

Businesses try to be unique= create competitive advantage, BUT they do share some characteristics to succeed:

1. Create operating profits that exceed their financing costs

In a free market economy, **prices are set by markets.**

- it works by individuals and organizations demanding and supplying items
- a sale occurs when a buyer and seller agree on a price for the good or service
- Buyers: value given \geq price paid.
- Seller: value given up \leq price received.
- The buyer and seller ARE the markets basically

Investing, Financing, and Operating a Business:

Creating value:

- making sure the **net results** of the **investment and money decisions** makes sense
- acquiring money at the lowest possible cost, then investing that money wisely, and operate the business in a way where both the owner and lender win

Managing a business:

- When business starts up they borrow money to invest in assets and hire employees
- Portfolio: **mix of resources** that make up the opening of a business. They then use the portfolio of financial resources to create a *portfolio of operating resources aka assets*
- Assets: cash, inventory, buildings, and equipment **THIS CREATES VALUE WHEN ALL PUT TOGETHER**
- Attract money at low cost, get the best employees and assets, they know how to get the resources to work together best as possible= **BEST BUSINESSMEN**
- After deciding what products to sell, the business must then **produce, market, and sell:** They want to create an **operating profit** aka sell the item for more than it was originally worth
- **accounts receivable:** a customer's promise to pay for product in the future aka an asset
- **fixed asset: property, plant, equipment**
- **Operating profit**= assets+people.....the operating profit is used to reward lenders and owners
- Lenders and owners provide money for a business because they get **return**

The Impact of Time on Value

- the quicker we receive something, the more valuable it is (**same with operating profits as well**)
- the quicker an operating profit is earned, the more valuable the profit is to the providers of the money
- the sooner you get your money, the sooner you can put it in the bank for interest

Recognizing and Understanding Opportunity Cost or Required Return

- **return:** is defined as a percentage, relating that the lender or owner received for the business relative to what they put in the business during a given period.
- $\text{Return} = \frac{\text{money received} - \text{money provided at the beginning}}{\text{Money provided at the beginning}}$
- Lenders receive their return in the form of interest
- Owners receive their return in the form of net income = operating profit less interest

Required Returns:

- The **required rate of return** (or **expected return**) is the price of the money and creates the value sought by lenders and owners.
- Lenders and Owners want to be rewarded for their **time and risk**
- Required rate of return has two components:
 - o **Risk-free return:** cost of money over time assuming no risk
 - o **Risk premium:** the higher the risk, the higher the return required by the lenders or owners
- **Rate of return = Risk free rate of return + Risk premium** (addition required return to compensate for risk)

Winning in a Competitive World

- Businesses compete for the **customers**
- They get customers by **differentiating** themselves = do this by forming a winning business model and strategy

Business Models

- business model: description of how a business creates and delivers value
 - o focuses on customers and how they can meet customers' needs
 - o describes business's inputs, process, outputs that create value

Business Strategy

- creates the difference between businesses = competitive advantage
- **business strategy** is how a business tries to compete against businesses with similar business models and win the competition to create value

Competitive Advantage

- when a business can do something that allows it to *outperform* its competitors it has a competitive advantage
- successful companies seek to sustain their competitive advantage over the **LONG TERM**
- businesses compete in today's world starting with meeting the customer's wants and needs
- Business that embrace change succeed: Business innovate to succeed

- Innovation: finding new ways to think and do things
- Innovation is also the heart of a business's having a sustainable competitive advantage

The Mission Statement

- **mission statement** describes its business model, strategy, and operating values
- tells why a business exists and how it operates

Looking at a Business as a System

Business systems are the process that a business uses to operate

Systems are involved when a business creates value by obtaining money, hiring employees, acquiring assets, and operating

Value Chains

- made by systems and subsystems; **mapping of how a business converts inputs into outputs** that create value for customers, owners, and other stakeholders
- businesses execute their business models and strategies through value chains

The Importance of Business Systems

- Business world is constantly changing because **of globalization, spread of information, and technology**
- Globalization: barriers are coming down and trade between nations is much more frequent
- Information Revolution: business can't be created anymore based on lack of knowledge by customers (ex: the internet can be used to compare product prices)
- Technology: devices and systems used in business and society. Technology changes the way we live, work, and do business.