Third Edition

BUSINESS

STRATEGY, DEVELOPMENT, APPLICATION

Gary J. Bissonette
Queen's University

McGraw Hill

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Business: Strategy, Development, Application
Third Edition

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About the Author


Courtesy of Queen's University

Gary Bissonette is an Assistant Professor at Queen's University School of Business, and is the former Chief Executive Officer (CEO) of the YMCA of Kingston, Ontario. Gary also possesses considerable product/territorial management expertise in the private sector and has 20+ years of teaching experience at both the graduate and undergraduate levels in both Canada and the United States. A successful entrepreneur, Gary has operated his own consulting business (insurance brokerage firm specializing in employee benefits programs), as well as participated in a number of turnaround initiatives within the private sector. Gary holds an MBA from Clarkson University and a Bachelor of Administration from the State University of New York at Plattsburgh. In addition to his teaching responsibilities at Queen's University, Gary also served as the Director of the Queen's School of Business "Living Case" initiative and oversaw the creation of this innovative teaching initiative.

Brief Contents

Contents

CHAPTER 3

The Global Marketplace 82

CHAPTER 4

The Environment and Sustainable Business Practices 128

Preface

An Innovative Approach to Teaching Business Management Fundamentals

In a marketplace full of introductory business textbooks, what makes this one different? Why does it make sense to choose this textbook versus others available to you? The response to these questions can be best described by the analogy of Blue Ocean versus Red Ocean thinking.

In creating the first edition of this textbook for the Canadian marketplace, the choice that presented itself was the following: create a textbook in a similar vein to the many books that already populate the marketplace and seek to convince you to try an alternate version of already existing products (Red Ocean), or create a new, unique, and thought-leading approach that supports the teaching of core concepts and models in a manner that generates a true understanding of business and communicates an excitement and appreciation for its role in today's society (Blue Ocean).

Business: Strategy, Development, Application third edition builds upon and continues to reinforce this latter approach. Created from the ground up for the Canadian market by an author with considerable middle and senior management expertise and many years of teaching experience at both the university and college levels, this textbook delivers a unique interpretation of the practical application of business in a way that ensures a true understanding of today's complex—yet exciting—business environment. Fundamental to its delivery is the communication of chapter content in a manner that students can easily grasp, and that ensures core learning takes place. Rich in examples, Web-based interaction, and practical-application illustration, the textbook delivers to the instructor and students a sound base for future business management learning and action.

Yes, this textbook is truly different in its approach—"Blue Ocean" different. It is uniquely positioned: focusing on knowledge and skill development in a usable format that students can immediately transfer to current employment situations, or use to leverage in managerial or self-employment opportunities that will challenge them in the future. It is also significantly more interactive, challenging students to participate in the current global marketplace via active, Web-based searches and references.

Why Choose This Textbook?

Many of us have been challenged throughout our careers with trying to find the perfect textbook that would enable an instructor to deliver an entry-level business management course in a way that was creative, thought provoking, and of interest to students. Essential to this search was the desire to have a textbook that goes beyond the typical template, definition-focused approach common to entry-level textbooks, and deliver content that results in a true understanding of business fundamentals. This textbook responds to this challenge and desired outcome. Specifically, *Business: Strategy, Development, Application* delivers the following:

- chapter content that explains the use of key business concepts and models via a writing style that encourages understanding and generates interest in the topic being discussed;
- extensive use of Canadian-based examples from a wide spectrum of business scenarios within the for-profit, not-for-profit, and SME (small and medium-size enterprise) business environments;

- a full understanding and appreciation of the globalization taking place today and the unique positioning that Canada and its economic base currently have—and will continue to benefit from—due to this globalization process;
- an emphasis on identifying and defining current business trends occurring within the Canadian marketplace, including but not limited to multicultural diversification, sustainable business thinking and practices, and regulatory trends and shifts; and
- delivery of key business concepts and models from the viewpoint of the C-level or general manager, thus ensuring not only a base-level understanding of such core business requirements, but also an understanding of how and why such concepts and models are used in managing a business entity.

A Special Note to Students

Regardless of the occupation that you enter into, you will come in direct contact with the world of business and, ultimately, the global marketplace. Whether you enter into the field of marketing, engineering, nursing, programming, or social services, or consider a business opportunity as an entrepreneur, many aspects of your job responsibilities will be framed around the business concepts and models discussed within this textbook. In writing this textbook, it is my hope that you will come to fully understand how businesses and the marketplace operate, and how you can use this information to your advantage as you pursue your chosen career. Also unique to this textbook is the writing style that is focused on defining and describing the role of the general manager in overseeing a business entity and how business fundamentals come into play within their decision-making process. The textbook's intent is to deliver a variety of business and management tools illustrated in a manner that will help to ensure easy application in the future.

Organization of the Textbook

Business: Strategy, Development, Application has been designed to be as flexible and modular as possible with each chapter possessing the ability to stand on its own. The textbook is built around four themes:

- Macro Business Environment
- Managing and Guiding Your Team
- Managing the Value Chain
- Financial Management

Although presented within the textbook as noted above, each section (theme) has been developed independently of the other sections so that instructors can feel comfortable in rearranging sections to fit their teaching style and/or course emphasis. A special focus has also been placed on ensuring that the textbook responds not only to the operational framework of corporate Canada, but also to the needs of students and instructors interested in SMEs and not-for-profit organizations.

Specific areas of focus within the four theme sections are as follows:

Part		Chapter Topics
Part 1: Macro Business Environment	Chapter 1 Chapter 2 Chapter 3 Chapter 4	What Is Business? The Canadian Economic Environment The Global Marketplace The Environment and Sustainable Business Practices

Part		Chapter Topics
Part 2: Managing and Guiding Your Team	Chapter 5	Ethics and Corporate Social Responsibility
	Chapter 6	Developing a Business Strategy
	Chapter 7	Entrepreneurship and Forms of Business Ownership
	Chapter 8	Developing Your Business Structure and Culture
	Chapter 9	Managing and Leading the Organization's Talent
Part 3: Managing the Value Chain	Chapter 10	The Marketing Challenge
	Chapter 11	Understanding the Marketing Effort
	Chapter 12	Technology, Analytics, and Operations Management
Part 4: Financial Management	Chapter 13	Understanding Business Finances
	Chapter 14	Financial Statements Structure and Interpretation
	Chapter 15	Analyzing New Business Ventures

In-Chapter Learning Features

A fundamental feature of this textbook is its turnkey approach to supporting student learning. Each chapter has been carefully crafted in a manner that will ensure that students fully understand the material being presented, and that they are directed to supplemental resource locations to update and enhance their competencies of critical concepts and models. In-chapter learning features include the following:

Learning Objectives

Help students preview what they should know after reading the chapter.

LEARNING OBJECTIVES

This chapter is designed to provide students with:

LO1	The ability to identify the major contributing factors that impact overall economic development
LO2	Exposure to the core economic model that shapes Canada's economic growth and development
LO3	A base-level understanding of what constitutes economic activity and how economies grow and contract
LO4	The ability to recognize trends that will influence the future composition of economic development in Canada
LO5	Guidance on how managers use information on economic trends in today's marketplace to better manage their organizations and respond to the competitive challenges confronting them

Snapshot—What to Expect in This Chapter

Outlines the key topics covered within the chapter.

Snapshot

What to Expect in This Chapter

This chapter provides students with a broad introductory overview of the fundamentals behind how our economy works and how we as managers can use our understanding of it to better manage our organizations. The content emphasized in this chapter includes the following:

- Canada and Its Economic System
- Key Economic Influencers
  - Contributing Factors to Economic Development
  - The Underlying Economic Model
  - Canada: A Mixed Economic System
- The Economy in Simple Terms
- The Economic Growth Cycle
- Managing the Movement in the Economy
- Trends Impacting the Canadian Market
- Managing in Challenging Times
  - Understanding Competitive Models
  - Sensing Market Change
- Management Reflection—Analyzing Market Trends

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Business in Action Vignettes

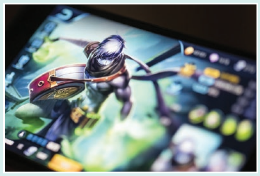
Spread throughout each chapter; provide practical, marketplace applications of business situations and business best practices.

Business IN ACTION

The Battle for Cloud-Based Gaming Heats Up

As the various chapters of this textbook point out, the execution of a company's business strategy is built around its ability to effectively deliver its products and services to the targeted market sectors as solutions to the needs of its current and prospective customers. Part of this process entails the development of a marketing mix (discussed this chapter) with activities that reflect the interconnectivity of decisions made with respect to pricing, market connectivity (distribution), communications, and product/service offerings. This, of course, cannot be made in isolation of rivals seeking to deliver solutions to customer needs in the same markets within which a given company competes. Although we often perceive that the logical winner in a given market sector is the company with the best product, this is not always the case. The winner typically is the company that develops its marketing mix components in a way that enables its value proposition (discussed in Chapter 10) to be viewed as being superior to that of rivals and can develop and execute its customized business model in a manner that creates the purchase conversion necessary for success.

A good example of where we are seeing a looming major battle for market share and growth capture—and, hence, marketing mix development requirements—lies in cloud gaming. Some of the biggest technology players, including Sony, Google,



Bloomberg via Getty Images

Web Integration

Refer students to specific Web sites where they can continue to analyze the success of a business or the challenge highlighted within a Business in Action vignette.

Web Integration

Want a great place to track the movement in the TSX, the value of the Canadian dollar, and the price changes to oil and commodities? Visit **www.financialpost.com**. Click on "Markets › Futures."

Highlighted Key Takeaways

Presented throughout each chapter; reinforce the key learning fundamentals that students should understand as they read through and comprehend the information offered within a chapter's various sections.

Productivity gains, strong business investment, technological innovation, moderate wage increases, and a favourable currency exchange rate are all key factors that are deemed to be critical in ensuring that our economy remains resilient and competitive now and in the future.

Management Reflection

Provides a closing commentary on how managers use the key models and concepts discussed within a chapter and, in some cases, how small businesses or not-for-profits respond to the themes/challenges posed in the material presented.

LO6 Management Reflection—The Business Decision-Making Landscape

Being in business goes beyond simply developing your value proposition and understanding its asset base and cost structure. It is about being able to understand the macro environment around you; the resources, capability, and capacity that you possess; and the ability to communicate to the marketplace the uniqueness and importance of the products/services you offer. At its core base, developing and managing a business requires its owners/managers to:

- create a vision of the opportunity in the marketplace
- confirm that the market size of customers is large enough that, once commercialized, the opportunity can enable the organization to make a profit and sustain this profitability for the anticipated planning cycle and beyond
- confirm that a position within the market is feasible, which will enable the company to compete in a manner that is superior to its direct competition
- confirm that the market situation will stay constant long enough for the business plan to be developed and executed
- confirm that the business has the resource base and the capability to execute the strategy
- execute the strategy in an efficient and effective manner, achieving the objectives set forth within the business plan created

End-of-Chapter Support: Developing Business Knowledge and Skills

In addition to the above, the end-of-chapter support within *Business: Strategy, Development, Application* has been designed to provide instructors and students with an effective review and with additional learning materials focused on reinforcing the critical takeaways from within each chapter. Key ingredients of this end-of-chapter support include the following:

- **Chapter Summary:** An overview of the content of a chapter and the key models and concepts that were presented;
- **Key Terms:** Identification of the key business terms used in a chapter;
- **Questions for Discussion:** A set of chapter-related questions and points of reflection that ensure students fully understand the key components of chapter material presented;
- **Question for Individual Action:** A chapter-specific assignment suitable for assigning to an individual student;
- **Team Exercise:** A chapter-specific assignment that instructors can assign to groups or teams of students for analytical and/or presentation purposes; and
- **Case for Discussion:** A pertinent and to-the-point application/illustration of the chapter theme designed to complement both the reading material presented and the in-class discussions that will take place. Case discussions have been designed for use within a single instructional session.

Award-Winning Technology

McGraw-Hill Connect® is an award-winning digital teaching and learning solution that empowers students to achieve better outcomes and enables instructors to improve efficiency with course management. Within Connect, students have access to SmartBook®, McGraw-Hill's adaptive learning and reading resource. SmartBook prompts students with questions based on the material they are studying. By assessing individual answers, SmartBook learns what each student knows and identifies which topics they need to practise, giving each student a personalized learning experience and path to success.

Connect's key features also include analytics and reporting, simple assignment management, smart grading, the opportunity to post your own resources, and the Connect Instructor Library, a repository for additional resources to improve student engagement in and out of the classroom.

MANAGER'S HOT SEAT VIDEOS

This resource allows students to watch real managers apply their years of experience to management and organizational behaviour issues. Students assume the role of the manager as they watch the video and then answer multiple-choice questions following the segment. The Manager's Hot Seat videos are ideal for group or classroom discussions.

APPLICATION-BASED ACTIVITIES

The Connect Application-Based Activities are highly interactive and automatically graded application- and analysis-based exercises wherein students immerse themselves in a business environment, analyze the situation, and apply their knowledge of business strategies. Students progress from understanding basic concepts to assessing and solving complex real-world scenarios.

ISEEIT! VIDEOS

These brief, contemporary videos offer dynamic student-centred introductions, illustrations, and animations to guide students through challenging concepts. Ideal for before class as an introduction, during class to launch or clarify a topic, or after class for formative assessment.

Instructor Resources

- **Instructor's Manual:** Prepared by the text author, Gary Bissonette, this manual contains a short topic outline of the chapter and a listing of learning objectives and key terms, a resource checklist with supplements that correspond to each chapter, a detailed lecture outline including marginal notes recommending where to use supplementary cases, lecture enhancers, and critical thinking exercises.
- **Computerized Test Bank:** Written by Greg Libitz, Queen's University, contains a variety of true/false, multiple-choice, and short and long essay questions. True/false questions test three levels of learning: (1) knowledge of key terms, (2) understanding of concepts and principles, and (3) application of principles. We've tagged each question according to its knowledge and skills areas. Designations align questions with the text's Learning Objectives, topics, and difficulty levels as well. Multiple versions of the test can be created and printed.
- **Microsoft® PowerPoint® Presentation:** Prepared by Sandra Wellman, Seneca College, the slideshow for each chapter is based around the learning objectives and includes many of the figures and tables from the textbook, as well as some additional slides that support and expand the text discussions. Slides can be modified by instructors with PowerPoint®.

