Chapter - 1 Business Environment

Business

- Busy in some activities
- Such activities are like purchase, sale etc... For profit or wealth maximization
- Profit, ROI, ROCE etc... Are the efficiency measure factors
- Generally referred to particular company or enterprise

Objectives of Business

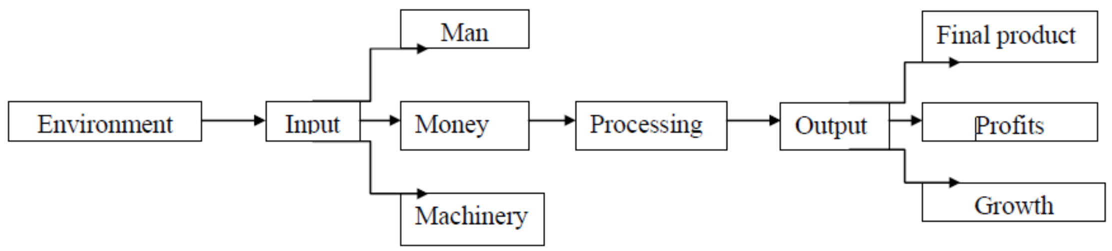
a. **Profitability-** Earn profit by working under rules and regulations.
b. **Growth-** growth should be in terms of profit, revenue, employee prosperity.etc.
c. **Stability-** continuity of business
d. **Efficiency-** Efficiency is considered in terms of labour productivity, energy consumption, quality control etc.
e. Survival:

- capability to survive markets jolts or shocks
- A business should be there with a vision of long term perspectives.

Business Environment-Surroundings every Business like below

- Supply
- Laws
- Demand
- Competition

Business-Environment effect



Environment Influences on Business

1. **Understanding influences of environment** such as demand, supply, technology and competition, etc on business is very important for growth and continuity of business
2. **It is not easy to understand environment because**
   1. Environment encapsulates many hidden aspects such as technology changes, etc which makes it difficult to understand
   2. Changes in environment are uncertain such as changes in demand and supply

Framework to understand the environmental influences

- Initial Overview on environment like how uncertain it is?, how complex it is?, etc
- Audit the environmental influences, to find out how they affect the organization
- Focus on competition factor to develop special strategy to deal with

Why Environment Analysis is important?

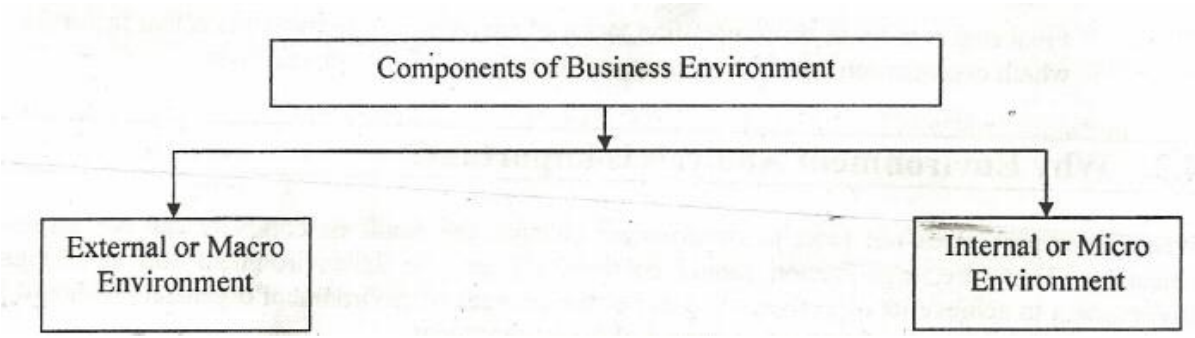
i. To achieve its objective it must watch the environment to grab opportunities and minimise negative impact

ii. Environment analysis serves the following goals or purpose
   - Understanding of current and potential changes in the environment
   - Provide needed inputs for strategic decision making
   - Facilitate strategic thinking in the organization

