

**Course Name: Business Fundamentals for Entrepreneurs – Part 1 – Internal Operations**

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**Week – 02**

**Lecture – 04**

Week 2 Module 4 Part 1

Namaskar. This is Professor Devdip Purkayastha from IIT Bombay. Welcome to my course, Business Fundamentals for Entrepreneurs Part 1 Internal Operations. This is the fourth module in week two and the title of the module is about structures and cultures of a company. But before I get into the module itself, just to remind you of the discussion flow, we started with business, then with companies, then last module I talked about vision, mission and goals of a company. Today I will talk about the strategy and culture and then we get into the company in terms of how do they make products, quality control, finance, accounting, leadership, human resource management and ESG.

And hopefully by the end of the course, all of you will have a better appreciation of business. And hopefully all of you can make better career choices. If you are a student, you can choose your next course. If you are an entrepreneur, you can decide to start up your own company.

And if you are an employee already, you can broaden your view of business, acquire new skills and move on to higher roles. So that's the structure of the course. Coming to the module itself, let's start with a big-picture view of the company, any company. Those of you who are employees or studying finance or marketing or HR may sometimes miss out on the big picture, a helicopter view of a company. So before we get into the individual functions or individual activities, here are the four parts of a company that guides this action over tens of years, hundreds of years, but also on a daily basis, weekly basis and yearly basis.

So, what are those four pieces? The first piece, top right, is about company culture. Why am I starting with company culture? Because when you grow big and you have got hundreds of thousands of employees across countries and across languages, across communities, across religions, across education levels, across intelligence levels, seniority, it is very important that the company is one company. A company is not ten employees working ten different ways thinking ten different things. So first and foremost, the company has to be one company however many employees are there. And that is the glue that will bind all the employees together.

So that's the top right-hand side. But what do all the employees work towards? So on the top left hand side, I talked in the last module about purpose, vision, mission, principles, goals, etc. So these are kind of the long term objectives of the company. The purpose is probably set by the founder of the company and defines why does the company exist. And last module I shared one or two examples of companies who are more than 100 years old.

In fact, Procter & Gamble was 180 years old. Today I will share one more example of a company which is about 160 years old with hundreds of thousands of employees. So the purpose is the big picture, the ambition. What will you do this year, ten years later, fifty years later, hundred years later? It's long term. So, the top two parts of the circle are more around the soft sides.

The culture, the purpose, the vision, the mission, the principles, the values. But the company also needs hard goals and needs to take hard action every day. So, the two lower parts describe that. The bottom left is about company goals. This is about specific targets and I talked about it in the last modules and I'll refresh it and recap it just in a minute.

And then I will talk today about company strategy. The company goals are what will it deliver, the company strategy is how will it deliver. So think about it that: if you are going on a journey, the company goal is like when you are saying I'm going on a journey from Delhi to India. Or from India to Germany. That's your goal.

But if you are going from Delhi to Mumbai, you have many ways to go from Delhi to Mumbai. You can go by train, by plane, you can take a car, you can take a bus. So these are all the choices that you have, and you choose one of the modes. And how do you choose it? You carefully think about should I go by plane, train, bus, car. And you look at the cost, you look at the benefits, you look at the comfort, and you make a choice.

So, company strategy is something like that. How will you go to your goal? How will you go from Delhi to Mumbai looking at different forms and options that are available to you? So that's kind of the big picture. And they keep interacting with each other. And it's very important that if you are a student studying arts, science, commerce, or technology, you just don't focus on your part of the company. What you understand.

But you look at the big picture of the company. If you are an entrepreneur, this is probably what you have to start with. Not just your technology or your product or your solution. So that's how all the pieces fit together. Now let's start looking deeper into how a company works.

Let me start with what I shared last module and, which is in the top left, at the bottom left of the circle. Smart goals. So, with that, let me get into the topics of today's module. As always, every module will have six topics. Two to three reflection points of three minutes each where you think about what you have learnt and you try to apply it.

And in every module there will be one assignment. So you can look at the topics today. Let's start with the first topic. What is strategy? As I said, strategy is a way to deliver the goals.

And to just recap what I shared in the last module, the key things about the goals are that they have to be 360 degree.

It cannot be just one goal. It has to be a blend of goals which covers every aspect of the business. The financials, the customers, the employees, the shareholders, the process goals, etc. And they have to be smart which means they must be specific, measurable, achievable, relevant and time bound.

