

The economic system is formed by different entities, that have different needs and that play different roles in the same system. Economic activities are common to all of these entities, which the consumption and production of goods and services in order to satisfy needs.

Those entities (families, firms, non profit organizations and the public administration) have different goals and different needs too, but being part of the same system every action consists in the involvement of other parties.

Economic activities are co carried out to satisfy needs, which can be classified:

-natural needs, that are product of natural biology and that are the same ones for all human beings, since birth.

-social needs, that are product of the resources and the environment in which individuals operate and that develop in the adult years.

Both natural and social needs can be distinguished in essential and non essential needs. They are represented in the Maslow's pyramid, where essential needs are placed at the base and the others are placed on top, and are also seen as needs that are more sophisticated and associated with fashions and easier to influence through marketing.

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As private companies are seen differently even humans are seen behaving in different ways according to different theories. Human beings are more inclined to behave in a less perfectly rational way, self interested and profit maximizer way, in fact we are bounded in almost every choice we make by psychological and cultural ideas.

The birth of an organisation is the result of an analysis made by the entrepreneur of the market and it means that he has to take into account: the gap in the markets, meaning where there is an organization that satisfies a need or to understand a problem and find a solution to it. Laszlo Biro in this case is the perfect example of an entrepreneur, as he observed the problem of pens that smudged and observed a similar product already sold that could inspire him to find a solution, giving birth to the pens that still to this day we use. On the other hand Marcel Bich found a gap in the market, discovering the use of plastic for products widely used on the day basis and so finding a larger group of consumers that could afford goods like pens, lighters and even razors. The management field is mainly focused on finding the equilibrium in the economic system, analysing it and looking for solution that gives growth to the single organisation and the system in its whole structure.

Organisation, as we said before have the main goal of satisfying a need, that is represented by consumers as consuming a good or using a service. Maslow tried to represent needs in a pyramid, placing at the base of it the basic ones and at the top the ones that are seen as more sophisticated. Based on this representation organizations find the gap and the target of the service or good they might produce or offer. However some goods cannot be seen and marketed as economic, and that is based on the availability of those. Air is seen as a non economic good because it is freely available and more importantly its availability is higher than the demand [this could change really soon given the environmental problems that we are experiencing]. On the other hand goods that are called economic have a availability that is much lower than the demand, and so organization can enforce a price for the consumption.

Goods can also be classified in disposable, substitutes, complementary, private, public, commodity and differentiable.

Management can be seen as mixture of skills and knowledge that is based on different types of

sciences, like psychology economics, mathematics and so on.

The entities that are involved in the economics system can play the role of consumers or producers, we are going to focus on families, firms, non profit organizations [group of people that address social needs overlooked by the governments and firms, filling the gap] and the State. all of these entities can be observed on a level of specialisation -->

- macro (the biggest one) observes the main role of every entity
- class observes the needs in relation to their role
- individual observes the tasks and responsibilities that involve that role

Being highly specialised can have pros and cons (more details in the next classes)

Social entities are the ones to produce economic activity, and they are more likely to work as a group rather than individually is that fulfilling social needs, such as relationships, and get more efficiency is easier. The rewards are perceived as individual: so a salary or a residual result.

some of which are seen as main stakeholders and other seen as secondary stakeholders, which are simply subgroups of the main ones. Any change in the economic system effects equally both, by a waterfall effect, firstly effecting the main and then the others. The majority of the entities are organisation --> groups of people at the service of a society that has the goal to satisfy needs. As part of a society it can be defined as a private entity that is also of public interest, an educational center as it gives people working together the opportunity to grow socially and professional, and also oriented to be long lasting, meaning that its life It's supposed to be longer of the ones that gave birth to it.

Different economics theories define the purpose of organisations, but as Churchill says, every private organisation should be seen as a health horse, that works to create wealth not only for itself but also the community in which its part of. Every organisation has 2 main responsibilities, which are to have a firm role in society but also to take into account the environment and the Resources that it offers and not exploiting it. Every organisation has a responsibility in the social, economic and environmental matters, the also called the triple bottom line.

Power is the ability and freedom of doing something without having anyone telling you otherwise, but with power there are also responsibilities. In fact power can be defined as the mixture of rights and duties. This can be applied to different types of situation, but who can be held accountable for certain decision and who has power in a company?

Core stakeholders, that is shareholders and employees, have a say in the decision making and also to benefit from profit. On the other hand they have responsibilities towards the triple bottom line (the economy, the society and the environment) and the possibility of having to face a negative result.

Main decisions taken by core stakeholders:

- Goals involving the company
- The tools used to achieve these goals
- Finding a set of rules in order to organise the company
- Who to hire
- Monitor the viability of the company, using different tools

Core stakeholders, as we said, are usually shareholders and employees, but to better identify them we can say that they're those:

- Whose well being dependent on the company viability
- Who invest time or money into it
- Who is willing to take a risk
- Whose expectations are protected by the opportunity to have a say in the organization

Depending on the role of the stakeholder, different expectations have to be met. So suppliers, customers, the local community, the Government, the employees and shareholders have interests that could be similar but also contrasting. All of these entities play a role in the company, as they bring contributions and receive rewards, have expectations for the future of the company and that are represented differently based on the governance structure used.

The Institutional structure is the broader structure that includes all the other stakeholders; who is part of the company, which is their role, expectations and reward for the contribution given.

The governance structure changes mainly in relation to the dimensions of the company and is used to represent in the best ways possible all of the core stakeholders, that may have different opinions and sometimes conflict of interests. For eg. different views on various topics, like wages or expectations for the future, how to distribute the residual income, how to measure joint results. All of that is solved by looking for an equilibrium and right representation.

The ideal structure (only theoretical) should have an assembly for the employees and another one for the shareholders, and each one should elect representatives. On the other side there is the administration and executive bodies, that are represented by the board of directors. In order to check that the BoD doesn't take advantage of the core stakeholders, a third party is involved (eg. Labour unions and associations for consumer's rights).

Delegation is used because the bigger the company is, the more are the stakeholders involved and so much more probable the conflicts.

Corporations are a type of governance structure: they are usually multinationals, listed as public and that as result of that, can exchange their shares on the stock exchange market. This structural model is widely used in today's economic system because of:

- Limited liability of shareholders, and so low risks in case of bad investment
- Easy reselling of the shares
- Clear separation between ownership and management (not all shareholders can take decision)

Corporation are also more facilitated in the search of new investors, as they're listed as public. More investors, so more money, allow corporations to get even bigger, becoming economies of scale and to integrate horizontally and vertically. Being a shareholder gives you the right in the decision making process but also to claim a share of the capital, and the freedom of reselling the shares on the stock exchange.

