CHAPTER 1

BUSINESS ENVIRONMENT

LEARNING OBJECTIVES

1. What is business
2. Five objectives of business
3. Environmental influences on business
4. Relationship between organization and environment
5. Micro environment
6. Macro environment
7. Strategic response to business
8. Competitive environment

L0 1: WHAT IS BUSINESS

There are three perspectives to defining business.

Perspective 1: [Layman's perspective]

"Business" refers to the state of being busy. Anyone can be busy! "Anyone" includes an

- Individual,
- Organization, Or
- Society

Perspective 2: [Occupation perspective]

The word "business" would also mean a person's calling or his avocation. "Person" includes an organisation and society.

Individual examples:

- Anchor; Prannoy Roy
- Actor; Nana Patekar
- Chartered Accountant; William Welch Deloitte
- Chef; Sanjeev Kapoor
- Doctor; Dr Denton Cooley
- Engineer; Ishwar Chandra Vidyasagar
- Lawyer; Nani Palkhivala
- Politician; Bill Clinton
- Painter; M F Hussain
- Sportsman; Sachin Tendulkar

Organisation examples:

- Microsoft is in the business of software.
- Tata Motors is in the business of manufacturing cars.
- Ernst & Young is in the business of management consultancy.
- Apollo Hospital is in the business of health care.
- CNN-IBN is in the television news business.
- Nokia is in the telecom space.
- Blue Cross and CRY are non-Profit organizations.

Society examples:

- India's three principal businesses are agriculture, manufacturing and service. These in 2011 represented 18%, 26% and 56% respectively of GDP.

Perspective 3: [Peter Drucker perspective]

A finer understanding of business happens when you recognize the following:

- Business is created and managed by people.
- Business cannot be explained merely in terms of profits [Profit Maximization].
- It is wealth maximization which is the larger goal of business.

All ideas are NOT business ideas. A business idea is one which meets an unmet demand and drives transactions. Three "enough" are need to be met. Do (i) enough people (ii) want enough of what you would be offering and (iii) pay enough for it? Thus, setting up of an Italian Restaurant in a down town locale may lead to the odd customer dropping in to have a dish but he may be unwilling to pay a good price. Hence this is not a business idea.

LO 2: FIVE OBJECTIVES OF BUSINESS

The five objectives of business – **Survival, Stability, Growth, Efficiency and Profitability** – run in a continuum.

1. Survival

To live as long as one can is "survival". In the initial phase of a business the objective is to "survive". Survival means, "Not getting killed by the competition". Business follows the law of the jungle; namely 'survival of the fittest'. Survival is important for success. In a marathon race, the athlete begins at a slow pace, conserving his energy for the final burst. For a company to survive it has to first break even; then comes making profits.

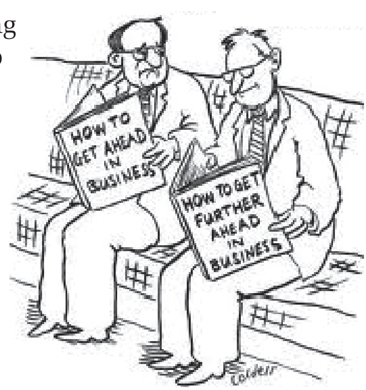
2. Stability

Post survival, a firm looks for stability. Stability can be in terms of sales or profits. A company following this objective is seeking to maintain the status quo; of not rocking the boat. Some stability is necessary before moving to growth. In the middle phase of the marathon the athlete maintains a steady pace before he sprints in the final leg. In a sense, stability is the least expensive objective in terms of time, talent and resources.

3. Growth

Every business wants to "Grow." With expansion comes more profits. Also, growth brings in its wake self-esteem. Growth could be in terms of:

- Volume of business, (Increasing turnover from 10,000 tons to 15,000 tons)
- Value of sales, (Increasing turnover from Rs 50 million to Rs 100 million)
- Number of customers, (Rising the number of clients from 1200 to 1500)
- Moving up the value chain, (From being a provider of raw-

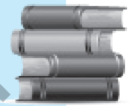


material to becoming the provider of the product which uses this raw-material)

- Progressing from doing low skilled work to highly skilled work. (A company engaged in BPO operations wanting to move to becoming a KPO).

