Objectives convert the goals into targeted results. Objectives can be both longer term (approx. 3-4 years) and shorter term (1-2 years) in nature.

Objectives:

- Are measurable statements either giving general guidance or direction to the business or business function for the outcome to be realised?
- Are the result oriented expressions describing a long term situation?
- Need to be linked to the mission, being consistent with other objectives (internal consistency requirement).

Important: Goals and objectives are often confused. Objectives are the specified desired result of a more open-ended goal. Objectives are measurable and goals are not.

4.1.1. How vision, mission, goals and objectives will help expand your business

Nobody outside the business requires you to prepare a vision and mission. Preparing them can be tedious. So why would one engage in doing this?

Vision and mission provide the indications of the attitude, outlook and orientation of the business. They are important for a variety of reasons:

- They crystallise top management's own views about the firm's long-term direction and make up;
- They help to keep the direction and to maintain related actions of lower level managers on the right path;
- They convey an organisational purpose and identify what motivates employees to do their best;
- They help an organisation to prepare for the future.

Most importantly, the vision and mission provide the basis for general goals, which can then be translated into measurable objectives.

Longer-term goals and objectives are important to ensure achieving sustained growth and profitability. Without longer-term goals and objectives, the business may adopt a short-term, day-to-day approach to business, thus only reaping the benefits as they come without investing in the most appropriate longer-term opportunities.

4.1.2. How to assess your current business and ideas for the future

This section will assist you in developing your vision, mission and longer-term goals and objectives.

4.1.2.1. Develop a vision

A vision is like a dream. It is a rather soft and seemingly a non-managerial tool. This may discomfort both the visionary and those vision impacts on. Yet, it is an important starting point in strategic development. You, the entrepreneur, may have a dream of what you see this business to be, and to achieve in the longer term, and the reason for its existence. This dream guides you in your business operations. It is this dream that will give the entrepreneur the drive and energy to bring the business towards what he or she probably had intended it to be from the outset. The vision provides the organisation with a forward-looking, idealised image of itself and its uniqueness. The vision becomes, then the view of how things can be. As an entrepreneur, instead of keeping this dream for you, it is important that this dream is expressed in writing. By explicitly formulating the vision, it gives the members of the business a sense of pride and purpose that instils a spirit of uniqueness, and a higher level of motivation that allows the business to function at a higher level than was previously thought possible. Staff will have the feeling that they are part of something important, that they are part of a place where things are happening.

The vision could include:

- What business the organisation is in (products, markets or technologies);
- How things can be done better;
- How it will go about the business as an organisation;
- What the organisation's *'raison d'être'* is.

4.1.2.2. Develop a mission

The mission has a time-span of a few (3-5) years. It is result-oriented and gives direction. The mission tries to answer four primary questions:

- What function(s) does the business perform?
- For whom does the business perform this function?
- How does the business go about filling this function?
- Why does the business exist? The' why' is drawn with a heart to indicate that it is important that the business owner has a strong motivation for doing his business. The entrepreneurs should be able to answer the question 'why' with passion.

These main questions can also be listed in a somewhat longer, but more complete list of what the mission should preferably contain:

- The business you are in;
- The needs you try to satisfy;
- Which customer group you are targeting;
- Which technology you will use;
- Which functions you will perform to serve the target market;
- The company's policy/philosophy;
- What the future position of the business is expected to be.

Once the mission has been developed, it also needs to be effectively used in the business. Here are some often made mistakes with missions:

- The mission exists, but is not available or known by the employees
- There is an inconsistency between mission and behaviour:
    - The mission is known, but management acts in a contradictory way the mission.
    - The mission is known, but management allows staff behaviour that contradicts with the mission.

These behaviors will jeopardise the impact and use of the mission in strategizing achieving your growth goals. To ensure that everyone is aware of and regularly reminded of the mission of the company, some companies also prepare a 'mission statement'. A mission statement is a short version of the mission, which is, communicated to all stakeholders of the company, such as employees, customers and others. Usually, the mission statement is printed on the wall, in the production area, in meeting rooms etc. This is to remind everyone of what the business is and tries to do.

4.1.2.3. Develop goals and objectives (long term, short term, quantitative, qualitative)

This section will assist you in preparing your longer-term goals and your objectives. You may recall that objectives are specific performance targets, or results to be achieved within a certain time frame. To achieve measurable objectives; first, you need to define your goals more broadly. These goals are derived from the mission.

Once you have defined your goals, you can then continue with defining your longer and functional/shorter term objectives. The long-term objectives are targets or expected results, to be achieved over a long period of time. Subsequently, the anticipated long-term result identification will allow you to determine the more specific functional/short terms results or objectives.

a) Value of setting objectives

- Substitutes purposeful strategic decision-making for aimless actions and confusion as what to accomplish.
- Provides a set of benchmarks for judging the business's performance.
- Spells out business objectives in measurable terms, allowing holding managers accountable for reaching assigned targets within a specified time frame.

Long-term goals and objectives, therefore, serve two purposes:

1. Setting targets pushes the entrepreneur to take actions now, and achieve the ultimate long-term objectives later. Goals and objectives, therefore, **promote an action orientation.**

2. Long-term goals and objectives assist in the subsequent definition of shorter term objectives and actions, therefore, **promoting a logic framework for coordinated action** in the business to achieve long-term goals.

b) Types of goals and objectives

Objectives can be distinguished in quantitative and qualitative terms. Usually, the business will have both shorter and longer-term goals and objectives.

The most important objective, at least for commercial businesses, is likely to be creating profit for its owners or maximising shareholder wealth. A principal measure (objective) for success in this area would then be the firm's return on investment (ROI).

The danger in relying too strongly on ROI is that it may create pressure to focus too much on the short-term benefits, often at the expense of long-term benefits. To help the business guard against this possible problem, it is recommended that the firm develops secondary objectives in a number of areas. The areas where the firm may develop goals and objectives are:

Profitability: The company is likely to have a profitability objective. Particularly for a growth-oriented company, focused on maximising investor value, this is important. Usually, this objective is set in terms of earnings per share or return on equity.

Customer orientation: This is a less common but an important objective specifically geared toward customers. If satisfying customers is high on the priority list then, it might make sense to include this objective here. Objectives could be related to client satisfaction with products and sales services, time lead before communication to clients, the percentage of rebuy by clients and the likes.

Productivity: Normally companies set a profitability objective, as an improvement of productivity (the input/output relationship) will lead to increased profitability. Normally this would be the number of items produced or the number of services rendered per unit of input. Productivity objectives could also be formulated in terms of desired cost decreases, for example, through reducing the number of defective items, a reduction in the number of customer complaints or a reduction of overtime work.

Internal structuring: Objectives could be set on strengthening the internal structure of the organisation, e.g. on logistics, client information, delegation, etc. resulting in higher personnel and client satisfaction, and more time for dealing with management tasks.

Competitive position: Business success can be measured in terms of the position in the marketplace. Total sales or market share are measures of competitive position. A qualitative objective here would be an increase in ranking within the industry, for example moving from the third to the second position as a provider in a industry. Here, one can also include longer-term goals on intended market segmentation.

Physical and financial resources: The business may require a basis of equity, liquidity and solvency, requiring sufficient property and long-term assets, sufficient working capital etc. The business may formulate goals and objectives in this area to be achieved for long and short-term financial health and stability.

Employment development: Employees value growth and career opportunities. Providing such opportunities increases productivity and decreases turnover. It may be sensible to include a staff development objective in the long-term plans (e.g., developing highly skilled and flexible employees for high-quality products and higher productivity).

Employee relations: Strategically oriented entrepreneurs seek good employee relations as part of the longer-term strategy and continuity. Productivity is linked to employee loyalty and to perceived management interest in workers' welfare.

Technology and innovation: The firm will need to decide what technology it will employ in the market and whether it is leading or following in technology. Both leading and following in technology can be a successful strategy, depending on the specific situation.

Public responsibility: As part of a longer-term continuity strategy, it is important to recognise the responsibility of the company towards customers, but also towards society at large. These objectives relate to customer expectations, meeting government laws and regulations, good citizenship, e.g. contributing to community development, etc.

c) Steps in formulating goals and objectives

Step 1: Based on the above listing, identify areas where you would want to develop longer-term goals. Link the identification of goal areas to your vision and mission to make the right selection.

Step 2: Consider what it is you want to achieve in the next 3-5 years within each area selected. Identify specific outcomes or results. Ensure they are in line with your vision and mission.

Step 3: Prepare the written objectives. Check the objectives with the below SMART criteria.

Setting SMART (Specific, Measurable, Achievable, Realistic, Timeframe for accomplishment) objectives

This is a test to ensure that an objective is clear and removes the confusion of what is to be achieved when you are setting objectives subject them to a SMART test. An acceptable objective should be specific, measurable, achievable, realistic and has time frame for accomplishment

The following is an example to demonstrate the linkage between mission, goals and objectives and how one could go about the formulation of the goals and objectives:

Mission: The company provides its customers with a wide selection of quality merchandise, competitively priced with a high level of after sales service. For our shareholders, we strive for optimum long-term return on capital through steady profit growth and prudent asset management.

Goal: To achieve sufficient profit to finance company growth and provide needed resources to achieve other corporate objectives.

Longer-term objectives:

- Increase sales by 20% per year;
- *Increase profit margins by 2% each year;*

- Increase earnings per share by 8% each year.

4.2. Checkpoint

By using the following information, prepare a table with your goals, longer-term objectives, and you functional and shorter-term objectives considering your mission statement. Consider the following items in your analysis: profitability, customer orientation, productivity, internal structuring, competitive position, physical and financial resources, employee development, employee relation, technology and innovation, public responsibility.

4.3. Chapter Summary

This chapter explains how to develop a vision, mission, goals and objectives.

The vision is the dream or long-term view of the entrepreneur on what the business aims to achieve. It provides a picture of the company in 5, 10 or 15 years with an idea of the position of the company in the industry as perceived by its environment.

The mission is mid-term in nature, is more concrete, is result-oriented and gives direction. The mission also defines the main activity of the business, the customer group and customer needs it satisfies, the technology used and the business' future position in the market.

The process of developing a vision and mission can be tedious. There is no standard recipe for its preparation. The business owner usually prepares a vision. The mission is usually prepared as an effort undertaken by the owner with inputs by selected employees.

Preparing a vision and mission is important as it sets the stage for the development of the strategy. Without a vision and mission, it is almost impossible to develop goals and objectives. Without these, the business will aim for short-term gains, and not achieve long-term, sustainable growth.

Some companies prepare a mission statement. This is a short version of the mission, meant for communication purposes to its main stakeholders, such as its employees and customers. Communicating the business' mission is important as it allows stakeholders to understand the main values and ambitions of the business. Employees need to understand the business mission to understand what is expected from them. Customers will be interested in knowing the mission statement, as it will allow them to understand what they can expect from the business. It is crucial that a mission statement is adhered to. Nothing is more detrimental to the business than customer promises that remain unfulfilled.

Goals are open-ended statements of planned accomplishments. They are directly derived from the company's mission. Objectives are measurable performance targets or results to be achieved within a certain time frame. Objectives should meet the SMART criteria, that is, Specific, Measurable, Achievable, Realistic, and Timeframe for accomplishment.

Objectives can be longer term and shorter term and be general (e.g., specifying profit objectives) or related to specific business functions (e.g., HRM, marketing, etc.). An emphasis on profit only could lead to a short-term shareholder owner wealth increase orientation, which may affect the longer-term growth of the business. Therefore, it is important to formulate various types of goals and objectives that put the business responsibilities and growth performance in a broader context.

Areas for goals and objectives setting could include profitability, customer orientation, productivity, internal structuring, competitive position, physical and financial resources, employee development, employee relations, technology and innovation, and public responsibility.

5. Extra: The Strategic Management Plan

A strategic plan is a document used to communicate with the organisation the organisation's goals, the actions needed to achieve those goals and all the other critical elements developed during the planning exercise.

A strategic plan is a formal roadmap that describes how a company executes its long-term strategy. A plan outlines where an organisation is going over the next year or more and how it's going to get there.

Typically, the plan is organization-wide or focused on a major function such as a division or a department. A strategic plan is a management tool that serves the purpose of helping an organisation achieve its goals as it aligns and focuses all the resources, and time of everyone in the organisation in the same direction.

5.1. Characteristics of a strategic plan:

- Defines the purpose of a business and its general direction.
- One of its goals is to communicate the long-term company strategy to all staff.
- Is usually done by top-level management of companies that are serious about growth.
- Helps to build the company's competitive advantage.
- Assesses business opportunities.
- Specifies and outlines financial requirements for future plans and growth.
- Provides focus and direction to move from plan to action business plan.
- It is also for new business owners who are serious about starting a business.
- Helps to plan human resources and various needs on the operational level.
- Provides structure to ideas and helps create an initial plan of action.
- It is critical if funding is required.

5.2. How the strategic growth plan helps the business to expand?

The strategic growth plan, once completed, will set the growth objectives for the business for the upcoming years. The growth plan also sets the main strategic approach to achieve the set objectives through a generic strategy. Having the strategic growth plan completed means, that the business will have the main course identified to achieve its mission. The strategic growth plan enables the entrepreneur to organise the business accordingly, to commence with the preparation and implementation of functional growth plans and action plans. Without the strategic growth plan,

the business will not be able to set achievable growth objectives and to have a strategic approach to get there. In the same way, without a strategic growth plan, there will be no structured effort to achieve growth. The strategic growth plan, therefore, provides the required umbrella for structuring the business functions, and implement actions to achieve growth.

5.3. The main components of a strategic plan

The following are the main components of any strategic plan that must be understood and looked at one at a time to have a complete and effective strategic plan and direction for your business.

- **Strategy and culture:** Your organisation's culture is made up of people, processes, experiences, ideas, and attitudes. Your strategy is where your organisation is headed, what path it takes, and how it gets there. You can't have strategy without culture or vice versa. Your culture is like your house, and if it's not in order, the best strategy in the world can't take your company anywhere.
- **Internal and external environmental framework:** Similar to the strategy and culture framework (previous bullet), you have an internal and external framework. The strategy is external. You gather information from your customers, competitors, industry, and environment to identify your opportunities and threats. Through employee surveys, board assessments, and financial statements, you identify your company's strengths and weaknesses, which are internal.
- **The Balanced Scorecard perspectives:** The Balanced Scorecard is a framework used to develop goals and objectives in four areas (instead of departments) financial, customers, internal business processes, and people. The financial, internal business processes and people areas are internal. The customer area is external.
- **Market focus:** Growth comes from focusing on your customers and delivering superior value to them consistently year after year. Built into your strategic plan is a market-focus framework because of how critical this is to your organisational growth.