But in order to exist corporations must meet certain criterias:

- Produce a profit, either way nobody is gonna buy shares
- The legitimacy of said profit, that is result of an activity that doesn't exploit the local market, labour, environment and consumers

Companies, being part of an economic system, carry out economic activities: production and consumption. The consumption of services and goods, such as raw materials, labour, utilities and capital and the production of services and goods that satisfy a need.

In between this main activities there are many others, and they can be classified in external and internal, such classification varies depending on what is decided by the management team and the resources or needs of the company itself.

Internal processes are executed without the involvement of an external entity

External processes are executed with the involvement of an external entity

The only two activities that require external processes are purchasing and selling. Another differentiation can be made between functional areas and business areas

Functional areas: group activities that allow the achievement of the final product (so the whole process)

Business areas are the subsets of activities that relate to the same product

Activities can be classified based on the frequency of their occurring:

1. **INSTITUTIONAL STRUCTURE:** the activities included in this group do not occur on a daily basis, in fact the governance is usually decided in the beginning of the activity or during the critical moments of it (like liquidation or more simply selling shares)
2. **-CORE OPERATIONS:** these activities are the ones that allow the transformation of input in output, so mainly the functional areas and transversal processes (introduced because of new products)
The aim of these activities is to produce services and goods in order to satisfy needs.
 - DEBT AND EQUITY MANAGEMENT:** in order to function correctly a company has to take into consideration its equilibrium in the finance field; in fact they must take into consideration how the financial cycles effects the activities. The length of the production cycle, the timing of paying suppliers or costumers paying goods are great examples of the financial cycle. This field of the management looks for the resources that are needed: these resources come from debt (a loan by a bank that has to be paid back with added interest) and equity (the investments made in other companies by buying shares)
 - NON CORE:** are activities that are not peculiarly related to the company, but they're activities that occur in periods of time during which the financial availability is higher than usual, and so higher than the usual demand. These financial surpluses have to be managed in order to make them as efficient as possible. Using them for diversification is a great strategy as it could benefit the peculiar activity or even be a plan b in case of failure of the main one.
 - INSURANCE MANAGEMENT:** the activities related to making sure that that the company is protected by environmental or legal issues. Insurance companies usually sign contracts with companies, offering them coverage in return of payments.
 - TAX MANAGEMENT:** because every company that operates legally has to pay taxes, there are certain activities related to payment of taxes for the use of goods or services offered by the State.
3. **ORGANISATION ACTIVITIES:** are all the tasks related to the coordination of activities to assure that they're efficient. That is done by assigning tasks, setting up a hierarchy and planning ahead. Human Resources have to be organised too, and it's an un going activity that observes the employee body.
4. **INFORMATION ACTIVITIES:** information are a very important resource in the work environment; in fact being able to collect, store and share them the right ways makes all the other activities more efficient. Of course information are shared among all the stakeholders, none excluded.

The activities of a company produce revenues and costs, but also cash inflows and outflows, meaning that they have consequences, respectively, in the economic and financial field.

Economic profile: investigates the generation of revenues and costs (crediti e debiti)

Financial profile: observes the availability of cash in a specific time frame, and so the cash flow (entrate e uscite)

! These two profiles do not coincide, in fact a revenue doesn't always result in a cash inflow, and in the same way a cost doesn't always represent a cash outflow. They rather predict them.

As we said before, companies tend to differentiate their production in order to limit the risks of bankruptcy or failure, but this also brings up problems in terms of organisation. In fact every company must recognise the differences between businesses, the business model used and the interrelations. Businesses can be defined as subsystems of a company, that can be distinguished and differentiated from the others, it's also evident that they operate in different competitive systems and that their economic cycle is specific and different.

Companies have multiple businesses and also multiple layers to them, meaning that they are articulate.

Based on how much some decisions effect a particular business or the entire company, we can distinguish levels of activities:

- corporate, what the business should be in general and so taking decision on the bigger scale.
- business, how to compete with other companies
- functional, decisions for specific activities

Resources differentiation gives firms a competitive advantage too. The entrepreneurial formula (EF) is the theoretical model used to understand the configuration of a company, and a consistent formula shows a good company. The elements that compose the EF are:

- **market segment**: which is the target of the entrepreneur, and is represented by the final costumers targeted, could be other businesses or consumers, and the channels trough which they buy the goods or services offered. The approach is to behave and apply strategies that satisfy the expectations of consumers, but there are some factors that cannot be influenced in any way by the firm.

- **product system**: which is formed by the main characteristics of the product and so the tangible and intangible features (brand and perception), the connected services (like maintenance or assistance) and the terms of transaction (all the clauses of payment). The strategy is to find a competitive advantage, so having characteristics for the product that competitors do not offer.

- **resources and activities**: because in order to produce a product there is need of resources and the activities that transform them in output. The strategic consequence taken for this element of the EF is the research of great resources.

Competitive advantage can be associated to two factors: the cost advantage (where similar products to the competitors are offered at lower prices, coming from lower costs of production) and the differentiation advantage (where product offered are unique and for that reason a higher price is justified). The target in the first type of advantage is broader but the margins are smaller, whereas the margin for the second one is huge but have a smaller target.

Cost competitive and	differentiation in comparison
Strategy elements -Efficiency of labour, process innovation, outsourcing, big capacity of production, avoid wastes of time and material -Emphasis on design, quality, product innovation and advertising	Resources and organization -tight cost control, high specialization, incentives to quantitative targets, access to capital, frequent reports -qualitative targets, research, marketing abilities,

Resources are factors that provide a firm the means to perform its business processes and consists in human, financial, physical and knowledge. They are so strategic because every firm owns an unique bundle of resources, many of them cannot be accumulated instantly (knowledge) and because a firm strategy is bounded by their availability and the time that is necessary to get them.

Resources are strictly linked to the competitive advantage, in fact it is achieved by having a strategy that is supported by organizational capabilities, that is organization of the resources at hand.

Tangible asset: real estate, facilities, machinery	easy to value and estimate, usually the only indicated on a balance sheet and occasional source of competitive advantage
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Classification:

Intangible asset: company reputation, brand, technology, patents, knowledge and experience	Not easy to value, it doesn't get consumed by usage, but rather grows, can be important for competitive advantage
Human resources: adaptability, training, loyalty	Is important to convert the knowledge brought by one individual and transform it in intangible asset
Organizational capabilities: combination of asset, people and processes	The combination must provide effective and efficient results, and it's an activity at which the firms is particularly good at

Resources can be classified for functional area too, and in fact, they cause the expenditure of functional areas.

