

BUSINESS ENVIRONMENTAL & ANALYSIS

Introduction

Business

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The Micro and Macro Environment

Elements of Micro Environment

Elements of Macro Environment

Strategic Response to the Environment

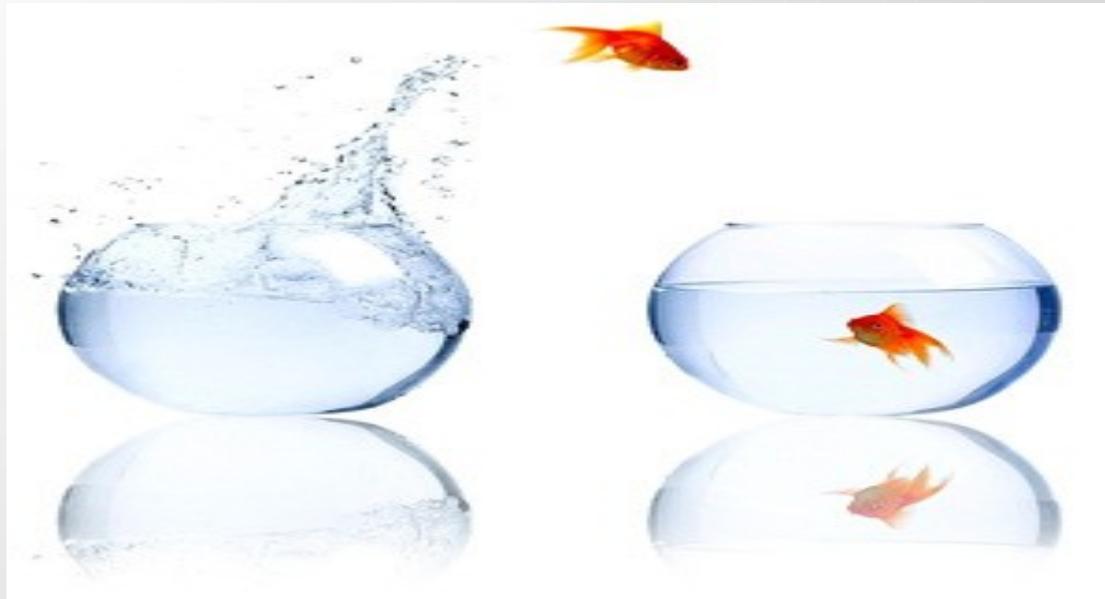
Competitive Environment

Porter's Five Forces Model – Competitive Analysis



Strategic - Definition

- *“The process by which strategists monitor the economic, governmental/legal, market / competitive, supplier / technological, geographic, and social settings to determine opportunities and threats to their firms”*
- *“Environmental diagnosis consists of managerial decisions made by analysing the significance of data (opportunities and threats) of the environmental analysis”*





Introduction

- The term Business Environment is composed of two words 'Business' and 'Environment'. In simple terms, the state in which a person remains busy is known as business. On the other hand, the word 'Environment' refers to the aspects of surroundings.
- Business operates in **Unique** Environment and cannot function in isolation.
- Business is like **open systems** which continuously interacts with environment i.e. Business enterprises exist in and are surrounded by an 'environment' called as the business or organisational environment.
- Society and business enterprises are **mutually dependent** i.e. Business enterprises satisfy societal needs. Relationship between society and business enterprises takes place in a changing environment

Business - Definition

- An organization or enterprising entity engaged in **commercial, industrial or professional activities**. A business can be a for-profit entity, such as a publicly-traded corporation, or a non-profit organization engaged in business activities, such as an agricultural cooperative.
- Any commercial, industrial or professional activity undertaken by an **individual, group, organization or society**.
- A reference to a specific area or type of **economic activity** which may include purchase, sale, manufacture, processing, and or marketing of product or services.
- For business profit is often regarded as overall measure of performance (it is **financial yardstick** for measuring business efficiency and evaluating **managerial competence**)



DEFINITION

Business - Explanation



- Businesses include **everything** from a small owner-operated company such as a family restaurant, to a multinational conglomerate such as General Electric.
- To "do business" with another company, a business must engage in some kind of **transaction or exchange** of value with that company.
- In this sense, the word "business" can be used to refer to a **specific industry** or activity.
- Business is **created and managed** by people who make decisions for growth of business. (Peter Drucker)
- Profit is not the **sole objective** of business rather it includes development of wealth, goodwill, societal factors, relations etc.

Objective of Business

Purpose of Business is to create **Customers** or **Markets** which in turn caters to society

- Profitability
- Productive Efficiency
- Growth
- Technological Dynamism
- Stability
- Self Reliance
- Survival

Business is **society organ** of economic expansion, growth, and change

- Competitive Strength
- Customer Service
- Financial Solvency
- Product Quality
- Diversification
- Employee Satisfaction and Welfare



Importance of Business Environment

Business environment is complicated and active in nature and has a far-reaching impact on the survival and growth of the business.

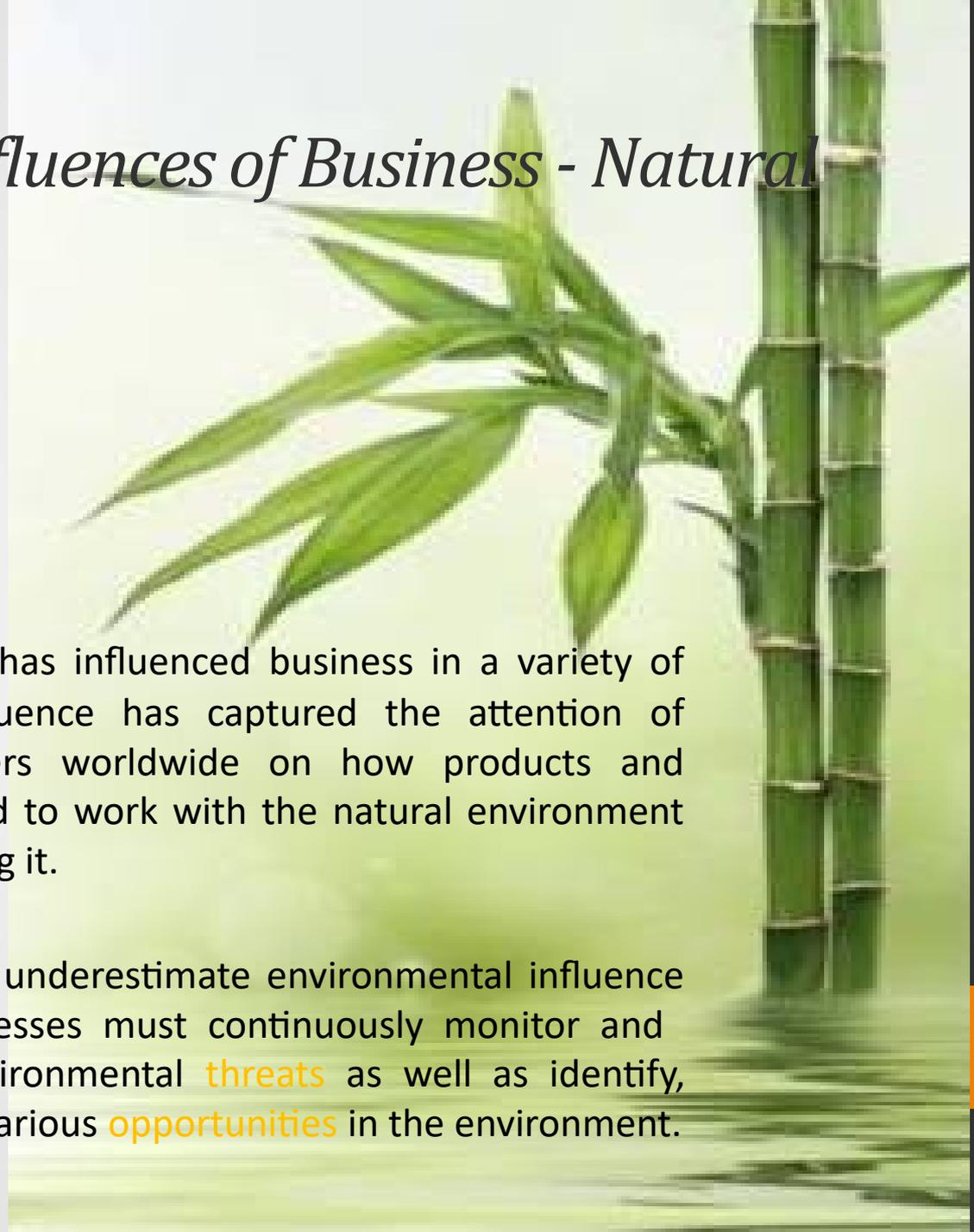
- *Determining Opportunities and Threats*
- *Giving Direction for Growth*
- *Continuous Learning*
- *Image Building*
- *Meeting Competition*
- *Identifying Firm's Strength and Weakness*