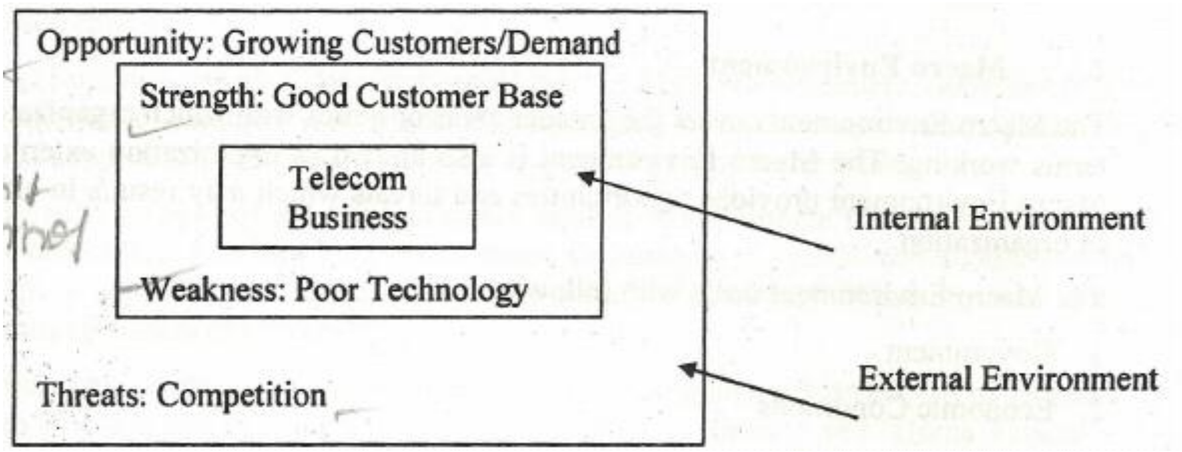
Characteristics of Business Environment:

- Environment is complex
- Environment is dynamic
- Environment is multi-faceted
- Environment has a far reaching impact

Components of Business Environment:



SWOT analysis



Relationship between Organization and Its Environment

- Exchange of Information
- Exchange of Resources
- Exchange of Power and Influences

Environmental Scanning: Environment must be scanned

a. For development and forecasts of success factors
b. To identify opportunities and threats
c. Helps to decide the future path of the organization
d. For grab opportunities and minimize the threats.
e. Threat for one may be an opportunity for another
f. The factors which need to be considered for environmental scanning are
   - Events,
   - Trends

- Issues
- Expectations

The Micro and Macro Environment

Every organization works in two environments

- Micro Environment
- Macro Environment

Elements of Micro Environment

1. **Customers\Consumers:**
   - Customers buy the product and pay Money
   - Consumers are Actual users of goods
2. **Suppliers:**
   - Provide the raw material for production of goods
   - Big organizations procure raw materials from large numbers of suppliers
3. **Organization:**
   - Board of Directors
   - Employees
   - Owners
4. **Competitors:**
   - Competition provides the correct shape to business
   - Should regularly analyze competitors strategies and business objectives
   - **Direct Competition** : Hero Honda and Bajaj auto
   - **In Direct Competition** : Sony to sell 'Home Theatre' and Suzuki to sell 'Car'
5. **Market:** The important elements of market which effect organization working are;
   - Cost structure
   - Price sensitivity
   - Distribution system
   - Technological structure
   - Market stability
6. **Intermediaries:** Distributors, dealers and retailers

Elements of Macro Environment

Economic Environment: There are many economic indicators or factors to be considered for strategic planning such as;

- GDP size and growth rate
- Inflation Rates
- Interest Rates
- Tax Rates
- Money market rates (Repo, Reverse Repo and Call Money)

Population and Demographic Environment: Businesses often analyze the demographic data and trend to understand what factors offers;

1. Opportunities and Threats
2. Market Size of Industry

Normally a company looks for following important factors in demographic environment

a. Population
b. Income distribution
c. Education level
d. Ethnic Mix
e. Geographic profile in terms of urban and rural distribution

Global Environment: The global organizations are known as MNC (Multi National Corporation) or TNC (Trans National Corporation)
MNC Examples : Unilever, Proctor & Gamble, Mc Donald's and Seven-Eleven
TNC Examples : Accenture, Deloitte

- It is an organization of multiple units linked with common ownership
- Multiple units draw on common pool of resources, such as money, information, patents, brand name and credit, etc
- Units respond to common strategy

Multinational (MNC) and Transnational (TNC) companies are types of international corporations. Both maintain management headquarters in one country, known as the home country, and operate in several other countries, known as host countries.