Organization can be seen as the way that people's behaviour is defined, oriented and coordinated, in order to obtain two main objectives: effectiveness and efficiency and satisfaction. Organization is seen as the main source of efficiency, like theorized by Smith and seen in the moving assembly lines of Ford.

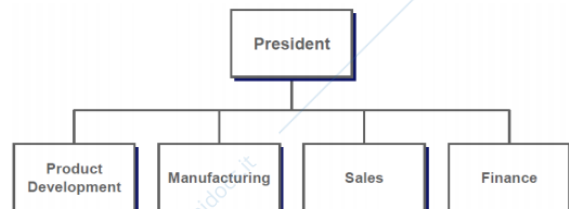
This comes from the analysis of internal and external factor, in fact efficiency can be achieved by obtaining maximum results with minimum effort and effectiveness by achieving the expected goal, on the other hand every organization must take into account the satisfaction, that is having customers to choose you.

The organizational design is based on three pillars which should guarantee effective results: the division of labour (having some kind of specialization, responsibilities and tasks), coordination of every unit (exchanging information) and cooperation (aligning the goals of everyone and looking for values that are common). Although coordination is hard to achieve when there is high specialization: for that reason there must be also coordination in order to obtain real efficiency. There are different types of coordination mechanism that can be observed: price (within the market ad different firms), rules and directives, mutual adjustment and routines.

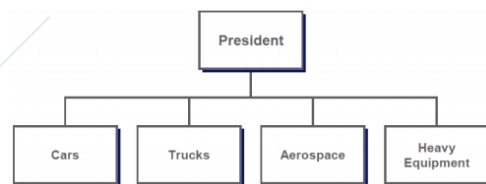
In order to achieve an equilibrium between these three pillars there are some organizational variables: the structure of the organization (the organizational), the system (the rules, programs and guidelines used to guide people) and the culture (values).

The organizational structure decides the hierarchy and relationships between the departments of the organization. There are two main distinction that can be made for organizational structure, an organic model, which does not foresee a real structure but is able to adapt in case of necessity for change, as the word suggests, and the boreoarctic model. This second one is more efficient in those fields where changes are slow and where development is not required (mc as example). There are different types that are differentiated by the way tasks are distributed:

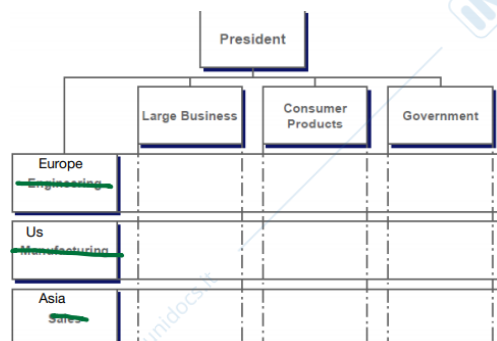
-Functional structure: groups subsets of activities that are similar to each other. They are preferred when there is just one business and high specialization. Might have to change if other business are introduced ex IBM

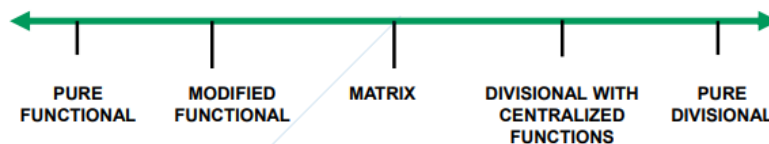


-multidivisional structure: where units are grouped by products, clients or geographical regions, in order to resolve the coordination problems caused by diversification. They are provide decentralization in the decision making process.



-matrix structure: it's a hybrid of the previous two, as different criterias have to be taken into account. The advantages are the flexibility of the structure, the faster flow of information, individuals are better helped at their job and the orientation to innovation (something learned in a deparment can be shared to the other). The cons of this structure are the unclear organization, the complexity in the functioning, internal conflicts and the difficulty to identify priorities or the source of problems





The organizational design could also aim at:

- grouping together the most interactive divisions, so understanding the interdependence of individuals is fundamental;

- facilitate economies of scale, utilization (fuller utilization of employees), learning and standardization

There are organizations that are based on a non-organization principle, meaning that they don't have a hierarchy, come of them: project based, adhocracies and honeycomb model. The features in common are: the focus on coordination rather than control, the reliance on coordination by mutual adjustment, individuals playing different roles.

There are other tools, meaning systems, used to achieve coordination and cooperation, which are: the information system, the strategic planning systems, the financial systems and the human resources systems

- The information system is the selection and way information are shared between units: information about the sales for one product, daily reports about the budgeting and the control and coordination of human resources by means of IT, which makes information available instantaneously.

- The strategic planning system: is an important tool for the coordination within a company, whether it is a small company that might not even have made explicit or a big company. It should improve the coordination of the decision-making process, making it more homogeneous and consistent. There are some tactics to achieve alignment between individuals: control mechanism, reward incentives or by adopting shared values. The way organizational structure is kept alive is by stating some rules or policies, applying ways of doing, giving examples, giving informal advice and leveraging on storytelling. They tend to be for three to five years and top down in biggest companies with more traditional manners. It contains a statement of the goals the company seeks to achieve, a set of assumptions on some external variables, qualitative statement, specific action step and a set of financial projection.

- The financial system: is necessary for the budgeting activities and financial targets, as it is fundamental if the main objective is to obtain a profit. The budgeting is represented by two documents: the capital expenditure and the operating. The first one grows out of the strategic planning system, as the objective set by it has to be obtained using the capital estimated and set by the capital expenditure budget. The operating budget is on the other hand a statement that provides information regarding the profit and losses of a whole company, a unit or business unit for the time of a year.

- The human resources system: is set in order to achieve coordination and cooperation between the individuals working in the organization, so controlling their behaviour, setting goals and creating incentives.

- The organizational culture: is a set of values that guide the behaviour of individuals working for that organization, finding common beliefs and unity in the organization. All of that can be represented by the social practices used, the vocabulary and also the dress. Having diversity in different units could bring to divisiveness. The main problem is that the organizational culture is not easy to change, whereas the external environment is continuously developing.

KEY CONCEPTS:

- how coordination, cooperation and division of labour are achieved efficiently
- the organizational systems: functional, multibusiness and matrix
- other systems used to achieve cooperation and coordination: the information system, the financial system, the strategic planning system and the human resources system
- the culture system

An entrepreneur must keep in mind that his strategy must take into account both internal and external factors in order to provide a great position on the market. The three main factors that provide a successful strategy are: objectives that are long-term, simple and shared between all individuals within the company, the profound understanding of the competitive environment and so the market and its competitors and to understand which are the strengths and weaknesses of the company. The strategy is important because it's the link between the external environment and the company, and for that reason it cannot rely on the production of a product only, but it must satisfy a real need and do it better than the competitors.