Environmental Influences of Business - Natural

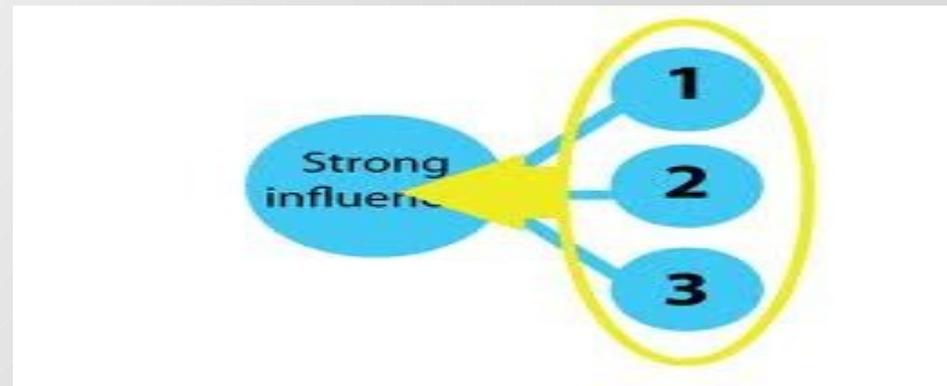
The natural environment has influenced business in a variety of ways. Environmental influence has captured the attention of companies and consumers worldwide on how products and services are delivered, and to work with the natural environment instead of slowly destroying it.

Businesses that ignore or underestimate environmental influence will eventually fail. Businesses must continuously monitor and adapt to survive the environmental **threats** as well as identify, appraise, and respond to various **opportunities** in the environment.



Business Influenced by.....

- Business decisions are influenced by two sets of factors
 - **Internal factors (The Internal Environment)**
 - **External Factors(The External Environment)**
- Business Environment presents two challenges to the enterprise
 - *The challenge to combat the environmental threats*
 - *Exploit the business opportunities*
- Environmental Analysis is one of the **first steps** in Strategic Management



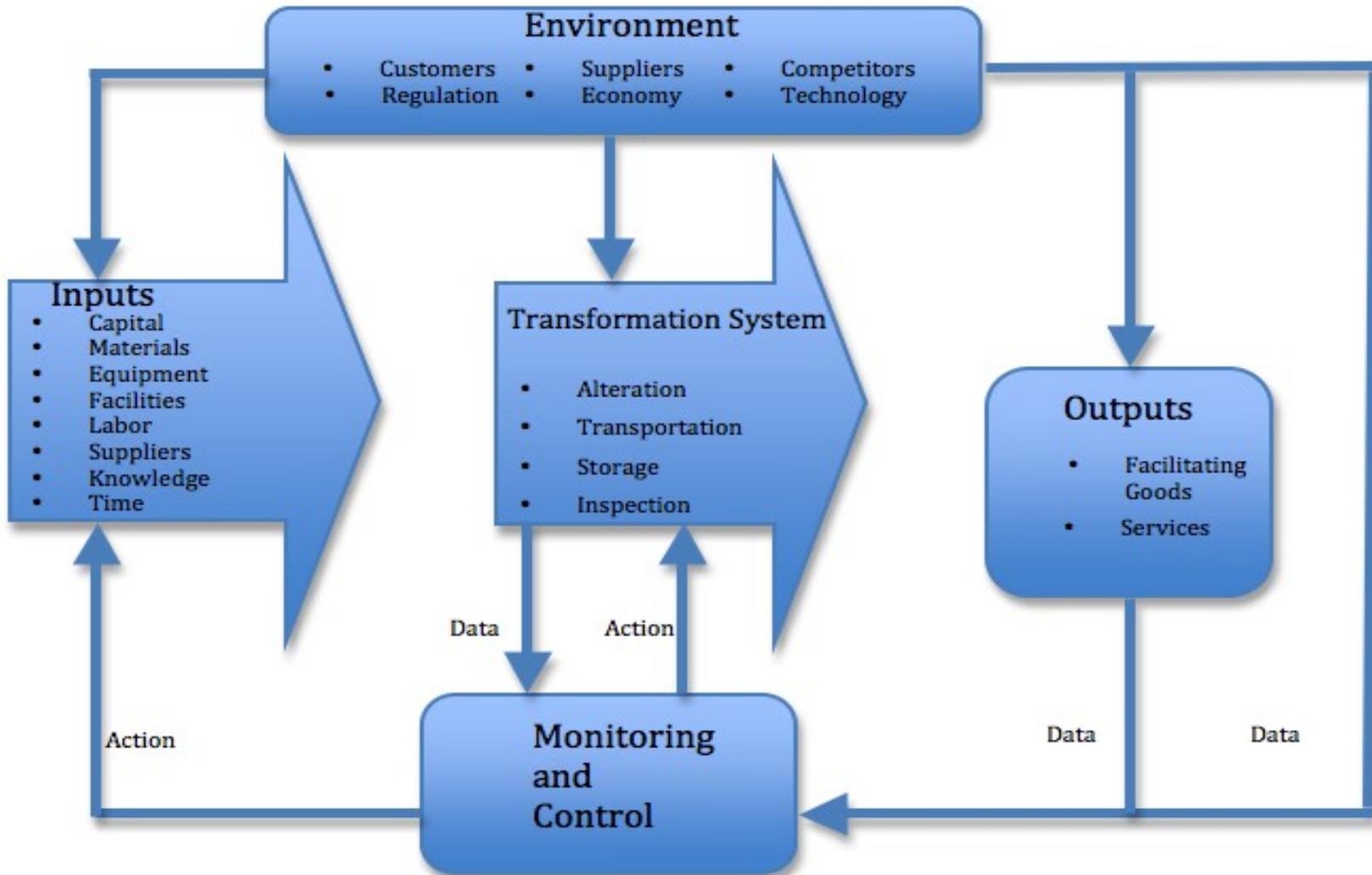
Environment = External + Internal Forces