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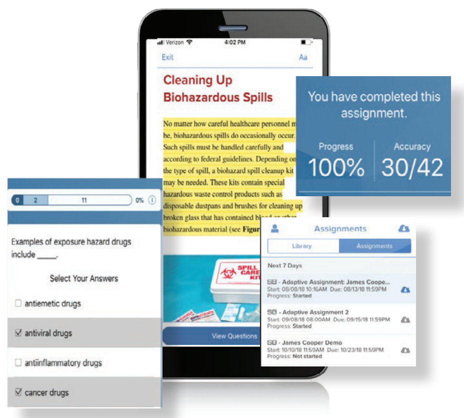

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Acknowledgements

Although the cover of this textbook lists me as the sole author, this is somewhat of a misnomer. The completion of what is now the third edition of this textbook could not have been accomplished without considerable contribution by many others. First and foremost, I would like to thank my wife, Lynda. Not only has she been an ongoing supporter of this initiative, but she spent countless hours proofing, editing, and questioning the communication approach within it. It was truly a joint initiative. Her commitment to enabling me to succeed will never be forgotten. She is truly the best life partner one could ever hope for.

Much of what I have learned over the course of my career has been the result of a combination of my own experiences, both positive and negative. Equally as important has been my advantage to work at Queen's University with some of the brightest minds in Canada. The work of Drs. Ken Wong, Peter Richardson, and Elspeth Murray has had a real influence on both my teaching style and conceptual emphasis. David McConomy has been a true mentor, both in reviewing and commenting on this textbook as it unfolded and in demonstrating best practices in the classroom. Additional thanks goes to Queen's professors Greg Libitz and Darren McCaugherty, who, in using the first two editions of this textbook, provided insight and commentary into the enhancements and adjustments found in both the second and, now, this third edition. In addition to his constructive feedback, it should be noted that Greg Libitz has also contributed to this third edition via the preparation of a number of the new cases found at the end of many of its chapters. I would also like to acknowledge the Smith School of Business of Queen's University, which has also been an invaluable part of my professional development, offering an academic environment second to none.

With respect to my publisher, I would like to recognize and thank the editorial and marketing team at McGraw-Hill, including Amy Clarke-Spencley, Portfolio Manager; Amy Rydzanicz, Senior Content Developer; Jessica Barnoski, Senior Supervising Editor; and Kelli Howey, Copy Editor, for their patience, commitment, and support to this undertaking. Their guidance and professional interaction is truly appreciated.

Finally, I extend sincere thanks to the reviewers who provided insightful feedback that helped to shape this book over these three editions.

PART 1

CHAPTER 1

What Is Business?

LEARNING OBJECTIVES

This chapter is designed to provide students with:

LO1	A macro-level understanding of what business is
LO2	An overview of the major components of a business model and how their successful development and execution determines business performance
LO3	An awareness of the overarching role of the business owner or "C-suite" management team
LO4	An understanding of how businesses plan
LO5	Exposure to the concept of visionary leadership
LO6	Via a Management Reflection, an overview of the relationship between business strategy and business model development, and the importance of successfully executing both for a business to achieve its identified objectives
LO7	Via an Appendix, an introduction to the difference between profit and profitability

Snapshot

What to Expect in This Chapter

This chapter provides students with a broad introductory overview of what a business owner or a senior management team needs to understand to successfully manage a business organization. The content emphasized in this chapter includes the following:

- The Big Picture
- What Is Business?
  - The Full Business Model
- The Role of the Business Owner or "C-Suite" Manager
  - Putting Plans into Action
  - Thinking across Multiple Horizons
  - Corporate Social Responsibility
- The Concept of Visionary Leadership
- Management Reflection—The Business Decision-Making Landscape
- Appendix—The Business Model and Profitability
  - The Difference between Profit and Profitability
  - Improving Profitability

Business IN ACTION

Microsoft—Reinventing the Business Model

Over the past 5+ years, a quiet renaissance has been occurring at Microsoft. After years of relying on operating system sales (Windows) and its Office suite of products (Word, Excel, PowerPoint, etc.), Microsoft made a critical change in 2014. It was during this year that Microsoft brought in its new CEO, Satya Nadella, to take the helm of one of the world's largest software and technology companies. Disruptions within the marketplace, driven largely by market and technology forces, required Microsoft to redefine where and how it would do business. Looking long-term, Nadella and his management team redefined Microsoft's approach to business from that of a proprietary, closed-technology system organization to one that embraced open-sourced systems and cooperative ventures and partnerships with rivals, and looked to the cloud versus maintaining a dependency focus on singular PC-based software sales and a consumer-faced mobile (cellular) market presence.

Fast-forwarding to 2018, Nadella's visionary leadership has propelled Microsoft from that of what many considered to be an aging dinosaur in 2014 to, on November 30, 2018, briefly stealing (from Apple) the title of the world's most valued company, a position it had not held since 2002.

Recognizing that the new market model evolving was one of an open ecosystem, whose software development

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roots had shifted to a broad technology design community for application creation and support, Nadella and his team abandoned the previous fixed notion that Microsoft software was to be available only on Microsoft devices and embraced a market-driven mandate requiring Microsoft products to be available across an increasingly broad business ecosystem. Today, Microsoft Office products operate across a variety of operating systems including Apple's iOS (iPad, etc.) and Linux-based applications. Microsoft has also executed on the necessary steps to ensure that its Windows operating system would work as an open-style software in the smartphone sector, thereby improving its presence in a market in which up to this point it had been a marginal player.

So why the change? The PC-centric world of doing business is being disrupted by a variety of key factors. Mobile services are changing the way that people work and communicate. Cloud technologies are redefining how data are collected, managed, and stored. New entrants such as Amazon and Google have disrupted traditionally strong profit streams within the storage and computing sector via lower prices.

So just what is Microsoft's focus today? Microsoft has refocused its business model to one that looks to support its customers whose own business models require the need for a variety of diverse approaches to business and technology management. This requires the creation and maintenance of a strong network of application development and delivery capabilities, supported by a flexible platform in a way that will remain central to customer needs, thereby accelerating Microsoft's growth.

For Nadella, the go-forward risk lies in in two critical areas. First, rivals that possess service capabilities comparable to Microsoft (Amazon and Google, for example) will continue to actively compete for customers. Amazon in particular has demonstrated significant strength and success in the delivery of cloud-based services. Second, the intensification of competition has exerted significant downward pressure on price, thereby impacting operating margins and overall profitability. To put this in simple terms, the old business model, where Microsoft delivered 100% of a business's core services with little to no competition, thereby enabling it to generate significant profit margins from its core product base (Office, Windows, etc.), is no longer sustainable in today's technology-diverse and hypercompetitive market. To compete with competitors in this environment (content and application marketplace), Microsoft faces the risk of higher costs and lower operating margins.

So far, the investment community is demonstrating its support for the new vision Nadella and his team have communicated for Microsoft. Share value for Microsoft stock has risen from $36.89 in January 2014 to a high of $115.62 on October 1, 2018. With the initial renaissance complete, Nadella and his team must continue to focus on keeping Microsoft relevant in today's rapidly changing technology sector. Businesses as well are shifting key aspects of their business models faster than ever before. This means that standing still at Microsoft is not an option. The company must continue to innovate in a way that enables it to maintain a leadership position in the market segments it chooses to compete in.

The Big Picture

Perhaps the best way to begin thinking about business, in its broadest context, is to view it as a system of integrated actions designed to

- **a.** ensure that an organization develops and grows a market for its goods and/or services and, in doing so,
- **b.** create organizational value (wealth) on behalf of its stakeholders

To accomplish both facets of this definition organizations must succeed in properly identifying solutions to needs that the marketplace desires, and create the right business model for delivering such solutions to the right customer, at the right place, at the right time, for the right price. Critical to this is the ability to accomplish the above-mentioned objectives in a manner that offers its customers superior value when compared against its rivals. This process results in the development of a series of integrated actions that are often departmentalized into cross-functional areas such as technology application, product engineering and design, manufacturing and operations, marketing and sales, distribution, and service.

How a business operates can initially be assessed against three fundamental characteristics (see Figure 1.1):

a. the commercial endeavours it undertakes

b. its employee interaction model, and

c. its organizational culture and formalized decision-making structure

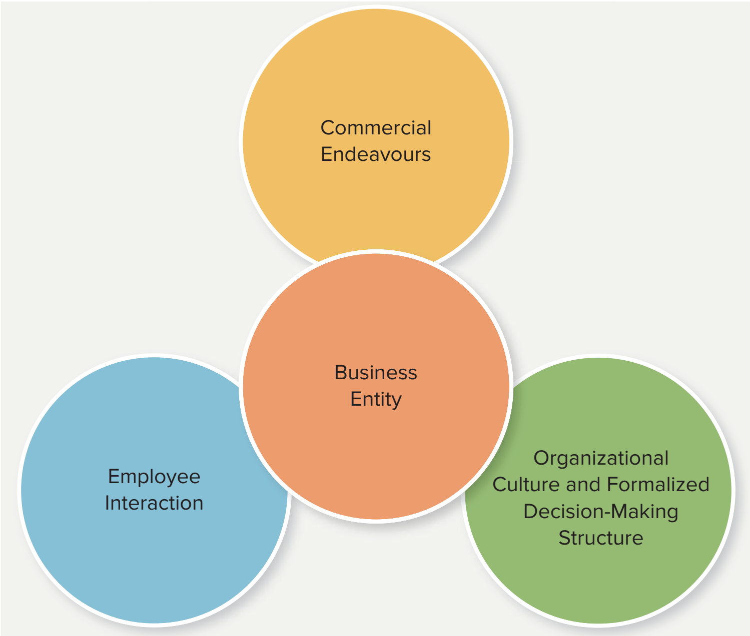
Commercial Endeavours refers to the markets the organization serves, the products and services it offers, and the needs it professes to meet in the marketplace.

Commercial endeavours refers to the markets the organization serves, the products and services it offers, and the needs it professes to meet in the marketplace. It reflects the results of understanding the demand/supply relationships that exist in the marketplace at large, as well as within the customer segments it chooses to pursue. It also, as part of its ongoing assessment process, recognizes the capacities and capabilities of competitors within such selected markets to deliver products/services to similar buyers. Understanding this relationship, coupled with an understanding of the cost requirements needed to produce goods and services, along with the price sensitivities of targeted customers, is what enables the creation of a business model—the successful execution of which ideally results in delivering a profitable outcome to the organization.

Employee Interaction refers to the value-creating skills an organization's employees bring to the marketplace. The success of many businesses lies with the specialized skills that exist within its labour force.

Employee interaction refers to the value-creating skills that an organization's employees bring to the marketplace. The success of many businesses lies with the specialized skills that exist within its labour force. The leveraging of these skills in the production of goods and/or the delivery of services is what enables a business to create value and enables transactions to occur that will allow the firm to make a profit. A great way of understanding the importance of the talent (people) component of an organization is the viewpoint expressed via the following statement: A successful business strategy results from 5% planning and 95% execution, and successful execution of a company's strategy is the result of the leveraging of

FIGURE 1.1 **Business: The Big Picture**



5% technical competencies and 95% people capabilities. Again, it is the people who make a difference in a business's overall success. As an example, a company can have superior technology and/or financial capital when compared to rivals, but if its management team and its employees cannot leverage such advantages then overall results most likely will be compromised.

Organizational culture and decision-making structure is a reflection of the framework of business activities and decision-making ecosystem that exists within an organization. It comprises the underlying business system and its related culture, which an organization creates, and the transaction processes that it develops to service the marketplace it targets.

Organizational Culture and Decision-Making Structure is a reflection of the framework of the business activities and decision-making ecosystem that exists within an organization.

These three characteristics, when assessed jointly, result in a macro-level understanding of a business entity whose objective is the development, communication, and delivery of goods and/or services that are sought after by the marketplace, in response to a defined need, in a manner that is valued by the customers being targeted.

As an example of this assessment process, think of the industry-leading search engine company Google (Alphabet Inc.). Google's business system can be assessed against the three characteristics identified above. For Google, the "commercial endeavour" objective is the generation of revenue and profits resulting from such market offerings as its "point and click" and mobile-based advertising services, its pursuit of new business opportunities through acquisitions (YouTube, Dropcam, Skybox Imaging, Nest Labs, Inc., and DoubleClick, to name a few), and its business activities related to markets such as mobile phone services (voice, applications, and software), mapping and navigation, security services, aerospace (drones and UAVs), artificial intelligence (Google Home, etc.), and gaming. Its "employee interaction" relates to the many developers, engineers, and system designers with specialized skills whom Google employs to develop and support the products and services the company offers. Google's "organizational culture and decision-making structure" refers to the formal framework it has put into place to manage and deliver its products and services. It refers to Google's server farms and related infrastructure, managerial hierarchy, operating processes, and decision-making and communication processes.

> The efficiency and effectiveness of a business entity can be assessed against three fundamental characteristics: the commercial endeavours it undertakes, its human resource (employee) interaction model, and its organizational culture and decision-making structure.

What Is Business?

LO1, LO2

"Business" is a challenging word to define and understand because it has several different but related meanings. For some, it is simply a mechanism from which to drive profit via the sales of goods/services. For others, it is the ability to create and develop an organization whose primary mission is to satisfy an identified customer or society-based need. Recognizing that the definition will be personalized by each of us involved in a business operation, let's try to provide a broad-based definition of what business is all about.

Business can most easily be thought of as a set of mission-focused actions aimed at identifying the needs of a particular market, or markets, and the development of a solution to such needs through the acquisition or transformation of goods and services that can be delivered to the marketplace at a profit. Through

Business refers to the mission-focused activities aimed at identifying the needs of a particular market or markets, and the development of a solution to such needs through the acquisition and transformation of resources into goods and services that can be delivered to the marketplace at a profit.

the development of a business model, managers will attempt to initiate and control these actions in a manner that results in the most efficient and effective profit maximization approach.

Business Models can be best visualized as the underlying operational platform or structure which a business uses to position its approach to a given market and thereby generate its revenue and, most importantly, derive its profit.

Business models can be best visualized as the underlying operational platform or structure a business uses to position its approach to a given market and thereby to generate its revenue and, most importantly, derive its profit. An easy way to think of this is to visualize an "ecosystem" comprising a number of integrated parts, which interact and are codependent on each other. When visualizing a business model, think of it as having two primary parts:

- the company-centric side, which we will call the business system, that reflects the underlying mechanics as to how our business is structured, and
- the market-centric side, which refers to how we connect our business to the marketplace.[1] This market-centric side takes into consideration two important requirements. First, our ability to properly assess potential market opportunities and determine where and how we want to compete, and second, our ability to effectively develop and communicate a market position around which to build a value proposition, and its accompanying revenue model, in a way that outperforms rivals focused on the same set of customers.