The industry in which the company operates has a great impact on the profitability, firstly with the key success factors and also for the structure of the industry itself. This second factor has been studied by a Harvard school professor, Michael Porter, which observed the 5 main factors that characterise a market, making it hard or easy to have a profit. The five forces are:

-the rivalry among competing sellers, in some cases this rivalry is expressed by price competition or by best performances, first to market, durability of products, long warranties, creating a strong brand image or after the sale services. It bases on offensive and defensive strategies adopted by all the companies. Is easy to observe how rivalry intensifies

- as the number of competitors increases and as they get more equal in size and capability.
- when the demand is growing slowly, as there is no space for growth for everyone.
- when costs cuts are easy to achieve
- when switching costs for costumers are low
- the higher are the exit bars, as it is easier to compete rather than exit the market

-the threat of new entry, depends on two elements which are

-entry barriers, like economies of scale, cost and resource disadvantages, learning curve that takes time, inability to match the know-how and technology used, brand preference and costumers loyalty, high capital requirements, oligopolistic market, limited access to distribution channels, regulatory policies and high tariffs and international trade restrictions.

These factors are compared by entrants with how they might affect each potential entrant (start-ups, companies working in similar fields) and the profits prospects

-the expectation for that market to be brighter or dimmer, even with many other competitors

-the substitute products, where companies compete with companies working in another market but that offer substitute products. This fact is a big threat when substitutes are readily available, attractively priced and comparing them substitutes could have better features, making the client switch, as they have low switching costs

-the bargaining power of suppliers, is represented by the power in contracting that the supplier has toward the buyer. Their force depends on how much power they have in order to bargaining to their favor and the duration of collaboration between supplier and seller.

-weak when → there are multiple suppliers of the same item on the market, when there are good substitutes for the item they provide, when they are supplying a major costumers (profit depends on their orders)

-strong when → when consumers are anxious to secure what they need accepting whatever condition is applied by the supplier, the supplier is major, when the item offered is a big part of the

process of production, when it's costly to switch to alternatives, the suppliers offer items that are cheaper than an internal production.

The collaborative partnership between sellers and suppliers can create a higher competitive pressure: so suppliers tend to adopt long lasting relationship offering advantages to the consumers in order to turn them into a competitive advantage

-the bargaining power of consumer, is considered the leverage that consumers can have on price, quality, service and other term of sale. Just like for suppliers, their power changes in relation to different factors

-high power when: their consumption takes up a large percentage of the markets output, is switching costs are low, the number of consumers is low, consumers have information on the seller's costs, prices and products, and the discretion to whether and when consumers can buy the product.

-weak power: buying infrequently, in small quantities and when facing high costs for switching

The collaborative partnership between supplier and seller can create competitive pressure in particular in the business to business picture, as it is of mutual interest to collaborate closely.

The strength at which the five competitive forces operate can determine pretty accurately the profitability of a market:

the stronger the collective impact of all forces the lower the profitability= strong rivalry, low entry barriers, substitutes are strong, and high bargaining power of both consumer and suppliers.

The weaker the collective impact of all forces the higher the profitability= weak bargaining power of suppliers and consumers, moderate rivalry, no substitutes, high entry barriers

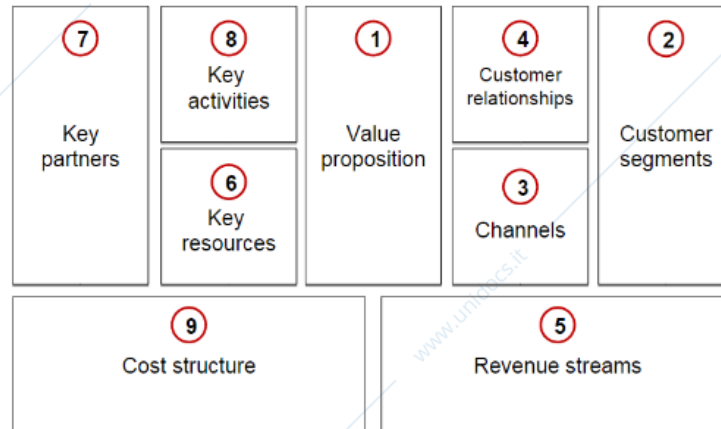
KEY CONCEPTS:

- ingredients for a successful strategy and the variables
- the market study, internal and external factors
- five competitive forces

The strategy is the connection between external/out side the company and the inside.

A business model describes how an organization captures, creates and delivers value, and that is achieved with a strategy.

Purposes: to analyse an existing business or to design a new one, every single type of companies is included (a company or just a business unit, for profit and non profit, multinational or small business, established or start up). The investors are the ones who usually require this tool.



The starting point is the block in the middle and using Mc as an example

1- **VALUE PROPOSITION**: the product or service offered to create value for the client, finding the solution to a need. Some might be innovative while other similar to the ones on the market. The good must be innovative (fulfill a need that was not perceived), performing (giving it added features), customizable (tailored to the need of each individual customer but still being economies of scale), effective, design, brand or status (to some product there is an added value is the brand is displayed), price, cost reduction (helping customers save), accessibility and convenience (making things easier to use).

samsung is the need of communication and is satisfied by the smartphone. The need is to be fed in a n easy quick and cheap way and offering asolutions by serving standard low cost ad wel known products to consumed

2- **COSTUMER SEGMENTS** Who are the ones feeling that need? They are the ones the organization aims to reach and serve. The customer segment must observe every characteristic of the consumers: demographic, sociographic, geographich and psychological. A firm must adapt to consumers, not the opposite.

Differenttypes of segment: -**mass markets**, no difference between customer segments

-**niche market**, that are referred to a specific customer segment, like tailored products

-**segmented**, where needs are distinguished, a hybrid of the first two

-**diversified**, serving two unrelated market segments

-**multisided platforms**, serving two or more interdependent segments

For mc the customer segment is young people, families, tourists, low budget people, western oriented culture people.

They must be coherent with each other, the product must fit in the chosen market, other ways it will fail.

3- **CHANNEL DISTRIBUTION**: how the product or service will reach the customers, it is the bridge between the first two. Dependind on the strategy chosen, the company can use as direct channels the web or their

own physical stores, or by indirect means partner shops, other selling platforms (like amazon) and wholesalers. For mc the chanel is always physical

		STEP	
		Purchase	Delivery
PRODUCT	Physical	Physical or Virtual	Physical
	Virtual	Virtual (less probable: Physical)	Virtual (less probable: Physical)

Y axis the type of product and x axis, steps of addressing need.

