

## Business Unit

**A Business Unit** is most commonly recognized as an independent transaction-processing entity. It is defined as an organization or the subset of an organization which is independent in its accounting and operational functionality. A Business Unit is basically a profit making centre which has a prime focus to segment the market and be able to enhance the product offerings of the company. They usually have a separate clearly defined marketing plan, a well-defined marketing campaign and a detailed analysis of the competition, even when they are essentially a part of a bigger business entity.

In organizations, subsidiaries are often confused with business units. But these two have some significant differences. A company which is at least 50 percent owned by another company, more commonly known as the parent company is referred to as a subsidiary. The subsidiary is a complete corporate body, whereas the business units are sub-components or components of these subsidiaries. Business units are a smaller entity like a department or a functional group within a company which is responsible for handling the issues and affairs of that specific activity. Examples of business units include marketing, finance, operations, accounting, sales, human resources and research and development divisions.

Companies can have multiple independent business units into itself or as a branch, and each one of them is responsible for their own profitability. For example: General Electric is a company having 49 business units.

There are three important parameters that are usually seen as the success determining factors of a business unit:

- The autonomy and power delegated to a business unit manager
- The degree of functionality and facility sharing between multiple SBUs
- The way of handling new products in organizations

## Establishing a new Business unit

### **Step 1. Idea Generation:**

To kick start operations, entrepreneurs must be imbued with rich ideas that can work. In order to generate ideas, entrepreneurs need to have an eye for detail. They should keep a close watch over changing trends in the market place and identify gaps that can be profitably exploited.

### **Step 2. Nature of Business:**

**The entrepreneur should be clear about the nature of type of business that he wants to be in:**

1. What type of business- Wholesale or retail, independent or franchise business or simply a trading business.
2. What to offer- Products or services or a mix of both; he wants to trade in these or wants to produce and distribute.

3. III. In Which sector- Entertainment, construction, software, hardware, fashion, etc.
4. Is it a profitable business or a risky one -Carefully studying the prospects of chosen business. He needs to calculate the gains, the challenges ahead and the type of risks that exist and the viability of business in the long run.
5. Whether inputs, resources and requisite manpower available- It is better to carry out a feasibility study of everything beforehand.
6. Whether the idea will actually work or not- To this end, he has to conduct a feasibility study examining the pros and cons of everything.
7. Prepare the business plan and move ahead with other steps that follow the decision.

### **Step 3. Determine the Size and Scale of Operations:**

The entrepreneur should be clear about what kind of sales could be generated at different price points. He should plan for a volume that recovers his costs fully and generates enough profits for survival initially. Then he can think of expanding volumes, size and scale of operations. A gradual step by step, trial and error process is what most market experts suggest. Rushing into catch a temporary wave of demand created by artificial mismatch between demand and supply might eventually put a very good business also on the stretcher.

For a budding small business venture, size should not be a fascinating option unless the market is totally ignored, unexplored or underserved (like it happened in the case of iodized salt, vegetarian tooth paste, low priced but reasonable quality detergents; multigrain wheat flour, etc.) The size and scale of operations chosen must be in sync with what the entrepreneur has in terms of available capital and other resources at his command.

### **Step 4. Select a Place for Business:**

The entrepreneur must pick up a location that is closer to all the inputs, resources and materials that the business would require. Availability of manpower and transport links also need to be looked into. Other services like banking, telecommunications, and power supply need closer attention of course, different organisations in the same industry may have different facilities requirements.

For example Benetton uses only one distribution centre for the entire world, whereas Wal-Mart has several distribution centres in the United States alone. In any case, a small business owner of retail business must pay close attention to the convenience factor especially from the customers' point of view.

### **Step 5. Choose the Form of Ownership:**

The entrepreneur must be clear about the form of ownership that is closer to his heart. He could think of a small business owned by him exclusive or start the venture in partnership with someone or create a company with diversified shareholding. To start with, he can pick up the entity that is easy to form, simple to operate, allows freedom to implement his ideas without any legal or taxation problems and gives him enough room to expand further, whenever the opportunity turns out to be big.

### **Step 6. Determine Financial Requirements:**

Here it is a question of calculating the fixed capital and working capital needs of the firm, keeping the present and future plans of the business in mind. The entrepreneur should be clear about the type of expenses that are going to eat up resources at different points of time. Requisite funds for emergency use need to be put in place. The sources of funds also need to be calculated well in advance. How much through bank financing, how much from the long term lending institutions, how much from the general public—if equity is a preferred option—how much from own sources etc.?

### **Step 7. Plan for Physical Facilities:**

This is a question of giving a concrete shape to the business plan by arranging the physical infrastructure required. It includes decisions regarding machines, equipment, factory and office design, choosing furniture, space planning, providing for repair and maintenance, availability of spare parts, degree of sophistication required in terms of modernizing the plant in every way—keeping the availability of skilled hands in the chosen location etc. An appropriate organisation structure must also be designed keeping the space needs of various departments, divisions and plants in mind.

### **Step 8. Select an Appropriate Plant Layout:**

The choice of physical configuration or the layout of facilities is closely related to other operation decisions. A product layout is appropriate when large quantities of a single product are needed. It makes sense to custom design a straight line flow of work for a product when a specific task is performed at each work station as each unit flows past. Most assembly lines use this format.

For example, Dell's personal computer factories use a product layout. The type of layout depends on the expected volume of production, space available, type of equipment, etc. The chosen layout, in any case, must be in sync with space available and must permit easy flow of production without posing any danger to human life.

### **Step 9. Determine Human Resource Requirements:**

Here it is a question of finding human resource requirements in terms of physical numbers and also in terms of quality such as technical skill sets, managerial competencies, degree of expertise, necessity for people possessing latest knowledge in a high-tech area etc. The necessity for hiring people with qualities of head and heart must be recognized and the small business owner must keep plans ready for this purpose.

### **Step 10. Keep an Eye on Legal and Procedural Requirements:**

All approvals, sanctions must be obtained well in advance. The needed paper work must be entrusted to experienced people hired for this purpose. Help from external consultants could also be obtained to avoid surprises of various kinds hitting the budding venture at a later stage. All taxation matters be carefully looked into at this stage. If required, the owner must carry out a drill looking into each and every detail personally.

### **Step 11. Launch the Business:**