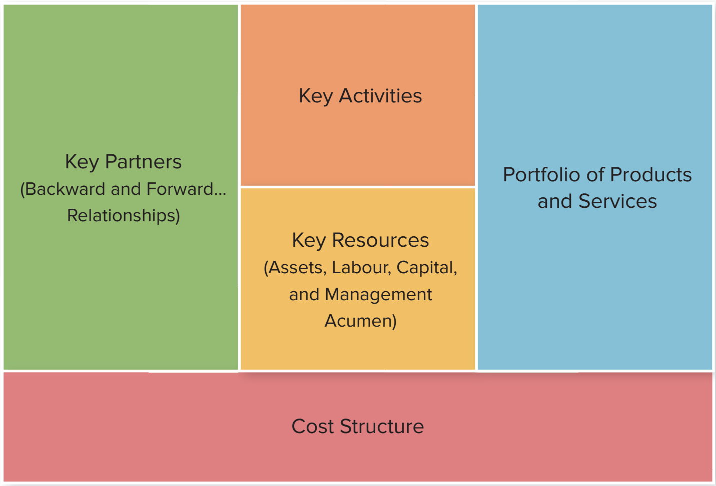
The company-centric side (business system) comprises five key areas (see Figure 1.2):

1. Activities
2. Resources
3. Partners
4. Cost Structure
5. Portfolio of Products and Services

Activities refer to key processes an organization undertakes in order to deliver products and services to the marketplace.

Activities refer to key processes an organization undertakes in order to deliver products and services to the marketplace. Examples of activities would be research and development, materials procurement, manufacturing processes, marketing and sales, and customer service. It would also include support activities such as finance and accounting, information technology, and so on.

FIGURE 1.2 Company-Centric Side (Business System)



Source: Adapted from *Business Model Generation*, Osterwalder, Pigneur, John Wiley & Sons, Inc., 2010.

Resources refer to four core areas—*assets, labour, capital,* and *managerial acumen.* **Assets**, in simplistic terms, represent the infrastructure and resource base of the organization. This includes (but is not limited to) an organization's land, buildings, process and infrastructure base (bricks and mortar, ecommerce, etc.), equipment and technology framework, raw materials, and brand power. **Labour** refers to the human resource (talent) requirements of the business, while **capital** refers to the money needed by an organization to support asset-based expenditures, meet operating cash requirements, and invest in the development of the new products or services that the organization desires to introduce into the marketplace. **Managerial acumen** refers to the foresight, drive, knowledge, ability, decision-making competency, and ingenuity of the organization's key individuals—its owners or top-level managers.[2] A key component of managerial acumen is the visionary leadership that a senior management team or business owner provides to the organization. Visionary leadership refers to the ability of managers to establish a direction for the organization based on the needs identified in the marketplace and the mission (reason for being) of the organization. This is then translated into a strategic plan designed to guide the organization to fulfilling such needs while meeting its mission (purpose or reason for the organization's existence).

Resources refers to four core areas: assets, labour, capital, and managerial acumen.

Assets refers to (1) the infrastructure and resource base of the organization; (2) the resources that the organization has at its disposal and that it can utilize in the generation of business activity and, ultimately, profit.

Labour refers to the human resource (talent) requirements of the business.

Capital refers to the money needed by an organization to support asset-based expenditures, meet operating cash requirements, and invest in the development of new products and/or services which the organization desires to introduce into the marketplace.

Managerial Acumen refers to the foresight, drive, knowledge, ability, decision-making competency, and ingenuity of the organization's key individuals—its owners or top-level managers.

Partners refers to complementary dependencies and/or collaborative relationships a business has with other organizations that are deemed essential to the design, development, and delivery of its products and services to the marketplace. Examples of partners would be retailers and wholesalers that are distributing our products, suppliers and subcontractors that are manufacturing our products and/or product components on our behalf, service companies that provide after-sale service and support to our customers (e.g., call centres), and joint ventures we have undertaken with other organizations. To illustrate partner relationships, let's take a quick look at Microsoft Corporation. Examples of Microsoft partners[3] are suppliers such as Intergen Ltd. (marketing), Infosys Ltd. (business consulting), Accenture (business consulting), Beyondsoft Corp. (product development and testing), Assembly/Edelman (social media), Flextronics International Ltd. (manufacturing), Hitachi (components and logistics), Qualcomm Inc. (chips—Surface), and AMD (chips—Xbox). Authorized distributors include such organizations as SYNNEX Corporation, Tech Data, D&H Distributing, MA Labs, Inc., and ASI Corp., to mention a few. And, as per the Business in Action relating to Microsoft, market development joint ventures exist with a variety of companies such as Salesforce.com and Dropbox.

Partners refers to complementary dependencies and/or relationships we have with other organizations that are deemed essential to the design, development, and delivery of products and services to the marketplace.

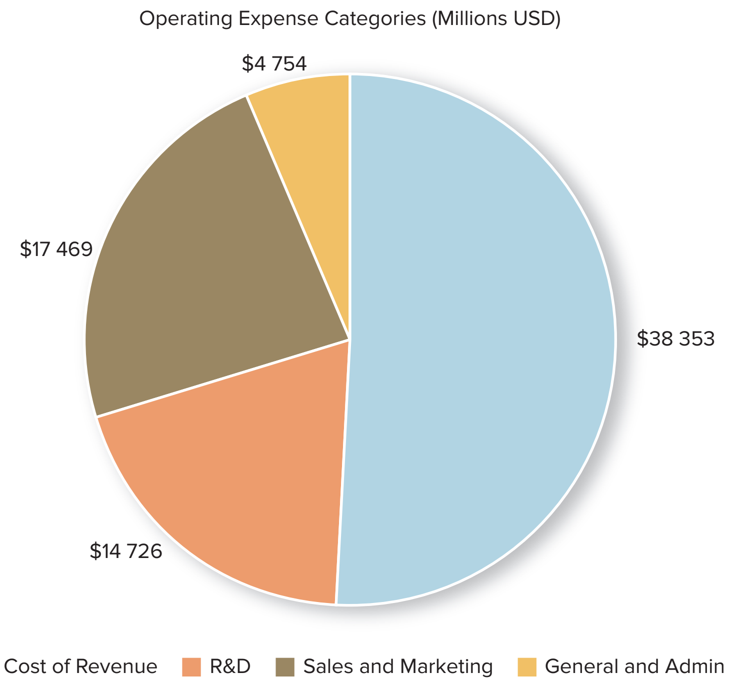
A key component of managing any business is understanding the expenses that will be incurred as a result of offering products and/or delivering services to the marketplace. This is referred to as an organization's **cost structure**. These costs must be recognized within an organization's business plans and pricing strategies to ensure the costs of the operation and other related financial obligations are fully offset by the revenue generated by the business and that acceptable levels of profit are realized. Examples of common operating expense categories that many organizations experience and that make up a company's cost structure are cost of revenue (manufacturing and distribution costs), sales and marketing expenses, general and administrative expenses, research and development expenses, and interest expense. Again using Microsoft Corporation as an example, Figure 1.3 shows major category expenses incurred during the fiscal year ending June 30, 2018, along with the dollar amounts (USD in millions) spent within each of these areas.

Cost Structure the expenses that will be incurred as a result of offering products and/or delivering services to the marketplace.

Product/service portfolio refers to the different items, products, and/or services a company offers for sale. An easy way to think of this portfolio is to think of it as being made up of an organization's various product lines. Microsoft's product portfolio is organized around three major business segments: Productivity and Business Processes, Intelligent Cloud, and More Personal Computing. Commercial cloud revenue (part of Intelligent Cloud), as an example, consists of products such

Product/Service Portfolio refers to the different items, products, and/or services that a company offers for sale.

FIGURE 1.3 **Microsoft Corporation—10-K Filing, 2018**



Source: Based on data from Microsoft Corporation, 10-K Filing, August 2018.

as Microsoft Office 365, Microsoft Azure, and Microsoft Dynamics 365, while More Personal Computing would include Windows, Microsoft Surface, and Xbox software and services, and Productivity and Business Processes includes products and services such as the recently acquired LinkedIn and the Office suite of products.[4]

> A key component of managing any business is understanding the expenses (costs) that must be considered when setting the price of a product/service offering.

Business IN ACTION

Canadian Tire—Building Out the Business Model

Established in 1922, Canadian Tire is one of Canada's most recognized retail brands. With more than 490 coast-to-coast retail locations, backed by a strong entrepreneurial-based dealer network, Canadian Tire sells more products, in more places, than any other Canadian retailer. With more than 90% of the Canadian population living within 15 minutes of a Canadian Tire store, and with more than 80% of Canadians shopping at its retail locations every year, the company markets itself as Canada's store.

With such a stellar history and such a well-recognized brand in Canada, individuals may question why Canadian Tire's management team feels a pressing need to make core, fundamental changes to its current business model. The answer is that the competitive landscape has changed dramatically over the last 15 years, and how you and I shop for the products and services we purchase has changed even more. In the past, Canadian Tire's response to changes in the retail market has been sluggish versus a nimble

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Brad Calkins/Dreamstime.com

market leader. This inertia has resulted in more than one iconic brand (Eaton's, Zellers, Sears, etc.) disappearing from the marketplace, as new and more nimble retail specialists, along with well-established U.S.-based brands (Amazon, Walmart, Home Depot, Lowe's, Marshalls, etc.), create an even more congested market space. Decision making at Canadian Tire, often tied to length of time in getting its 400+ independent dealers to agree on change, has been slow and its business model has, in the past, been fixated on trying to be all things to all people.

So have things changed at Canadian Tire? The response to this question is a definitive yes. The retailer gained traction with the appointment of Stephen Wetmore as President and CEO of Canadian Tire Corporation, Limited in 2009. Creating an underlying sense of urgency within the company, Wetmore acquired The Forzani Group in 2011 (Sport Chek, Hockey Experts, Sports Experts, National Sports, Intersport, and Atmosphere), and restructured Canadian Tire and its family of companies—which also includes Canadian Tire retail stores, Mark's (acquired in 2002), Canadian Tire Financial Services, PartSource, Gas+, CT REIT, Canadian Tire Jumpstart Charities, and the renamed FGL Sports. Although Canadian Tire Retail (independently owned and operated by Dealers) still represented 66% of revenue at the end of 2017 (down from 72% in 2014), the diversification undertaken under Wetmore's management tenure repositioned the company's focus and permanently redefined the organization's makeup in a big way. For Wetmore and his management team at that time, the future of Canadian Tire lay in the selection of key products and services and in the targeting of key customers. This meant shifting away from the broader generalist mass-market merchandiser position the company had initially pursued. Canadian Tire Retail would focus its new customer-centric enterprise business model and product offerings around five key groupings: automotive, living, fixing, playing/sporting goods, and apparel (Mark's). Key anchors would be sporting goods and automotive. Facilitation meant strengthening the automotive presence and developing Canadian Tire into Canada's leading sporting goods retailer. Supporting this push was a renewed emphasis on technology, omnichannel marketing initiatives, rebuilding of the Canadian Tire loyalty program, refocusing on the male-gender core customer, and the execution of some business-savvy acquisitions.

Fast forward to 2018 and we see Canadian Tire continuing to evolve in the face of heightened bricks and mortar competition, along with the continual evolution of online retail and the growing presence of Amazon. Retiring from Canadian Tire in 2014, Stephen Wetmore returned in 2016 as CEO of one of Canada's most iconic brands. The challenge then and now is how to continue to evolve and grow Canadian Tire in today's disruptive market environment. This means a continual focus on advancing Canadian Tire's operational capabilities in in-store, digital, and ecommerce methodologies, strengthening its overall digital marketing abilities, and increasing its focus on owned brands beyond FGL Sports and Mark's. In support of this, one of Wetmore's more recent moves was the acquisition of Norway-based Helly Hansen for just under $1 billion (CAD) in July 2018.

For Wetmore and his team, standing still is not an option. Customers demand best-of-breed service delivery more today then ever before. The iconic Canadian Tire money of yesterday has been replaced by its Triangle Rewards program (April 2018), allowing seamless collection and use of rewards

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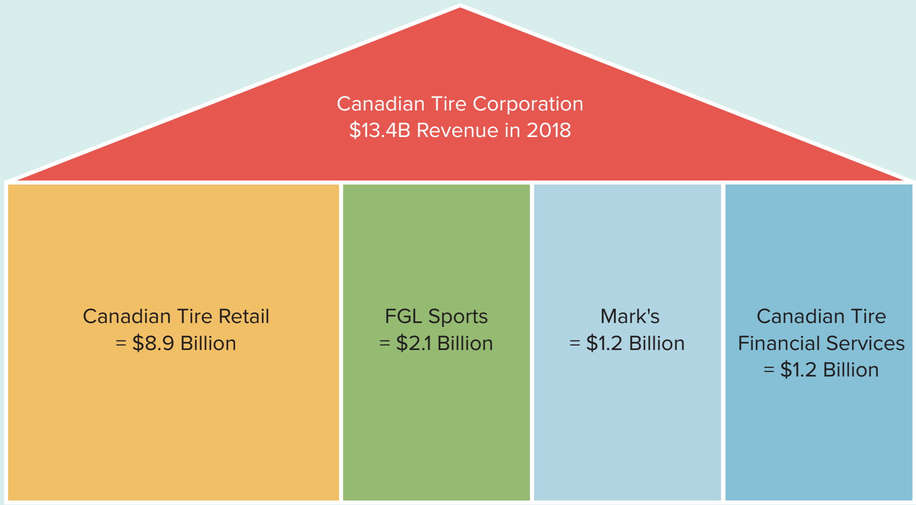
across all of its banners. The key is to continue to drive traffic and ultimately derive "share of wallet" from its 11+ million customer base, of which 2.1 million hold Canadian Tire credit cards. To do this, Canadian Tire must continue to present a relevant and meaningful product selection to its customers that is perceived by such customers to represent the best value in the marketplace.