Physical products are now offered in physical and virtual way in the purchase step, tecnologia can give more flexibiity to the business model. The delivery as it is a physical good, will be by means of physical channels.

The vital product will be likely to be bought and delivered by vital means. Thecnology facilitates the process of distribution

3d printers is an exeption to this scheme, as if everyone has a printer of this type at home a product that is bought

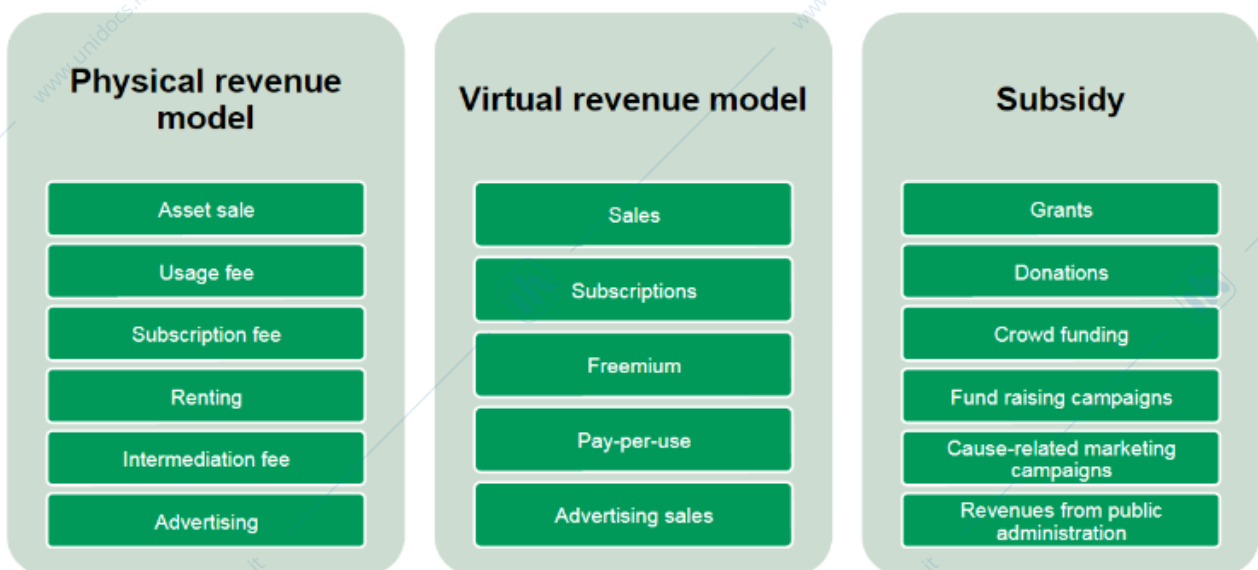
4- **COSTUMER RELATIONSHIPS**: regarding to which are the strategies used to acquisite new clients, keep them and incentive them to buy more, some examples are: personal assistance (based on human interaction physical or digital), dedicatet personal assistance, self service, automated services, communities (for eg blogs) and co.creation (inviting costumers to add value to the product or service)

Getting new costumers: setting up promotion and sales that are limited in time, encouraging word of mouth by givin gadgets ex, or providing incentives to existing costumers such as get your frined to join and u both will get months free

Keeping and growing existing costumers: encouraging repeating purchases and growing costumers purchases.

For mc it is done by defending the quality of thr product sold and to costumized to culture and context. Spece

5- **REVENUE STREAMS**: how a business generates revenues from selling a certain product or service.



Subsidy are relevant for non profit

Asset sale: offering the product at a price and making it yours by paying, giving permanent ownership
Usage fee: paying on the basis of the use of the product or service, like renting cars.
Subscription fee: fixed price, independently of use
Renting: temporarily granting exclusive rights
Intermediation fee: real estate
Advertising: paying fees for the marketing, like for newspapers and ads
Licensing: giving someone the right to use protected intellectual property

Pricing mechanism

grants are donations for big organizations
 donation, same for grants but made by individuals
 crowd funding: new idea

Fixed menu pricing: static variables (list price, volume dependent, quality dependent, segment dep)
Dynamic pricing: based on market condition (bargain, auction)

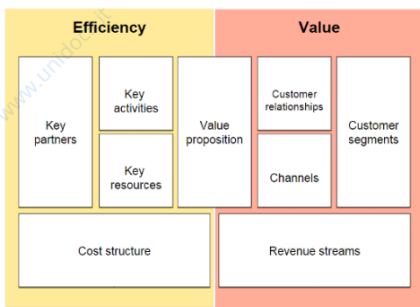
6- **KEY RESOURCES:** which kind of resources are going to be used in the process; physical (buildings, facilities, machines), intellectual (brand, patents, partnerships), human (labour, experience), financial (cash, loans).

7- **KEY PARTNERSHIPS:** the network of suppliers and partners that make the business model work; by optimization or applying economies of scale, reducing uncertainty and risks, by including in the value chain some external activities made by other companies

8- **KEY ACTIVITIES:** parts that are necessarily part of the process; the production and all the activities that are related to that, problem solving so coming up with solutions to individual customer problems and the network, so using softwares or programs that makes the company digitally accessible.

9- **COST STRUCTURE:** the method used to set the price, consequence of the key resources and key relationships

-Cost based costing, mark up the added value to the costs for the production
 -Value pricing, not based on costs but the perception of the product by customers.
 -Competitive pricing, give a price that observe competitors pricing
 -Volume pricing
 -Affordable pricing: used by
 -Razor blade model: like Nespresso



The right side explains how value is created

While on the left side there is the behind the scenes of the process → it's the side on which you can cut down to maximise the efficiency

KEY CONCEPTS:

- the business model components and explanation
- channels, pricing, revenue

Based on the sector in which companies operate, their size differentiates. The size is sometimes seen as a requirement in order to survive in certain industries, and for that reason companies must decide the strategy to apply → **-differentiation:** small quantities but of high quality and that produce a large profit.
-standardization: large volume of production, having small margin

Standardization was introduced in the second half of the 18th century, and it was based on mechanization, work division, standardization of processes, parts and products, making the production costly and timely efficient for the producer, the downsides of this standardization is that product of this nature could not satisfy all needs and that they trigger price wars. But the standardization is positive for consumers as it produced an added value to a certain good or service that is used by a high number of people and because with them come complementary goods or services.

Which are the factors that allow the second type of strategy?

