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BUSINESS ENVIRONMENT

1. WHAT IS BUSINESS? (LO 1)

Perspective	Understanding	Example
Layman	State of being busy	This is much the same as a person's vocation
Occupation	Person's Vocation	Individuals: <ul style="list-style-type: none">• Anna Hazare-Activist• Kiran Shaw-Entrepreneur• Virat Kohli -Sports• Dr S.Radha Krishnan-Teaching• Barack Obama-Politician• J K Rowling-Author Organization: <ul style="list-style-type: none">• Apple-Hardware• Honda-Manufacturing Cars• Deloitte-Management Consultancy Society: India's principal businesses are Agriculture, Manufacturing and Services
Thus:	Business represents what keeps a person, an organization or society busy	
Peter Drucker	Business is created and managed by people. Profit Maximization is the original goal of business. Today, Wealth Maximization is the larger goal of business.	

2. FIVE OBJECTIVES OF BUSINESS (LO 2)

Objectives	Core Idea	Focus-Business
Survival	Staying afloat	<ul style="list-style-type: none"> For a company, survival or breaking even comes first. Then comes earning profit.
Stability	Maintain status quo	<ul style="list-style-type: none"> Say, in Sales and Profit
Growth	Expand	<ul style="list-style-type: none"> Value of Sales No of Customers
Efficiency	Add value to customer	Two way approach: <ul style="list-style-type: none"> Increase Profit-Depends on external factors Reduce Cost-Depends on internal factors
Note: If work is done efficiently, profits are automatically earned		
Profitability	Ability to make profits	<ul style="list-style-type: none"> Pick products that have the ability to make profits.

3. ENVIRONMENTAL INFLUENCE ON BUSINESS (LO 3)

- The “surrounding” is referred to as environment.
- Business environment would hence mean “surrounding around the business”.
- Business is not independent of, but interacts with, the environment. This interaction is a two way traffic with business affecting environment and environment affecting business.



Elements in Environment

- Customers
- Creditors
- Government
- Lenders
- Shareholders
- Society

Rule 1: Environment drives business entity

Pre-liberalization ability to liaise with the government. In a market economy the key attributes to success are Knowledge, Skill and Attitude. This dramatic change in focus is primarily due to change in the environment.

Rule 2: Business Activity drives environment

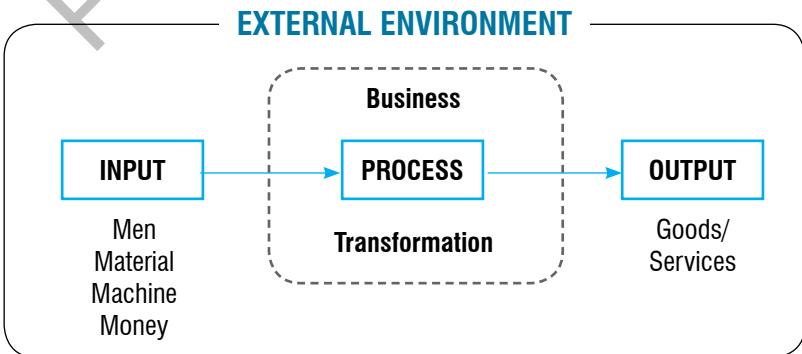
Environment also responds to business. A change in business attribute affects environment. Example: The arrival of Internet changed the way we conduct business. Same goes for mobile telephony.

Characteristics of Business Environment

- 1. **Impact:** It's easy to list all possible influences, but difficult to identify which one would impact the business.
- 2. **Uncertainty:** Unpredictable. Example: Government's decision to allow FDI in retail
- 3. **Complexity:** Interdependent factors interact which gives a multiplier effect that makes it hard to grasp consequences
- 4. **Dynamic:** Rapidly changing. Hard to arrive at decisions based on assumptions.

How to mitigate? Environmental Analysis – provides an understanding of current and potential changes in environment; input to strategic thinking and decision making-it's not a onetime activity, but a continuous process.

Relationship between Business and External Environment



4. RELATIONSHIP BETWEEN ORGANIZATION AND ENVIRONMENT (LO 4)

Levels	Items	Focus
Level 1	Exchange of information	Inputs -Scanning the environment for inputs for planning, control and decision making. Output -Transmitting information. Like: Annual reports, advertisement etc
Level 2	Exchange of resources	Inputs - Men, Materials, Machines and Money. Output -Goods/Services
Level 3	Exchange of influence and power	Environment -Command over resources Business -Bargaining power and influence

Environment has two components:

Components	Elements
Micro Environment	Consumers, Competitors, Organization, Market, Suppliers, Intermediaries
Macro Environment	Political, Economic, Social, Technological, Global, Demographic

5. MICRO ENVIRONMENT (LO 5)

Micro with respect to business-Small/Integral Environment/Firm specific

Elements	Meaning	Focus/Analysis
1. Consumer/ Customer	Customer: Who pays for the product Consumer: Who uses the product	Who are our consumers/ customers? What do they want? What are their buying patterns?

<p>2. Competitors</p>	<p>Competition is fight for same market and same resources. It takes place at four levels: Brand-Offering similar product to same customers at similar price. Industry-Companies making same class of product. Form-Manufacturing products that meet same utility Generic-Companies competing for same consumers</p>	<p>Who are our competitors? What are their present strategies? What is their SWOT?</p> <p>Examples: Brand: Mercedes Benz Industry: Maruti vs. Honda Form: Maruti vs. Hero Honda Generic: Maruti vs. Club Mahindra</p>
<p>3. Organization</p>	<p>Consist of Owners, Board of Directors (BOD) and Employees</p>	<p>Owners-Profit & growth BOD-Institution building Employees-Career and pay</p>
<p>4. Market</p>	<p>Final battleground which decides the winners</p>	<p>Market Attractiveness; Bigness of the market; Cost Structure; Distribution system; Emerging trends; Growth prospects, Key success factors.</p>
<p>5. Suppliers</p>	<p>Providers of raw material, goods & services, capital expenditure</p>	<p>Bargaining power, Negotiation, Contracts, Terms and Conditions</p>
<p>6. Intermediaries</p>	<p>Middlemen who facilitate contract</p>	<p>Distribution channel to reach consumers. Cost effective distribution channel.</p>

6. MACRO ENVIRONMENT (LO 6)

External Environment [PEST Analysis]

Elements	Meaning	Focus/Analysis
1.Political	Factors are the extent to which government intervenes in the economy. Includes: Tax Policy, Labour policy, Environmental Laws, Political stability	What is the government policy on economy? Will it impact, regulate or tax?
2.Economic	Economic factors that impact business financially. Includes interest rates, exchange rates etc	Technical Analysis, Stock market analysis, Forex Movements, RBI Policies on Interest
3.Social Cultural	Factors include social concerns, social attitudes, family structure, role of women in society, social values, social trends	Different in different countries
4.Technological	Includes anything that is designed to help work efficiently. Includes R&D, automation etc	Be technologically state-of-the-art
5.Globalisation	Integration of the world into one market. Geographical boundaries collapse	Manifestations: Configure anywhere; Inter-linked economy; Privatization; Mobility of resources
6.Demographic	Means characteristics of a population.	Includes size, sex ratio, age, ethnic, income, education, employment, asset ownership