- INTERNAL
- EXTERNAL

- MACRO
- MICRO

ENVIRONMENTAL VARIABLES

*External is **beyond** Control of Individual, Industrial Enterprise, and Their Management, and **vary** from industry to industry and country to country. A strategist looks on environment as posing threats to the firm or offering immense opportunities for exploitation.*

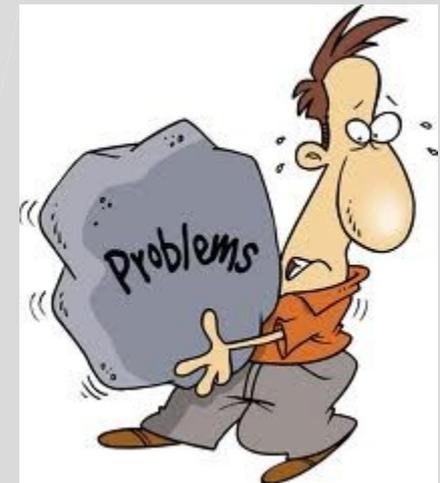


*Different Organizations use **different inputs**, adopt **different processes**, and produce **different outputs**.*

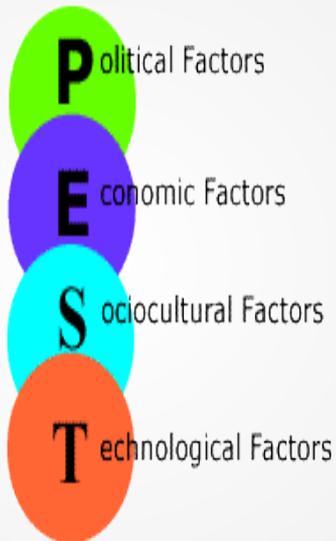
*Input - Output exchange activity is a **continuous process** which actively interacts with external environment*

Problems in Understanding the Env. Influences

- The environment encapsulates different **influence and diversity** which makes strategic decision making difficult.
- **Uncertainty** due to fast technological and global change makes it difficult to understand future external influences on organization.
- Coping with business and environmental complexities is based on **ever changing** environment. The strategic management task is to simplify and achieve useful and usable level of analysis without bias.



Framework to Understand Env. Influences



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- Understand nature of organization environment (static, dynamic, complex, difficult to comprehend etc.)
- Auditing the environmental Influences both favorably or unfavorably with respect to changes in **PEST**.
- Construct **pictures, scenarios** of possible future, and the extent to which strategies need to change.
- Immediate organization environment is **competitive** environment and assessing competitive position - that is how it stands in relation to other organization competing for resources, customers, markets etc.

Environmental Scanning

*Environmental Scanning is the **monitoring, evaluating and disseminating** of information from the external and internal environments to key people within the corporation.*

A corporation uses this tool to avoid strategic surprise and to ensure its long-term health and sustainability of business.



Techniques For Environmental Scanning

Involve **two** phases: **Information gathering and Evaluation**

- **Verbal & Written Information:** verbal information includes, information obtained by direct talk with people, by attending seminars, meetings, etc.. , Written or documentary information includes both published and unpublished materials
- **Search and Scanning:** this involves research for obtaining the required information
- **Spying:** Eve though it is not considered as ethical, spying to get information about the competitor is not uncommon.

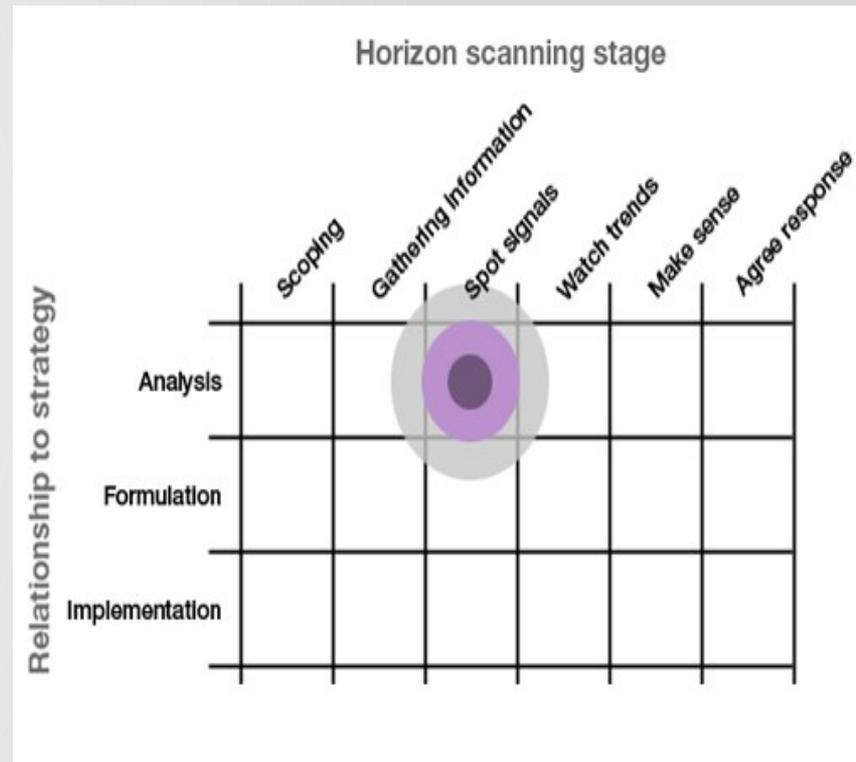
These 3 pertains to source of information/methods of gathering information

- **Forecasting:** Done by corporate planners or other staff personnel or consultants , This pertains to use the information gathered by above mentioned 3 methods for picturing the future scenario.

Why Environmental Analysis

FUTURE IS UNCERTAIN AND NOT ALL FUTURE EVENTS CAN BE ANTICIPATED

- Analysis should provide an understanding of current and potential changes taking place, besides long term future prospective.
- Environmental analysis provides inputs in form of information which is useful for strategic decision making.
- Environment analysis should facilitate and foster strategic thinking in organization by bringing fresh view points and ideas in context of business operations.