Standardization of products, parts and of processes

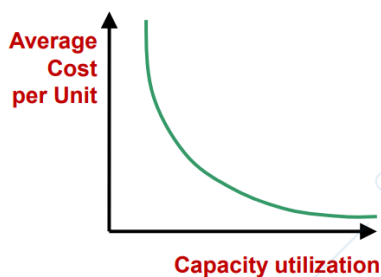
Normalization and so using single pieces of output in different fields but

Modularity, which is the disassembling of a product in order to provide flexibility to the process (cars)

The role of size in this case is strictly relate to the production capacity (PC) which is the maximum amount of output that can be produced by a certain time frame. It can be applied to any type of firm (manufacturing by using units, graphical designer with hours worked and for a builder the carpenters needed). PC does not correspond to the actual production of the company, but is the theorized potential based on the resources.

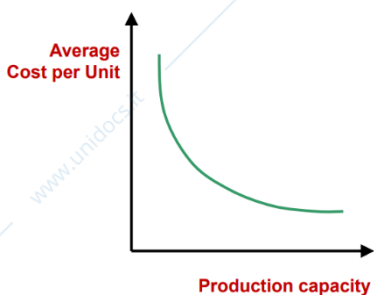
$$\text{degree of utilization of PC} = \frac{\text{Output produced}}{\text{PC}} \%$$

ECONOMIES



Economy of fixed cost absorption:

When production capacity is exploited to the max (saturated), the impact of fixed costs per unit becomes lower. There is no change in the PC



Economies of scale:

When the reduction in costs per unit comes from a greater (increased) PC.

There is change in the PC

some characteristics:

-indivisibility of input

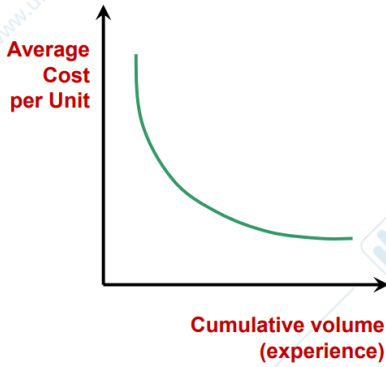
-the specialization of human and technical resources help with greater

-bargain power increases thanks to the lower costs of raw materials

-the consumption for a greater production will be higher too, but the increment of costs will be lower

-geometric proprieties of containers as the amount of input needed is lower when the production is larger

Observing these two economies together you can see that they work in the opposite direction, in fact if the marketed demand remains when the scale expands, then the costs absorption will diminish.



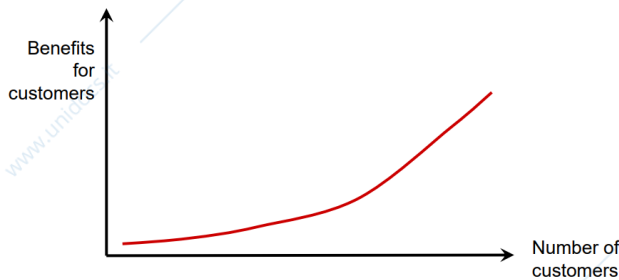
Economies of learning:

With the increase of experience, the average cost per unit decreases, as a consequence of the efficiency coming from experience

- learn how to select the production resources with less waste
- more coordination
- familiarity with the tasks needed to obtain success (for a new branch)
- which are the steps that can be skipped in a process

This economy is path dependent and there are no shortcuts to it, only bringing in expert and so more experience can achieve it.

learning curve, such as technologies.



Economy of networks:

Consumers have an added value coming from the number of users using that product or service

An open system is one that is accessible to everyone for free
 A closed system which u have to pay in order to access to

Economies of Fixed-costs Absorption
 exist when the installed Production Capacity is saturated.

acu ↓ if
 ↑ PC Utilization

Economies of Scale
 exist when average cost declines as production capacity increases.

acu ↓ if
 ↑ Production Capacity

Economies of Learning
 exist when average cost declines as a cumulative volume rises.

acu ↓ if
 ↑ Cumulated Production

Economies of Network
 exist when demand for a product increase according to the number of users.

dem ↑ if
 ↑ Number of Users

The average cost per unit decreases because the production capacity is saturated, but there is no change in the business structure

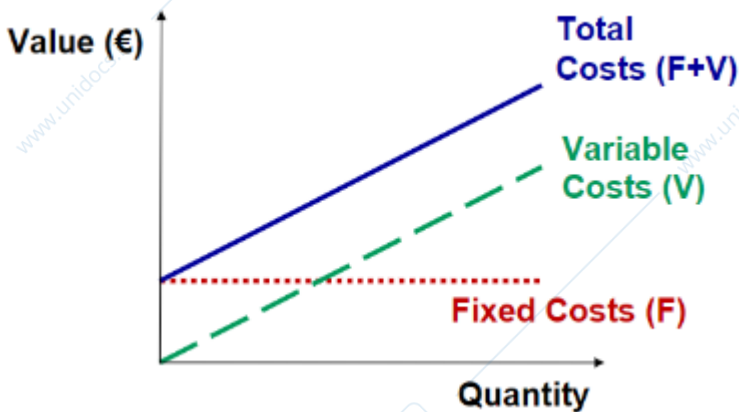
The average cost per unit decreases because the production capacity increased, making a change in the business structure

The cost structure is part of the business model: and varies based on structural factors, volume of production and purchasing and selling prices.

Prices are influenced by both external and internal factor in the selling and purchasing, where structural factors and volume are chosen by every firm based on their preference, and sometimes by market conditions.

It is important in order to find the equilibrium between the economic and financial profile, and in order to better understand the economic profile the break-even analysis is used to understand what is the volume to produce in order to cover all costs, making them at least equal. The BEP can be also called the cost volume profit analysis.

There are two basic types of costs that must be taken into consideration, the variable and fixed costs.



-variable costs are proportional to the quantity, so the more the volume of production the more the increment; they have a direct link

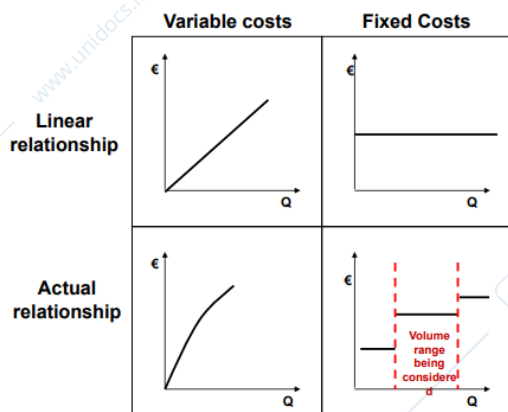
-on the other hand, fixed costs are independent from the quantity produce; so no direct link

-merging the two costs we can observe the total costs line, which is parallel to the variable costs line but has an origin in the fixed cost point

variable costs: ingredients, raw material, packaging, home delivered

fixed costs: rent, labour, insurance, interests

! This is highly theoretical. In fact, there are other variables that influence the costs functions