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Chapter 2: Going International

1. What does it mean to "go international"?

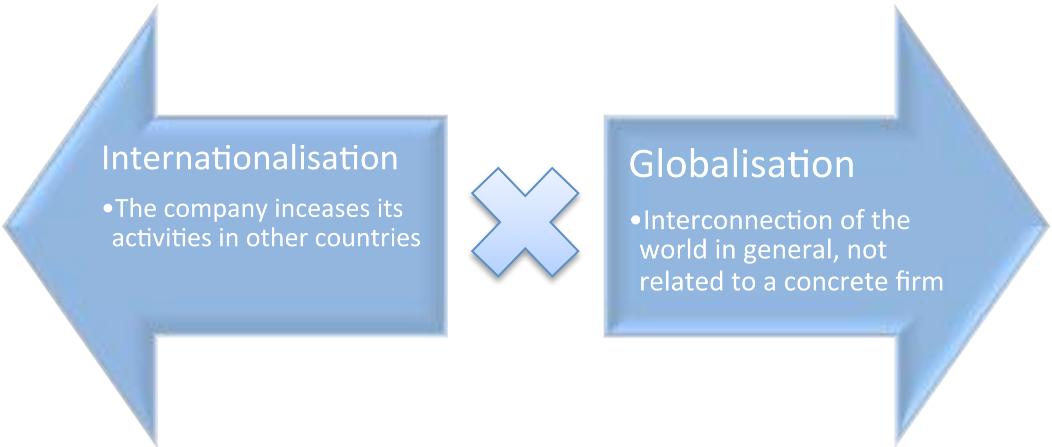
All around the world, the concept of internationalisation is becoming a widely spoken subject. However, in many cases, there is not a proper explanation of what it means to internationalise something; what can be internationalised? How can you internationalise anything? What are the benefits of following this trend? And the disadvantages?

The first point of this module will clearly explain some of these questions, so that next time you hear going international, you will know what they are talking about.

1.1. Meaning of Internationalisation

There is not a widely accepted definition of the concept of internationalisation. However, we can state that it is a process by which companies increase their activities in a different country from its home location, which allows them to participate in international markets.

Even if they look alike, it is very important not to mistake internationalisation with globalisation; globalisation refers to the increasing interconnection of the world due to the social, economic, technological and political transformation; it is referred to the world in general, not to companies.



The most usual reasons for a company to decide to internationalise are to either increase their revenues or decrease their costs. A fair approximation of the beginning of this trend might be the XIX century when the developed countries started to take over the raw materials available in other countries instead of buying them from local companies to decrease costs.

Nowadays, internationalisation continues to be used as a way of decreasing costs or increase profits; many companies outsource their production to other countries because the labour of raw materials is cheaper, while others start selling their products in other countries because they are higher considered and provide more benefits.

1.2. Benefits and risks of going international

At the beginning, going international is a blurred concept; on the one hand, it may seem "easy", as if the company just needed to take a plane and start selling your products in other countries; on the other hand, it might seem extremely difficult to find consumers in a market where they probably will not even speak your language.

The reality is that going international is a very complex task; it requires a lot of preparation, and in many cases, it ends up in failure. However, if the company works hard on learning the market and figures out the differences and how to overcome them, the profits can be very succulent.

Some of the benefits a company can find from deciding to go international are the following:

- **Access to new markets and consumers**: many times, when a product has been in a market for a long time, as it ceases to be some novelty consumers stop buying it and look for new attractions. However, when internationalising this product to another country, it becomes a novelty again and new consumers feel attracted to it. Summing up the home loyal consumers to the new ones, we obtain higher benefits for the company.
- **Access to cheaper materials, production processes and labour**: as commented earlier on the module, in many cases the reason for travelling to another country is not to sell but to produce. For example, many companies have outsourced their factories to countries such as China or Taiwan during the last years because workers are paid a very lower salary.
- **Development of key competences:** sometimes the outsourcing of production has nothing to do with decreasing costs but to find the most suitable employees. Many tech companies prefer to locate in places such as Silicon Valley or Japan because they know the quality of engineers related to the topic is a lot higher.
- **Looking for a market with lower (international) competence**: there are obviously some countries with more international markets than others. Sometimes, home companies from those international markets decide to go into another country looking for a market with fewer international competitors and more margin to revenues. In other cases, we find markets where there are enormous amounts of home companies from the same sector, and they are not running from international competition but a national one.
- **Finding collaborations and interaction with other companies**: sometimes companies travel to another country to collaborate with a company from there in a certain project; this interaction allows both sides to learn new things and increase their possibilities of earning revenues by creating an improved good or service.

These are just some of the general benefits that a company can find from internationalising; each situation is unique and probably each company will have benefits of its own.

But not everything in life is song and roses; going international hides many risks that any company should be aware of before taking that decision.

Some of the risks that may lead to failure are:

- **Not knowing enough about the market**: as said before, going international is not just starting to sell your product in another country. It is extremely important to make a thorough research of the market and the consumers before deciding to enter; otherwise, you will probably end failing.
- **Not considering the amount of financing needed**: if you succeed, you are going to obtain high benefits from the new market; however, you need to bear in mind that these benefits are going to come at the end of the process. Not considering the amount of financing needed or counting on profits too soon can lead to the failure of an internationalisation that otherwise would have succeeded.
- **Not considering the possible cost increases**: going international may mean sometimes increasing costs of production and delivery because of the transnational trips the goods must make. In some cases, this increase of costs is saved by a higher increase in revenues, but in other, it just takes away all profits.
- **Political and legal risks**: not everything in the market has to do with supply in demand; in the reality, political and legal forces play strategic plays. Not having an accurate knowledge of the legal requirements of the new market can turn into failure and lawsuits.

Carrying in mind these dangers is essential for any firm; even the most successful one can find itself losing money when approaching a market without having previously prepared accordingly.

A good example of how failure can happen to the most successful, international firm is McDonald's. The American fast-food chain is one of the best-known brands in the world, yet it failed when approaching some Latin American countries.

In the following article, you will see how easy it is to make a mistake when you do not know the market enough:

Why McDonald's Failed to Win Over Bolivians and Closed its Stores. (Messenger, 2011)

2. How should I go international?

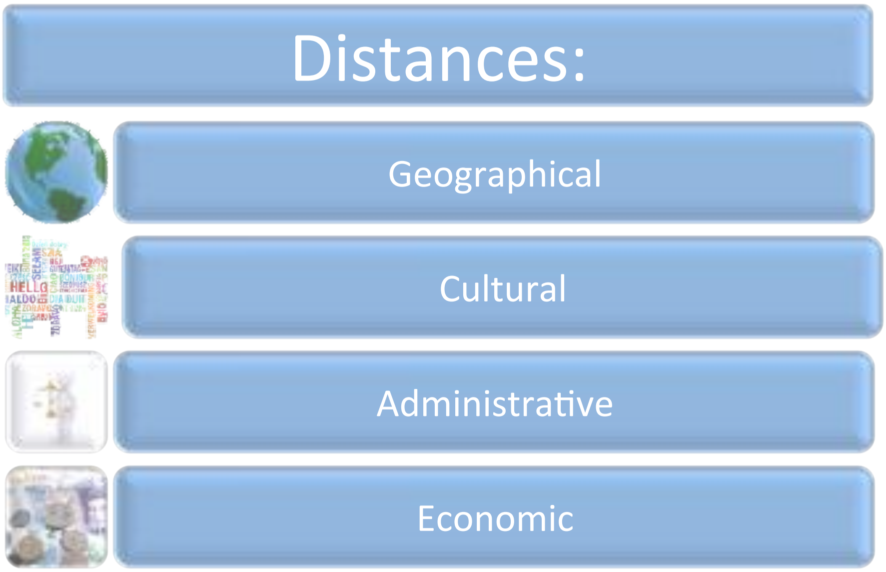
Now that we have a clearer understanding of what going international actually means, and what possible benefits would we obtain from doing it, new questions arise: how? When? Where?

2.1. Deciding the destiny

One of the first questions to answer is where do you want to go. Companies can decide their destiny on two bases: proactive and reactive approaches. In the reactive approach, a company enters an international market as a reaction to what competitors are doing or because of an opportunity that has appeared in front of it, not because it is the best suit for the company. On a proactive approach, the company actively looks for the best market to enter.

To choose the right market for a company to internationalise, we can follow a series of steps.

Before starting to choose the market, however, there is one concept we need to bear in mind: the distance between the two countries. This concept does not only refer to the geographical number of kilometres between the two countries but takes a step further. We can find different types of distance: cultural, in which the company has to look at the similitudes and differences among both cultures, religions, languages… (For example, some religions have certain types of food forbidden); administrative, including legal systems or regulations; or economic distance, such as the difference of consumption among buyers in the two countries. Once established this concept, we can start to make a list of the suitable countries. First, it should be decided which markets are not going to be part of the suitor's list. This would it make easier to get a list of countries to start with.



Following this first decision, it should be decided which of the countries from the list already owns a market related to the product, consumers theoretically willing to the consumer, or more or less competition.

With this first list made, it is time to look at more "complex" factors: the macroeconomic situation of each country will play a relevant role as it can differentiate victory from loss. Variables such as the political situation, the risk of the economy and the stability of the currency should be considered when deciding which countries from the list will continue being on it.

After the macroeconomic level comes the microeconomic one, as well as the local situation, the target availability or how much the offer needs to be adapted. In many cases, to be successful in a market, it is necessary to modify the product so much that it becomes more expensive than not selling it at all.

Finally, the company needs to go over the list of countries left and decide which one is better based on the previous steps but also looking at the previous experience of similar companies going into the market, the amount of competition…

2.2. How to internationalise: methods

Once all the researches have been made about the market/s where we would like to internationalise our company, it is time to decide the best plan to follow.

As any other tool available to a company, we have different methods when deciding to go international. Choosing the right one depends on many variables such as the type of company, the market addressed…

There is a wide variety of methods available to companies. Each one of them includes different types of roads to follow when going international:

EXPORT MODE

The export mode is the most typically used method when deciding to go international for the first time. In this mode, the product is produced in the local market and then sent to the international market. Depending on how the product is delivered internationally, we find different types of export modes:

- **Indirect export mode:** in this case, the company does not direct the exporting activity, but hires a third party to deal with it. We can find several types of third parties, such as brokers or export agents.
- **Direct export mode:** here the company is the one who personally deals with the exportation and has a contact with the foreign client. In this method, the company needs to work on understanding better the market, making marketing plans, etc. The two types of direct export mode are the **distributors**, who are independent companies taking the product and selling it as if it was its own, in exchange for a payment of the difference between the buying and selling price, and the **agents**, who sell the product in the name of the manufacturer, without adding their name or keeping the product, in exchange for
- a commission.
- **Cooperative mode:** this is a not very common mode in which different companies (usually SMEs) join in the internationalisation to achieve economies of scale and better benefits. However, most companies do not want to use it because of how easy can a collaboration turn into a fight, considering the easiness of having different opinions.

You can find an example of a company using a direct export mode in the following link:

Lighting up a growing market - Premier Hazard Ltd (International, -)

INTERMEDIATE MODE

The second general group of internationalisation modes goes by the name of the international mode. It could be considered as the step to take if we want to go deeper on the internationalisation; in this type of contracts, the work is "split" amongst the company from the domestic market and another from the foreign market. The contract is long and allows the

exchange of knowledge between the parties. As in the previous modes, however, we find different ways to take profit of an intermediate internationalisation:

- **Contract Manufacturing:** the company outsources the production of a part of the process to a company from the country to enter, so that the firm will have more resources to use on strategy, marketing or management while production is taken care of by the home company.
- **License:** through license the company allows another company to use a product, service, process, name… which is legally protected in return for a payment. It is a very common type of intermediate agreement, and it usually has a long duration, among 20 years (like patents).
- **Franchise:** it is a strategic alliance in which the franchisor provides the franchisee with a complete way of doing business in exchange of a regular fee. It is very important not to think the franchisee is "buying" the franchise; he is not the owner of the company, he is an "investor" who profits of the success of having a store which is popular and complete help during the process. And most importantly, as the franchisee does not own the franchise, he will not see other franchisees as competitors but as partners who are looking for the same thing: making the franchise as popular and successful as possible.
- **Strategic Alliances:** this type of internationalisation is something that can be done domestically as well, not only to go international. In this case, two or more parts join to create a company, so that the inputs and knowledge of all parts can be profited into making a new product or service.
- **Management Contract:** it is an agreement that passes the management of the company onto a third party in exchange for a payment. It does not only include saying how to do things but doing them. This method is usually used when there is no local ability to manage the company.

An example of a company that always uses an intermediate mode is the chain Marriott Hotels. The only method of internationalisation employed by the company is Management Contract.

Marriott
HOTELS • RESORTS • SUITES

HIERARCHICAL MODE

It is also called investment mode, as in this mode the company totally owns the foreign organisation, production and delivery. The most important part of this mode is to be able to know how much the subsidiary can assume and how much needs to be done by the headquarters. This mode includes an enormous investment, but it also provides more control over the actions taken around the product and the company itself.

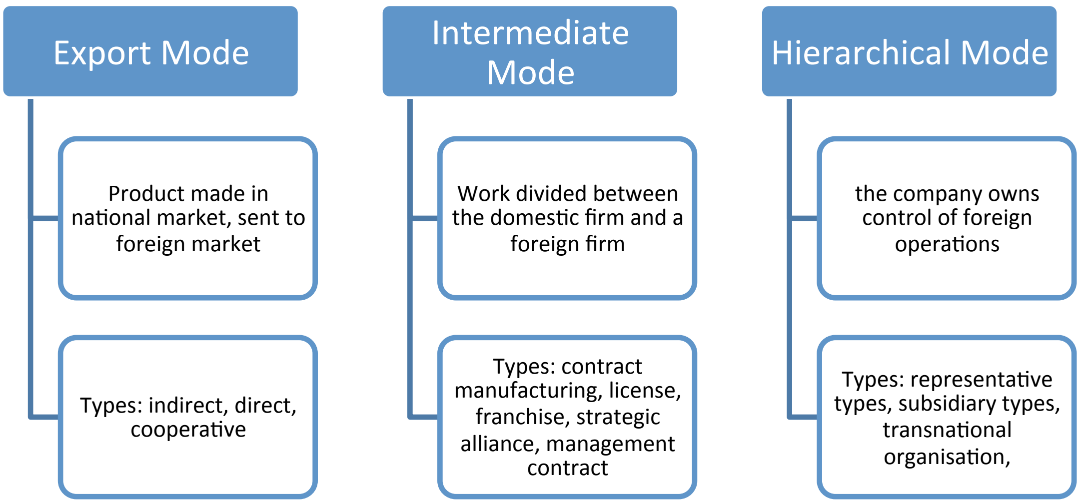
There are many types of internationalising through a hierarchical mode. Some of them are:

- **Domestic sales representative:** this type of representative lives in the home country of the company, and travels to the foreign country periodically to oversee the business.
- **Resident sales representative**: in this case the representative lives in the foreign country where the company is internationalised.
- **Foreign sales subsidiary:** the home company owns and controls a local company from the foreign country instead of creating their own from scratch.
- **Regional Headquarters:** it is created to control and run the businesses from different parts of the region.
- **Transnational organisation:** involves a total coordination among local and foreign to achieve global synergies. In involves the exchange of knowledge and R&D.
- **Subsidiary Acquisition:** a company merger with a local firm or buys it in order to acquire total control and enter the market.
- **Own Subsidiary:** the company creates from zero its own subsidiary in a foreign market. It is the riskiest and investing type of internationalisation.

A good example of this method is Disney. The company used an intermediate mode when constructing its first theme parks, but when they decided to open a new one in Europe they changed their Strategy to direct investment. You can read more about this case at the end of the following article: [The case of EuroDisney]() (QuickMBA, 2010)

As you can see, there are many ways to go international; it just depends on which one adapts better to the needs and features of each company.

As a summary, here you have the most important ones:



3. International Product Strategies

So far, we have understood the meaning of going international, the reason for doing it, the steps to select the market and even the possible ways to enter another country's market. However, there is

a very important question ahead of us: should I just internationalise my product, or adapt it to the new market? This controversy opens a new world of methods and theories.