Characteristics of Business Environment

ENVIRONMENT IS COMPLEX

- EVENTS
- CONDITIONS
- INFLUENCES
- EASIER TO UNDERSTAND IN PARTS
- DIFFICULT TO UNDERSTAND IN TOTALITY

ENVIRONMENT IS DYNAMIC

- CONSTANTLY CHANGING IN SHAPE AND STRUCTURE

ENVIRONMENT IS MULTIFACETED

- DEPENDS ON PERCEPTION OF OBSERVER
- NEW DEVELOPMENT MAY BE OPPURTUNITY FOR ONE AND THREAT FOR OTHER

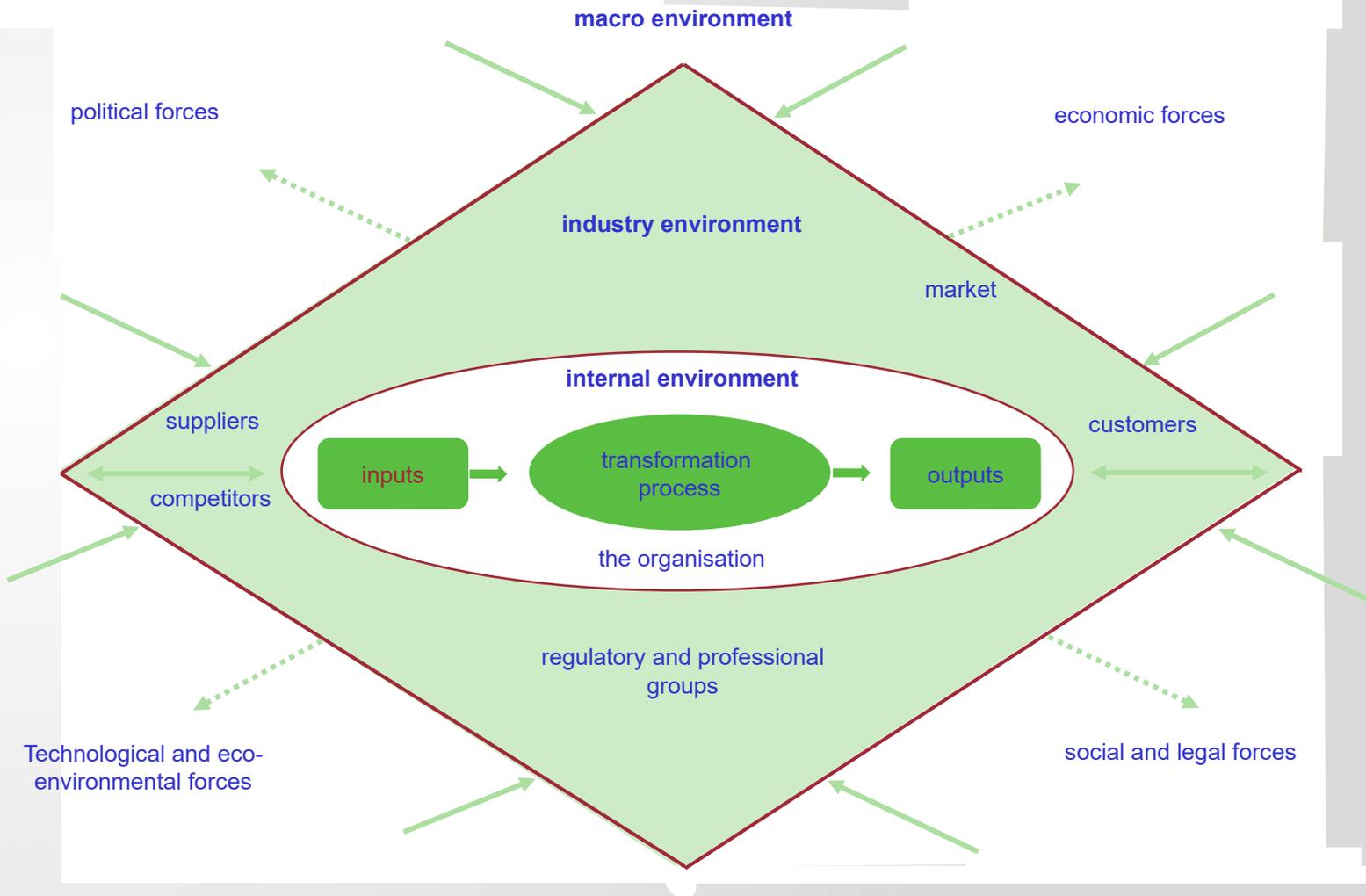
ENVIRONMENT HAS FAR REACHING IMPACT

- GROWTH AND PROFITABILITY DEPENDS ON ORGANIZATIONAL ENVIRONMENT

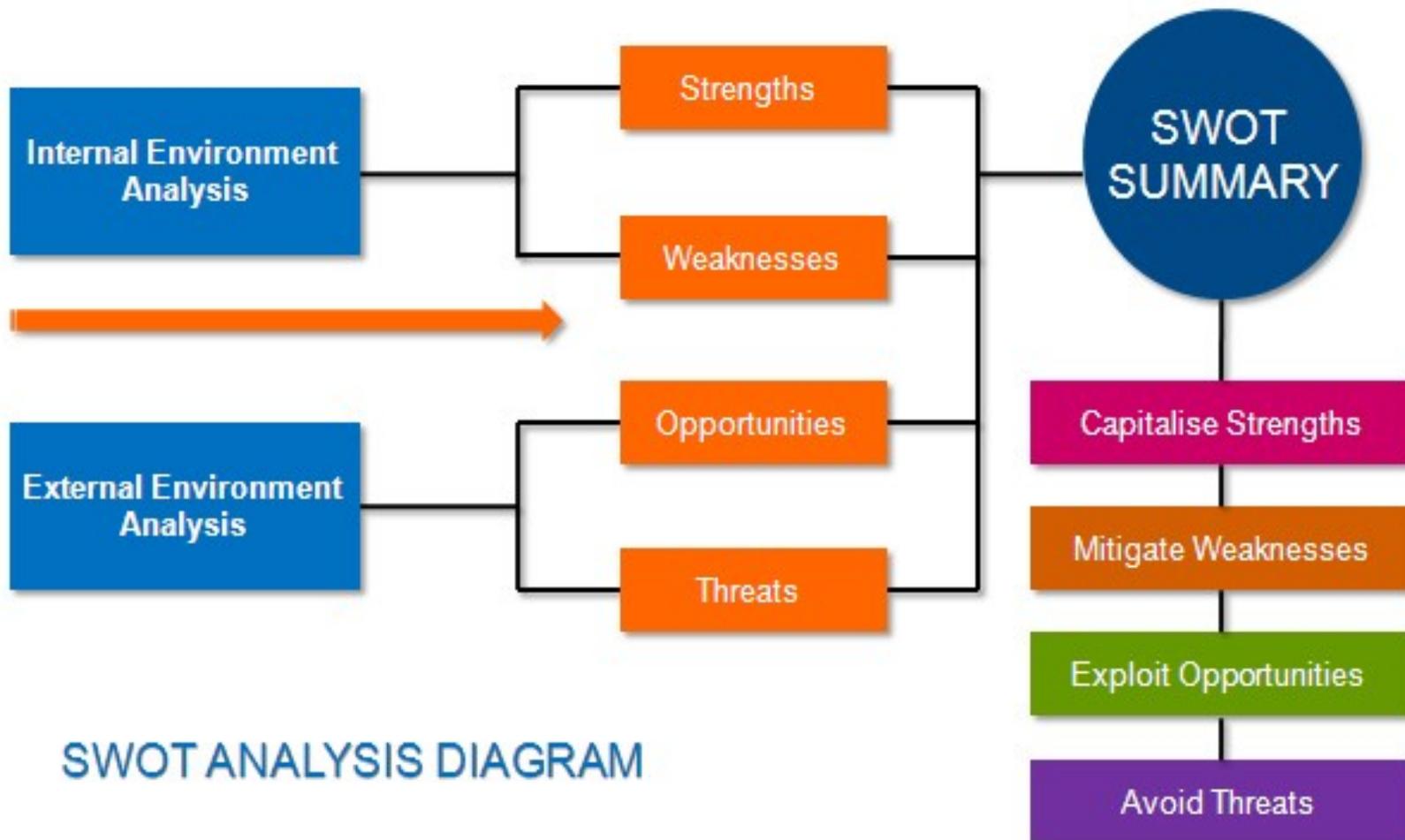
Types Of Environment



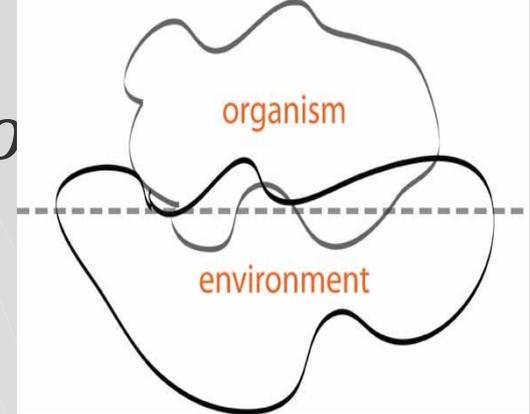
Components of Business Environment



Business Environment



Relationship Between Organization and Environment



- **Exchange of Information** – Study of Behaviour and Changes, uses this information for Planning, Decision-making, and Control Purposes. Information generation and transmission of information to external agencies.
- **Exchange of Resources** – Inputs received from external environment, and so is disposal of its output for wide array of clientele satisfying the need and demands of external environment.
- **Exchange of Influence and Power** - External environment holds considerable power by virtue of being more inclusive and by virtue of command over its resources, information and inputs. It offers range of opportunities, incentives, and rewards on one hand, and set of constraints, threats, and restrictions on the other. In both ways organization is conditioned and constrained.
For example – Government Control, Collective power of Customers, Suppliers, Competitors etc. Relationships depends on fact whether environmental elements behave randomly or structured manner (uncertain vs predictability).

Internal Environment - Components

Internal environment has direct impact on business. Important internal factors which have a bearing on the decisions of a business firm and which are generally controllable because the company has control over these factors:

- *Value system*
- *Vision, Mission and Objectives*
- *Management Structure and Nature*
- *Internal Power Relationship*
- *Human Resources*
- *Company Image*



Internal Environment - Components

Value System - The value system of founders and those at the helm of affairs has important bearing on the choice of business, the mission and objectives of the organization, business policies and practices.

Vision, Mission, and Objectives - The business domain of the company, priorities, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company

Management Structure and Nature - The organizational structure, the composition of the Board of Directors, extent of professionalization of management etc. are important factors influencing business decisions. Board of directors is the highest decision making body and it oversees performance of the organization and so its quality is very important. The share holding pattern can also have important managerial implications.

Internal Environment - Components

Internal Power Relationship - Factors like the amount of support the top management enjoys from lower levels and workers, share holders and Board of Directors have important influence on the decisions and their implementation. The relationship between the members of Board of Directors, and CEO is also a critical factor.