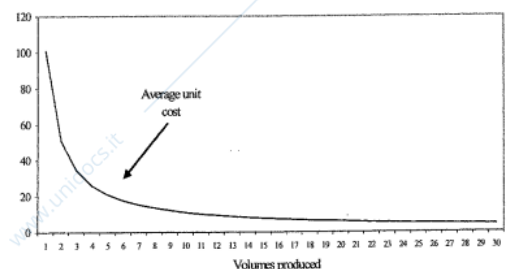


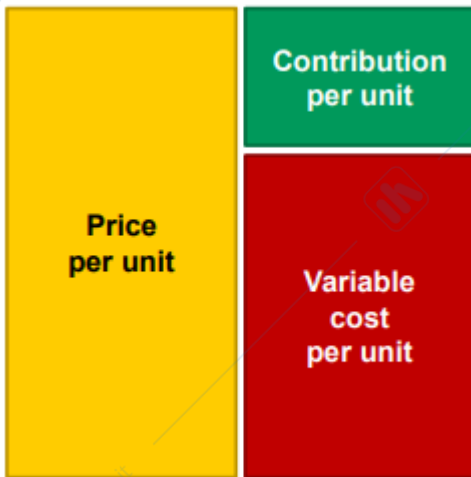
-the actual relationship in variable costs shows that bargain power, experience, and volume so economies of scale, make the variable costs decrease.

-fixed costs are going to change at a certain time based on the volume of production, having a new plant or having to employ more people

$$\frac{\text{total costs}}{\text{volume of production}} = \text{total cost per unit} \rightarrow$$

so when Volume of production increases the costs per unit decreases, and that is given by the fact that variable costs per unit remain the same but fixed costs are spread on more units → economy of scale





The contribution margin is given by the difference between the price per unit and the variable cost per unit, producing a margin that is used to cover all fixed cost and profit

So: $c = p - v$

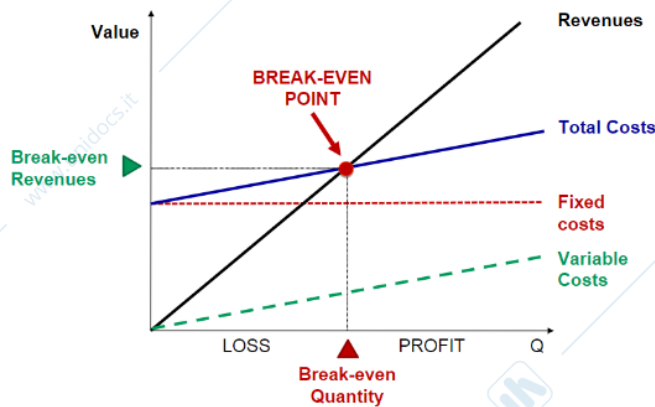
so in order to find the break-even point, that is the point where profit are equal to zero, and so where the difference of total costs is equal to the profits

Revenues	=	Total costs
$p \times U$	=	$F + (v \times U)$
U	=	$\frac{F}{(p-v)}$
U	=	$\frac{F}{c}$

$U = \frac{FIXED\ COSTS}{P-V} = \frac{F}{c}$ to find the volume of production to achieve BEP

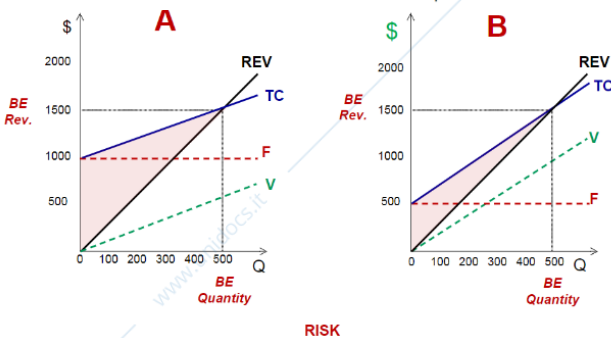
Revenues = $\frac{F}{c\%}$ to find the average contribution margin of each product, having many and no being able to have certain data for each

if variables change (like the price of purchasing, the price of selling or the quantity produced because of different factors) the break-even point will change accordingly.



according from where the BEP is located and how much the areas of losses or profit measure the firm can be defined as high or low risk

This chart shows that the breakeven point is where the income and costs are equal



A is the one having more risks, in fact if the bep is not reached then the losses will be larger, but on the other hand the revenues will be higher once the bep is reached, whereas company B has less risks but lower profit margins

Operating risk: is the varying degree of probability that a firm will face particular negative or positive net income in relation to the fluctuation in production and sales volumes.

Operatig leverage: is the relationship between variable costs and fixed costs at the BEP; the lower the result of this relation, the higher the risks

Rigid structure: high fixed costs and low variable costs → cannot adapt in case of shrikedge in the volume (data center) Flexible structure: low fixed costs and high variable costs → economic results improve slowly (supermarket)

Costs can be classified depending on the kind of operation which they are related too: non-core (interests on loans, premiums, taxes) and core, distinguished in fixed and variable asset.

The company size is decided based on the fact that the company might want to leverage on economies of scale, geographical advantages (different countries in which the company operates) horizontal extension (also called diversification, starting multiples businesses) and vertical extension (vertical integration, meaning the chain of value sees multiples steps internalized).

Barilla is expanded in multiple countries but also with the horizontal scope (sauces, different pasta types) but lux ottica on the other hand takes care of the value chain from the beginning to the final steps.

VERTICAL EXTENTION (integration)

As we know, the process of transforming inputs in output is formed by different function, one following the other, and the entrepreneur should ask itself how much she or he wants to spend on each function and which function should either be carried out or carried out by the company itself (externalisation or internalization). A company that has all function included in the company is one which is high vertical integration and the opposite is called low. The factors that influence this second point are multiple:

- **efficiency and costs**: if the function is carried out externally by a supplier which is an expert in this particular activity, they could both benefit from externalization, in fact the supplier could benefit from economies of scale (having multiple clients), making the company externalizing benefitting of lower costs and economies of learning.

- **strategic critically**, where the activity is carried within the company to keep a certain process secret, protecting the know-how

- **transaction costs**, which can be high or low depending from the difficulty of controlling and defining the results obtained (Marketing agent or assembling external).

- internal transaction, where added to the cost of production there are the costs of coordination for the two different division

- external transaction, where the price from the suppliers is summed to the transaction costs

Transaction costs can be either

- **implicit** (so hard to anticipate and estimate, because they usually emerge ex post, meaning post transaction) or

- **explicit** (easier to estimate and related to the research/selection of the counterpart).