It is fair to say that there are not two equal people, and the same happens with countries and markets. Each one of them has its own tastes, taboos and traditions, so it is very important to bear in mind all the differences before launching a product.

As previously explained, the difference between two country markets is called distance. In many cases, the launching of a product fails even if the company has done the research on the market, due to the lack of adaptation of the product to the market. It does not necessarily has to do with the good itself; for example, soap will probably be used in both a country speaking English or Arabic; however, if you use drawings of dirty laundry, the soap, and clean laundry, placed equally in both countries, you will likely fail on one of them; why is that? Because Arabic is read on the opposite as English, which means they will read clean laundry, soap, dirty laundry.

So, does it mean we should adapt each product to every single market we go to? Not necessarily. Let's see the different theories available.

3.1. Adapting the Product: Multi-domestic Companies

The multi-domestic approach is based on the idea that each country is an independent market with independent needs and desires. Following this concept, it is necessary for the company to adapt the product to each of the markets entered.

Companies using a multi-domestic approach usually do it to be able to differentiate from competitors by giving a unique product adapted to the consumer-specific needs instead of a standardised one. However, this approach comes with higher costs which turn into higher prices, so it is necessary to be sure that the consumers will be willing to pay for this differentiation.

3.2. Standardising the Product: Transnational Companies

On the other side of the road, we have the opposite approach: the transnational approach. In this case, companies prefer to think of the world as a unique market with the same needs and desires which, due to it, will require a unique product.

By standardising the product, the company manages to decrease their costs because of the effective use of economies of scale and saves in the adaptation of a product, marketing strategies and management strategies. However, companies should consider that not every product can be

standardised; the higher the distance between the countries, the easier it will be for the standardised product to fail in one of the markets.

For this reason, sometimes companies do use a Global Approach, but add a little bit of adaptation to get to the public: a good example is McDonald's, which includes different specialities in each country to satisfy the specific taste of their population.

3.3. New trend: Product Development

Recently, a new trend is appearing in which products are developed from the beginning having a global market in mind. This means, the main features of the product become the same for every market, and only certain things are adapted to the specific needs of each country. This allows to minimise the expenses from this adaptation as the main part of the product is going to be the same everywhere.

4. Going International: Success stories

Reading the theory is fine, but it is only when we see a successful, real-life example when we believe in it. For this reason, here there are some stories of companies that decided to go international and succeeded in the process in very different ways.

4.1. Alibaba: international suppliers

Alibaba is the most well-known Chinese virtual retailer nowadays. The wide offer at a very competitive price turns the company into a very successful one; but how does it exactly fit in our topic?

The thing with Alibaba is that the company does not sell its own products; instead, they act as an intermediary for suppliers to offer their goods to consumers all around the world. Through this work, consumers can acquire products that in many cases would be a lot more expensive, or not even sold, in their country; while suppliers can reach an international market without having to face the risks of entering a market by themselves, not to mention that joining the page is completely free both for consumers and sellers.

If you want to know more about this real-life international success story, you can visit the following page: Alibaba: what exactly does it do? (Broad, 2014)

You can also watch the following video, where one of the Alibaba's suppliers talks about his personal experience: Alibaba.com Consumer Success Story (HK, 2014)

4.2. Coca-Cola: Foreign Direct Investors

Coca-Cola is another example of international success, although its technique is mainly opposite to the previous example. Instead of manufacturing in the home country and shipping the products when they are demanded, Coca-Cola makes use of diverse types of internationalisation methods depending on what it would be better to the company in each market. In Europe, for example, they open their own factories in different countries to reduce the costs of shipping the product to the consumer and to produce at a lower cost product, while in Turkey franchises are given.

Additionally, the company follows a multi-domestic approach and provides each country according to their tastes; that's why in some countries you can find Vanilla Coke while in others there is Cherry Coke.

IF you aim to know more about how Coca-Cola works internationally, you can visit the following link: International Business Strategy Coca-Cola (Vaid, 2015)

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Chapter 3: The importance of human resources

1. What are Human Resources?

The function of Human Resources is undoubtedly one of the business branches that has evolved the most in the last decades and continues to evolve. Although in some organisations it has not yet acquired the relevance it deserves, in most cases, it has acquired a leading role, although it is true that with the current economic crisis, it has suffered a paralysis in its evolution. As Albizu and Landeza (2014) point out, the evolutionary process that has undergone the function of Human Resources has been driven by the increasing complexity that entails the management of people in organisations and, above all, by the progressive incidence that this function has on the business activity, due to the increasing expectations of competitiveness that are presented to the companies as a product of the great changes that are happening in the business environment.

1.1. What is the role of Human Resources?

Definition

We find many authors who give us their contributions in the form of definitions:

"From the narrower perspective of the company's economy, the function of Human Resources is the area of corporate management responsible for decisions and actions that affect the relationship between the company and the workers who provide services in it, decisions and actions that are adopted for the achievement of business objectives" (Weiss, 1993: 26).

According to Tarazona (2007: 107), Human Resources policies and practices are the instruments with which organisations can grasp, create and/or expand the knowledge and skills of the organisation (knowledge), providing them with the necessary incentives to contribute to organisational success (willingness). In addition, this impact is enhanced when these elements are combined with employees’ participation systems (power).

A more recent definition is provided by Noe, Hollenbeck, Gerhart, Wright, (2010) that encompasses the HR function as a set of policies, practices and systems that affect the attitudes, the behaviour and the performance of the employees.

The importance that the function has acquired mainly since the last decades is due to the fact that "human resources can provide the company with a solid basis of competitive advantage in that they provide value, are scarce and difficult to imitate "(Bayo and Larraza, 2012: 181)

At this moment that we have contextualised in a general way the function of the Human Resources, it would be advisable to differentiate the importance that it acquires in the different organisations. The definitions given above serve to provide an overview but the next step would be to look at the different domains of the Human Resources function in organisations.

1.2. What are the areas of the Human Resources function?

We can find three areas, which we will differentiate:

On the one hand, the **Human Resources Direction**. Herrera (2009: 49) defines it as "the set of policies and organisational measures designed to achieve the human structure appropriate to organisational tasks and purposes; as well as to provide at all times the people who make up the necessary capacities and the inducements that provoke maximum interest for the organisation, its objectives and tasks."

The Human Resources Department could be conceived as the most strategic and long-term function of the company, the most deliberate and reflective conception of the future needs of the organisation, seeking the maximum adjustment that allows obtaining a competitive advantage.

On the other hand, the **Human Resources Management.** Herrera (2009: 50), brings us to the concept stating that HR "is the set of activities and concrete measures adopted by managers of the company or managers of certain functions within the Department of Human Resources, and that have a direct effect on the behaviours, attitudes, satisfaction, etc. of a person, or small group of people within the organisation. "

We could say that Human Resources Management refers to the day-to-day decisions made in the field of Human Resources, to the most emerging decisions that can deviate from the strategic formulation, look for agility and problem solving that can arise in the day to day of the organisations, with the problematic that can suppose that this management deviates from the objectives and guidelines marked by the Direction of Human Resources.

In the last part, we would find the **Labour Administration, Labour Relations and Occupational Health**. All of them can be covered in a common denominator that is compliance and respect for regulations and legality. Legislation and legality will vary according to countries or territories. Thus, in this group, we could find the processing of hiring, the management of payroll and social security, collective bargaining, prevention of occupational and health risks, etc.

These will be the 3 areas of the Human Resources function that we can find in organisations. Usually, according to the size, the importance, responsibilities and decisions regarding Human Resources in companies increase. Each time we observe how the Human Resources Department opens a hollow in the organisations, while the Administration, labour relations and occupational health of Human Resources is outsourced to specialised consultants seeking maximum optimisation and reduction of costs by organisations.

Described the main functions that cover the Administration, Labour Relations, Occupational Health and Human Resources Management, it would be useful to specify which functions include the Human Resources Direction, that is, to clarify what we mean by the set of activities and concrete measures adopted by managers who indicate the way forward regarding Human Resources.

1.3. What are the functions of the Human Resources Direction?

We find two areas:

The **objective functions** would be those that collect the main purposes of the same, the fundamental ones, those that have been developing for a longer time and that have more importance today in the organisations. It would be to get and grasp the people needed by the organisation, with the knowledge, skills, attitudes, aptitudes, competencies and motivations appropriate for the interests of the organisations.

Here we find recruitment/disengagement (recruitment, selection and integration of human resources as well as reduction and adjustment of staff) and training (training in knowledge, skills development, and indoctrination in values). And finally, the Motivation of Human Resources through economic and non-economic incentives. (Medical insurance, social benefits, travel, etc.)

The other main functions of the Human Resources Direction would be the **instrumental functions**, which facilitate the decision making in relation to the objective functions, as well as the execution thereof. Here we find the analysis of positions and workflows (analysis, job description and specification, analysis of workflows, analysis of the necessary competencies).

Also, it would be the design and redesign of positions as well as the design and redesign of the organisational structure looking for its maximum adaptation to the needs of the organisation.

On the other hand, would be the evaluation of jobs, where qualitative and quantitative assessments are made.

One of the functions that are more and more important is the performance evaluation and management. We find companies that assume it as a function of evaluation oriented to control and other companies that guide it towards the development of the personnel and the management of the performance.

Finally, there would be the design and administration of the Human Resources information system.

At this point, it would be necessary to add a third Human Resources policy, once already commented on, the objective and instrumental policies, which are the **transversal policies of Human Resources**, which are increasingly considered in organisations. These transversal policies are four: **labour climate, culture, communication and internal knowledge**.

These four aspects are policies that mark the day to day of the organisations and their Human Resources that cause that they produce differences between the organisations.

These aspects are increasingly considered more fundamental by companies, so they go to external agents (consultants) to carry out studies and audits that analyse the perception of these variables

by the workers of the organisation and take the necessary measures to adjust this perception of the workers to what the companies try to transmit.

- Organisational climate refers to a set of practices, beliefs and shared value systems in an organisation (Janz, Wehterbe, Colquitt & Noe, 1997); Schneider, (1990). The work environment is an increasingly studied aspect since it includes aspects such as job satisfaction or performance, which directly affects the results of companies.
- Schein (1988: 56) describes culture as a "set of beliefs, usually unconscious, and values normally shared by members of the organisation that influence their behaviour, their decision-making criteria, and their analysis and understanding of reality, interpersonal relationships, the person-organisation linkage, etc. "
- Internal communication is the set of activities carried out by any organisation for the creation and maintenance of good relations with and among its members, through the use of different means of communication that keep them informed, integrated and motivated to contribute their work to the achievement of organisational goals.
- Barnes, (2002) refers to a systematic, orderly, organised and specific process of the organisation, whose purpose is to acquire, organise and communicate the knowledge of employees so that employees can use it and thus be more productive and effective at work.

2. Design of job positions

2.1. Objectives

The objectives of job analysis and job description are many, as they form the basis of any HR program. The main objectives are to:

- Assist in the preparation of the vacancies, the demarcation of the labour market where to recruit, etc., as a basis for the recruitment of personnel.
- Determine the profile of the occupant of the position, according to which the appropriate tests will be applied, as a basis for the selection of the personnel.
- Provide the necessary material, depending on the content of the training programs, as a basis for staff training.
- Determine salary scales - through job evaluation and classification - according to the position of the jobs in the company and the level of wages in the labour market, as a basis for the administration of wages.
- Encourage staff motivation to facilitate performance evaluation and functional merit.
- Provide guidance for supervisors to work with subordinates and employee guidance for the performance of their duties.

- Provide the hygiene and industrial safety department with related data to minimise the risks of certain positions.

The job description will be useful for:

- Recruitment and staff selection;
- Training;
- Performance evaluation;
- Carriers plans and upgrading;
- Communication;
- Welcome strategy;
- Salaries and incentives.

2.2. Some applicable rules for the preparation of job descriptions:

- Try to give the description a logical meaning. Use, as you see fit, criteria of importance, frequency, or those corresponding to an administrative process.
- Look for the essentials of each function or role, avoiding falling into unnecessary detail.
- Whenever possible, use quantitative terms and avoid vagueness. Instead of saying "handle high amounts" say: "Handles cash for a value of 65 000 €".
- Whenever possible, quantify the time spent on each activity, say: "Receive approximately 10 patients between 8 am and 12 noon" instead of "Receive patients in the morning".
- Begin each sentence with an active and functional verb such as "supervises," "dictates," "notes," and so on.

2.3. Examples of job positions that can be found in an SME

CEO: The Chief Executive Officer determines the strategic direction of the company; Perform trade and representation tasks; Develop the culture and values of the organisation.

CFO: The Chief Financial Officer oversees the management and economic control of the company, assigning economic value to resources managed by the company (budget, financial statements and administrative processes). Elaboration of the annual budget. Financial control of the company. Supervision of administrative and management processes in the company (internal quality).

COO: The Chief Operating Officer is responsible for the daily operations of the company. He has to implement the strategy decided by the CEO and makes sure that all the activities of the company are correctly interconnected.

CMO: The Chief Marketing Officer oversees the design, direction and implementation of the marketing strategy of the company and its applications. He must create, define and implement the corporate Marketing strategy, ensuring its compatibility and synergy with the company's growth plan. Also, the development of international Marketing actions in each territory is under his responsibility (international). He strengthens the image of the product/service and the brand in the territory of influence.

CTO: The Chief Technical Officer is responsible for product research, development and innovation in the company. He oversees the generation of knowledge about the new product and evolved product; this role can include training and information responsibilities to the company's technical staff.

Business Development Officer: oversees the identification of new markets and determination of growth, development and investment rates in the short, medium and long term. He works to detect and develop new opportunities for business growth. He coordinates the selection of territories, search of distributors and development of sales strategy, the promotion of the sale of the product in new territories and the description of the procedures for the incorporation of the market definitively as usual country of destination of the product.

Sales Manager: participates in the design of the commercial strategy and the direction, organisation and management of the sales network to ensure the fulfilment of the commercial objectives of the company in the assigned territories besides coordinating the commercial department and provide technical advice on the company's products.

2.4. Tools

The main tools commonly used to proceed to the job position analysis and design are:

- Direct observation
- Questionnaires
- Direct interviews
- Mixed methods.

3. Recruitment

3.1. Introduction to Recruitment

Selection is the "action and effect of choosing one person or thing among others, as separating it from them and preferring it". This academic definition refers to separating and preferring one person over another. This implies to possess some type of criterion of contrast and some form of decision making; and of course, a group of people (in our case) on which to act, as an essential aspect.

The action of selection occurs spontaneously, very often, in social life and in all selection, there is an implicit a prediction or expectation that determines the choice.

In fact, the selection of personnel is a predictive action, in that it is intended to satisfy a need, in the immediate or medium term, based on the evaluation or estimation of some indicators in the present. Even less predictive approaches can't avoid a background of expectation.