Human Resources - The characteristics of the human resources like skill, quality, morale, commitment, attitudes etc. could contribute to the strength and weakness of the organization. The involvement, initiative etc. of the people at different levels may vary from organization to organization. Ex: Some organizations find it difficult to carry out restructuring or modernization because of resistance by employees whereas they are smoothly done in some others.

Internal Environment - Components

Company Image and Brand Equity - The image of the company matters while raising finance, forming joint ventures or other alliances, soliciting market intermediaries, entering purchase or sale contracts , launching new products etc.

OTHER FACTORS

1. *Physical Assets and Facilities*
2. *R&D and Technological Capabilities*
3. *Marketing Resources*
4. *Financial Factors*

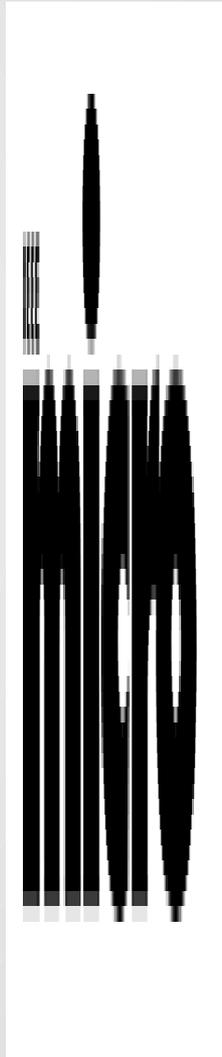


External Environment



- Demographic
- Economic
- Government
- Legal
- Political
- Cultural
- Technological
- Global

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- Consumer / Customer
- Competitors
- Organization
- Market
- Suppliers
- Intermediaries
- Publics

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Microenvironment

- Also known as *task environment* and *operating environment*
- It includes
 - Consumers / Customers
 - Competitors
 - Organization
 - Market
 - Suppliers
 - Intermediaries
- More intimately linked with the company than macro factors
- The micro forces need not necessarily affect all the firms in a particular industry in the same way.
- Some of the micro factors are particular to a firm.



Consumers /Customers

- Major task of business is to create and sustain customers
- Different categories of consumers / Benefits looking for / Buying Patterns
 - Individuals
 - Households
 - Industries and other commercial establishments
 - Government and other institutions
- Depending on single customer is too risky
- Choice of customer should be done by considering
 - Relative profitability
 - Dependability
 - Stability of demand
 - Growth prospectus
 - Extent of competition



Competitors

- A firm's competitors include not only the other firms which market the same or similar product but also all those who compete for the income of the consumers.



- Desire competition
 - Generic competition
 - Product form competition
 - Brand competition
- The competition here among these products may be said as desire competition as the primary task here is to fulfil the desire of the customers.
 - Who are the competitors
 - What is their present strategy and business objectives
 - Who are the most aggressive and powerful competitors.

Organization



- Individuals occupying different positions, working in different capacities, having different interests.
- It is self analysis of organization (both strengths and weakness)
- The groups that are likely to influence an organization are:
 - Owners – Individuals, Share holders, Groups have vested interest of well being of the company.
 - Board of Directors (Companies Act 956) – Elected by share holders, they oversee the general management of the organization and protect share holders interests.
 - Employees - They should embrace same values and goals as the organization or else the organization will suffer.