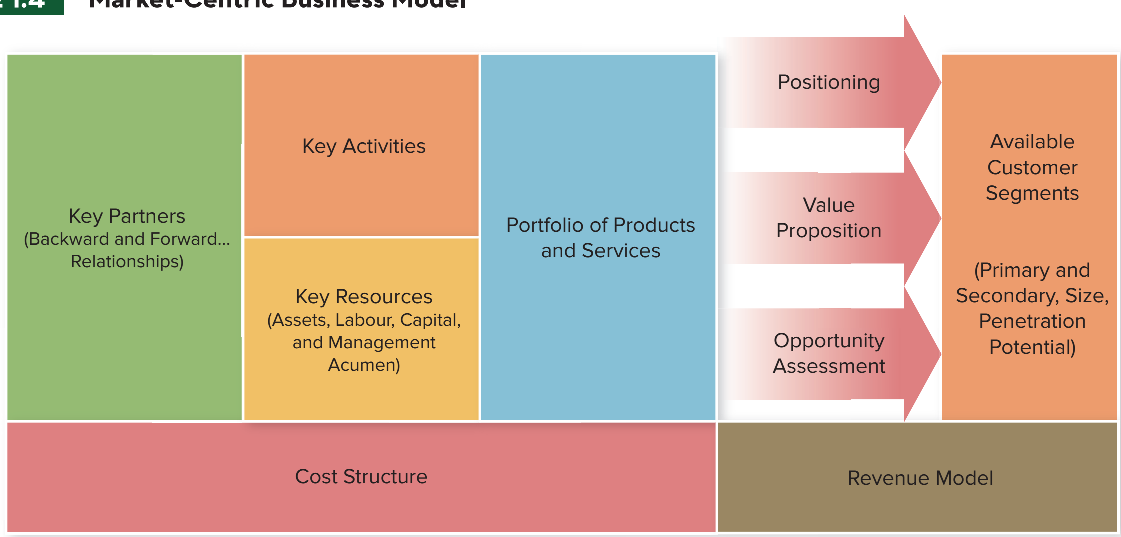
Adapted from Canadian Tire Corporation's Investor Presentation, September 2014. Updated June 2019.

The market-centric side (see Figure 1.4) of business model development focuses the business's efforts on the external factors required for success. Market-centric decisions look to draw conclusions relating to properly assessing potential market opportunities in order to determine where and how we want to compete. An easy way to think of this is to view it in terms of a narrative or story. This is what the company or business is communicating to the marketplace. Creation of the market-centric side means focusing our analysis on the following areas:

1. Available Customer Segments and Opportunity Assessment
2. Positioning
3. Value Proposition Development
4. Revenue Model Development

Available customer segments Businesses recognize that they cannot be all things to all people. Markets by their very nature are made up of various segments possessing

FIGURE 1.4 **Market-Centric Business Model**



Source: Adapted from *Business Model Generation*, Osterwalder, Pigneur, John Wiley & Sons, Inc., 2010.

different needs, wants, and desires. Differences in demographic factors such as age, gender, and income will result in different segments requiring different products and services. The same holds true for lifestyle and behavioural factors that influence purchase decisions. Thrill seekers, for example, desire different products and services from risk-aversive individuals. These concepts will be discussed in more detail in later chapters in this textbook. The important takeaway here is that businesses need to decide what customer segments will most likely respond to their efforts and be most receptive to their product and/or service offerings; this is what is meant by the term *opportunity assessment*. **Opportunity assessment** involves analyzing the marketplace in such a way (via marketing research and data analytics) that enables the organization to determine which segments are most likely to respond to its communication messages and purchase its products and/or services. We refer to these as *primary segments*. We also look to identify *secondary segments*—which, although not as lucrative as primary segments, offer additional sales opportunities.

Opportunity Assessment is analyzing the marketplace in such a way (via marketing research and data analytics) that enables the organization to determine which segments are most likely to respond to its communication messages and purchase its products and/or services.

Positioning **Positioning**, which also will be discussed in greater detail in later chapters, refers to our ability to develop a unique, credible, sustainable, and valued place in the minds of our customers for our brand, products, and/or services. Think of positioning as the outcome of the communication strategy we initiate in support of our products and/or services that results in customers formulating an opinion as to what our brand stands for. Tim Hortons, for example, positions a significant portion of its communication efforts around the message of being "truly Canadian." This enables it to create an emotional link between its products and being Canadian, a message its U.S.-based rivals cannot match.

Positioning refers to our ability to develop a unique, credible, sustainable, and valued place in the minds of our customers for our brand, products, and/or services.

Value proposition development A **value proposition** is a statement that summarizes to whom a product or service is geared toward and the benefits the purchaser will realize as a result of using the product or service. Recognizing the conclusions reached as a result of an organization's positioning analysis, it communicates to potential purchasers how the product or service differs from competing products or services offered in the marketplace. For example, suppose you decide to purchase a smartphone. The question for you is which product to purchase; the marketplace offers a number of competing choices. You could purchase an Apple iPhone or a Samsung phone (two industry leaders), or one of the models offered by other major players such as Huawei, Lenovo, or Google. Or, depending on where you live, you might look to purchase from global and regional players such as LG, OPPO (China), Wiko (France), Micromax (India), Telenor (Norway), Xiaomi (China), or Vivo (China), to name a few.[5] Your decision will be influenced by the benefits the products offer and the price you are willing to pay. In order to position themselves in the marketplace, companies develop value propositions for the purpose of communicating to customers how their products or services are different and the important benefits they offer. It is important to understand that value propositions are not driven strictly by tangible or functional product benefits. In fact, many of the reasons why products or services are purchased have little to do with the actual product itself, but more with the perceived benefits the product or service offers. As was noted with respect to the other market-centric elements identified above, the concept of a value proposition will be more fully discussed in later chapters. What is important to understand at this stage is that the value proposition defines what makes you unique and how this uniqueness translates into meaningful value to the customer. Fundamental to this is to ensure we have correctly concluded that what we think adds value is viewed by the customer as equally important.

Value Proposition is a statement that summarizes whom a product or service is geared toward and the benefits the purchaser will realize as a result of using the product or service.

> Companies develop value propositions for the purpose of communicating to customers how their products/services are different and the important benefits that they offer.

Revenue Model focuses on the relationship between the prices organizations are able to charge for their services, the volume of purchases they are able to generate, and the profitability derived from such activity.

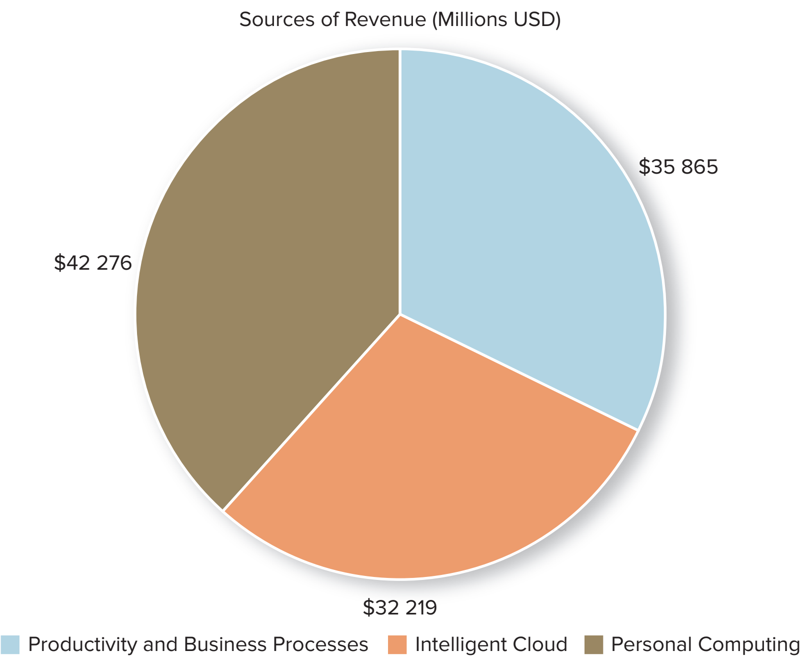
Revenue model development A **revenue model** focuses on the relationship between the prices organizations are able to charge for their services, the volume of purchases they are able to generate, and the profitability derived from such activity. Revenue could potentially come from a single source (one product within a business's product portfolio), or from a number of products, product lines, and/or divisions within an organization. Going back to our Microsoft Corporation example, Figure 1.5 shows the sources that make up Microsoft's 2018 fiscal-year revenue of \$110+ billion (USD).[6] In reviewing Microsoft's 10-K filing, we can see that the More Personal Computing division, largely driven by Windows sales, continues to make up the largest percentage of the company's revenue. Having said this, although larger than the other two operating divisions, More Personal Computing experienced the slowest year-over-year growth (compared to 2017), achieving +8% in 2018. Productivity and Business Processes led the way with +20% growth in year-over-year revenue (compared to 2017), while the Intelligent Cloud division experienced year-over-year revenue growth of +18%.

The revenue model, however, is not just about generating sales. It also takes into consideration the relationship between price and expenses (costs) and the underlying operating margins and profit margins organizations realize as a result of doing business. Referring back to Microsoft Corporation's 2018 fiscal-year performance, the company generated operating income of \$35 058 billion (USD) and net income (profits) of \$16 571 billion (USD) from revenue of \$110 360 billion (USD).[7] The concepts of profit and profitability are discussed more fully in the appendix provided at the end of this chapter, while the concept of margins and margin management, along with a more detailed discussion relating to the realization of operating income and of net income (profits), occurs in later chapters.

The Full Business Model

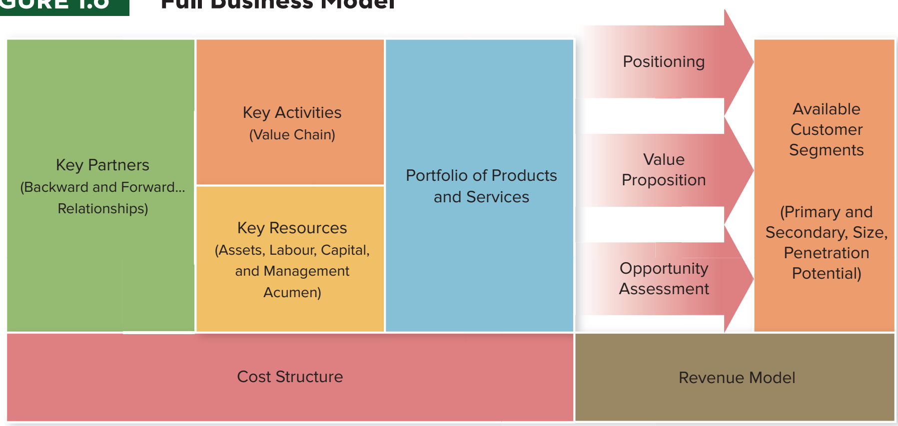
Figure 1.6 provides the concept of the business model in its entirety. On the business-centric side we have the core components of an organization's business

FIGURE 1.5 **Microsoft Corporation, 10-K Filing, 2018**



Source: Based on data from Microsoft Corporation 10-K Filing, August 2018.

FIGURE 1.6 **Full Business Model**



Source: Adapted from Business Model Generation, Osterwalder, Pigneur, John Wiley & Sons, Inc., 2010.

system. This incorporates the products and/or services it intends to offer to the marketplace, the key activities required to develop and deliver such products and/or services, the key resources that will be needed, and the partners the organization is dependent on for its overall success. It also, in conducting actions across these various areas, needs to fully identify and manage the costs that will be incurred along the way.

The market-centric side is all about targeting and communicating the reasons why customers should purchase our product and/or service versus that of alternate solutions in the marketplace. Customer selection is as important as the communication of what are perceived to be key benefits that customers can expect. Attached to this is the need to determine at what price such products and/or services will be offered and, given the costs incurred, what profit can be expected.

Business models are, as a result of the analysis provided above, the unique manner and structure by which we conduct business on a day-to-day basis, and reflect conscious decisions relating to resource deployment in route to developing revenue and driving profit. No two companies are alike, and it is their deployment of assets and capabilities, via their business model, that determines which companies are more profitable.

> Business models are, as a result of the analysis provided above, the manner and structure by which we conduct business on a day-to-day basis, and reflect conscious decisions relating to resource deployment in route to developing revenue and driving profit.

The Role of the Business Owner or "C-Suite" Manager*

LO3, LO4

As was concluded above, the role of the business owner or top-level management team is to anticipate, recognize, and act upon opportunities that then drive the creation of products and/or delivery of services believed to offer solutions to problems in a unique, important, and valued (meaningful) way to a targeted customer or customers. This leveraging of a market opportunity is realized via the efficient and

*The term "C-suite manager" refers to an organization's top-level management team. Examples of C-suite managers include the CEO (Chief Executive Officer), COO (Chief Operating Officer), CFO (Chief Financial Officer), CIO (Chief Information Officer), and CMO (Chief Marketing Officer).

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FIGURE 1.7 **Role of the General Manager**

effective execution of the business model the management team creates, and the deployment of the productive resources the organization possesses.

Fundamental to this challenge is for the business owner and their management team to develop a strategy geared toward taking advantage of such opportunities and recognizing the required capabilities, competencies, and capacity the company must possess in order to successfully execute such a strategy. Commonly referred to as the strategic planning process, the focus of developing strategy (discussed in more detail in Chapter 6) is to draw conclusions relating to where a company will compete, what will be its competitive scope, and how it will execute in a way that outperforms rivals. Once strategic direction is determined, it then becomes the role of the management team to develop and execute the business model in pursuit of the objectives identified. The effectiveness of this execution is what, ultimately, determines the level of growth and profitability realized (performance) by the organization (see Figure 1.7).