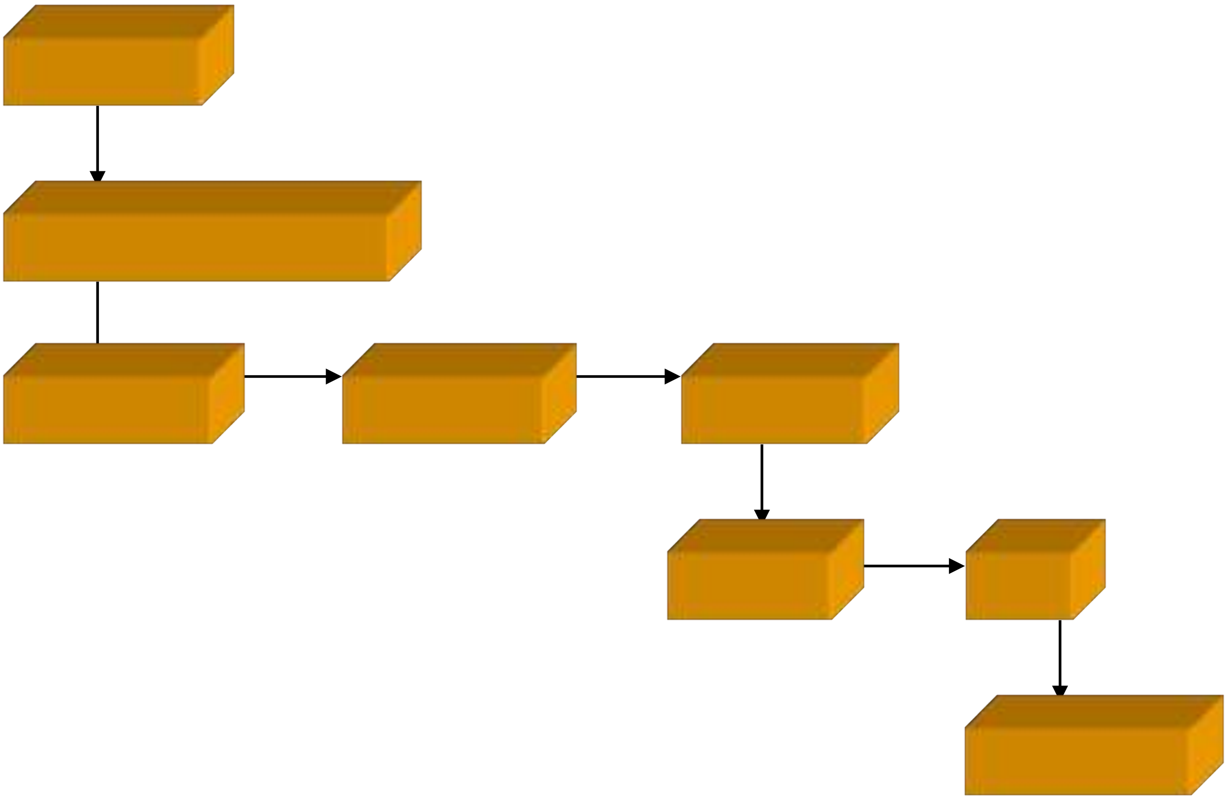
The problem of obtaining the maximum efficiency, integrating the people with the greater potential to achieve those objectives that are a priority for the organisation, has an practical and contrasting base in the daily activity: Not all the people are equal nor they are equally skilful nor able for any type of activity. The more demanding the activity is the smaller and special the group of people who can take it is. The problem will be to locate and select them.

In fact, the initial question is always the concretion of a need that must be reflected in formal criteria of contrast. These will be applied to one or more persons who meet certain requirements and are willing to assume the responsibility of the organisation in the terms that can be agreed between both parties.

This approach points out at least six previous aspects that are implicit in any process of selection of personnel:

- The realisation of need.
- The design of the solution.
- The search for candidates.
- The evaluation.
- Final decision-making and information management.
- The verification of the quality of the decision in what it does to the satisfaction of the initial necessity.

3.2. Phases of the selection process:



4. Retributive Policy

4.1. The concept of Salary

The totality of the workers' economic perceptions, in cash or in kind, shall be considered as salary for the professional benefit paid, whether it remunerates the actual work or the periods of rest that can be counted as working hours. In no case may the salary in kind exceed 30 percent of the total salary of the worker.

Rest periods considered as work for remuneration or salary purposes are:

- Weekly rest and holidays.
- Annual leave.
- An interruption in the continuous day, if any.
- Permits with the right to retribution.
- Interruptions of work unrelated to the will of the worker attributable to the employer.

On the contrary, those will not be considered as salary and are considered extra salary payments:

- The amounts received by the worker as compensation or supplemented by the expenses incurred because of his employment (i.e. the allowances).
- Social Security benefits and allowances.
- Compensation for transfers, suspensions or dismissals.

The difference between what is salary and what is not is very important. As a rule, social security contributions are calculated on the salary and are therefore not quoted on the extra salary contributions which, therefore, are not considered for the purposes of unemployment, temporary incapacity, retirement, etc. In addition, when the law establishes that some amount will be paid according to the salary, or fixed on certain days of salary (for example dismissals compensation payments), that amount is calculated on what is technically wages and are not considered, for this, the extra salary perceptions.

4.2. Retribution systems

With the concepts of retribution or compensation, we are referring to all forms of financial assistance, services and tangible benefits received by an employee of a company as part of their employment relationship. It includes the payment received in the form of money (salary, increase in merit, cost of living…) or in the form of benefits or services such as pension plans, accident or life insurance, holidays, corporate mobile, etc.

There is a multitude of ways or programmes to manage compensation for employees and a company usually uses several forms, among which we will see some, the most usual:

4.2.1. Fixed remuneration

This is the monetary compensation that the company guarantees that an employee will receive for a defined period. Two types: the collective bargaining agreement and the voluntary remuneration, agreed individually with each employee. In this type of remuneration would fit the category-based compensation program.

4.2.2. Fixed and variable remuneration

A part of the remuneration is guaranteed, while the other part is based on the results achieved. In this type of remuneration would fit two types of reward programs:

- Remuneration based on technical or generic competences.
- Compensation based on responsibility.

These concepts will be seen later.

4.2.3. Variable remuneration

This is the wage based on the participation to the results of the company.

It has two bases:

- On productivity improvements.
- On profit sharing.

4.2.4. Other types of remuneration

- Compensation based on obtaining shares of the company.
- Offer to purchase discount shares.
- Granting of options for the purchase of shares.
- Social benefits
- Benefits and services specific to the company.

4.3. Main remuneration concepts

4.3.1. Category-based pay

Wages are distributed by labour categories in such a way that with the acquisition of this category, the employee, even if he changes his job, retains it and can only increase it. That is, once achieved, the category can't be reduced in the same company. The category is achieved based on training and experience and personal characteristics.

4.3.2. Remuneration based on technical or generic competences

It is a question of remunerating the person according to his suitability for the activity and the degree of development of his competencies. The employee is not a simple performer who must perform a certain number of tasks in a job, he must be able to respond adequately to unknown situations, within the framework of several functions. Competency management is a new approach based on employees' behaviour. Employees' competencies reside in their ability to apply knowledge and experience in solving problems and dealing with specific situations (new or unknown) within the framework of their function

It can contemplate two types of competencies:

- Technical competencies: Distinctive features shown by an exceptional employee in his / her job, such as specific knowledge, skills or abilities.
- Generic competencies: Observable and habitual behaviours that make possible the personal success.

4.3.3. Remuneration based on the responsibility that is exercised from each job position.

Midway between category-based and competencies-based pay, it is a job evaluation that is based on the tasks and responsibilities required at the workplace, so that the employee, if he changes positions, does not carry with him the remuneration he had, but receives the corresponding one to the new job.

Any wage policy should include the following assumptions:

- Be fair: according to the contributions of the worker to the company.
- Be equitable: because of a coherent attitude of the company towards the benefits provided by people.
- Be in line with the market: because of the company's performance in each environment.

4.3.4. Remuneration based on obtaining the participation in the company

It is used to retain employees and link the compensation to some results or projects of the company in the medium or long term. This tool is generally restricted to the group of managers closest to the top of the organisation.

4.3.5. Social benefits

Social benefits are salaries that are awarded to employees for being part of the company and/or the position they occupy. They are collective rewards that provide security to employees and their families. They are part of the salary although they are not related to the results of the work. They have a legal origin, agreed or voluntary, and are addressed to the whole group that is delimited in the benefits. It has a cost for the company either in social security contributions (shared with the worker) or with only the company's fee. They can be quantified per employee per year. E.g. The average cost of employee benefits is 200,000 / year.

They are sometimes referred to as indirect benefits, employee benefits or supplementary benefits because the remuneration is given to employees in the form of payment in kind rather than in cash. (for instance, discounts on buying company products or Christmas baskets).

The set of social benefits complements the base salary and wage incentives. The sum of the monetary compensation (fixed + incentives) and the benefits and social services that a worker obtains is called total retribution.

Social benefits protect employees from risks that could jeopardise their economic security, complementing Social Security or improving the quality of life. (e.g. loan for the purchase of housing or help in the orthodontics for children).

The question of knowing if social benefits help keeping good employees is a moot point. We can find arguments in both directions. There are those who think that it only helps to keep less productive employees since the benefits are for everyone because of "belonging to the company" and regardless of their contribution to the results, and who maintain that they are the basis of retention of good employees.

5. Human Capital Development

5.1. Performance evaluation

The need for the evaluation of staff performance is based on the verification of two objective facts:

- The recognition that performance (apparently a more objective and aseptic measure) is virtually impossible to measure from an individual perspective. In practice, performance is only the result of the efforts of many people and it is usually impossible to separate individual contributions because of the synergy of different efforts. In this way, it seems more useful to allocate organisational efforts to the evaluation and measurement of what the staff does and how it does it, rather than focusing on the results obtained, which can hardly be attributed to a single individual, especially if we consider the high incidence of external factors and variables derived from the different formulas of work organisation and the establishment of priorities by the management team.
- The incorporation of quality systems, as well as the greater influence of mental contents in the work, to the detriment of the manual and mechanical efforts that characterised the traditional forms of production, obliges to consider the establishment of references of good practices at work. The performance evaluation allows the incorporation of criteria of good professional practices, as well as the consideration of those factors that precisely facilitate the establishment of synergies of effort, roles, knowledge and professional competencies.

Performance evaluation and management is, therefore, an essential element of human resource management in modern enterprise and a sine qua non for the establishment of effective continuous improvement systems. It is possible to improve what is done and how it is done, increasing the professional competences of the staff, facilitating the coherence of roles and systems, socialising the available knowledge, incorporating a sense of process and project to the activities that are developed in the company, etc.

5.1.1. Objectives of performance evaluation:

For the organisation:

- Identify management styles and facilitate consistency among them.
- Evaluate the different contributions of people more objectively.
- Encourage people to achieve better results and increase self-efficiency.
- Assess the degree of adequacy of the individuals to the assigned activities.
- Establish criteria to allow decision-making on staff (retribution, horizontal and vertical mobility, team building, etc.)

For managers (evaluators):

- Establish cooperative relationships with its staff.
- Link the activity of the evaluated staff with the objectives of the organisation.
- Provide feedback to those evaluated so that they incorporate criteria to improve their performance.
- Recognise in a specific way the efforts of the evaluated ones.

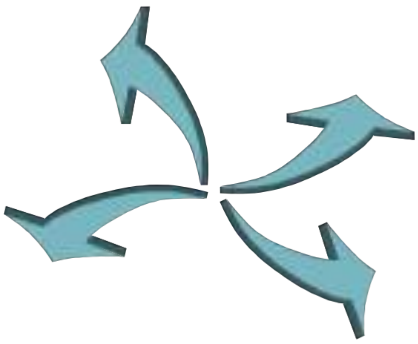
For those evaluated:

- Establish concrete links with immediate superiors.
- Have information about how a work is perceived.
- Specifically, identify the application criteria applied to it.
- Identify contents and references that allow socio-professional growth.

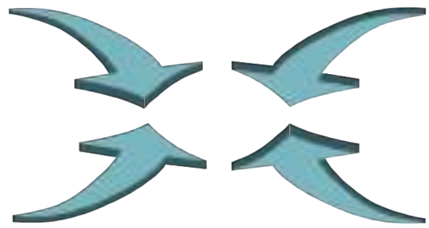
5.1.2. Characteristics of the performance evaluation systems:

- The procedure must be continuous. It can’t be punctual and/or unexpected: when it starts, it must occur periodically and predictably.
- The procedure must be systematic. The aspects to be evaluated and the procedures for doing so must be documented and known by both the evaluators and the evaluated.
- It affects everyone in the organisation. This is not a process that applies only to delineates staff but to all the staff of the company.
- The criteria used to make judgments about work performance tend to be expressed in a way that can be contrasted with real situations. They must also be considered in a constructive way to identify the strengths and weaknesses of the actions being evaluated.
- It has a historical dimension. That is, it considers and evaluates the progress that the person evaluated has experienced from the past.
- It has a prospective dimension. It is proposed to identify the possibilities of professional development of the people evaluated, detecting those areas that can be improved and the potential for development.
- It does not have a control or controlling purpose, but is rather aimed at supporting the person evaluated to improve their work performance.

5.2. Transform groups into teams



The group



The team

A working team is a set of people with a common goal, a temporary stability, an internal organisation that includes rules of cooperation and coordination. Cooperative attitudes are prevailing over competitiveness.

Key elements to foster the working team:

- Believe in the results.
- Trust in the people who can integrate it.
- Accept the stages of development of the teams.
- Assume the roles of the members of the teams.
- Demonstrate competence for teamwork.

Then, the next step is to work on culture. Culture is the "pattern of shared basic assumptions that the group learned as a way to solve their problems of external adaptation and internal integration, which has worked well enough to be considered valid and therefore be taught to the new members as the right way to perceive, think and feel in relation to these problems" Schein, E (1985, 1992).

5.2.1. Which culture does your company have?

Source: http://therightgroup.com.au/employee-research/company-culture-mapping/

6. Human Resources Management skills

After having seen the main theories behind the human resources and the functions to be handled, we will now see what are the main management skills needed by the HR responsible person to handle his function.

The objective of Human Resources Management skills are:

- Raise awareness on the need for organisational change.
- Provide the necessary attitude to take on the changes.
- Provide the necessary skills to introduce change processes into the organisation.
- Teach the techniques to face and overcome the rejection of the change by collaborators.
- Observe how problems are analysed, decisions are made and the normal progress of plans is ensured.
- Apply knowledge of problem-solving from new concepts to real work situations.
- Communicate better to work more effectively with the team and overcome resistance to change.

6.1. Communication

Communication is the means of connection that people have to transmit or exchange messages. In the organisation, it serves to:

- Satisfy the desire to inform others,
- Get a specific answer or behaviour by a particular person or group,
- Understand the reality of those who work with us

The HR Director should look for communication as the basis of his management. In his style, he/she is fostering upward / downward and horizontal vertical communication. Thus, he should practice the policy of "open doors" as he needs information to make decisions.

Remember that some important elements of communications are non-verbal (body language, gestures, look, facial emotions, … including silence)!

6.2. Leadership

The main characteristics of a good leader are:

- Ability to communicate
- Assertiveness
- Ability to set goals and objectives
- Ability to view
- A leader believes in his team and transfers his trust to the people
- A leader grows and makes his people grow
- Charisma
- Orientation toward innovation
- Sense of responsibility

And of course, avoid the ten sins of the boss:

- The boss does not lead or lead too much.
- The boss commands but does not lead.
- The boss believes that he knows everything and that he should solve everything.
- The boss hears but does not listen.
- The boss loses his own control.
- The boss is resultant vs. doing things right.
- The boss does not dismiss harmful employees or managers.
- For the boss, the first thing is not the customers.
- The boss is afraid.
- The boss is unfair.