So, these are the goals. What is strategy? Strategy is basically the action that you will take to deliver the goals. And because business is complex, it's not just one action. It is a sum total of all the action that the entire company, hundreds of thousands of employees in a big company, across departments, across divisions, across countries, across functions. Those set of actions collectively is a strategy. But how do you decide what actions to take? And therefore, out of ten different ways to deliver a goal, you have to carefully choose the best one or the best two actions to deliver that goal.

And therefore, you have to make choices. You have to choose that out of the ten different things I can do, here is the one that I will do. It's like travelling from Mumbai to Delhi. I can go by bus, by train, by plane.

I can drive in a car. But you choose one out of the options. And that's strategy in a business context. But whilst you are ensuring that you meet the goals, you also have to make sure that your set of actions your strategy makes you unique either in a product or, your service or the experience that you provide to your customers. So you are unique, but you are also superior. You are superior to your competitors.

You also provide better returns to your investors. So if you look back in history, the word strategy is actually coming from a military context about when an army is moving forward, the army has many ways to win a battle. And strategy is the choice that the army makes on how to fight the battle. And that's how a company's strategy really is. Of the many ways that you can go, the actual path that you choose.

So, any strategy, which means any set of choices and actions that you decide on, starts with an assessment. You cannot decide in a vacuum. And the assessment is on both external point of view and an internal point of view. Externally you have to ask yourself the question, every company has to ask the question, where are we? And from many different perspectives, from the perspective of industry, as an example, the world may be moving from petrol engines and diesel engines to electric vehicles.

The industry is moving. And if you are a car manufacturer, you have to note the change in direction. Because if the whole industry is moving from petrol and diesel engines to electric vehicles and you keep producing the old combustion engine vehicles, you will go out of business. Customers. What do customers want? If customers want a better product, a faster product, a cheaper product, or a more environmentally friendly product, as a company, you have to be able to assess that.

Competitors. No company exists in a vacuum. Every industry has got maybe tens or hundreds of players and there will be two, three, four very big players across industries. And if you want to be a top player in an industry, you will have competitors. So the question is how you are different, better than competitors.

You have to assess them. You also have to assess how you are unique, how you are different, and then how you position in the market. Are you a premium, or are you mass? Are you like a Rolls Royce or a Mercedes in the car industry or are you like a Maruti which makes affordable cars? How do you sell and distribute? For example, do you sell online or in off-line stores? That makes a difference. And what is the customer experience? For example, delivery. Are you delivering your goods one day, one hour, or recently ten minutes? Because the customer experience changes.

You have to assess all of that. And internally also you have to assess where the company is. Because all companies are operating in a certain way. You have to assess where is that company now internally. And then you have to figure out where do you want to be. Today I am here, I am so big in sales, I am making so much money, I am operating this way.

I have got so many factories, I have got so many divisions and products and employees. But I want to go there. So how do I go from here till there? And to go from here till there, what new things do I have to start doing? And what old things do I have to stop doing? And what should I continue to do? So to give an example of a student, the student is in a college but he has a choice to go to a technical institute, a medical institute, a commerce institute, go abroad, do an MBA. So a student has to assess where he is now and then where he is headed. If someone chooses to be in a medical school, he chooses one path.

But if someone wants to be in an engineering institute, he chooses another path. And if someone wants to be a chartered accountant, he chooses another path. So it is very important to assess what do you need to do internally as well and therefore what training. So if you are a student wanting to get into a medical school, you train yourself on the medical entrance. But if you want to get to an engineering school, you train yourself on an engineering entrance test.

So that is the training. And then, how do you measure progress? Step by step. So that is strategic assessment. And that is a lot of data gathering, qualitative data, quantitative data. Once you have gathered all the data, internal and external, which is the strategic assessment part, you then have to analyze the data.

And there are many ways to analyze. One of the commonest ways, which became popular in 60s and 70s and came out of Stanford University in US, was the SWOT analysis. SWOT is strength, weaknesses, opportunities and threats. So, once you have done the assessment, you start looking at external opportunities. Can I improve my sales? I am 100 million dollars or 100 crores rupees. Can I get to 500 million dollars, 500 crore rupees? I am 10 percent share of the market.