Putting Plans into Action

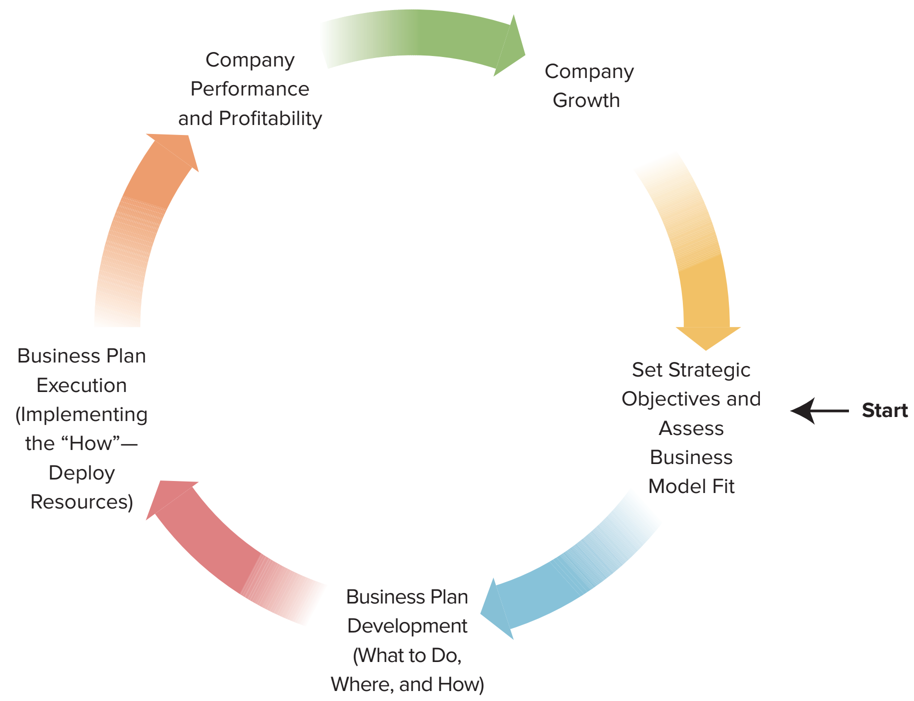
So exactly how do managers put a business model into motion? Understanding its strategic opportunities and its capabilities, competencies, and overall capacity, the business management team develops a business plan via a process called the business planning cycle (see Figure 1.8). The business planning cycle outlines the focus and methodology for setting the business model in motion. In an ideal situation, this plan would be built around the leveraging of a competitive advantage. A company has a **competitive advantage** when it possesses capabilities that enable the company to perform critical activities better than its rivals. The performance of these activities is then leveraged in a manner that offers customers a product or service at a lower cost, greater perceived value, or a combination of the two versus that which competitors are able to deliver. If the business plan is competitive and executed properly, and customers are attracted to the company's product/service offering(s), the company generates money, or revenue, from the sale of the product. Assuming that the plan is executed in an efficient and effective manner, this revenue will exceed the expenses associated with producing or delivering the product/service, thereby generating a profit for the firm. This then enables the company to grow through reinvestment of these profits (along with capital from other sources, if required) into the business and the expansion of the business opportunities that the organization undertakes.

Competitive Advantage occurs when a company possesses capabilities that enable it to perform critical activities better than its rivals; this advantage enables it to generate greater sales and/or margins and creates preference for its products and services in the minds of its customers.

> The role of the business owner or management team is to anticipate, recognize, or sense an opportunity to create a product or to deliver a service that is felt to be unique, important, and of value (meaningful) to a targeted customer or customers.

In fact, businesses grow by executing a series of planning cycles over time (see Figure 1.9). Each planning cycle is designed to direct the positioning of the company

FIGURE 1.8 **Business Planning Cycle**



within the marketplace, orchestrate the creation of a business plan that will achieve the objectives formulated for the planning period, ensure linkage with the vision and mission of the organization, and implement the required adjustments to the business model that will ensure the plan is executed in a fashion that leads to growth and profitability. The management team must then allocate the resources and leverage the company's capabilities in a manner that ensures the tactics designed to achieve the objectives identified actually work and produce the desired results. Finally, the management team needs to assess the success of the company in achieving the desired objectives, and determine adjustments required in order to further grow the company via future planning cycles (see Figure 1.10).

If an organization does not achieve its objectives as a result of either poor positioning or poor execution of the strategies initiated, then the company will most

FIGURE 1.9 **Growth via Planning Cycle Execution**

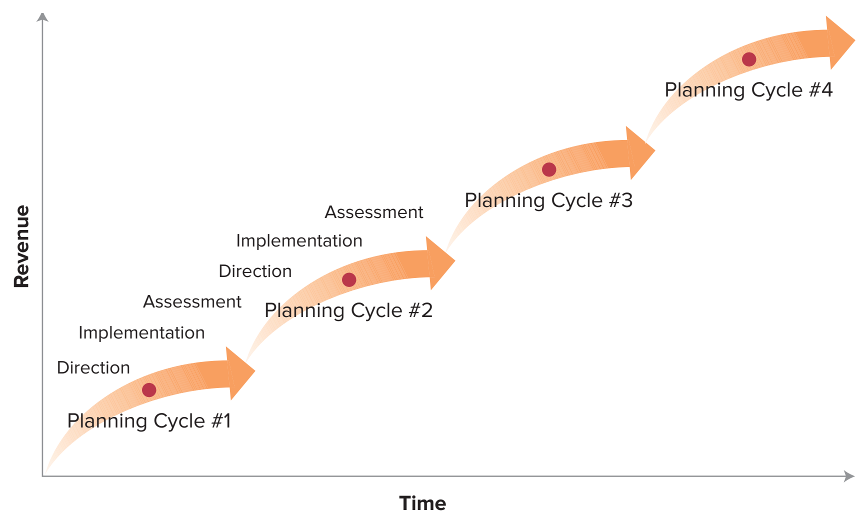


FIGURE 1.10 **Planning Cycle Staging**

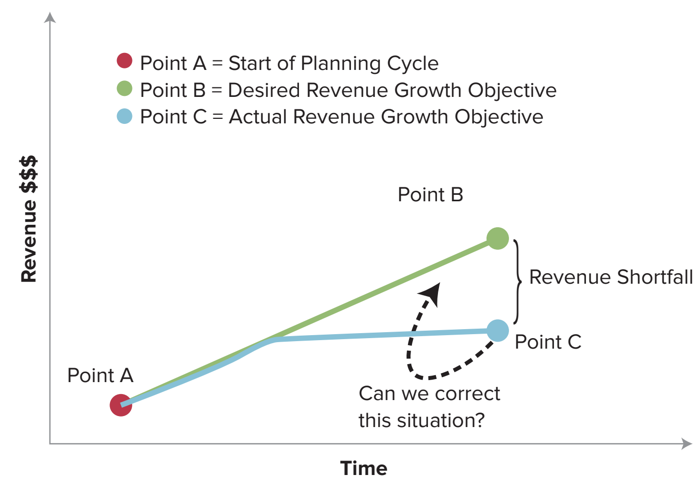
Planning Cycle Staging		
Direction/Positioning • What do we want to do? • Why do we want to do it? • Can we do it?	**Implementation** • How will we do it? • What needs to be changed in order to succeed? • Where will resources be allocated?	**Assessment** • Did we meet our goal? • What needs to be changed or improved? • What systems require fine-tuning? • What further capacity adjustments are required?

likely not achieve the results anticipated and will need to redirect the current organizational effort in order to get back on track and achieve its revenue and profitability targets. A flattening, or declining, of revenue or a reduction in overall profitability are key identifiers as to whether a given plan is working. Figure 1.11 illustrates a failure to grow the company to the desired position and meet its objectives during a planning cycle. It should be noted that this failure to meet the objectives of a planning cycle can be the result of poor positioning, poor operational execution, or a combination of the two.

> The failure to meet the objectives of a planning cycle can be the result of poor positioning, poor operational execution, or a combination of the two.

The following example illustrates the planning cycle concept. When most of us hear the company name Amazon, our attention is immediately focused toward its presence in the ecommerce and online shopping market sector. Planning cycles today have Amazon continuing its presence and current dominance in this sector. What many of us do not realize, however, is that Amazon's business model is fluid and is expanding in the direction of a stronger bricks and mortar presence. Current planning at Amazon structured within its planning cycle development is the creation

FIGURE 1.11 **Planning Cycle Outcome**



of a physical presence in the marketplace as well. Amazon Go, its cashierless, technology-savvy convenience store chain, with 10 locations in 2018, is targeting the opening of up to 50 additional locations in 2019 and, assuming market acceptance, is considering a plan to open as many as 3,000 new locations by 2021. In addition, Amazon also is planning on a significant expansion of its Whole Foods operation (acquired in 2017), with a long-term vision of moving Whole Foods from a current regional player to a national player in the United States and beyond. Planning cycles relating to Whole Foods not only detail the store footprint expansion noted above, but also focus on the integration of operational efficiencies and synergies between Amazon and Whole Foods. Whole Foods offers Amazon a bricks and mortar platform that enables it to create opportunities for minimizing the cost of returns, provide lockers for delivery, centralize purchasing, and offer an additional outlet for the products and services it sells (for example, the Amazon Echo and the Kindle are now available for purchase at Whole Foods). In addition, Amazon continues to provide additional discounts and opportunities to its Prime membership holders, thereby reinforcing their relationship and loyalty as Amazon customers.[8]

Before we go on, we should recognize that while **for-profit companies** need competitive business models, so do **not-for-profit organizations (NFPs)**, such as hospitals, school boards, YMCAs, social service agencies, educational institutions, and registered charities. By definition, not-for-profit organizations are those that are not in business to make a profit, but rather seek to deliver services to the people, groups, and communities they serve. Nevertheless, not-for-profits still need a business plan, operating model, and business system that will enable them to cover their operating costs and to employ strategies to fund the ongoing delivery of meaningful services. Small businesses, as well, need to recognize the need for a well-thought-out business plan and business model in order to determine just how, where, and when to compete.

For-Profit Companies are organizations whose overarching objective is profitability and wealth creation on behalf of their shareholders and stakeholders.

Not-for-Profit Organizations (NFPs) are organizations whose overarching objective is not profitability and wealth creation but to deliver services to the people, groups, and communities that they serve via a model of collective interest and social goal achievement.

Business IN ACTION

BlackBerry—Reinventing the Business Model

John Chen, Executive Chairman and CEO of Waterloo, Ontario–based BlackBerry (formerly Research In Motion), has reinvented the organization from that of a smartphone hardware company to an IoT (Internet of things) software market leader. When Chen took the helm at BlackBerry the company—the inventor of the smartphone and once one of Canada's highest-valued technology-based operations—was bleeding customers, employees, revenue, cash, and share value (declining from $138.87 in May 2008 to $6.33 in November 2013 when Chen arrived). The company had formally placed itself on the selling block and was attempting to overcome disappointing results with its recently launched BlackBerry 10 operating system. For Chen, however, all was not lost at BlackBerry. A turnaround specialist with a number of successful tenures under his belt (such as his turnaround of Sybase Inc. back in the late 1990s), Chen set a new strategy for BlackBerry on the basis of its strengths (security, connectivity, privacy, trusted in regulated verticals).

Fast forward to 2019, and one sees a company that is financially stable with a strategy and product portfolio that positions it well for future growth. Today, BlackBerry presents to the marketplace a software and services company possessing a technology platform designed to bring trust to the IoT. That trust is built on three core pillars—security, privacy, and control—that have been the foundation of BlackBerry since its beginnings. This focus and trust is what has enabled the company to remain at the front end of the innovation curve.

Turnarounds require identifying key ingredients around which a redefined business model can be created. A fundamental associated with this is to "know thyself." In business, this means understanding

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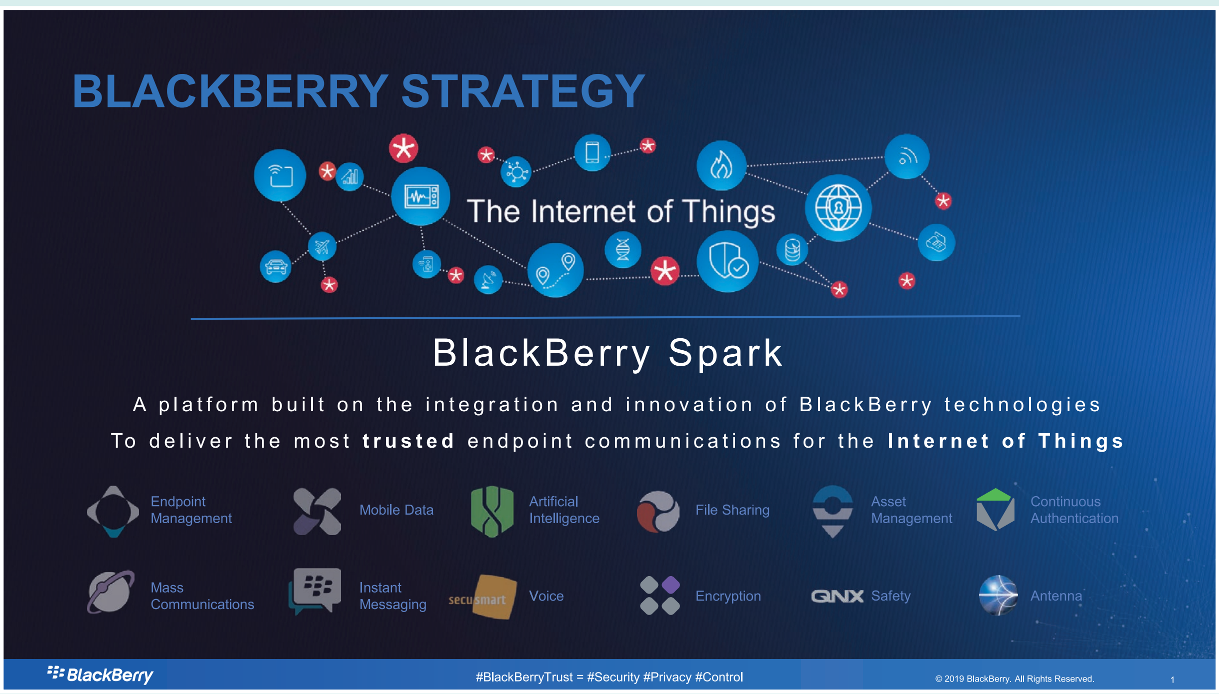
a company's core underlying strength and value, sticking to this, and rebuilding around it. Chen recognized BlackBerry's leadership in security, privacy, and connectivity and built a relevant and innovative strategy around this foundation. A turnaround often means making some hard decisions about where a company should enhance and maintain its resource commitment and where it should reduce or divest itself of resources. When Chen took over at BlackBerry, he did just that. Moving quickly, but with a defined strategy in mind, Chen divested the company of a number of nonessential assets. He also looked to reduce operating expenses via a number of initiatives, such as the outsourcing of smartphone manufacturing. This move served an additional purpose as Chen envisioned the technology market shifting its focus from hardware to software. He believed product differentiation—and therefore value—would not continue to be found in hardware, but had a future in software. Actions such as these freed up much-needed cash for BlackBerry and reduced its operating losses. Although a vital first step, cutting expenses was the easiest part of Chen's turnaround plan. The more challenging task was to deliver revenue growth. Since the turnaround, BlackBerry has delivered records in gross margin and software and services revenue. The company also



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recently announced that its software now connects and protects over half a billion endpoints, including over 150 million cars.

For its next chapter—a growth chapter—BlackBerry has all the right components: an IoT platform with BlackBerry Spark, which offers artificial intelligence–based cybersecurity as one of its USPs; a strong IP portfolio; and a customer base that includes NATO, the United Nations, all of the G7 governments, all of the Fortune 100 largest banks, and more.