6.3. Motivation

Definition of Motivation: a positive or negative emotion that occurs to someone when there is a stimulus or incentive that satisfies a need and causes him to develop a determined behaviour. It comes from the Latin terms *motus* (moved) and *motio* (movement). They are those things that impel a person to perform certain actions and to persist in them until the fulfilment of their objectives. It is linked to the willingness and the interest. Motivation is the will to try and reach certain goals.

Why do we try to motivate?

- Basic level: to achieve results, achieve objectives; fulfil an obligation ... At this level, the thought is in the company only.
- Higher level: to achieve integration, commitment, identification with the company, satisfaction and professional development... At this level, the thought is on the company and the person.

Intrinsic motivators

The motivator is considered intrinsic when the person sets his interest in the work, always demonstrating self-improvement in the attainment of his purposes, aspirations and goals. It is defined by the fact of performing an activity for the pleasure and satisfaction that one experiences while learning, exploring or trying to understand something new. Here are several constructs such as exploration, curiosity or learning:

- Interest in the task performed.
- Variety of tasks performed.
- Importance and significance of work for your life.
- Personal values that your work gives you.
- Autonomy in the accomplishment of the task.
- Freedom to make decisions.
- Opportunities to use knowledge, skills and abilities.

Extrinsic motivators

Motivator is considered extrinsic when the worker tries to do his work not so much because he likes it but for the advantages it offers:

- Money.
- Labor Stability (most valued).
- Promotion and Promotion Opportunities.
- Working conditions (material and human resources).
- Possibilities of participation in the work.
- Working environment: work in group, relationship with the leader.

Maslow's theory: Motivation is a function of five basic psychological needs: physiological, safety, love, recognition and self-development.

6.4. Negotiation

Definition of negotiation: A negotiation is a process that allows obtaining advantages of an interaction in which two or more parties in disagreement seek a satisfactory result through a joint action.

To have a negotiation, there must be:

- Conflict of interests.
- The absence of rules or laws that resolve this conflict.
- Preference of the parties to find an agreement rather than to break the relationship.

Phases of the negotiation:

- Preparation: search for information, define the objective of the negotiation
- Development: Exposition of proposals / offers and search for an approximation
- Agreement and conclusions: concessions and alternatives, compromises and agreements (written!)

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Chapter 4: Understanding Sales and Finances.

1. Introduction

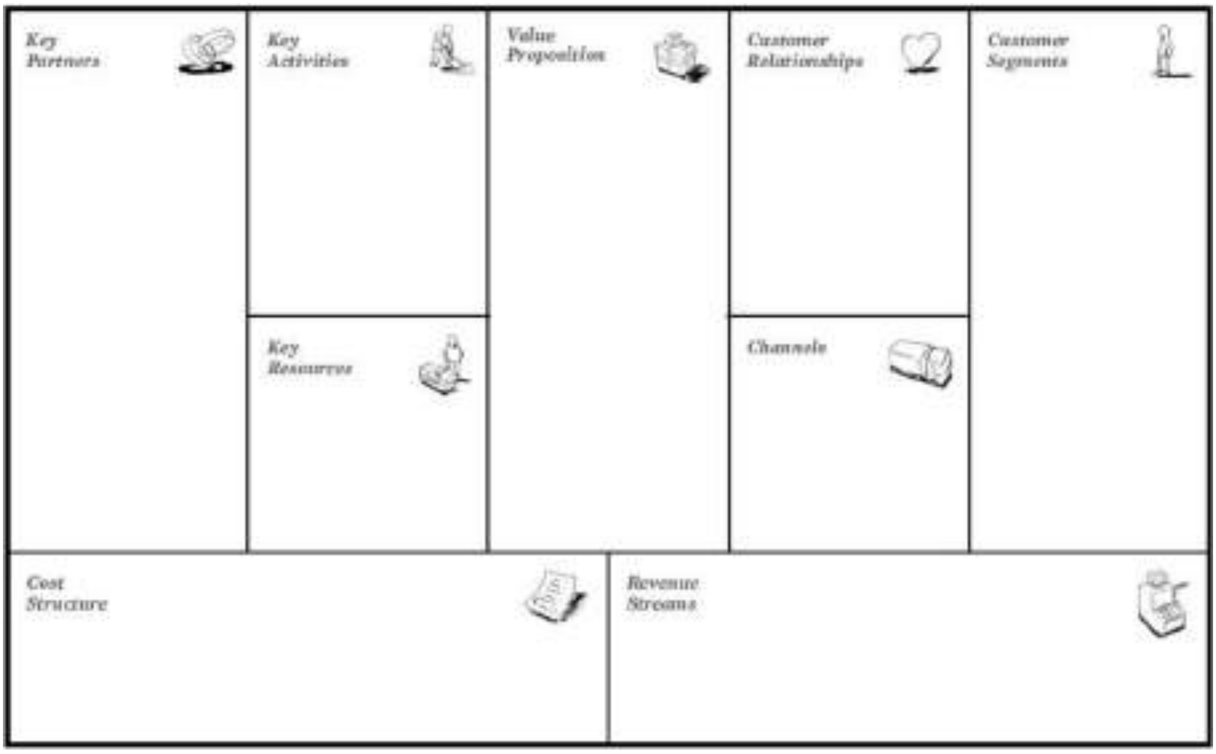
Sales is an essential process in the company. Without it, a company cannot generate revenue, and thus also cover the cost of doing business, cannot invest and ultimately stay on the market. Each company starts its business by thinking about selling their products or services to customers. Heading to the success, the company has to provide three basic elements: a product (service) that is going to be sold, a customer – someone who is going to buy and the market where the product is going to be offered. The fact that there are customers who can potentially buy the product is not sufficient to be successful. A company has to convince a large number of customers that offers products that distinguish positively from those offered by competitors. A variety of marketing tools can be used in this process. Once the product has been sold, one needs to keep the customer satisfied, otherwise, he/she will never come back and will not encourage others to buy products. Sales is not a single event but a process that has its origins in the decision of a merchant to sell a specific product in a particular market. As a process, it has stages and whole logic. While thinking about business one need to systemize the process and build a coherent and logic system that stands behind the process of selling product. In this section a concept of business model canvas (BMC) will be presented, as a tool used to build a logic of the business and a foundation for launching process of sales. Then the process of selling itself will be presented accompanied by marketing concepts and some advice how to attract a customer and create customer relationships. The success of the sales process can be considered via financial result. In the second part of the chapter, some basic issues of finance and financial analysis will be presented to deliver some insights what is important as far as finances of the company are concerned.

2. Business Model Canvas

At the most basic economic level, a business model is a logic by which an organisation sustains itself financially. A business model describes the rationale of how an organisation creates, delivers, and captures value, in economic, social, cultural or other contexts [Clark, Osterwalder, Pigneur, 2012]. Business Model Canvas (BMC) is a tool used by millions of entrepreneurs worldwide. It enables to describe, design, challenge and pivot a business model. BMC describes how nine components of a business model fit together. It is a

powerful technique for painting pictures of how organisations work, it provides a visual shorthand for simplifying complex organisations. The Business Model Canvas was introduced by Alexander Osterwalder (Figure 1.1).

Figure 1.1. Business model canvas



Source: https://wordpress-innovately.rhcloud.com/business-model-canvas/ *access 20.12.2016*

Below, one can find a description of fields of BMC with links to the sales and its concept.

2.1. Customer segments:

Customers are the reason for an organisation's existence. No organisation survives long without paying Customers. The company needs to answer the following questions:

- Who is our customer?
- For whom we create value in the company?
- Is our company operating in a niche market or mass?
- On what segments can be divided our clients considering their concerns and expectations?
- How we share our clients and what strategies we use?

Since no company can serve all clients, the market requires segmentation. Customer Segmentation is the subdivision of a market into discrete customer groups that share similar characteristics [Rigby, 2015]. Dividing customers into groups, managers can prioritise new product development efforts, develop customised marketing programs, choose or emphasise specific product features,

establish appropriate service options, design an optimal distribution strategy or determine appropriate product pricing.

Customer Segmentation requires managers to:

- Divide the market into meaningful and measurable segments according to customers' needs, their past behaviours or their demographic profiles.
- Determine the profit potential of each segment by analysing the revenue and cost impacts of serving each segment.
- Target segments according to their profit potential and the company's ability to serve them in a proprietary way.
- Invest resources in tailoring product, service, marketing and distribution programs to match the needs of each target segment.
- Measure performance of each segment and adjust the segmentation approach over time as market conditions change decision making throughout the organisation.

There are different criteria that enable market segmentation. Examples are as follows:

GEOGRAPHIC – Where are they?

- E.g. East Europe.

DEMOGRAPHIC – Who are they?

- E.g. female, age 18-25, low-mid income, no children.

PSYCHOGRAPHIC – Why do they buy?

- E.g. active, independent, like to be mobile.

BEHAVIOUR – How do they use the products?

- E.g. transportation to work, shopping.

Market segment identification process can look as follows:

1. IDENTIFY THE RELEVANT DEMOGRAPHIC CHARACTERISTICS OF YOUR TARGET MARKET[S].

- i.e. age, income range, gender, occupation, education, marital status, family size, etc.

2. IDENTIFY THE PSYCHOGRAPHIC CHARACTERISTICS OF YOUR TARGET MARKET[S].

- i.e. lifestyle, personality traits, attitudes, values, etc.

3. IDENTIFY TYPICAL BEHAVIOURS OF YOUR TARGET MARKET[S]

- i.e. purchasing patterns (frequency, amount), benefits sought, usage, etc.

Remember!

Each product has specific attributes. Since customers have different interests, tastes or preferences, the product should be customised, tailored to the specific market. The customer segmentation seems to be indispensable.

2.2. Value proposition

One should think of Value Proposition as Customer benefits created by "bundles" of services or products. The ability to provide exceptional Value is the key reason why Customers select one organisation over another. It is like a promise of value that is going to be delivered. The less known the company is, the better value proposition it needs. The missing or poor value proposition is one of the most common shortcomings in the company's strategy and portfolio. As far as the sales is concerned, the value proposition is the foundation for good sales prospects. Having a really good value proposition selling the product is much easier and more effective. The value can have various roots. Some examples:

- Convenience (e.g. more functionalities - smartphone),
- Price (e.g. in general cheaper),
- Design (e.g. modern),
- Brand or status (e.g. Louis Vuitton bags),
- Cost reduction (e.g. equipment A++ class with lower demand for energy),
- Risk reduction (e.g. electronic cigarettes).

Evaluating current value proposition is possible by checking whether it answers the questions below:

- What product or service is the company selling?
- What is the end-benefit of using it?
- Who is the target customer for the product or service?
- What makes the company offering unique and different?

While building the value proposition it is recommended to use the following template:

- For – specifically, describe target customers,
- Who – statement of need or opportunity,
- The (product name) is a – product category,
- That – statement or key benefit – that is compelling reason to buy,
- Unlike – competitors or primary competitive alternative.

There are some basic rules for constructing good value propositions. First, it has to be clear and comprehensive. It should be easily understood. It should communicate concrete and the visible result a customer will get while purchasing and using the product. It should show what is the difference from other products that competitors offer (or emphasise that it is unique at the market).

It should be easy to read and remember in a few seconds. One should avoid business jargon (difficult for a customer who is not a specialist in the field) or superlatives (like "we are the bests").

Remember!

The value proposition is a key message to your customers why they should buy your product. It is critical for the business model, thus for the sales and expected revenues. Make an effort to construct it in a concrete, comprehensive and attractive way.

2.3. Channels

A company can deliver its value proposition to its targeted customers through different channels. Effective channels will distribute a company's value proposition in ways that are fast, efficient and cost effective. An organisation can reach its clients either through its own channels (store front), partner channels (major distributors), or a combination of both. Channels perform five functions:

1. Awareness - Create awareness of services or products.

2. Evaluation - Help potential customers evaluate products or services.

3. Purchase - Enable customers to purchase.

4. Delivery - Deliver value to customers.

5. After Sales - Ensure post-purchase satisfaction through support.

Most companies have a different medium to attract a customer and separate strategies on how to retain them. Depending on the production and company specification, the product can be distributed via typical sales offices – internal unit in which sales personnel are organised to sell products to customers, or via the internet or through wholesale trade customers. Other sales channels might be retail or independent sales representatives.

Remember!

While constructing channels in your business remember that you need to attract customers, evaluate the value proposition, enable them purchasing, deliver them the product and keep them satisfied.

2.4. Customer Relationships

It refers directly to channels. Organisations must clearly define the type of relationship that customers prefers. Personal? Automated or self-service? Single transaction or subscription? The most common tool used in this process is Customer Relationship Management. Customer Relationship Management (CRM) is a process that companies use to understand their customer groups and respond quickly—and at times, instantly—to shifting customer desires. CRM technology allows companies to collect and manage large amounts of customer data and then carry out strategies based on that information.

CRM requires managers to (Rigby 2015):

- Start by defining strategic "pain points" in the customer relationship cycle. These are problems that have a large impact on customer satisfaction and loyalty, where solutions would lead to superior financial rewards and competitive advantage,
- Evaluate whether—and what kind of—CRM data can fix those pain points. Calculate the value that such information would bring the company,
- Select the appropriate technology platform, and calculate the cost of implementing it and training employees to use it,
- Assess whether the benefits of the CRM information outweigh the expense involved,
- Design incentive programs to ensure that personnel are encouraged to participate in the CRM program. Many companies have discovered that realigning the organisation away from product groups and toward a customer-centered structure improves the success of CRM,
- Measure CRM progress and impact. Aggressively monitor participation of key personnel in the CRM program. In addition, put measurement systems in place to track the improvement in customer profitability with the use of CRM. Once the data is collected, share the information widely with employees to encourage further participation in the programme.

Remember!

You should use in your company Customer Relationship Management. You need to gather data and information about your customers, process and use them to acquire new Customers, retain existing or derive more revenue from existing Customers.

2.5. Key resources

Key resources are the main inputs that company uses to create its value proposition, service its customer segment and deliver the product to the customer. There are four main types of resources:

1) Physical resources: equipment, inventory, buildings, manufacturing facilities, vehicles, machines, systems, point-of-sales systems, distribution networks,
2) Intellectual resources: intangible resources like brand, patents, IP, copyrights, partnerships, customer databases,
3) Human resources: all employees that company hires,
4) Financial resources: cash, lines of credits, stock options pool for hiring key employees.

As far as sales is concerned, typical resource includes sales offices facilities (offices, internet centres), sales personnel, financial resources used to organize and run sales office or centres, network, customer relationship management systems.

Remember!

Evaluate each of your key resource to find out whether the given resource is essential to the success of the business or not.

2.6. Key activities

These are the most important things an organisation must do to make its business model work.

Key activities are different according to what kind of business it is going to be but they should always refer to some basic issues:

a) Key activities should be founded on the value propositions – it determines range and variety of activities the company performs,
b) Distributions channels are other important factor determining key activities,
c) Key activities should be bind with customer relationships – company needs to attract customers and then keep them satisfied,
d) Key activities are crucial to generating revenue streams – only having revenues a company can survive.

There are different kinds of activities that a company performs, like production, distribution, sales, research and development, networking, marketing, etc. One of the most important is sales and customer services. As far as sales and customer services are concerned, activities include: setting sales offices, hiring salesmen, product packaging, setting price mechanism together with discounting policy, customer acquiring, customer relationship management, etc.