Market

- Market is larger than Customers.
- Market is studied for its actual potential size, its growth prospects, and its attractiveness.
- Important Issues are:
 - Cost Structure of Market
 - The Price sensitivity of Market
 - Technological structure of the Market
 - The Existing distribution system of the market
 - Is the Market Mature



Suppliers

- Those who supply the inputs (raw materials, equipments and services to the company.
- Source/Sources should be Reliable
- Uncertainty regarding the supply or other supply constraints or compel s companies to maintain high inventories causing cost increases.
- Very risky to depend on a single supplier
- The purchasing department should “market” itself to suppliers, to obtain favourable treatment during the periods of shortages.
- Organizational decisions about “Outsourcing” or “In-house Production” is very important

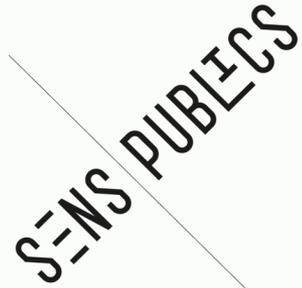


Marketing Intermediaries

- Firms that aid the company in promoting, selling and distributing its goods to final buyers. They are important link between company and customers.
- It Includes:
 - The middlemen and merchants who “help the company find customers or close sales with them”
 - Physical distribution firms which “assist the company in stocking and moving goods from their origin to their destinations”
 - Marketing service agencies which “assist the company in targeting and promoting its products to the right markets”
 - Financial intermediaries which “finance marketing activities and insure business risks”
- Vital links between the company and the final consumers.



Publics

The logo consists of the words "SENS" and "PUBLICS" stacked vertically, with a diagonal line crossing through them from the top-left to the bottom-right. The text is in a bold, sans-serif font.

- Any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests. E.g. Media publics, citizens action publics, local publics
- Media attack on any company can influence the government decisions affecting the company.
- Environmental pollution is an issue often taken up by number of local publics
- Publics are not always threat to the business.
- Fruitful cooperation between a company and the local publics may be established for the mutual benefit.
- NGOs have been protesting against child labour, cruelty against animals, environmental problems, deindustrialization resulting from imports etc.

External Environment (Micro Environment)

CONSUMERS / CUSTOMERS

Micro environment of the business

COMPETITORS

Micro environment of the business

ORGANIZATION

Micro environment of the business

MARKET

Micro environment of the business

SUPPLIERS

Micro environment of the business

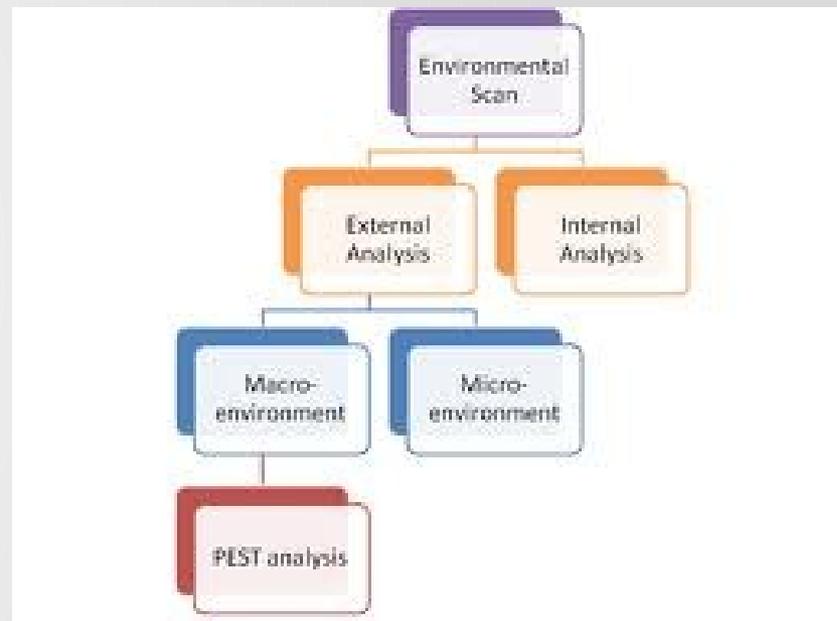
MARKET INTERMEDIARIES

Micro environment of the business

Macro Environment

- Consists of larger societal forces that affect all the actors in company's micro environment-namely :

- Demographic
- Economic
- Political - Legal
- Socio – Cultural
- Technological
- Natural
- Global



- Also known as *Societal Environment* – It includes general forces that do not directly touch on short-run activities of the organization but that can, and often do, influence its long-run decisions.

Demographic Environment

Denotes characteristics of population in area (race, age, income, educational attainment, asset ownership, employment status, Size, growth rate, age composition, sex composition of population, family size, educational levels, economic stratification of the population, language, caste, religion, and location).

POPULATION SIZE

- Change in birth rate, family size
- Increase and decline in total population
- Effect of Rapid population growth on natural resources

GEOGRAPHIC DISTRIBUTION

- Attractiveness of Companies location
- Availability of qualified work force
- Concept of working from home due to IT revolution

ETHNIC MIX

- Change in product and service design
- Demand of new products and services
- Culturally diverse work force
- Advantages of work force heterogeneity

INCOME DISTRIBUTION

- Individual and group purchasing power
- Consumption
- Spending
- Saving pattern

Economic Environment



- Economic environment refers to the aggregate of the nature of economic system of the country, business cycles, the socio-economic infrastructure etc. The successful businessman visualizes the external factors affecting the business, anticipating prospective market situations and makes it suitable to get the maximum benefits with minimize cost. Important factors are: **Economic conditions, Economic policies, and Economic systems**
- **Economic condition**
 - The economic conditions of a country – for example, the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, etc.- are among the very important determinants of business strategies. In a developing country, the low income may be the reason for the very low demand for the product.

Economic Environment

India: Fastest Growing Free Market Democracy

15 years

6 governments

5 prime ministers

ONE DIRECTION

8% GDP growth



Economic Environment



- **Economic Policies**

- Some types or categories of business are favourably affected by government policy, some adversely affected, while it is neutral to some others.
- E.g. a restrictive import policy may greatly help the import competing industries, while a liberalisation of the import policy may create difficulties for such industries

- **Economic System**

- The scope of the private business depends on the economic system.
- The freedom of the private enterprise is the greatest in the free market economy.

Political - Legal Environment

GOVERNMENT
AFFECTS
BUSINESS
DIRECTLY
(TAXES AND
DUTIES)

It includes factors like:

- General state of political Development
- Degree of Politicization of Business
- Level of Political Mortality
- Law and Order Situation
- Political Stability
- Political Ideology
- Practices of Ruling Party
- Efficiency of Government Agencies
- Government Intervention in Business
- Government Policies (Fiscal, Monetary, Industrial, Labour, Export-Import Policy)
- Specific Legal Enactments & Implementation
- Public Attitude towards Business



Political - Legal Environment



- Has close relationship with the economic system and economic policy.
- It includes factors such as characteristics and policies of the political parties, nature of Constitution and government system relating to business policies and regulations.
- Important economic policies such as industrial policy, policy towards foreign capital and technology, fiscal policy and foreign trade policy are often political decisions.
- In many countries regulations to protect consumer interests have become stronger. Some governments specify certain standards for the products to be marketed in the country; some even prohibit the marketing of certain products. Promotional activities are subject to various types of controls. Eg: In India, Advertisement of alcoholic product is prohibited and the packages must carry “injurious to health” warnings