Most TNC's and MNC's are massive in terms of budget and are highly influential to globalization. They are also considered as main drivers of the local economy, government policies, environmental and political lobbying

An MNC have investment in other countries, but do not have coordinated product offerings in each country. It is more focused on adapting their products and service to each individual local market. A TNC, on the other hand, have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market.

Why Do Companies Go Global?

- With the introduction internet world becomes small village
- Domestic markets no longer adequate to growth
- Dependency on natural resources like mines and minerals
- New product-1st Domestic market next foreign market
- Set up service centers or manufacturing units to take benefits of cheap labour and govt. Incentives

Manifestation or Effects of Globalization

- Global Location of Different Operations
- Interlinked and Interdependent economies
- Lower Trade Barriers
- Infrastructure Development
- Importance of Entrepreneurship
- Privatization
- Mobility of skilled worker
- Increased efficiency and quality
- Creation of regional block to promote trade

Technological Environment: Technologies influences style of business operations which leads to many opportunities for business and also makes many existing operation obsolete

- **Impact** of technology on business operation
- **Opportunities** arising out of technological innovations or advancement
- **Risks and uncertainties** from technological changes

- Analysis of impact **micro basis rather than macro level** like Role of R&D budgets and govt. support to R&D
- **Type of technologies** used
- **Criticalness of use of these technologies** for business and process continuity
- **in-house or externally** technology
- If procured externally- **risk of discontinuity**
- **Technologies used are latest** and ahead of used by competitors
- Technologies which require **more investment**

Legal-Political Environment: The government has great influences on businesses, No business can isolate it-self from legal-political system of country. Therefore, it is very

- **Conservative**
- **Cautious**
- **Confident or Aggressive**

PESTLE Analysis

Type	Factors	Effect
Political	• Political stability • Govt. policy • Taxation policy • Trust area of political leaders • Regulatory bodies	**How the company operate**. E.g .Govt. subsidy can increase health, education and infrastructure sectors
Economic	• Economic situation • Interest Rate • Exchange Rate • Inflation -Unemployment • Specific industry factors	**How the company operate** e.g. interest cost increases cost of capital
Socio-cultural	• Demographic • Customer buying pattern • Religious factors • Consumer attitudes • Life style trends	**How the company operate** - Demand of company's product
Technological	• Replacement technology • Maturity of Technology • Innovation potential • Intellectual property right	**How the company operate** • Minimum efficient product level • Cost of product • Demand of Product
Legal	• Business law • Corporate law • Employment Law	**How company operate-** • Its costs • Demand of its product

	• Competition law • Health and safety law	
Environmental	• Environment law • Energy consumption • Waste disposal	**How the company operate** Affected Industries: • Tourism • Framing • Insurance

Effect of Competitions:

- Too much competition is bad for organization and economy
- Competition is, good for both consumers and organizations and also for economy
- It helps to bring the true economic value of any product and service to consumer and forces organization to invent cost effective and high quality products

Cooperation in Competitive Environment:

Cartelization (Oligopoly): In this small number of only sellers may join together to have monopolistic behaviour. OPEC

Kieretsus: The cooperation between Nokia and Airtel in which Airtel sell Noika mobile phone bundled with their talk plan is an example of this type of cooperation

Internal cooperation (family owned business cooperation):

- Cooperation in business owned by same family is normally an automatic process
- Sometimes, quarrels and conflicts among the managing members of the family on family matters tend to distort their behaviour in managing the enterprise also and thereby damage its functioning
- Example Brothers of Reliance industries

Porter's Five Forces Model: Competitive Analysis