Chen is without doubt that BlackBerry will survive, and he is optimistic that the company will grow to be as iconic as it once was. Whether it remains a niche player with specialized focus or a broader player competing across a number of markets and products remains to be seen. A potential sale of the company down the road has not been ruled out. The focus at this time, however, is to maintain and grow BlackBerry's position as a key player in cybersecurity and the IoT.

Web Integration

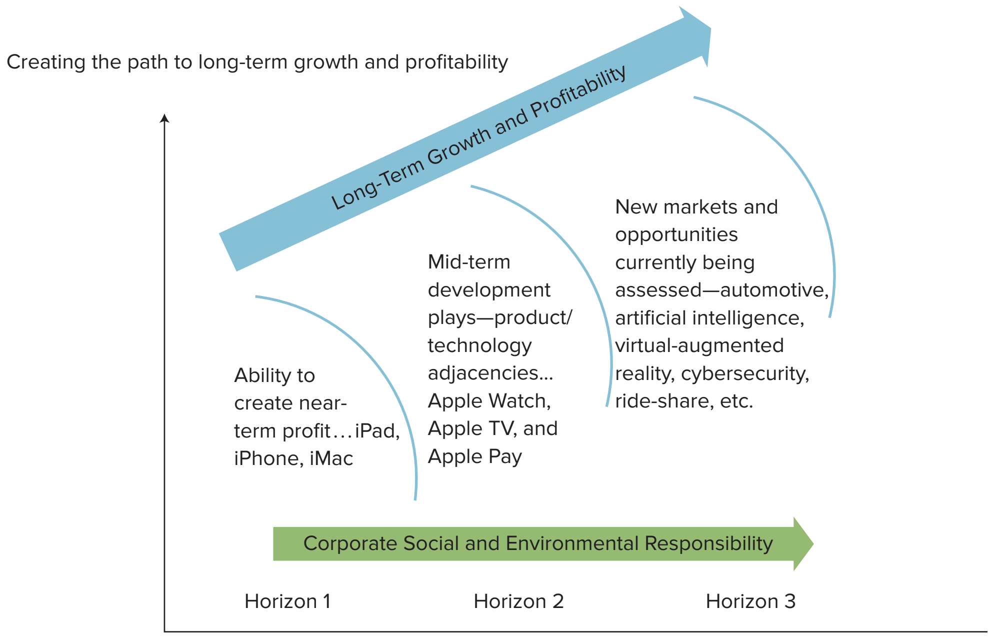
Want to learn more about BlackBerry's products, services, and future plans? Visit **www.blackberry.com**.

Thinking across Multiple Horizons

As discussed above, businesses, via decisions made by their management team, utilize resources with the idea of transforming them into products and services. These products and services are then sold to other businesses or to consumers (such as you and me) to achieve a *profit* for the firm. Profit is necessary in the immediate term for the business to pay its bills and reinvest in the future. Making a profit on a monthly, quarterly, and annual basis is fundamental to ensuring the immediate survival of the firm. In reflecting on this commentary one might be inclined to think that planning cycle decisions and underlying adjustments to the business model are all geared toward short-term performance. Short-term performance (the need to drive immediate profit) is, however, just one of three fundamental objectives that business owners and their management teams must consider as they look to draw conclusions on the strategic direction of the organization.

As managers consider current and future business direction, an equally important objective to short-term profit must be considered. This second objective is to set in motion the ability of the organization to achieve *long-term growth and profitability*. Businesses recognize that the demand for the products and services they currently offer will change, and could in fact disappear over time. Given this, businesses are constantly searching for new markets and new opportunities to further grow the scope and focus of their organizations. Although immediate-term operating performance is based on the products and services a business offers today, new products and services will need to be developed to ensure the organization remains healthy and continues to grow. Apple Inc. has driven significant profits over the past 18 years from its iPod (2001), iPhone (2007), and iPad (2010) products, iTunes, and its App Store. It recognizes, however, that it must continue to look beyond this current success and seek new opportunities for future growth, thus ensuring its ongoing profitability. Ongoing enhancements to these products and services, as well as continuous improvements to its iMac lineup, will carry Apple through the next few years (mid-term), but it will be current investments in Apple Pay, Apple Watch, and Apple TV (to name a few), along with new market opportunities created organically (internally) or through acquisitions, that will fuel future growth and profitability at Apple (Figure 1.12). It is this ability of management teams to look forward across multiple horizons, investing in and nurturing new growth opportunities, that is critical to creating a sustainable, long-term growth and profitability trajectory for an organization.

FIGURE 1.12 **Apple—Thinking across Multiple Horizons**



Corporate Social Responsibility

An additional objective, and one that is becoming increasingly important as part of the business decision-making process, is that of *social and environmental responsibility*. On a global basis, consumers are encouraging—and, in some industries, demanding—that businesses operate and act in a manner that demonstrates social responsibility with respect to product development, resource consumption, and operating processes. Green initiatives, truth in advertising, environmentally sustainable resource practices, and other environmental and social codes of conduct are challenging businesses to position themselves as good corporate citizens in order to acquire and retain customers. Individual managers are also challenged to make decisions and implement actions that conform to the highest ethical standards. Managers are expected to place society, the organization, and the organization's broader **stakeholder** community ahead of personal and/or shareholder gain when making decisions and when interacting with the marketplace. This increasing realization of social responsibility and environmental obligation will impact managerial decision-making across all horizons and will require the deployment of resources in ways that ensure society, as well as companies, prospers going forward. Social responsibility, including ethics and environmentally sustainable business concepts and practices, is discussed more fully in Chapters 4 and 5.

Stakeholder refers to individuals, groups, or organizations that have a direct or indirect relationship with an organization, and that can be impacted by its policies, actions, and decisions. Stakeholders could include customers, suppliers, government, employees, and so on.

These same fundamentals also hold true for the not-for-profit sector. Although NFPs do not strive for a profit, they do need to create operational surpluses and/or acquire external capital funding commitments that enable reinvestment in the organization to ensure it remains vibrant and responsive to community needs. NFPs also need to assess their services on a regular basis to ensure they remain meaningful to the customers they serve and to expand such services where demand exists and where they have the capabilities to do so. Also, NFPs are held to a high level of social responsibility in that their core existence is based on their ability to meet societal needs that are not responded to by the for-profit sector. Referring back to prior comments relating to not-for-profits and registered charities (such as the YMCA), a fundamental requirement of planning is that these organizations earn or maintain an operating surplus on an annual basis to ensure that future building, equipment, technology, and programming financial needs are met for both today and tomorrow. They also need to continually review the programs and services they offer to ensure they remain meaningful to their respective members and program and service users. Add to this the need to develop programs and services that respond to new and emerging community needs. Finally, these organizations must ensure that they do all of these things in accordance with their charitable missions, and must be willing to accept responsibility for the delivery of socially required programs and services that for-profit entities would choose not to deliver due to an absence of a profit opportunity.

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In closing, organizations and their management teams must learn to make decisions that enable all three of these responsibilities to be considered equally. Too much emphasis on short-term profitability, for example, may result in decisions that are detrimental to long-term market opportunities and fall short of social responsibility expectations. Many analysts have concluded that the current overemphasis on short-term profits was fundamental to the collapse of the financial services sector in 2008, and continues to constrain long-term opportunity development within a number of companies. Investment banks and other financial services companies are still feeling the fallout relating to the overleveraging of their organizations in high-risk investments, which provided some very positive short-term results (pre-2008) but exposed the organizations to significant losses and asset devaluation when the global marketplace found itself in a prolonged recession during the period 2010–12. Likewise, too much emphasis on developing future products or services—versus responding to customer needs today—may result in liquidity issues for the business if it is unable to cover its expenses in the short term. Managers and management teams therefore must, as part of their planning process, manage the balance between short-term profit requirements and aspirations with longer-term objectives and risk management techniques in a manner that ensures optimal market position and sustainable operating performance.

Business IN ACTION

Toyota Builds for a Greener Future

Toyota's commitment to the environment, and its status as one of the greenest automakers, is symbolized by its famous Prius—to date, the world's best-selling hybrid vehicle. While the Prius is the most visible symbol of Toyota's approach to protecting the environment, the company continues to seek approaches to meeting the world's growing transportation needs in ways that are less harmful to the planet. To achieve this balance, Toyota continually re-examines its products, business strategies, and daily operations, and sets goals for environmental improvement. Although being a good corporate citizen has been embedded into its business values (dating back to 1935), Toyota fundamentally placed environmental sustainability and corporate social responsibility as core to its business strategy with the release of the Toyota Earth Charter and Global Vision in 2010. These two value drivers formally defined Toyota's commitment to the environment and to the communities where it does business. Environmental initiatives and programs

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are core to the Toyota organization and its Canadian operations. These programs range from the development of the Hybrid Synergy Drive systems, to partnerships in Canada with organizations such as Evergreen and Earth Day, as well as a conscious effort to reduce its environmental footprint from manufacturing operations. Toyota's Earth Charter consists of four pillars: growth in harmony with the environment with the challenge to achieve zero carbon emissions through all areas of business activity; pursuit of all possible environmental technologies and the development of those technologies; the creation of a voluntary improvement plan based on preventive measures and compliance with laws to address environmental issues; and the building of close relationships with individuals and organizations involved in environmental preservation. For Toyota, the integration of its commitment to the environment is a conscious part of its business decision and implementation process. This commitment has resulted in the development of one of the most comprehensive waste-reduction and recycling programs in North America, significant energy reduction initiatives, and global leader status in its efforts to achieve an optimal balance between fuel consumption and emissions reduction.

Toyota's commitment, however, does not merely start and stop with environmental sensitivity relating to its own manufacturing footprint. In January 2016, the company fully aligned its commitment with the 17 Goals to Transform Our World (Sustainable Development Goals) as defined by the United Nations. The company also has formally endorsed and is actively striving to meet the "under 2 degrees C scenario" and accompanying objectives agreed to under the Paris Agreement, adopted in 2015 and reaffirmed in October 2018. A founding member of the World Business Council for Sustainable Development (WBCSD), Toyota is working cooperatively with other automotive and technology-based partners to develop and incorporate environmental changes in the areas of autonomous driving, future mobility systems, and ride-sharing, to name a few.

Highlighted in its newly released Toyota Environmental Challenge 2050, the company is dedicated to the commitment to reduce the environmental burden attributed to automobiles to as close to zero as possible, and to continue to drive its decision-making process via values that ensure a positive contribution to our Earth and its societies. Criteria relating to this commitment include minimizing GHG emissions, reducing overall air pollution, water-usage reduction strategies, reversing biodiversity degradation, and respecting and adhering to ecosystem responsibilities as the organization continues to develop its operational footprint.

Web Integration

Want to know more about Toyota's sustainability initiatives? Visit **www.toyota.com** and type *sustainability initiatives* or *Toyota's Earth Charter* in the search browser.

LO5 The Concept of Visionary Leadership

Up to this point, we have been discussing the task-related responsibilities of business owners and C-suite managers. This discussion has focused on the development and implementation of a business model. The planning for such implementation occurs through the concept of a planning cycle(s) and recognizing the need to think about the organization's ongoing evolution across multiple horizons. The discussion also brought forward the requirement to balance the need for short-term profit with longer-term growth and profitability objectives, and to frame such responsibilities around recognition of the corporate and business social responsibility obligations we have to stakeholders, to the society at large, and to our planet.

An equally important responsibility that we, as managers, have for our organization is to provide our employees and related stakeholders with the visionary leadership required to successfully plan, organize, develop, and execute our strategy and its underlying business model. **Visionary leadership** is all about inspiring your workforce (talent) to pursue a shared goal beyond ordinary expectations. It is about creating a clear statement as to the direction in which the organization is heading, and then creating a culture within the company that encourages and supports employees in a way where they become motivated to achieve the organization's vision because they fully identify with it, find it meaningful, and believe that the company has the competencies, capabilities, and capacity to achieve it. It is fundamental to note that visionary leadership is not driven by, nor is the domain of, any particular gender, race, or creed. Visionary leadership is, as described above, the ability to effectively motivate and harness the collective capabilities of others to the achievement of specified goals and/or objectives. Whether you are male, female, or of a specific ethnic origin is immaterial to this definition and capability.[9]

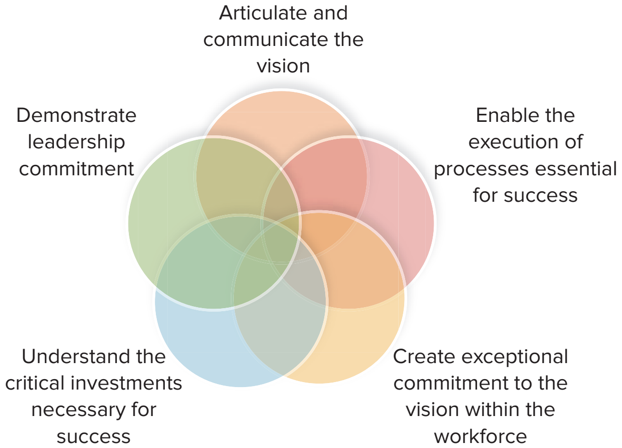
Visionary Leadership involves inspiring your workforce (talent) to pursue a shared goal, beyond ordinary expectations.

Visionary leaders understand the driving forces that will influence market direction going forward, as well as the constraining forces that must be overcome in pursuit of the identified vision (Figure 1.13). This in-depth understanding applies to both what is happening outside the company (customers, competitors, government, etc.) as well as what is happening inside the company. A core innate skill of a visionary leader is the ability to articulate and communicate the vision of the organization such that employees fully understand how the responsibilities assigned to them assist in meeting this vision as well as the underlying importance of the work they are being asked to do.

In their book *Fast Forward: Organizational Change in 100 Days* Drs. Elspeth Murray and Peter Richardson point toward the importance of visionary leadership skills in effectively managing organizational change. Where visionary leaders excel is in their ability to:

1. Create a shared understanding among managers and employees of the organization's vision for the future.
2. Build support and critical mass among employees for the vision and the desire to obtain it.

FIGURE 1.13 Key Abilities of Visionary Leaders



Source: Adapted from *Fast Forward: Organizational Change in 100 Days*, Murray & Richardson, Oxford University Press.