The causes of transaction costs:

- the information complexity, where a company might be more inclined outsourcing based on detecting if the outsourcing is complex and hard to check if it effective.

- resource specificity, high costs related to the specialization

- possibility of opportunistic behaviour, the service externalized could be not efficient

Reasons why there is internalization: economize transaction costs making the production costs the only ones, develop strategic skills and resources, minimize competitor' access to strategic resources.

Obstacles to internalization: the initial investment required, the production costs, the consequent diseconomies of scale or of fixed cost absorption, the strategic inflexibility and concentration of risk

HORIZONTAL EXTENTION (diversification)

The decision related to in which and how many businesses a company should operate, so being in a market niche or operate in multiple markets. Diversification strategies are also called portfolio strategies, where diversification could provide some kind of protection in case of the failure of one of the businesses. The factors that influence the choice of diversification are:

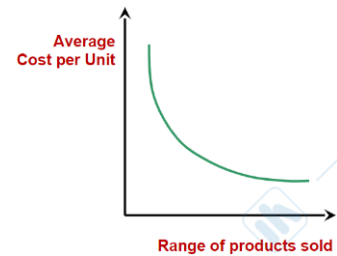
- **the ability of the new business to generate or absorb financial resources**, so how much cash it will need to create the business and how much it will require it to produce financial resources (depending on the timing of production cycle and the phase of the industry lifecycle) (introduction, growth, maturity, decline)

- **the phase in the lifecycle of the product itself**, meaning that investing in a business that is already mature and maybe declining is not the best choice, as the financial resources used will not be returned.

- **the attractiveness of the market**, might be strategic and but also competitive.

- **the competitive positioning of the firm in this new business**, as the profitability of a business depends on the business itself but also from the company it comes from and all its characteristics.

- other **synergies such as the economies of scope**, which occurs when the there are more business/product produced at the same time, creating advantages that wouldn't occur if separated. More bargaining power, lower costs for sales structures (distribution channels or networks), already having intangible resources (brand, know-how, managerial resources, technology) and the costs for the production structure)



The economies of scope in this contest, can be reached by two means, production and marketing and sales. Which are the advantages?

- **cost reduction** (sharing the same activities and having knowledge, even if in another market) →

$$TC(Q_x, Q_y) < TC(Q_x, 0) + TC(0, Q_y)$$

Q _x : Post-it	Q _y : Sticky tape	CT (Q _x , Q _y)
100m	0	€ 55
0	600m	€ 220
100m	600m	€ 245
200m	0	€ 60
0	1200m	€ 340
200m	1200m	€ 370

-improving the quality

-raise the demand

Economies of scope can be achieved by partnerships between firms

GEOGRAPHICAL EXTENSION

operating in a country that is different from the one in which the company originally operated, the criteria is given by

-national resources and capabilities, for company producing and so particular raw materials, the infrastructure, the legal structure, the cost of labour

-domestic market conditions

-Government policies,

-Exchange rates

-Related and supporting industries

The choice should be connected to the advantages connected to that specific country

Forces for globalization

✓ MARKET

- Common customer needs
- Global customers
- Cross-border network effects

✓ COST

- Global scale economies
- Differences in national resource availability
- Learning

✓ COMPETITIVE

- Potential for strategic competition (e.g. cross- subsidization)

Forces for localization and national differentiation

✓ MARKET

- Different languages
- Different customer preferences
- Cultural differences

✓ COST

- Transportation costs
- Transaction costs
- Economic & political risk
- Speed of response

✓ GOVERNMENT

- Barriers to trade & inward
- Regulations

Market condition could bring two companies to collaborate and maintain the exchange relationship, by keeping exclusivity in supplying and purchasing from each other. Other solutions:

- acquisition of company B
- a buys the shares of B, have 2 companies but owned by just 1 that has control
- a and b merge, in c company
- a and b purchase each other shares in a similar way, having their interests bounded to both companies
- signing a long term contract



Companies have different ways of establishing inter-firm cooperation, that is integration on different levels

- No integration**: no integration between the companies and staying separate (eg of a long term contract)
- High integration**: where the integration is so strong that the companies become one (eg. where a company is acquired by another entirely or where one buys all the shares of the other)
- Hybrid solution**: where there is partial integration, and is the most common situation

1. High integration: corporate groups
2. Formal alliances and network: more towards the integration
3. Informal alliances and network: more toward the no integration

Common Shareholding Linking	YES	-	Corporate Groups
	NO	Informal alliances and networks	Formal alliances and networks
		NO	YES
		Explicit and formalized agreements	

(NO-NO) trust, reliability is the only bridge keeping the inter-firm relationship alive

(YES-NO) a long-standing relationship exists but there are no shareholding linking

(YES-YES) there is a contract and also shareholding linking, reinforcing the bond of the two companies.

(NO-YES) it's empty because there cannot be a shareholding linkage without a contract

1 → HIGH INTERACTION

-corporate groups, a collection of parent and subsidiaries firms that function as a single economic entity. The holding is the company owning the shares of the other companies. Nestle is a great ex, as it acquired companies like Findus and the original producer of kit kat

-joint venture: multiple companies merge creating a new company, and pooling from both their resources in order to reach a common goal. Like between google and nasa to develop google earth

-family controlled groups: similar to corporate groups but established around the family's nucleus like Foxconn the suppliers for big technological companies

2→ Formal alliances and networks

-Consortia: agreement in which several companies pool their financial and human resources to undertake a large project that benefits all members for a defined period of time. Is usually joined by small companies which have a weak bargaining power.

-Cartels: companies operating in same market that set up some strategies in order to reduce the competition in the market in order to regulate or manipulate prices. OPEC

-Franchising network: where a franchisor grants a franchisee the right to use its trade mark as well as systems and process to produce and market the same goods as the franchisor, getting part of the revenues, not profits from the franchisee. Mc Donald

-Trade association, big number of companies that operate in the same industry, that work together in order to have their interests protected.

3→ Informal alliances and networks

-supply network: a big company which largely relies on extensive outsourcing, for which multiple suppliers take part at the same value chain. IKEA

-constellation of firm: small and medium companies that collaborate because of the complementarity of their activities.

-industrial district, where there are high concentrations of small and medium companies all operating in the same district and market, peculiar culture related to the product made.

which are the factors that encourage or discourage the inter-relationship

pushing towards → in technical form economies of scale, economies of scope, and transaction economies (reducing transaction costs) other factors are avoiding the competition, bigger company can make decisions for the smaller ones, and common views on solidarity and political

separation→ organization complexity, having cultures too different from each other, separation of risks (doing all in) other factors are the independency and the competition, and also the diversities in values and interests between the different