Entrepreneurial Finance v3 1st edition Hettinger Solutions Manual

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Chapter 1

How Businesses Make Money

Learning Objectives

1. Describe how a business makes money.
2. Define competitive advantage.
3. Identify the four key strategies a business uses to differentiate itself from the competition.
4. Discuss how a business can use an innovation and design strategy.
5. Discuss how a business can use an operations strategy.
6. Discuss how a business can use a sales and marketing strategy.
7. Discuss how a business can use a customer service strategy.
8. Describe the difference between a customer-centric and operational-centric strategy.

Section 1.1 Key Business Strategies

A business must have a competitive advantage to survive and prosper over the long term.

There are four key strategies that a business can use to compete and differentiate itself from the competition:

1. Innovation and design
2. Operations
3. Sales and marketing
4. Customer service

Innovation and Design—Innovation and design are new and unique products or services created by the company that are in some way different from the products and services offered by the competition.

Operations—Operations are the processes and procedures a company uses to produce its goods or services.

Sales and Marketing—Sales and marketing describes the staffing and operations the company uses to convince customers that the company's products and services are preferred over the competition.

Customer Service—Customer service is the process that the company's employees and procedures use to differentiate themselves in a positive way from the competition.

Discuss examples of each type of business.

Section 1.2 Where's Your Focus

Customers purchase products because of real or perceived value.

New businesses and new products need a customer-centric focus, a focus on adding value for the customer.

Customer-centric—A business that focuses on obtaining higher prices through innovation and design, sales and marketing, or customer service is a customer-centric business.

Operational-centric—An operational-centric business makes money by optimizing their operations and becoming low-cost producers.

Section 1.3 Using Financial Statements

The financial operations of a business are reported in its financial statements.

Financial statements tell a business's owners, investors, and lenders whether or not the business is making money.

Chapter Summary

Businesses are differentiated from each other by how effectively they implement one of the four key strategies: Innovation and design, Operations, Sales and marketing, and Customer service.

Those businesses that implement their key strategy successfully, will be successful. Those that do not, will not be successful.

Discussion Activities

The discussion activities for this chapter focus on assisting students in evaluating the strategies of their prospective business (questions 1 and 4) and differentiating operational-centric and customer-centric strategies through the review of real-world businesses and products (questions 2 and 3).

Test Your Knowledge Solutions

1. What are the four key strategies that businesses can use to compete and differentiate themselves from its competitors?

A: The four key strategies are innovation and design; operations; sales and marketing, and customer service.

2. For each of the four key strategies, identify two examples of companies that have been successful using the key strategy.

   A: Innovation and design—Apple; Tesla

   Operations—Wal-Mart; Amazon

   Sales and marketing—McDonald's; Pepsi

   Customer service—L.L. Bean; Tiffany's

3. What are the major strengths and weaknesses of an innovation and design strategy?

   A: Able to charge a higher price. Cost of producing the products or providing the services is higher.

4. What are the major strengths and weaknesses of a customer service strategy?

   A: Able to charge a higher price. Connects with the customer and values customer input. Providing customer service increases the operating costs

5. What are the major strengths and weaknesses of a sales and marketing strategy?

   A: Able to charge a higher price. Establish brand loyalty leading to repeat purchases. The sales and marketing increases the costs of operating the business. If the marketing strategy does not work, customers will not pay the higher price.

6. What are the major strengths and weaknesses of an operations strategy?

   A: Able to charge a low price and compete on volume. If not operationally efficient as competition, competition will have a cost advantage.

7. Identify a company that has successfully changed from customer-centric to operational-centric as the industry matured.

   A: Answers here might include computer companies such as Dell and HP or most cellphone producers not named Apple or Samsung whose products have become commodities. Other examples might include electronics producers and online streaming services such as Pandora.