3. Respond to, and effectively deal with, opposition to the vision and the strategy. This implies ensuring that opposing viewpoints are heard, considered, and responded to in a constructive manner. The intent here is not to challenge opposing views, but to embrace them and enable them to be part of the decision-making process.
4. Ensure that accountability for the various strategic objectives identified as being essential to vision obtainment is fully communicated and appropriately embedded into the organization's performance and reward programs.
5. Free up resources, particularly human resources, required to successfully complete the initiatives identified as critical to strategic and operating plan success.
6. Make the tough decisions, where and when required, in order to keep the plan on track.

For visionary leaders it is all about creating "intelligent momentum," which Murray and Richardson identify as the creation of "winning conditions" within the organization. This means that visionary leaders are able to correctly identify the direction and nature of change required for the organization to create a long-term sustainable path for growth and profitability, and then demonstrate the leadership commitment to effectively follow through on such changes, work through the sources of resistance, and obtain heightened levels of commitment from a predominant number of their employees (the critical mass).[10] In many cases visionary leaders are viewed as "transformational" leaders, passionate individuals possessing a unique charismatic ability to transform others, thereby creating valuable and positive change to the organization.

So, what makes visionary leaders so successful? Visionary leaders understand that vision enables strategy, which provides the guidelines for the tactics and activities to be implemented within the business model. In addition, they are able to communicate the key metrics to be used to measure the success of the organization as it pursues the identified vision.

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Business IN ACTION

Women—Visionary Leaders In Their Own Right

It has been reported that Margaret Thatcher, former Prime Minister of the United Kingdom, once said that "If you want something said, ask a man; if you want something done, ask a woman." Although one could debate the accuracy of this statement, it needs to be reinforced that the capabilities to lead and grow a business or organization are not limited to the male species. Successful female entrepreneurs and political and business leaders abound today more than ever before. In 2018, for example, there were approximately 22 female presidents and/or prime ministers in the world, and over a dozen women holding the CEO title of a Fortune 500 organization.

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Some of the more prominent women currently leading major organizations include the following:

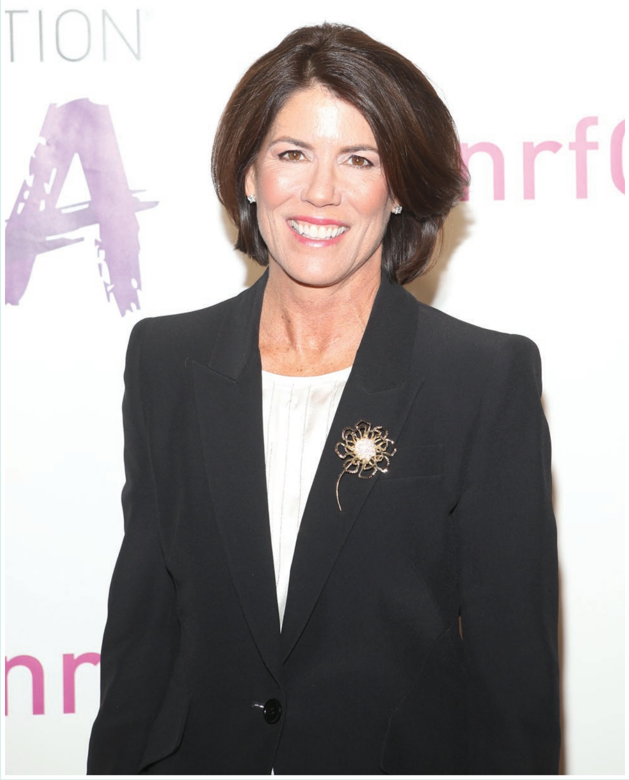
Indra Nooyi—who, in joining the C-suite in 2001 (as CFO) and taking over the helm at PepsiCo in 2007, guided the organization to revenue growth of over 70% via a series of acquisitions and organic-growth initiatives. Indra stepped down as CEO of PepsiCo in October 2018.

Carol Meyrowitz, President and CEO of TJX Companies—TJ Maxx (USA), HomeGoods (USA), Marshalls, Winners (Canada), and HomeSense (Canada). Since becoming CEO in 2007, Meyrowitz has grown TJX Companies into a $43-billion (USD) business that continues to lead and shape the women's retail apparel, home fashion, and accessory sector. The company now has 4070 stores in nine countries and positions itself as a unique offline experience.

Mary Barra, Chairman and CEO of General Motors. Barra has been largely responsible for reshaping what was perceived to be a slow-to-change automotive manufacturer into a savvy player in the automotive sector, particularly in the areas of electric and autonomous-driving vehicles. Although revenue has declined, Barra has expertly redefined the markets within which GM will compete and has improved its overall financial performance.

Ginni Rometty, Chairman, President, and CEO of IBM. Faced with significant market disruption and shrinking sales, Rometty reignited IBM and it turned around the company, which repositioned itself as a key business player in the cloud computing, artificial intelligence, and data management sectors.

It is not just American women who are making these inroads: Canadian women are achieving significant success in the C-suite as well. Women CEOs of Canadian companies include Helena Foulkes of Hudson's Bay Company (shown below); Linda Hasenfratz of Linamar Corporation, the second largest car parts manufacturer in Canada; Dawn Farrell, President and CEO of TransAlta Corporation since 2012; Nancy Southern, CEO of ATCO Ltd.; Gillian Riley, President and CEO of Tangerine, a subsidiary of Scotiabank; Laurie Schultz, President and



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CEO of ACL, a software tech company considered to be one of the best Canadian companies to work for; and Mandy Rennehan, CEO of Freshco.

What makes each of these women so successful? Each has demonstrated solid competencies in managing their companies. They also have successfully articulated and communicated their vision for their respective companies to internal and external stakeholders. Each can also be credited with demonstrating exceptional commitment to the vision, through demonstrated leadership and the execution of processes and activities essential for success.

Recognizing that the past is not always a predictor of future performance, these women, like all business leaders regardless of gender, race, or creed, will be challenged in the market space they desire to have their companies compete within. Strategically, they, along with their respective teams, will need to determine what to do and where to compete. Then they will need to execute in a way that makes the vision that they create for their companies a reality.

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LO6 Management Reflection—The Business Decision-Making Landscape

Being in business goes beyond simply developing your value proposition and understanding its asset base and cost structure. It is about being able to understand the macro environment around you; the resources, capability, and capacity that you possess; and the ability to communicate to the marketplace the uniqueness and importance of the products/services you offer. At its core base, developing and managing a business requires its owners/managers to:

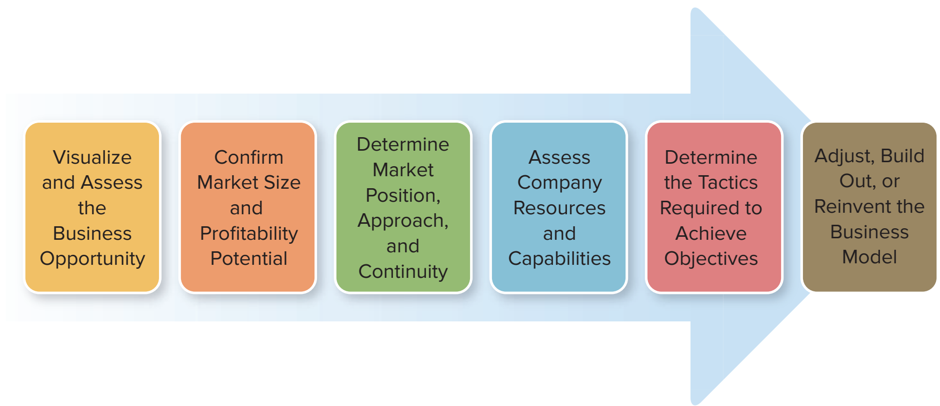
- create a vision of the opportunity in the marketplace
- confirm that the market size of customers is large enough that, once commercialized, the opportunity can enable the organization to make a profit and sustain this profitability for the anticipated planning cycle and beyond
- confirm that a position within the market is feasible, which will enable the company to compete in a manner that is superior to its direct competition
- confirm that the market situation will stay constant long enough for the business plan to be developed and executed
- confirm that the business has the resource base and the capability to execute the strategy
- execute the strategy in an efficient and effective manner, achieving the objectives set forth within the business plan created

Strategy refers to the development of plans and decisions that will guide the direction of the firm and determine its long-term performance.

Tactics refers to the immediate-term actions which a firm executes in order to meet the short-term objectives set forth in the current planning cycle.

As this process demonstrates (see Figure 1.14), being in business is really a question of developing strategy and executing tactics across your business model. **Strategy** is the development of plans and decisions that will guide the direction of the firm and determine its long-term performance. Strategy focuses on the vision of the firm and the opportunity it believes exists in the marketplace. It also checks that the life expectancy of the product or service is long enough to ensure that the initial investment can be recovered and that the firm can make a profit. Finally, strategy development assesses whether the firm has the competencies and resources to compete in this targeted market. **Tactics** are the immediate-term actions that a firm executes to meet the short-term objectives set forth in

FIGURE 1.14 **Business Decision-Making Model**



the current planning cycle. Tactics can be thought of as the action items a firm undertakes to ensure that it is successful in achieving its strategic objectives. Tactics could involve the expenditure of money for new equipment, the hiring of new staff with specialized skills, or the manufacturing processes undertaken to develop a product or service. To successfully grow a company, the management team has to be successful in both planning strategy and executing tactics. Strategically, managers need to understand where the market is going and how their products and services will fit into the market and meet customer needs. Tactically, they need to ensure that the right product reaches the right customer at the right time, and at the right place for the right price. As noted earlier, Chapter 6 outlines in more detail the strategic planning process and the relationship between strategy and tactics. The intent here is just to introduce these concepts so that you get a sense as to their overall importance in managing a business. Their introduction now also will make them easier for you to understand as you move through this course and textbook.

As managers, in conducting business we need to avoid the temptation to become predominantly focused on short-term results. Managers need to make decisions in recognition of both immediate needs and longer-term requirements in order to protect and grow the general health of the organization. A key aspect of this process is to understand that business (and the marketplace) is not static, but dynamic. It is changing all the time. What has worked in the past may not necessarily work in the future. As an example, Blockbuster Inc. built its market leader position in the movie rental marketplace on the basis of a bricks and mortar (physical store locations) business model. Successful in the 1970s, 80s, and 90s, this model gave way to video streaming, downloading, and competitive intensity from market entrants such as Netflix, Redbox, Amazon, cable companies, and mobile device and content distributors (Rogers, Bell, Telus, etc.). The end result is that, by failing to change, Blockbuster went from market leader valued at more than $500 million (USD) to a financially challenged organization in little over four years, with $900+ million (USD) in debt and $1.1 billion (USD) in losses. It ultimately was forced to liquidate its assets due to its inability to meet its debt obligations in 2010.[11]

For managers, Blockbuster and other examples like it (Target Canada, Toys R Us USA, Sears Canada, Aeropostale, Bon Ton) provide a constant reminder that we must continually assess and reassess market conditions and the customers they serve. Innovation and reinvention of how to conduct business and where to compete are becoming more fundamental to business planning than ever before. Visionary leadership and the ability to anticipate new market space and new market opportunities are necessary skills of today's managers. Managers must also recognize that the decisions they make impact both internal and external stakeholders. These stakeholders expect managers to conduct business in a manner that is ethical, socially responsible, and mindful of the sustainability requirements of our world.

Having said all of this, building, growing, and managing a company is one of the most rewarding experiences an individual will ever have. The feeling of accomplishment of a job well done is second to none. Welcome to the world of business—it's a career choice filled with excitement and never-ending challenge.

Business is not only about producing and distributing goods and services; it is about delivering value to customers in a manner that meets their needs and desires.

LO7

Appendix—The Business Model and Profitability

The Difference between Profit and Profitability

Profit is the "bottom line" result an organization has realized for an identified, immediate period of time. In simple terms, Total Revenue − Total Expenses = Profit.

Profitability measures how well a company is using its resources over a specific period of time to generate earnings relative to its competitors.

Stockholders refers to any person, company, or organization that owns at least one share of stock in a specific company.

Individuals often confuse the concepts of profit and profitability. **Profit** is strictly the "bottom line" results that an organization has realized for a given period of time. In simple terms, Total Revenue − Total Expenses = Profit. If a firm had total current-year revenue from the sale of its products and services of $10 million, and the organization had total current-year expenses of $7 million (costs of developing, manufacturing, and selling such products and services), then it would realize a current-year profit (excluding tax considerations) of $3 million ($10 million − $7 million = $3 million). **Profitability**, on the other hand, corresponds to the efficiency and effectiveness of an organization to use its assets and its capital to generate profits for the organization over a period of time. Profitability analysis takes into consideration such factors as return on the capital invested, return on equity, the financial leverage the organization undertook to finance its assets and operations, the level of pre-tax income it earned, and so on. Profitability analysis is generally assessed over a period of time so that efficiency and effectiveness results, as noted above, can be compared on a period-over-period basis. This enables a management team to determine whether the operation has improved in its effective utilization of its assets and capital. Profitability analysis also focuses on comparisons among competitors within an industry to determine which organizations are the most effective in their utilization of resources. Competitors who are the most profitable over a period of time are generally the most attractive to investors for investment purposes. The benefit of profitability analysis is that it levels the playing field between competitors, recognizing that some may be significantly larger than others.