Socio - Cultural Environment

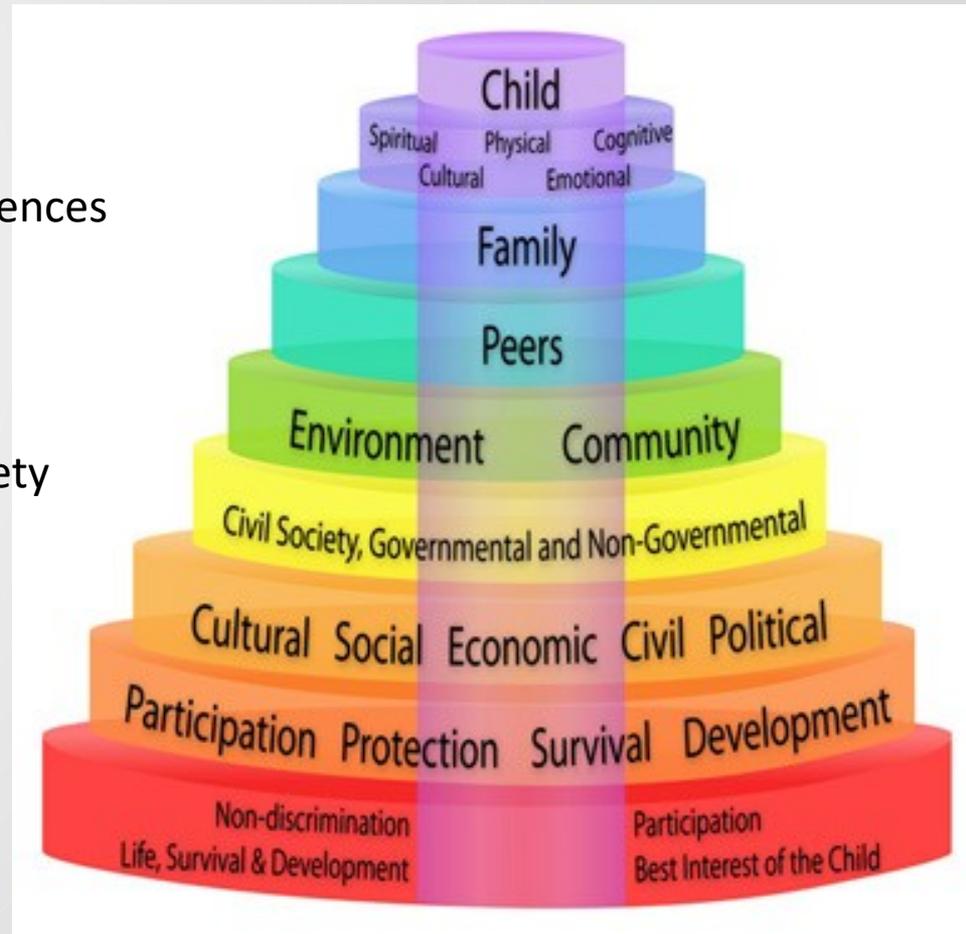


- The social dimension or environment of a nation determines the value system of the society which, in turn affects the functioning of the business.
- Sociological factors such as costs structure, customs and conventions, mobility of labour etc. have far reaching impact on the business. These factors determine the work culture and mobility of labour, work groups etc.
- Strategy should be appropriate in the socio-cultural environment. Eg: nestle brews a very large variety of instant coffee to satisfy different national tastes.
- Even when people of different cultures use the same product; the mod of consumption, conditions of use, purpose of use or the perceptions of the product attributes may vary so much so that the product attributes, method of presentation, positioning or method of promoting the product may have to be varied to suit the characteristics of different markets. E.g.: Vicks Vaporub, the popular pain balm is used as mosquito repellent in some tropical countries.

Socio - Cultural Environment

It includes factors like:

- Buying and Consumption Pattern
- Values and Beliefs
- Literacy Level / Education
- Ethical Standard
- State of Society, Tastes & Preferences
- Extent of Social Stratification
- Conflict and Cohesiveness
- Human Relationships
- Language, Belief, Norms in Society
- Social Customs & Traditions
- Social Rituals
- Changing life Style Patterns
- Family Structure
- Work Ethics
- Media and Consumerism

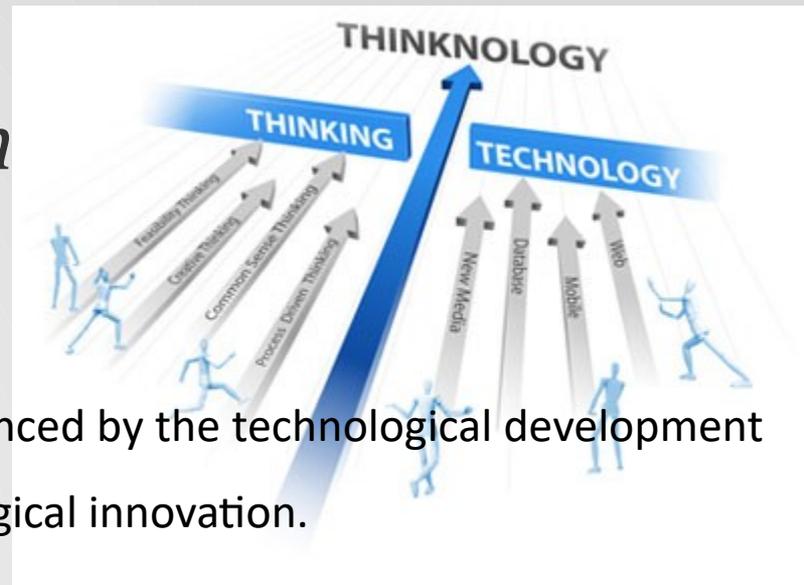


Socio - Cultural Environment



- Language difference pose a serious problem.
 - e.g. Preet- Prestige for overseas market
 - In Japanese, General Motors' "body by Fisher" means "Corpse by fisher"
- Colour
 - Blue: feminine and warm in Holland ; but masculine and cold in Sweden
 - Green: favourite in Muslim world; but represents illness in Malaysia
 - Red: popular in communist countries; but represents disaster in Africa
 - White: death and mourning in China and Korea; but it expresses happiness in some countries. Also it is the colour of bridal dress.