4. Efficiency

1. Survival	:	Survival first, growth later
2. Stability	:	Sales and Profits
3. Growth	:	Profit, turnover, returns
4. Efficiency	:	Day to day operations
5. Profitability	:	Ability to make profits



Business is an economic activity. It seeks to add value to the customer and profit to the firm. Profit is the difference between the revenue earned and the costs incurred.

Profit can be increased in 2 ways. Either, increase the revenue or reduce the cost. While the first is dependent on external forces, the second is dependent on internal factors. Efficiency is a tool to reduce costs. If the work processes are conducted in an efficient way, it would lead to fall in costs and increase in profits. Efficiency relates to the activities involved in the day-to-day running of the business.

5. Profitability

Profitability means the ability to make profits. All businesses must make profits. Peter Drucker once said, “There is no such thing as a non-profit organization. There are only organizations that do not make profits.” If a business ceases to make profits, it will have to be closed. So survival, stability and growth exist only with profits. Efficiency will enhance profits. Hence ultimately, a business is important to a businessman only if it is making profits.

The nature of objectives!!

- Survival is the basic objective of most of the organizations.
- Stability minimizes conflict and demands less dynamism from managers.
- Growth takes several forms like increase in assets, increase in sales volumes, minimizing cost, improvements in market share.
- Efficiency is an operational objective because when an activity is carried out efficiently, both cost and time are reduced.
- While profitability is a key objective it cannot be the only objective.

LO 3: ENVIRONMENTAL INFLUENCES ON BUSINESS

The surrounding around the business is referred to as the business **environment**.

A business exists in an environment and cannot be independent of it. Hence there is a constant two-way interaction between

- Business and
- Environment

Business ⇄ **Environment**

The environment consists of

- Socio-economic conditions,
- Suppliers,
- Investors,
- Customers,
- Creditors,
- Shareholders and
- Government.

Rule 1: Environment drives business activity
As long as we were a protected economy (pre 1991) the key attribute to success was how well businessmen liaised with government. Today, we operate in a market economy where the key attribute to success is knowledge, skill and attitude. We have thus seen a shift from largesse to meritocracy. This change is on account of the change in the environment.

Rule 2: Business activity drives environment
The environment is in turn affected and shaped by business. The dramatic growth in technology has seen the emergence of new businesses such as mobile telephony and transactions through Internet. This has changed the way people live.

The difficulties in understanding the environment (**AKA characteristics of business environment**) arise out of the following.

1. **Impact:** It is relatively easy to list out all the possible environmental influences. But it is difficult to identify which one would have what impact on the business enterprise.

2. **Uncertainty:** The environment is subject to changes that are difficult to anticipate. **Example**: The Government's decision to allow Foreign Direct Investment in retail came in as a surprise.

3. **Complexity:** Various interdependent factors work simultaneously making it hard to grasp the consequences. **Example:** The Indian Aviation industry is held hostage to fluctuations in the price of turbine fuel.

Why Environmental Analysis

- To provide an understanding of the current and the potential changes taking place in the environment.
- To provide inputs for strategic decision making.
- To facilitate strategic thinking.

Such analysis should be continuous to facilitate fresh viewpoints and to prevent complacency from setting in.

4. **Dynamic:** The environment is dynamic. Decisions cannot be taken based on assumptions that are rapidly changing. **Example:** Deccan Aviation announced its IPO while the stock market was booming but by the time it listed, the market had crashed and the company could not raise enough funds.

A successful business has to identify, appraise and respond to various opportunities and threats in the environment.

Business depends on the external environment

- for the INPUTS (Physical, Human, Finance and Technology) AND
- for disposing the OUTPUTS (Products and Service) in a mutually beneficial manner

Every business activity can be divided into 3 basic parts.

- An input
- A process and
- An output

The Inputs are the 4 M

- Men
- Material
- Machine and
- Money

Processing involves the conversion of inputs into output by the business. The 4 Inputs coalesce to become a finished product. For instance, Materials are bought with the help of money, and are processed in the machine by men to generate the finished product.

The output is sold to the external environment and the surplus is profit.