Remember!

Plan carefully sales and customer services to build a large cohort of customers, that are loyal and become your advocates in the market.

2.7. Key Partners

The contemporary world is more and more interrelated. Networking and building Partnership is not only the strategy to increase the effectiveness of business performance, but also a condition for surviving on the market.

The main reasons for which companies cooperate:

- Optimisation of costs and economies of scale – having joint sales office can bring cost reduction, and economies of scale especially when products are complimentary;
- Reducing the risk – entering new markets always increases risk of the company – combining efforts with business partner reduces risk, especially when the partner knows the market very well;
- The acquisition of resources or activities – e.g. acquiring local sales office together with the know-how of its employees.

Remember!

Sometimes it is cheaper to establish a partnership with a partner from the local market than try to organise and run sales from the origin country.

2.8. Revenue streams

The way a company makes income from each customer segment. The company should consider three following aspects:

a) For what value are customers willing to pay?
b) What and how did they recently pay? How would they prefer to pay?
c) How much does every revenue stream contribute to the overall revenues? (see the financial analysis).

Some types of revenues:

- Outright sale,
- Lease or rent,
- Service or usage fee,
- Subscription fees,
- Licencing,
- Brokerage (matching) fees.

It is not just enough to list the sources for various revenue streams but equally important to specify their pricing and projected lifecycles too. The given revenue streams should be worth to opt for it. If the cost of the preparation of the product is higher than expected revenue received from the customer, it is better to close the specific product cycle or establish another pricing mechanism. Pricing mechanisms refer to the effect of the pricing of a product on its expected demand and supply. This is essentially a tool to match buyers to the sellers of a product. Each revenue stream in a business can have its individual pricing mechanism. Companies use Price Optimisation Models to establish right price for the product. Price Optimisation Models can be used to tailor pricing for customer segments by simulating how targeted customers will respond to price changes with data-driven scenarios (Rigby 2015). Given the complexity of pricing thousands of items in highly dynamic market conditions, modelling results and insights help to forecast demand, develop pricing and promotion strategies, control inventory levels and improve customer satisfaction (Philips R, 2005).

Remember!

Set right price policy. If you set too higher prices, just a few customers will buy the product. You can use several tools to model the optimal pricing mechanism, including not only the price but also possible deductions and discounts.

2.9. Cost structure

Acquiring Key Resources, performing Key Activities, and working with Key Partnerships all incur Costs. Many start-ups fail in first years just because focusing on the product and revenues they forget to monitor and evaluate costs. When constructing a business model, one has always to answer some fundamental questions:

a) What are the main costs that come from the business model?
b) Which activities and resources represent the most expensive cost?
c) Which part of the cost is fixed in nature (independent from the scale) and which is variable?
d) Is the business more cost-driven (focused on cost reduction) or value driven (continuous effort to increase value for customers)?
e) Is the business scalable? (Being scalable means a business can effectively deal with big increases in demand — it has the capacity to effectively serve many more Customers without straining or sacrificing quality. In financial terms, being scalable means the extra cost of serving each additional Customer falls instead of remaining constant or rising).

The most common of cost division is as follows:

a) Fixed cost – remain the same regardless of the volume of the product produced,
b) Variable costs – refer directly to the volume of the production and rise proportionally with this volume.
c) OPEX – Operational expenditures associated with the day to day running the company (energy and materials, depreciation (accounting cost), services, local taxes, salaries and social charges, other costs),
d) CAPEX – capital expenditures – investments in assets of the company.

Remember!

Always pay attention to cost structure and changes over the time. Focusing only on the product and revenues can be a treacherous road. Modelling the business while using business model canvas can be very effective and enables to understand the logic that stands behind every business. Having this in mind we can understand more deeply all processes that are reflected in the business activity. Sales are one of these processes. Without the whole business system, sales cannot be effective.

3. Methods and Sales techniques

The customer can come from different economic sectors; therefore, we distinguish the following ways of Sales: (B2B – business to business, B2C – business to customers, B2G – business to Government). Sales can take place through:

a) Direct sales – person to person contact, in most cases in a sales office;
b) Channel sales – achieving customer through distributors, resellers or value-added resellers (VARS);
c) Agency –based (sales agents, outsourcing, consultative sales, consignment, telemarketing, retail);
d) Travelling salesman (door-to-door, hawking);
e) Request for proposal – typically in a form of a bid process by inviting customers to submit a proposal;
f) Electronic (via WEB or email);
g) Indirect (vending machine).

Sales technique is every procedure that can be used in the relation with the customer and end with the sales. Each technique shall be adjusted to the nature of the customer and the sales localisation and run in a systemic way. There are many different techniques, always used to build a strong relationship with the customer with the final goal to make the customer purchase the product. Some advice how to increase the effectiveness of sales:

a) Marketing your products continuously – even really good product requires promotion, the more intensive the competitors are and the more standardised the product is, the company should invest more in product promotion;
b) Run a Customer Reward Program – people like to be appreciated for frequent buying a product;
c) Give our frees samples – it is good way to advertise a product and build customer loyalty;
d) Take care about quality and appearance – it is important that people like the product look, but quality is always s the king;
e) Motivate Salespeople – good motivated salesman will be more eager to increase the effort to sell more;
f) Keep customers satisfied – listen carefully what customers say, gather opinions and data, evaluate and react to negative one;
g) Be professional in every aspect of the activity – people like and appreciate professionalism;
h) Provide high quality after sales service – purchasing the product is the first step of a long-run partnership between the company and the customer.

Remember!

Customer buys not a product, but product attributes. It is not important what the product is, but what can we do as we have it. While constituting value proposition it is good to indicate what kind of benefit customer gets.

4. Writing a Sales Plan

Planning of the sales in the company is always a part of the marketing plan. People responsible for the sales in the company shall always create Sales plans so they could make relational sales dictions, offer good products to the right customer's segments. One should start with following activities:

a) Refer to the value proposition that has been planned for a business model – it is always a starting point – one needs to know exactly what kind of product the company offers;
b) Describe your customer profile always having in mind value proposition. Certainly, there will be a need to divide customers into groups (segments);
c) Analyse the market – try to position the product in relation to competitors while comparing at least quality and price;
d) Analyse your own price policy and cost structure – knowing competitors' prices enables setting a good price mechanism together with a discounting policy and adjusting prices to segments of customers, cost structure is also important since the price is always derivative of costs and margin of the company;
e) Set short-run and long-run sales goals – forecast rarely come true, but they are always a basis for planning; preparing predictions for sales it is advisable to refer to historical sales;
f) Identify optimal localisation for products – important is demand for product at the area, but also costs that relate to specific localisation;
g) Identify your own marketing approach and policy – way and intensity of promotion are important factors at this stage;
h) Identify optimal sales techniques and methods to be used in the process;
i) Plan the exact system of monitoring and evaluation.

Remember!

Sales is always an interrelation between value proposition (benefits that customer gets while purchasing the product), customer expectation, the intensity of rivalry and motivation of sales personnel.

5. Marketing and Advertising

Marketing is everything a company does to acquire customers and maintain a relationship with them. It is based on thinking about business in terms of customer needs and their satisfaction. It is less about getting customers to pay for the product, as it does develop a demand for that product and fulfilling the customer's needs. Marketing is a very broad topic, that has many concepts, techniques, methods and theories. The most known are the 4Ps and 7Ps concept of the marketing mix. The organisation always tends to use marketing mix to deploy their marketing strategy as effectively as possible. In the 1960s, the American marketer, E. Jerome McCarthy, provided a framework by means of the marketing mix = 4 Ps (McCarthy 1975).

- Product - The Product should fit the task consumers want it for, it should work and it should be what the consumers are expecting to get.
- Place – The product should be available from where your target consumer finds it easier to shop. This may be High Street, Mail Order or the more current option via e-commerce or an online shop.
- Price – The product should always represent good value for money. This does not necessarily mean it should be the cheapest available; one of the main tenets of the marketing concept is that customers are usually happy to pay a little more for something that works well for them.
- Promotion – Advertising, PR, Sales Promotion, Personal Selling and, in more recent times, Social Media are all key communication tools for an organisation. These tools should be used to put across the organisation's message to the correct audiences in the manner they would most like to hear, whether it be informative or appealing to their emotions.

The concept has been criticised as it has not been focused on the B2B enough. It used also to fail when it came to service provision. In 1981 the concept has been extended to 7Ps (Booms &Bittner, 1981), which enabled to use the concept in service companies and knowledge-intensive environments. To the initial 4Ps three another Ps have been added:

- People – All companies are reliant on the people who run them from front line Sales staff to the Managing Director. Having the right people is essential because they are as much a part of your business offering as the products/services you are offering.
- Processes –The delivery of service is usually done with the customer present so how the service is delivered is once again part of what the consumer is paying for.
- Physical Evidence – Almost all services include some physical elements even if the bulk of what the consumer is paying for is intangible. Even if the material is not physically printed (in the case of PDF's) they are still receiving a "physical product" by this definition.

Some people argue that we shall consider another (eight) P – Productivity & Quality. This P asks, "*is what you're offering your customer a good deal?*" This is less about a company improving its own productivity for cost management and more about how a company passes this onto its customers.

Remember!

The most well-known marketing concepts are 4Ps and 7Ps.

5.1. The online marketing

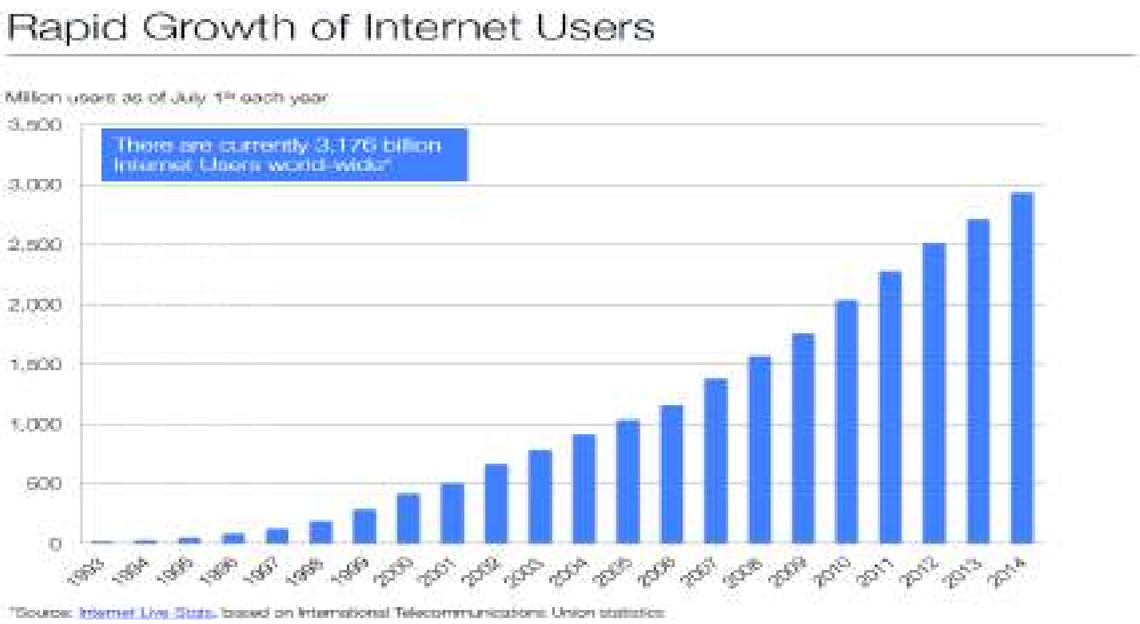
Today we experience the enormous pace of information flow. As technology progresses, we move from a Web 1.0 to a Web 2.0 and very soon to Web 3.0 (Figure 5.1.).

Figure 5.1. The Shift from Web 1.0 to Web 3.0

Source: Ammerman P., 2016, Intercom project presentation.

The number of internet users grows very fast. In 2014 the number reached almost 3,2 billion people worldwide (Figure 5.2.). This is an enormous number of potential customers that must be marketed.

Figure 5.2. number of internet users



When we look at the most recent data, we can see that the number of internet users in 2016 exceeded 4 billion (Table 5.1.).

Table 5.1. World Internet Usage in 2016

	Population (2016 estim)	Population of the World	Internet Users 30 June 2016	Penetration rate	Growth 2000-2016	Table % Users
Asia	4 052 652 889	55.2%	1 846 212 654	45.6%	1,515.2%	50.2%
Europe	832 073 224	11.3%	614 979 903	73.9%	485.2%	16.7%
Latin America/Caribbean	626 119 788	8.5%	384 751 302	61.5%	2,029.4%	10.5%
Africa	1 185 529 578	16.2%	340 783 342	28.7%	7,448.8%	9.3%
North America	359 492 293	4.9%	320 067 193	89.0%	196.1%	8.7%
Middle East	246 700 900	3.4%	141 489 765	57.4%	4,207.4%	3.8%
Oceania/Australia	37 590 820	0.5%	27 540 654	73.3%	261.4%	0.8%
World Total	7 340 159 492	100.0%	3 675 824 813	50.1%	918.3%	100.0%

Source: Internet World Stats access 16 11 2016

The world wide web today is an ever-growing internal part of daily life and economy:

- Over 30 trillion web pages;
- 3.675 billion internet users worldwide 50.1% penetration rate;
- 73.9% European penetration rate (June 2016);
- Over 100 billion searches per month on Google;
- Over 2 billion mobile internet users;
- 9 out of 10 internet users are social media;
- 1.679 billion Facebook users;
- 1 out of every 8 minutes online is Facebook.

We live in a Social World dominated by Facebook, LinkedIn, Twitter and Google+. The next table (5.2.) presents the number of Facebook users. It reached almost 1.7 billion users in 2016 which gives around 22% average world penetration rate, (in Europe almost 4 out of 10 use it).

Table 5.2. Facebook users

	Population (2016 estim)	Population of the	Facebook 30 June 2016	Penetration rate	Growth 2000-2016	Users % of Table
Africa	1 185 529 578	16.2%	146 637 000	12.4%	732.8%	8.7%
Asia	4 052 652 889	55.2%	559 003 000	13.8%	497.3%	33.3%
Europe	832 073 224	11.3%	328 273 740	39.5%	102.5%	19.5%
Latin America/Caribbean	626 054 392	8.5%	326 975 340	52.2%	353.4%	19.5%
Middle East	246 700 900	3.4%	76 000 000	30.8%	549.7%	4.5%
North America	359 492 293	4.9%	223 081 200	62.1%	49.7%	13.3%
Oceania/Australia	37 590 820	0.5%	19 463 250	51.8%	67.8%	1.2%
World Total	7 340 094 096	100.0%	1 679 433 530	22.9%	224.4%	100.0%

Source: Internet World Stats access 16 11 2016

Such wide variety of social media has a huge impact on business.

- A website is a mandatory aspect of any business;
- The website shall be in at least two languages;
- The website should include high-quality content that convinces customers it is a worthy interlocutor;
- In addition to website presence, the corporate should claim its social media properties (at least Facebook, LinkedIn, Twitter and Google+) and ensure that is regularly posting news, events, achievements, corporate offers and launching new products;
- The company must invest in online marketing, using Search Engine Optimisation (SEO) tools.

That is why the content is in the centre of interest today. Content marketing is a strategic approach focused on creating and distributing valuable, relevant and consistent content to attract, retain a clearly defined audience and at the end enhance profitable customer action.