Can I get to 25 shares of the market? Is there an opportunity to launch new cars, new products, new engines, new dresses, new food, new services? That is the external opportunity. And at the bottom you will see the internal opportunities. Can I improve my efficiencies? I use this machine, but with that machine I can be more efficient. I don't use artificial intelligence and machine learning. Can I use AI ML to become more efficient? Can I reduce my costs? Can I make new products, digital products on blockchain or distributed ledger, any of the new technologies? Can I robotize my plant, automate my plant? So these are internal opportunities.

And then you have to look at what are you good at, what are you bad at, which means your weakness. What are the threats? But what you look at, what you are good at, you have to look at it from the point of view of a customer. How do the customers see you? It could be your strength, it could be your weakness. People are your employees. What are your people good at? If you are a 100 year old company doing very well traditional business and there is an opportunity to bring in artificial intelligence, machine learning, blockchain.

Your people who are very good in a traditional way of working may not be as good in a new way of working with a lot of new technology. Then, your strength becomes your weakness. So you have to retrain, you have to reskill. Your products. If you have got an old model car or a phone or a laptop, are your products as good as competitors or the newest technology that you have? Are your factories, which are making the product, are they using the latest technology or do they have some deficiency versus competition? Are you making enough money? Competitors are making 10% profits, you are making 8% profits.

On the other hand, competitors are making 10% and you are making 12%. So if you are 8% margin versus competitors at 10% then your margin becomes kind of a weakness. You are not as profitable. But if you are 12% versus competitors then your margins becomes your strength because you are a profitable business.

And then threats. Threats are businesses operating in a certain way but something new happens. A new competitor comes in with a new technology and it disrupts. As an example, if you look at the audio industries, it started with vinyl records which many of you may not have seen. Round records which used to play in record players. Then you got tapes but tapes more or less killed record players.

Then you had digitized music which is MP3. MP3 first came in CDs and then they came in DVDs and slowly the tapes dried. So the tapes killed, the music tapes killed the music records, the music CDs and DVDs killed the music tapes. And then you got into streaming services, Spotify or Ghana or Amazon Music and slowly then the music CDs and DVDs also died. So that's the threat of disruption, new technology, new products, new competitors coming in.

So that's the analysis that you have to do with the data. And with that analysis you now have to come up with a plan. And that becomes your strategy. So, let's look at how you make a

plan. So let's look at a sample strategic plan and later in the module I will also share actual strategic plans.

But a sample strategic plan could look like this. First, you could talk about the products. That's what gets you the money. So you could say launch X number of new products. One, two, three, four, different kinds of new products. And you could say as a choice that these new products will give me more business.

So, then that becomes your product strategy. You could also have a strategy around the market. And you could say I will reposition my current brands. Right now I am pricing my brands cheap. I'll make it more premium so I can earn more sales and I can earn more profits. But to support the premiumization of the brand, which means taking the prices up, I will also advertise very heavily digitally.

So, I'll increase the price, but I'll advertise more. That could be a marketing strategy. A sample business strategy could be I will outsource, which means I will give away my non-core activities to external partners. So for example I could say my information technology services I will outsource to an ITS company, an Infosys, Accenture, whoever it is. I could also say that up till now my products have been made by contract manufacturers, but I'll build my own plant. So, these are all samples of strategic choices that a company can make.

Once you have your sample strategic plan, you now have to deploy it because there is no point having a plan which nobody knows about. So if you look at the cycle, because it keeps going on and on every quarter, every year, every two years, every three years, you come up with a strategic plan. But the employees have to know about it. You may have ten employees, ten thousand employees, or a million employees. Every employee needs to know what is the strategy of the company and what does it mean for me, what do I do.

What do I stop doing, what do I start doing, what do I continue doing, what do I do differently. And then you may have to change the design of the organization. If you are moving from petrol engines and diesel engines to electric vehicle, the product itself has changed, the technology has changed, the manufacturing cycle has changed, the components have changed, your supplies will change, your ecosystem will change, a lot of machines have to be changed and therefore you may need a new set of factories, new set of suppliers, new set of components, new set of distribution channels and you have to probably retrain your employees. And therefore, you have to allocate resources. Resources can be money, which can be a new plant, a new factory, a new technology, it could be a new advertising campaign, it could be a new brand.

But as you do all of these, you have to keep measuring. If I am putting in new money and I am changing my product and I am advertising differently, am I getting the money back? So you have to measure performance and it keeps going around based on how the performance is. So, look at performance measurement. A company is a very complex entity.