Let's look at an example to illustrate the importance of profitability analysis as one metric for assessing the overall value of a company. Assume that we have three companies within a given industry, companies X, Y, and Z. For the current year, Company X achieved a profit of $60 million, Company Y achieved a profit of $15 million, and Company Z achieved a profit of $7.5 million. On the surface, without any additional information, one could conclude that Company X was the most profitable company. Profitability analysis, however, goes beyond the absolute monetary value of the current-year profit. Referring to the data in Table 1.1, let's draw additional conclusions relating to the performance of these three companies. In other words, let's conduct a simplified profitability analysis. Table 1.1 provides us with the level of sales that occurred in the current year, as well as identifying the size of the asset base of each company and the value of the equity stake that **stockholders** have within each firm. Table 1.2 takes this information and, based on the profit earned by each company, calculates the return on each of the categories noted (sales, assets, and equity). As you can see from the results identified in Table 1.2, Company Y is the most profitable company, earning a healthy 15% return on

TABLE 1.1

	Company X	Company Y	Company Z
Profit	$60 million	$15 million	$7.5 million
Sales	$600 million	$100 million	$250 million
Assets (total)	$240 million	$30 million	$200 million
Equity (total)	$100 million	$10 million	$140 million

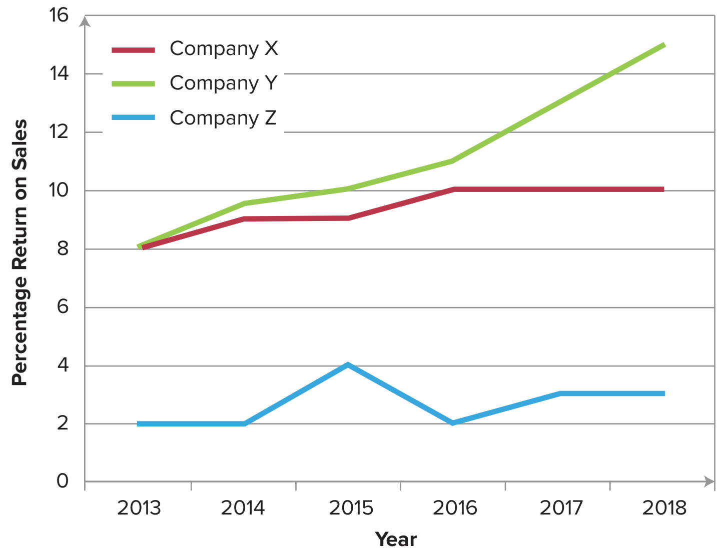
TABLE 1.2

	Company X	Company Y	Company Z
Return on Sales (profit/sales)	10%	15%	3%
Return on Assets (profit/assets)	25%	50%	4%
Return on Equity (profit/equity)	60%	150%	5%

sales, a 50% return on the assets utilized to drive these sales, and $1.50 in profit for each $1.00 of equity invested in the company. The profitability analysis shows that Company X, despite having the largest absolute profit, would rank second in profitability, followed by Company Z in a distant third position. Let's further extend this analysis to Figure 1.15, as a company's profitability is usually assessed over time, and this historical track record can be thought of as a good baseline reflection of its ability to generate future profits and raise additional capital. Assume that this chart reflects the profitability level of each company over the past several years. As you can see, Company Y has consistently outperformed both companies X and Z for the period shown. For an investor, the returns being realized from Company Y are superior to those of X and Z—and, therefore, all other things being equal, Company Y would be the preferred company to invest in.

Although Company X is making a decent return, its management team will be challenged to further improve its efficiencies and processes to drive profitability more closely in line with the profitability growth of Company Y. Company Z's performance clearly is significantly below that of X and Y. Its lower returns would be cause for concern—particularly if the demand for its goods and services softens, as this could cause further erosion to its earnings and, therefore, its return on sales, assets, and equity. Further erosion of its sales levels or its cost base could result in it moving from a position of a small profit to that of an operating loss. At this point, it is important just to understand the value of assessing companies in terms of profitability versus absolute profits. The analytical process associated with assessing an organization's financial capacity and profitability is covered in more detail in Chapters 12 through 14.

FIGURE 1.15 Profitability Analysis: Return on Sales



Improving Profitability

Like Company X above, companies in the marketplace are continually being challenged to develop new product opportunities, meet evolving needs in emerging markets, and streamline operations, all in an effort to improve immediate and longer-term profitability. Competition from Amazon, TJX Companies banners Winners and Marshalls, and other specialty-based retailers, as well as up-and-coming Canadian players—for example, Simons Inc.—has challenged NRDC Equity Partners, the owner of the Hudson's Bay Company and its banner stores The Bay, Home Outfitters (being liquidated as of this writing), Lord & Taylor, and Saks Fifth Avenue, to try to find better ways to use their assets, human resources, and capital to improve current profitability levels or attract additional capital to fund their operations. In Canada, for example, The Bay has been investing heavily into renovating and repositioning its stores, as well as installing new kinds of information technology to lower overall operating costs. The intent of these investments is to position The Bay as more of an upscale retailer, using high-end designers such as Chanel and Juicy Couture to attract a wealthier and more "trendy" customer base. The anticipated outcome of these investments and business strategy adjustments will be a stronger profitability position going forward. Although satisfied with the progress being made with respect to improved operational efficiencies, considerable soft spots still exist in the HBC product portfolio. European operations continue to be a challenge, resulting in HBC selling off 50% of its interest in its European Galeria Kaufhof business to a German rival. Sales in 2018 also weakened with its Lord & Taylor and Saks Off 5th banners; on a positive note, luxury Saks sales were up in 2018. The challenge for newly appointed CEO Helena Foulkes (February 2018) will be to continue to simplify the business and improve operational efficiencies and reach via investments in digital and ecommerce initiatives, while right-directing the downward trends at Lord & Taylor and Saks Off 5th. All of this, of course, requires money. Activities centred around divesting HBC of real estate in an effort to raise capital lie on her list of things to consider as well. As we will discuss in more detail in later chapters in this book, managing the asset and capital structure while building sales growth all influences the profit and profitability of an organization.[12]

The challenge to improve profitability faces companies large and small. Assume that Backyard Pools is a small business specializing in the installation and servicing of residential pools. The operation includes a retail location that sells the chemicals necessary for ongoing swimming pool maintenance and use, and also sells related summer seasonal products such as patio furniture, BBQ grills, and pool toys. Backyard Pools is very busy during the months of April through September, and enjoys an annual operating profit. However, there is not tremendous demand for swimming-pool products and related services in Canada from October to March. In an effort to improve its overall profitability and keep its assets (building, employees, etc.) functional and revenue-producing during the off-season, Backyard Pools could look to broaden its offerings. This could include (as many similar operations have found) expanding their product line to include spas (which have year-round demand) and branching out into opposite-season lines, such as fitness equipment, billiard tables, and products whose demand and sales peak during the winter months.

Web Integration

Visit the Web site of a local swimming pool retailer in your town, and see what products they have added to maximize the use of their asset base during the swimming pool off-season. Need an example? Visit **www.stlawrencepools.ca** to see what this company has done.

Chapter Summary

In this chapter, we have described the nature of business and discussed the ways in which businesses create profits and interact with the marketplace in order to meet the needs, wants, and desires of targeted customers. Our discussion focused on the interaction of business as a commercial endeavour, guided by employee interaction and supported by organizational efficiency and structure, which results in the development of a business system and, ultimately, a business model designed to deliver desired goods and services to the marketplace. Utilizing productive resources at their disposal (assets, labour, capital, and managerial acumen), businesses seek to drive a profit from the sale of such goods and services and ensure long-term profitability and growth by continually seeking to make the most efficient use of their resources. While striving for profitability, businesses are being increasingly challenged by customers, and the marketplace at large, to be good corporate citizens, acknowledging their responsibility to act in a socially acceptable manner and respecting the finite nature and scarcity of resources. This new requirement of businesses is resulting in a significant emphasis on resource sustainability and environmental initiatives. To help you to understand why some companies are more successful than others, this chapter's focus emphasizes the importance of positioning, and developing and communicating a value proposition to the customer group that a business is trying to attract in a manner that differentiates the business's products and services from those of its direct competitors, and that attempts to develop and sustain a competitive advantage in the marketplace. The creation of this value proposition takes into consideration both tangible and intangible benefits that the product or service offers, and looks to determine the extent at which price will become a key decision criterion within the customer's purchase decision. The chapter closes with a discussion associated with the importance and interrelationship between strategy and tactics and the need for managers to recognize that in order to be successful, businesses not only have to properly develop a plan for attacking the marketplace, but also must be effective in the implementation of this plan.

Developing Business Knowledge and Skills

Key Terms

commercial endeavours *p. 4*
employee interaction *p. 4*
organizational culture and decision-making structure *p. 5*
business *p. 5*
business models *p. 6*
activities *p. 6*
resources *p. 7*
assets *p. 7*
labour *p. 7*
capital *p. 7*
managerial acumen *p. 7*
partners *p. 7*
cost structure *p. 7*
product/service portfolio *p. 7*
opportunity assessment *p. 11*
positioning *p. 11*
value proposition *p. 11*
revenue model *p. 12*
competitive advantage *p. 14*
for-profit companies *p. 17*
not-for-profit organizations (NFPs) *p. 17*
stakeholder *p. 20*
visionary leadership *p. 23*
strategy *p. 26*
tactics *p. 26*
profit *p. 28*
profitability *p. 28*
stockholders *p. 28*

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Questions for Discussion

1. In your opinion, based on the concepts presented within this chapter, what key fundamentals do managers need to understand to successfully manage a business? (LO1, LO2, LO3, LO4)
2. What are the major components of a business model? How are the two parts of a business model (company-centric and market-centric) interrelated? (LO2)
3. What are the overarching responsibilities of managers? Is any single responsibility more important than the others? (LO3)
4. What are the three fundamental objectives managers need to consider as they manage the ongoing evolution of a business entity? What importance does each bring to the resource allocation process? (LO3, LO4)
5. Why is it important for managers to think beyond the immediate horizon? How does doing so change the emphasis among managerial responsibilities? (LO4)
6. Define what is meant by a business planning cycle. What are its key components? (LO4)
7. What is meant by the term "visionary leadership"? (LO5)
8. Provide an overview of the relationship between business strategy and business model development, and the importance of successfully executing both in order for a business to achieve its identified objectives. (LO6)
9. What is the difference between profit and profitability? How are the two interrelated? (LO7)

Question for Individual Action

Research one of the outstanding business leaders of our time—for example, Steve Jobs (Apple), Jeff Bezos (Amazon), Elon Musk (Tesla), Daniel Ek (Spotify), Mary Barra (GM), Ginni Rometty (IBM), Sheryl Sandberg (Facebook). Highlight their leadership success. Were they considered a visionary leader? If so, what made them so visionary? What allowed them to be successful in profitably growing the companies they worked for?

Team Exercise

Twitter and Facebook are two of the largest social networking engines in today's Internet-based marketplace. A key to their long-term survival and success will be their ability to shift from solely providing social networking services to incorporating revenue generation and profitable business opportunities into their sites. At this stage of their evolution, what have each of these sites recently done to evolve their Web services to more of a revenue-generating and profitable business model?

Case for Discussion

Sylvie DeShane, CEO of Cruiser Laptops Inc., has just returned from the annual Computer and Electronics Show held in Las Vegas, Nevada. This one-week show provides computer and electronics companies with the opportunity to showcase new and upcoming products and services. It also provides CEOs and other senior managers of global suppliers an opportunity to discuss and assess the status of the marketplace and trends occurring within it. Sylvie spent a great deal of time meeting with other North American and global–based CEOs (Dell, Hewlett-Packard, Acer, MDG) discussing the increasing trend by buyers to select which laptop they were going to purchase predominantly on the basis of price. As one customer put it, "What difference does it make which brand I buy? All manufacturers use the same components anyway." With razor-thin margins to begin with, Sylvie and others are concerned that this continual emphasis on pushing the price down will cause serious profitability problems down the road. Add to this the influx into the North American market—one in which Cruiser Laptops has been able to maintain a strong market share—of low-priced Chinese and Asian products, it would appear to indicate that prices could go even lower. Lenovo, as an example, has promised to ramp up its presence in North America. Already the #1 laptop producer worldwide (unit sales), their expansion into the U.S. means even more "Windows-based" operating system alternatives for customers to choose from. But it does not stop there. New, emerging country–based manufacturers such as Grundig (Turkey), Meebox (Mexico), Positivo Informatica (Brazil), and Siragon (Venezuela) are threatening to cut into Cruiser's international sales volumes as well. It would appear that unless you are Apple, the ability to hold and/or increase price going forward, in the face of this increasing competition, will become even more of a challenge.

Sylvie's dilemma: To determine just how manufacturers like Cruiser Laptops Inc. allowed price to become such an important part of the decision-making process and, given this, what changes to the current business model need to be made if Cruiser Laptops Inc. is to remain competitive and profitable.

Questions

1. What does this trend in the laptop industry imply about the way Windows-based operating system manufacturers have been positioning their products to customers? What have they failed to do?
2. If Sylvie decided to position Cruiser Laptops Inc. as a premium-price laptop manufacturer, what sort of things must she do to be successful? How would this impact the current business model?
3. If positioning as a premium-price manufacturer is not possible, what other options does Sylvie have? What sort of things must she do in order to be successful with this alternate position? Again, what does this mean for her management team in terms of where and how the current business model needs to be adjusted?
4. If you were Sylvie, what type of analysis would you conduct prior to determining a strategic direction? What key questions would you ask?

CHAPTER 2

The Canadian Economic Environment

LEARNING OBJECTIVES

This chapter is designed to provide students with:

LO1	The ability to identify the major contributing factors that impact overall economic development
LO2	Exposure to the core economic model that shapes Canada's economic growth and development
LO3	A base-level understanding of what constitutes economic activity and how economies grow and contract
LO4	The ability to recognize trends that will influence the future composition of economic development in Canada
LO5	Guidance on how managers use information on economic trends in today's marketplace to better manage their organizations and respond to the competitive challenges confronting them

Snapshot

What to Expect in This Chapter

This chapter provides students with a broad introductory overview of the fundamentals behind how our economy works and how we as managers can use our understanding of it to better manage our organizations. The content emphasized in this chapter includes the following:

- Canada and Its Economic System
- Key Economic Influencers
  - Contributing Factors to Economic Development
  - The Underlying Economic Model
  - Canada: A Mixed Economic System
- The Economy in Simple Terms
- The Economic Growth Cycle
- Managing the Movement in the Economy
- Trends Impacting the Canadian Market
- Managing in Challenging Times
  - Understanding Competitive Models
  - Sensing Market Change
- Management Reflection—Analyzing Market Trends

Business IN ACTION

Canada—A "Petro Economy"

Over the past several years, more and more has been written about Canada's ongoing dependency on its energy and commodity (mining, natural resources, agriculture) sectors to drive overall economic growth. One just has to look at the "market watch" section of any of our major newspapers or business-focused Web sites to recognize that movements in the price of crude oil and commodities will have immediate, and in many cases significant, impact on both the TSX composite (Toronto Stock Exchange) and the value of the Canadian dollar (as compared to the U.S. dollar and other major currencies). As the price of crude oil and commodities goes up, so too does the value of the TSX and the value of the Canadian dollar. Should the price of oil fall, this change often negatively impacts the value of the TSX and the Canadian dollar. This aligned movement occurs because Canada earns much of its revenue from the sale of oil in U.S. dollars and because crude oil sales represent the largest category of foreign exchange contribution to the Canadian economy. Canada, as the fourth largest supplier of crude oil in the world, ships 99% of its crude oil to the United States.

When oil prices are high, the amount of money, in U.S. dollars, that Canada earns on each barrel of oil goes up. Conversely, when prices drop the amount of money goes down. A good example of this was the

The Canadian Press/Darryl Dyck