One could specify some online objectives:

- To Inform – the website is to provide critical information about your business, products, services, location, events, etc.
- To Promote – promoting means creating an immediate demand for products or services offered.
- To Partner - Partnering includes technical forms of cooperation, such as holding joint events products presentations, promoting sourcing and subcontracting.
- To Sell – Selling includes an online transaction.
- To Service – this feature provides after-sales service, installation information, technical updates, etc.
- To Remind – the reminder function keeps information fresh and updated, proving your relevance and the benefit of a continued interaction with your Customers and Partners.

One of the benefits of online marketing is that we can track the activity on the website. Known as website analytics, applications such as Google Analytics and Google Webmaster Tools can be installed and give you free access to in-depth website reports. Typical Metrics include:

- Visitors per month: The number of visitors (not robots) to your website, per month;
- Website views per month: Views are higher than visitors because one visitor tends to visit multiple pages;
- New visitors: The number of new visitors registered on the website (determined by IP address);
- Repeat visitors: The number of repeat visitors;
- Bounces: The number of visitors who left the site from the same page they entered on;
- # Inquiries: The number of inquiries submitted from the website.

There is no uniform method of interpretation, but:

- The higher the bounce rate, the less relevant your website is to the visitors viewing it.
- The higher the number of repeat visitors, the more relevant your website is.
- The higher the number of views per visitor, the more relevant your website is.
- A website with a balanced number of new visitors versus repeat visitors is working well in terms of its capacity to both attract new viewers and keep attracting older visitors.

It is important not to hit specific numbers, but to show a consistent improvement over time. This requires the continual generation of new content which is posted to your website and your social media network; is pushed to recipients using email newsletters; and other forms of promotion.

As the internet is overcrowded, companies should take care of being on the edge of the search list of most important web browsers. They should use Search Engine Optimisation (SEO), which is the process of developing web content and structure to score highly on search engine results. This process is based on two approaches:

- On-page or on-site SEO refers to the guidelines you use on your website itself;
- Off-page SEO refers to the process of backlinking and other techniques implemented on other websites and social media platforms.

Different search engines use different ranking principles to determine the priority in which search results are displayed on their results page. Google is the most popular search engine globally and has over 200 factors used in its search algorithm. The principles discussed here reflect the most common Google factors, but few people know all factors given the commercial secrecy, which surrounds Google's operations.

Google itself provides some guidance on how to understand its search model:

- Google Webmaster: http://support.google.com/webmasters/?hl=en - Google Webmaster is an online suite of tools provided by Google to help webmasters manage their sites and perform better in online search. It contains a fairly comprehensive guide towards SEO according to Google and is the natural starting point. It is also free.
- Google Blog: http://googleblog.blogspot.gr/ - The Google Blog is used to share reflections by Google staff, and to announce major revisions to the Google search algorithm. Search by labels, as the general blog stream is extensive.
- Google PageRank: http://en.wikipedia.org/wiki/PageRank - The Google PageRank model was the original algorithm used to measure the importance of linked pages.

Some rules from Google:

- Websites with a higher number of pages (e.g. 200 pages) and a higher number of links within each site rank higher.
- Websites with high-quality content on the page, e.g. graphics, at least 200 words of text, etc. rank higher.
- Websites which have been indexed using Google Webmaster and have been in existence for a longer period rank higher.
- Websites which are updated frequently rank higher.
- Websites which receive higher traffic rank higher.
- Websites which have content like trending content, e.g. news, rank higher.

Remember!

Online marketing is becoming more and more important, as the number of internet users grows over the time. The social media strategy becomes crucial. Customers do not read books, do not read newspapers either. But they spend long hours looking what their social media friends bought recently.

BGame
Strategic Management
Virtual Game for SMEs

5.2. Financial reports

Financial analysis, in general, is a set of techniques and methods used by analysts to provide to stakeholders' reports on the financial condition of the company in the past or in the future. It always refers to the assessment of the business and deals with planning, budgeting, monitoring, forecasting or improving financial details within organisation. Goals of financial analysis area as follows:

- Assessing the profitability, solvency, liquidity and stability of the company,
- Giving inside into business valuation of company,
- Giving a reason and base for decision-making process.

Analysts use financial indicators to track the profitability of the business. The basic classification includes:

a) Profitability – ratio provides an insight to the degree of success in generating wealth for the owners;
b) Efficiency – ratio assesses the level of using resources for achieving the results;
c) Liquidity – ratio assesses the sufficiency of liquid resources available to meet mature obligations;
d) Financial gearing – relationship between the contribution to financing the business made by the owners of the business and the amount contributed by the lenders;
e) Investment – ratio assesses the returns and performance of shares in a business from a perspective of shareholders.

Profitability

1) Return on ordinary shareholders' funds (ROSF) – compares the amount of profit for the period available to the owners with the owners' average stake in the business during the same period.

$$ROSF = \frac{\text{Profit for the year (net profit) less any preference divided}}{\text{Ordinary share capital } + \text{Reserves}} \times 100$$

2) Return on capital employed (ROCE) – expresses the relationship between the operating profit generated during a period and the average long-term capital invested in the business during that period.

$$ROCE = \frac{\text{Operating profit}}{\text{Share capital} + \text{Reserves} + \text{Non current liabilities}} \times 100$$

3) Operating profit margin – relates the operating profit for the period to the sales revenue during that period.

$$\text{Operating profit margin} = \frac{\text{Operating profit}}{\text{Sales revenue}} \times 100$$

4) Gross profit ratio – relates the gross profit of the business to the sales revenue generated for the same period. Gross profit represents the difference between sales and revenue and the cost of sales.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales revenue}} \times 100$$

Efficiency

1) Average inventories turnover period – measures the average period for which inventories are being held.

$$\text{Average inventories turnover period} = \frac{\text{Average inventories held}}{\text{Cost of sales}} \times 365$$

2) Average settlement period for trade receivables – calculates how long, on average, credit customers take to pay the amounts that they owe to business.

$$\text{Average settlement period for trade receivables} = \frac{\text{Average trade receivables}}{\text{Credit sales revenue}} \times 365$$

3) Average settlement period for the trade payables ratio – measures how long, on average, the business take to pay those, who have supplied goods, and services on credit.

$$\text{Average settlement period for trade payables} = \frac{\text{Average trade payables}}{\text{Credit purchases}} \times 365$$

4) Sales revenue to capital employed – examines how effectively the assets of the business are being used to generate sales revenue.

$$\text{Sales revenue to capital emplyed ratio} = \frac{\text{Sales revenue}}{\text{Share capital} + \text{Reserves} + \text{Non - current liabilities}}$$

5) Sales revenue per employee – relates sales revenue generated to a particular business resource, that is labour.

$$\text{Sales revenue per emplyee} = \frac{\text{Sales revenue}}{\text{Number of employees}} \times 100$$

Liquidity

1) Current ratio – compares the "liquid" assets of the business with the current liabilities.

$$\text{Current ratio} = \frac{\text{Cureent assets}}{\text{Current liabilities}}$$

2) Acid test ratio – interpretation is very similar for current ratio, but it represents more stringent test of liquidity. It can be argued, that inventories cannot be easily converted into cash

$$\text{Acid test ratio} = \frac{\text{Current assets (excluding inventories)}}{\text{Current liabilities}}$$

Financial gearing

1) Gearing ratio – measures the contribution of long-term lenders to the long-term capital structure of a business

$$\text{Gearing ratio} = \frac{\text{Long-term (non-current) liabilities}}{\text{Share capital} + \text{Reserves} + \text{Long-term (non-current) liabilities}} \times 100$$

2) The interest cover ratio – measures the amount of operating profit available to cover interest payable

$$\text{Interest cover ratio} = \frac{\text{Operating profit}}{\text{Interest payable}}$$

Investment ratios

1) Dividend pay-out ratio – measures the proportion of earnings that a business pays out to shareholders in the form of dividends.

$$\text{Dividend payout ratio} = \frac{\text{Dividends announced for the year}}{\text{Profit for the year}} \times 100$$

2) Dividend yield ratio – relates the cash return from a share to its current market value.

$$\text{Dividend yield} = \frac{\text{Dividend per share/(1-t)}}{\text{Market value per share}} \times 100$$

3) Earnings per share – relates the profit for the year to the number shares in issue.

$$\text{Earnings per share} = \frac{\text{Profit for the year}}{\text{Number of ordinary shares in issue}}$$

4) Price/earnings (P/E) ratio – relates the market value of share to the earnings per share.

$$\text{P/E ratio} = \frac{\text{Market value per share}}{\text{Earnings per share}}$$

The ratio analysis gives us insight into the current situation of the company and lets us assess its conditions in relation to competitors. Data must be delivered by accountants.

The purpose of accounting is to prepare financial reports that provide information about a firm's performance to stakeholders, i.e. external investors, creditors, or tax authorities. There are two kinds of accounting: financial and managerial. Managerial accounting contrasts with financial accounting in that managerial accounting is for internal decision making and does not have to follow any rules issued by standard-setting bodies. Financial accounting, on the other hand, is performed according to Generally Accepted Accounting Principles (GAAP) guidelines.

The best way to understand Finances in the company is to understand the financial reports, delivered by the accountants. There are three main financial reports:

- Balance Sheet (also known as the statement of financial position),
- Income Statement (also known as the profit and loss account),
- Cash Flow Statement.

5.2.1. Balance sheet

A balance sheet is a snapshot of a business financial condition at a specific moment in time, usually at the close of an accounting period (Figure 6.1.). A balance sheet comprises assets, liabilities, and owners or stockholders' equity. Assets and liabilities are divided into short and long-term obligations including cash accounts such as checking, money market, or government securities. At any given time, assets must equal liabilities plus owners' equity. An asset is anything the business owns that has monetary value. Liabilities are the claims of creditors against the assets of the business.

The analysis of a balance sheet should help answer the following questions:

- Is the business able to expand?
- Can the business easily handle the normal financial ebbs and flows of revenues and expenses?
- Should the business take immediate steps to bolster cash reserves?
- Is the receivables cycle lengthening?
- Can receivables be collected more aggressively? Is some debt uncollectable?
- Has the business been slowing down payables to forestall an inevitable cash shortage

Figure 6.1. Example of a Balance Sheet

Example Company
Balance Sheet
December 31, 2016

ASSETS		LIABILITIES	
Current assets		Current liabilities	
Cash	$ 2,100	Notes payable	$ 5,000
Petty cash	100	Accounts payable	35,900
Temporary investments	10,000	Wages payable	8,500
Accounts receivable - net	40,500	Interest payable	2,900
Inventory	31,000	Taxes payable	6,100
Supplies	3,800	Warranty liability	1,100
Prepaid insurance	1,500	Unearned revenues	1,500
Total current assets	89,000	Total current liabilities	61,000
Investments	36,000	Long-term liabilities	
		Notes payable	20,000
Property, plant & equipment		Bonds payable	400,000
Land	5,500	Total long-term liabilities	420,000
Land improvements	6,500		
Buildings	180,000		
Equipment	201,000	Total liabilities	481,000
Less: accum depreciation	(56,000)		
Prop, plant & equip - net	337,000		
Intangible assets		STOCKHOLDERS' EQUITY	
Goodwill	105,000	Common stock	110,000
Trade names	200,000	Retained earnings	220,000
Total intangible assets	305,000	Accum other comprehensive income	9,000
		Less: Treasury stock	(50,000)
Other assets	3,000	Total stockholders' equity	289,000
Total assets	$ 770,000	Total liabilities & stockholders' equity	$ 770,000

The notes to the sample balance sheet have been omitted.

Source: http://www.accountingcoach.com/balance-sheet/explanation/4, *access 15 Jan 2017*

5.2.2. Income Statement

An income statement, otherwise known as a profit and loss statement, is a summary of a company's profit or loss during any a given period, such as a month, three months, or one year. The income statement records all revenues for a business during this given period, as well as the operating expenses for the business (see the Figure 6.2).

The income statement is used to track revenues and expenses so that you can determine the operating performance of your business over a period. Small business owners use these statements to find out what areas of their business are over budget or under budget. Specific items that are causing unexpected expenditures can be pinpointed, such as phone, fax, mail, or supply expenses. Income statements can also track dramatic increases in product returns or cost of goods sold as a percentage of sales. They also can be used to determine income tax liability.

It is very important to format an income statement so that it is appropriate to the business being conducted.

Income statements, along with balance sheets, are the most basic elements required by potential lenders, such as banks, investors, and vendors. They will use the financial reporting contained therein to determine credit limits.

Figure 6.2. Example of income statement

XYZ Company
Income Statement
for the Period Ending December 31, 2012

Gross sales		$325	1. Operating revenues
Less: Sales discounts and returns		25	
Net sales		$300	
Less: Cost of goods sold:			1. Operating expenses
Beginning inventory	$ 75		
+ Gross purchases	150		
− Purchase discounts and returns	(5)		
+ Freight-in	20		
− Ending inventory	(80)	160	
Gross profit		$140	
Operating expenses:			
Wages and salaries	$ 30		
Advertising	10		
Insurance	8		
State and local taxes	7		
Depreciation	25		
Utilities	20		
Miscellaneous	15	115	
Net operating income		$ 25	
Other revenues		10	2. Other revenues and expenses
Less: Other expenses		(13)	
Net income from continuing operations before tax		$ 22	
Less: Federal income tax		7	
Net income from continuing operations		$ 15	
Income (loss) on segment up to disposal (net of tax)		(3)	3. Disposal of business segment
Gain (loss) on disposal of segment (net of tax)		5	
Net income before extraordinary items		$ 17	
Extraordinary gain (loss) (net of tax)		(5)	4. Extraordinary item
Net income before change in accounting principle		$ 12	
Income effect due to change in accounting principle (net of tax)		7	5. Mandated changes in accounting principles
Net income		$ 19	
Earnings per share (100 shares outstanding):			
Net income from continuing operations (after tax)		$ .15	
Disposal of business segment		.02	
Extraordinary items		(.05)	
Change in accounting principle		.07	
Total earnings per share		$ .19	

*Source:*https://www.safaribooksonline.com/library/view/financial-accounting in/9780470635292/ch13sec3.html*, access 15 Jan 2017.*

5.2.3. Cash flow statement

The cash flow statement reports the cash generated and used during the time interval specified in its heading. The period that the statement covers is chosen by the company. Categories of cash statements are as follows:

- Operating activities - Converts the items reported on the income statement from the accrual basis of accounting to cash.
- Investing activities - Reports the purchase and sale of long-term investments and property, plant and equipment.

- Financing activities - Reports the issuance and repurchase of the company's own bonds and stock and the payment of dividends.
- Supplemental information - Reports the exchange of significant items that did not involve cash and reports the amount of income taxes paid and interest paid.

Operating cash flows include receipts from the sale of goods or services, receipts from the sale of loans, debt or equity instruments in a trading portfolio, interest received on loans, dividends received on equity securities, payments to suppliers for goods and services, payments to employees or on behalf of employees.

Items which are added back to the net income figure (which is found on the Income Statement) to arrive at cash flows from operations generally include: depreciation, differed tax, amortization (loss of intangible asset value over time), any gains or losses associated with the sale of a non-current asset, because associated cash flows do not belong in the operating section (unrealized gains/losses are also added back from the income statement).

Investing activities include purchase of an asset (assets can be land, building, equipment, etc.), loans made to suppliers or customers.