Businesses are complex. So you cannot just measure one criteria. So this is where you see that the goals that you have set are the measures that you must measure. And I had said

earlier the 360 degree goals, the measures also need to be 360 degree measures. So financial, is my sales going up or, my cost coming down or my profits increasing, is my cash that I need to put in the business going down? Am I earning a return on my investment, and is my share price going up or down? So these are financial measures. People measures. How many employees do I have? How much are they costing me? Are people leaving me? What is the efficiency? How much revenue am I getting per employee? And are my employees satisfied by being in this company? Are they happy? Same you need to measure the customer aspects.

Are the customers happy, first of all? Are there more customers or customers leaving us? Are the customers buying more or they are buying less? Same with processes, your internal operating processes. Is your quality okay? Quality improving, quality going down. Is your manufacturing efficiency going up or down? Are you innovating enough? Are you creating enough new products? How are you measuring the data itself? How is your IT or MIS, information systems or information technology processes holding up? And legally are you compliant or are you breaking any laws to measure all of that? Companies do measure all of that. And then, is the company friendly to society and the planet? Your carbon emission, your pollution. If you are a chemical company you are influenced which is the bad chemicals, extra chemicals that you are releasing into the environment.

Are you okay with all of that? Are you reducing your packaging, reusing some of the material, recycling them? All of that together then becomes a measure of your strategy and you measure them against the goals that you set. So it comes full cycle. So, to do all of this, what kind of skills do you need? Most of you are students, and you have learned maybe physics, chemistry, maths, electrical engineering civil engineering computer engineering, finance, or marketing. But strategic management skills are a bit different from day to day skills. So how are they different from day to day management versus strategic management? Strategic management is more of a planning skill and you have to be able to visualize the future, what can be two years down the line, three years down the line, ten years down the line.

So, you have to be able to visualize and paint a picture of the future. It's planning and then plan the actions and the goals. Daily management, whether you are in sales finance marketing, production, or HR, is about doing today's job well. It's about delivery of results, not planning the action. Strategic planning is more long-term thinking.

Next three years, next five years, next ten years. Daily management is about today, my sales target for today, my production target for today or this week or next week or next month. So it's very short term. In strategic management you have to think systems and processes. Finance processes, sales processes, marketing processes, HR processes and you have to look at it in totality.

But in the daily management you focus on functional excellence. If you are in sales you have to be the best salesperson. If you are in finance you have to be the best finance person. If you are in manufacturing, you have to be best in the production line.

So strategic management impact is step change. I am here, I want to go there. But in daily management, you are going a little bit day by day, day by day, week by week, month by month. So in terms of skills, I would encourage all of you to develop your conceptual skills, your thinking skills. And again as I have said earlier, in daily management you have to develop and train yourself in functional skills. So, if you are in the sales function, get more and more sales training.

If you are in finance function, get more and more finance training. And the last thing is that strategic management is more of an assignment. You do it for two or three years, and you go and do something else. But functions are more career. So, I am a finance professional.

If I am a finance professional, I am probably a finance professional for life. I am a marketing professional for life. I am a sales professional probably for life. Till you go up the ladder and become a CEO or a managing director. So you do it for five years or ten years or twenty years and go up the ladder and probably end up being a CEO.

But chances are strategic management will not do it every day for years and years. You will probably do it for an assignment and then go back to a core function. So these are the skills I am making you aware of so you can develop them and you can impact differently in your careers. So with that we come to the first three minute reflection point. We talked about strategy and, goals and purpose.

Your career for each of you is something you can manage with the same principles. You can start defining what are your purpose which is the exercise I asked to do in my last module. So if you have defined your purpose, your personal purpose and your personal goals, you can now start writing down in your journal where are you now. You are a student.

You are an employee in a certain function in a certain company. You are an aspiring entrepreneur. That is where you are. Where do you want to be? When? Next to smart. You have to set yourself smart goals. Do you want to be an engineering student from a high school student, a medical student from a high school student, from an entrepreneur to an aspiring entrepreneur? How do you want to be getting there? What will you do new? What will you stop? What will you start? What resources do you need? What training do you need? And how will you measure your progress every month, every three months, every year? So I would suggest that as an reflection and to apply everything that you have learned, write down in your journal the questions to this answer as it applies to you. . . . .