Finally financing activities include: proceeds from issuing short-term or long-term debt, payments of dividends, payments for repurchase of company shares, repayment of debt principal, including capital leases, for non-profit organizations, receipts of donor-restricted cash that is limited to long-term purposes, dividends paid, sale or repurchase of the company's stock, net borrowings, payment of dividend tax.

Figure 6.3. Example of cash flow statement

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended September 28, 2013	September 29, 2012	September 24, 2011
Cash and cash equivalents, beginning of the year	$ 10,746	$ 9,815	$ 11,261
Operating activities:			
Net income	37,037	41,733	25,922
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	6,757	3,277	1,814
Share-based compensation expense	2,253	1,740	1,168
Deferred income tax expense	1,141	4,405	2,868
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,172)	(5,551)	143
Inventories	(973)	(15)	275
Vendor non-trade receivables	223	(1,414)	(1,934)
Other current and non-current assets	1,080	(3,162)	(1,391)
Accounts payable	2,340	4,467	2,515
Deferred revenue	1,459	2,824	1,654
Other current and non-current liabilities	4,521	2,552	4,495
Cash generated by operating activities	53,666	50,856	37,529
Investing activities:			
Purchases of marketable securities	(148,489)	(151,232)	(102,317)
Proceeds from maturities of marketable securities	20,317	13,035	20,437
Proceeds from sales of marketable securities	104,130	99,770	49,416
Payments made in connection with business acquisitions, net	(496)	(350)	(244)
Payments for acquisition of property, plant and equipment	(8,165)	(8,295)	(4,260)
Payments for acquisition of intangible assets	(911)	(1,107)	(3,192)
Other	(160)	(48)	(259)
Cash used in investing activities	(33,774)	(48,227)	(40,419)
Financing activities:			
Proceeds from issuance of common stock	530	665	831
Excess tax benefits from equity awards	701	1,351	1,133
Taxes paid related to net share settlement of equity awards	(1,082)	(1,226)	(520)
Dividends and dividend equivalent rights paid	(10,564)	(2,488)	0
Repurchase of common stock	(22,860)	0	0
Proceeds from issuance of long-term debt, net	16,896	0	0
Cash generated by/(used in) financing activities	(16,379)	(1,698)	1,444
Increase/(decrease) in cash and cash equivalents	3,513	931	(1,446)
Cash and cash equivalents, end of the year	$ 14,259	$ 10,746	$ 9,815
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	$ 9,128	$ 7,682	$ 3,338

Source: https://business.tutsplus.com/tutorials/how-to-read-a-cash-flow-statement--cms-71, *access 15 Jan 2017.*

5.3. Project appraisal basic elements

If the company wants to assess the profitability of the project, it uses in most of the cases two basic indicators:

1) Net Present Value (NPV),
2) Internal Rate of Return (IRR).

One other eventually is Payback Period.

Net Present Value

Net present value (NPV) is a difference between the present value (PV) of the future cash flows from an investment and the amount of investment. Present value of the expected cash flows is computed by discounting them at the required rate of return. NPV is used in capital budgeting to analyse the profitability of an investment or project.

One of the important factor in the quotation is Residual Value, which describes the future value o good in terms of percentage of depreciation of its initial value. There can be various ways of describing residual value of an asset: estimated amount that company can obtain when disposing of an asset after its useful life has been ended, or worth of an asset accounted on the basis its initial price after years with described rate of amortization.

Formula for NPV is as follows:

$$NPV = \sum_{t=1}^{T} \frac{CF_t}{(1+r)^t} - CF_0$$

Or more specifically:

$$NPV = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \frac{CF_3}{(1+r)^3} + \ldots + \frac{CF_n}{(1+r)^n} - CF_0$$

Where CF_n – cash flow in time n

The project should be accepted for every projects having NPV>0.

Internal Rate of Return

The internal rate of return on an investment or potential investment is the annualized effective compounded return rate that can be earned on the invested capital. In more familiar terms, the IRR

of an investment is the interest rate at which the costs of the investment lead to the benefits of the investment. This means that all gains from the investment are inherent to the time value of money and that the investment has a zero-net present value at this interest rate.

An investment is considered acceptable if its internal rate of return is greater than an established minimum acceptable rate of return. In a scenario where an investment is considered by a firm that has equity holders, this minimum rate is the cost of capital of the investment (which may be determined by the risk-adjusted cost of capital of alternative investments – opportunity cost "k"). This ensures that the investment is supported by equity holders since, in general, an investment whose IRR exceeds its cost of capital adds value for the company (i.e., it is profitable).

Formula for IRR

Given the (period, cash flow) pairs (n, Cn) where n is a positive integer, the total number of periods N, and the net present value NPV, the internal rate of return is given by r in:

$$NPV = \sum_{t-1}^{T} \frac{CF_t}{(1+r)^t} - CF_0 = 0$$

If the opportunity costs is greater than rate of return on project, the company shall abandon the project and apply money for alternative use. Only of the rate of return on project is higher than opportunity cost, investment shall be submitted.

Calculating NPV and IRR gives us static picture of the investment project. In most business situations, we have to consider more scenarios in conditions of uncertainty.

Previous calculations are based on some stable variables: sale price of product, cost of labour, level of initial investment. It might be full of interest to examine the degree to which the viability of the project changes, as the assumed variables are altered. These kinds of scenarios company can investigate while using sensitivity analysis. Using sensitivity analysis, one can investigate the extent to which variables may change before a negative NPV is produced.

Advantages of using sensitivity analysis:

- Information for decision making – analysis let the decision makers to know the room they have for judgmental error;
- Direct search – it may lead to an indication, where further invest agitation should follow, as it can indicate crucial variables;

- To make contingency plans – analysis can highlight the crucial variables. Then these parameters can be monitored and management can draw on contingency plan, when they differ from estimated.

5.4. Chapter summary

Sales is one of the key activity in every endeavour. Company shall carefully plan the whole logic that stands behind the process of sales. Business model canvas tool is recommended to structure the business and build coherent system that enables effective sales. While planning sales one must think about value proposition as the foundation for the attracting loyal customers, building customer's profile and dividing them into categories (segments), analysing the market, own price policy, setting goals, running optimal marketing tools, planning sales techniques and methods. Marketing is one of the crucial factor affecting the effectiveness of the sales, however, motivation and engagement of sales personnel still matter. Nowadays, as the number of internet users grows fast, online marketing becomes crucial. Social media activity shall be one of the focal points of the modern online marketing strategy.

Managers look at the effectiveness of the business through finances. One can use ratio analysis to assess the current position of the company and compare it to the situation of competitors. Ratios do not always reflect the real situation since they capture a picture of the company in the specific moment. However, this is the basic way to assess company's performance.

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Chapter 5:

Marketing and Advertising

1. Introduction

Marketing refers to the process of preparing a product for the marketplace. It involves understanding who potential customers are and what they want to get from a product or service. Design and packaging help to align the image of product with the interests of a target audience. It is marketing that defines a brand.

Advertising is the process of making a product and service known to the marketplace. It is essentially spreading the word about what a company has to offer. While marketing is the way in which a company convinces potential buyers that they have the right product for them, advertising is how it communicates to them the existence of that product.

2. Marketing

What does "marketing" mean? To market something means all the measures, which are directly aimed at the sale of goods. The term marketing emerged around 1920 in the USA and has also prevailed in Europe around 1950.

The subject of marketing is the exchange of goods or services of value and the influence of this exchange.

Under “value of a good” the economic theory understands the importance of goods or services according to their ability to satisfy needs. The value of a good is determined by its utility for the satisfaction of a need and its scarcity in relation to demand. At the center of entrepreneurial activity is the satisfaction of the needs of the inquirers, by generating and exchanging products of value. As a product, we describe everything that people can be offered to meet their needs - In addition to physical objects, also services and ideas. People do not seek and acquire products. They choose a benefit that is recognisable to them. It is not the view of the provider (who must be convinced of

the value of its product) that is of decisive importance for the state of an exchange, but the benefit of the product from the customers point of view. Marketing is successful if sellers can manage to convey the benefits of their products to the perspective of their customers.

Marketing is also the concept of a market-oriented company management and company policy: It means to lead a company this way that it reaches its business goal through the optimal satisfaction of its customers´ needs.

And, Marketing is an entrepreneurial principle: Marketing stands for the consistent orientation of a company to its market.

2.1. Strategic Planning of Marketing

The marketing process, in a nutshell, can be defined as follows:

- Formulation of the basic contract in the business field;
- Analysis of the environment, analysis of own performance;
  SWOT analysis. A comprehensive assessment of the company´s:
    - Strength
    - Weakness
    - Opportunities
    - Threads
    -
- Formulation of the objectives
  E.g. an increase of profit, an increase of sales, expansion of market shares.
- Formulation of strategies
  E.g. differentiation, niche occupation.
- Planning the programme
- Implementation
- Feedback / control.

2.1.1. SWOT Analysis – A method for strategic planning

The SWOT analysis is an acronym for strengths, weaknesses, opportunities, and threats and is a structured planning method that evaluates those four elements of a business.

SWOT analysis groups key pieces of information into two main categories:

Company analysis (internal/forward-looking)

Strengths and weaknesses refer to the company. They result from the self-observation of the company. One, therefore speaks of in-world analysis.

Strengths are the current characteristics of the company, they are created by the company itself and are current results of the previous organisational processes.

Environmental analysis (external/future-oriented)

In the external analysis, the company environment is examined, which is why we speak of environmental analysis. Opportunities and risks arise from the outside and arise in the expected changes in the market, in the technological, social or environmental environment.

The environmental conditions are defined for the company, the forces acting here are largely exogenous. The company observes or anticipates these changes and reacts with its strategy.

Recommended questions:

Strengths:

- What do we believe to be good in?
- What do we like to do? Why does is our work fun?
- Why are competitors afraid of us?
- Why do customers buy our products and services (and not from the competition)?
- What have we been praised for lately?

Strength is everything that goes easily by the hand. What we like to do, what is fun to do.

Weaknesses:

- What do we believe to be bad in?
- Why are we afraid of the competition?
- Why do some customers not buy from us?
- What have we lately been criticised for?

Opportunities / Threats

- Where has the market developed lately?
- Where will the market develop?
- How was the market created 10 years ago, how is it today / how will it be in 10 years?
- What trends (social, political, technological, etc.) are there generally / which trends affect our own field of activity?
- What are the needs of our customers?
- What are the chances for us?
- What are the opportunities for others?
- Which risks (economic, technological, social, etc.) threaten us specifically?
- What are the risks to others?

Central issues

- Which of our strengths are the most important from the perspective of our customers?
- Which of our weaknesses is the worst for our customers?
- Which of our weaknesses cost us a lot of money?
- What are the main chances for success?
- Which risks have the greatest threat potential (probability of entry and potential costs)?

Decisive for the success of strategic planning are concrete targeted measures, which must be implemented consistently.

Frequently made mistakes

1. Performing a SWOT analysis without agreeing to a target (a target state). SWOT analyses should always be based on a concrete goal and not be kept abstract. If no desired should state is agreed, different should-states can be achieved - not always with the desired result.
2. Confusing external opportunities with internal strengths. Both should be strictly separated.

3. Confusing SWOT analyzes with possible strategies. SWOT analyzes describe states and strategies. (Think of "favorable conditions" for opportunities and "unfavorable conditions" for risks).
4. Not prioritizating for the SWOT analysis. Not deriving any strategies. Nor deciding neither implementing concrete measures.

2.2. Marketing Mix

The marketing mix is all the marketing tools based on the respective marketing plan for the optimal achievement of the company goal.

The Instruments of marketing (4 Ps or pillars of marketing)
Jerome McCarthy (1960)

- Product Policy - **P**roduct
- Price and conditional policy - **P**rice
- Distribution policy - **P**lacement
- Communication policy – **P**romotion

Product Policy includes product quality, styling, range, brand, packaging, package sizes, service, warranty.

Price policy includes list price, discounts, cash discount, payment terms, financing conditions

Distribution policy includes distribution channels, the degree of market coverage, the location of the reference sites, warehousing, merchandise logistics.

Communication policy includes advertising, sales promotion, personal sale, public relations

The four marketing instruments are coordinated with each other and organise the competition-oriented concept.

Marketing programs are aimed at achieving mutually beneficial goals for the achievement of the organisational objective. Marketing management relies on the systematic analysis of needs, desires, perceptions and preferences of the target groups. The results of this analysis form the basis of product design, pricing, distribution and communication.

3. Advertising

Within the scope of marketing, advertising is next to personal sale, sales promotion and public relations is an instrument of the communication policy of a company.

In this context, advertising must fulfil the following functions:

1. **Notification function**: Reference to products, services or ideas.
2. **Information function**: Reference to specific characteristics, product characteristics, qualities, use, prices, reference sources.
3. **Suggestion function**: Producing emotion through elements such as colour, images, music.
4. **Image function**: Presentation of the advertising object in such a way that it is positive of products of the competition.
5. **Reminder function**: Continuous repetition of the advertising message sets learning processes with respect to the advertised object in motion and anchors it in the memory.

We understand advertising as "any presentation of messages, attitudes and actions of the addressees to the advantage of the advertiser (Brockhaus Encyclopaedia in 24 Volumes, Mannheim, 1992); or "any attempt of an organism, to influence other organisms without compulsion" (W.Lürzer, 1990).

3.1 Classical principles of commercial advertising

The three objectives of commercialization

Commercial advertising has three objectives:

- Place the sender's name and message in as many heads as possible of the target audience.
- Produce a positive change the recipients of the respective target audience to change the attitude to the advertising company and its products.
- Anchoring the message if possible in the memory of the addresses.

Advertisers must try to implement their message within their own submarket:

In view of a general and, in particular, the omnipresence of commercial advertising stimulus overload in open urban societies is an enormous challenge for every individual advertiser - and often also perceived as harassment for the courted potential customer.

The enforcement of a product on the market is most successful when a company gives its product and brand an attractive and independent personality:

USP

At the heart of product personality is a USP, the unique selling proposition:

In 1901, Swiss chocolatier Philippe Suchard developed a new recipe. He had cocoa mass and melted milk. At that time, a special feature. Marketing took place under the name

MILKA - MILCH and KAKAO.

Emotional charge

A rational argument with the product advantage alone is often not enough to make a lasting move to purchase, especially when the unique selling proposition-imitators in the market can be expected.

The success of an advertising campaign is considerably determined by whether it succeeds to charge the product additionally emotionally, in addition to mediation of rational arguments, and to have an image-forming effect.

Continuity

If a product has an appearance and a personality that is successful in its target audience, its further appearance in the public should be changed as little as possible.

4. REFERENCES

We want to list some classical quotes about the role of advertising:

1. "Keeping your name before people". USA before 1900

2. "Advertising is News". (Albert Lasker, 1900)

3. Messages in message style. Albert Lasker was convinced that advertising had to deliver news and facts of a product.

4. "Salesmanship in Print." (John E. Kennedy, 1904)

John E. Kennedy had to deliver his customers one "Reason Why" – why they had to buy the product.

5. A reason why they should buy the product.

"Advertising is Salesmanship" (Claude C. Hopkins)

6. "The best ads ask no one to buy. This is useless. Often, they do not quote a price. The ads are based entirely on service. They offer wanted information. They cite advantages to users." Scientific Advertising (Claude C. Hopkins, 1923)

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