Technological Environmen



- The business in a country is greatly influenced by the technological development and opportunities arising out of technological innovation.
- The technology adopted by the industries determines the type and quality of goods and services to be produced and the type and quality of plant and equipment to be used.
- Technological environment influences the business in terms of investment in technology, consistent application of technology and the effects of technology on markets. Access to information highway is key.
- The pull of technological change.
- Risk and Uncertainty of technological development.
- Role of R&D in the country and Government R&D Budget

Technological Environment

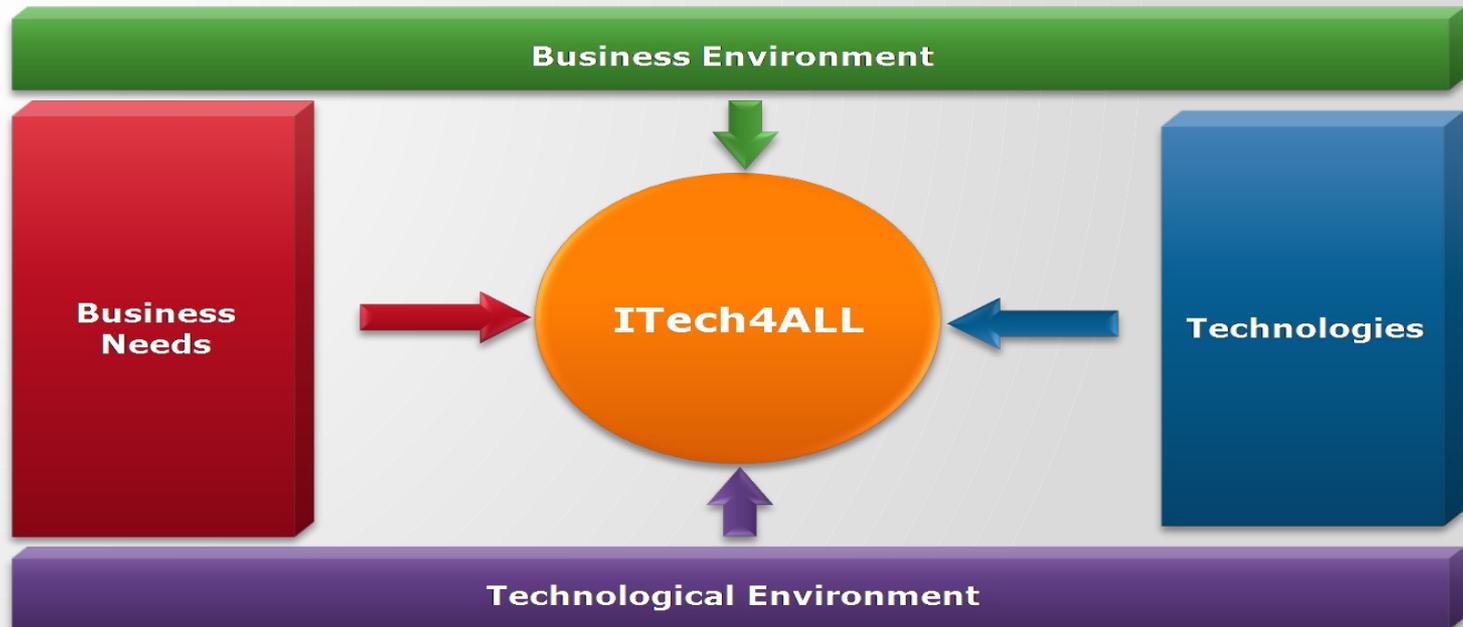
Technologies have changed our life forever

THE TECHNOLOGY PULL

TECHNOLOGY INNOVATION

ROLE OF RESEARCH & DEVELOPMENT

RISK AND UNCERTAINTY OF TECHNOLOGY DEVELOPMENT



Technology & Learning

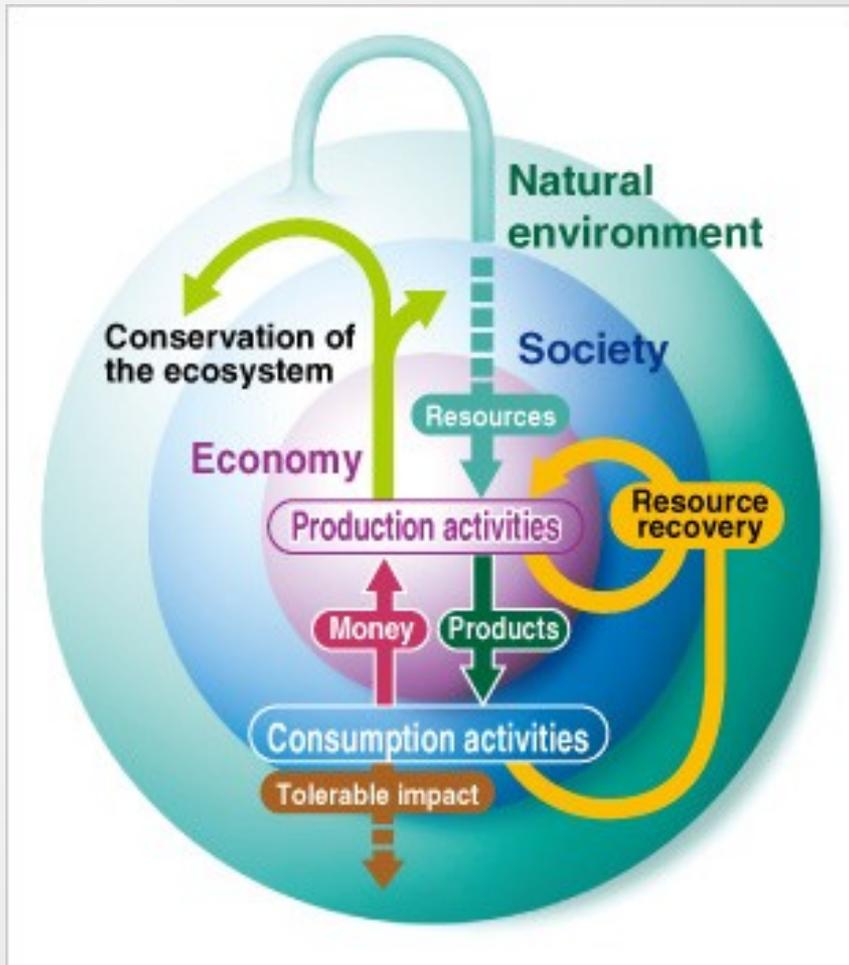
- Business prospects demands availability of certain physical facilities. E.g. demand for electrical appliances is affected by the extent of electrification and the reliability of power supply. Demand for LPG stoves depend on rate of growth of gas connections
- Differing technological environment of different markets may call for product modifications. E.g. Many appliances are designed for 110 V in USA. They should be converted for 240v in India
- Technological developments may increase or decrease the demand for some existing products. E.g. voltage stabilizers help increase in sale of electrical appliances in markets characterised by frequent voltage fluctuations. Introduction of TVs, Refrigerators, etc. with in-built stabilizers adversely affects the demand for voltage stabilizers.

Natural Environment



- Geological and ecological factors, such as natural resources endowments, weather and climatic conditions, topographical factors, location aspects in the global context, port facilities etc., are relevant to business.
- Differences in geographical conditions between markets may some times call for changes in the marketing mix. Geographical and Ecological factors also influence the location of certain industries. E.g. industries with high material index tend to be located near the raw material sources.
- Topographical factors may affect the demand pattern
 - E.g.. In hilly areas with difficult terrain, jeeps may be in a greater demand than cars.
- Ecological factors have recently assumed great importance. The depletion of natural resources, environmental pollution and the disturbance of ecological balance have caused great concern.

International / Global Environment



- Positive and Negative Impact of Significant International event.
- Identification of emerging global markets and markets that are changing.
- Difference between cultural and institutional attributes of individual global markets
- Acquisitions by Indian Companies abroad (global perspective is universal).

International / Global Environment

The global environment refers to those factors which are relevant to business such as: WTO principles and agreements, International conventions, Treaties, agreements, declarations, protocols, economic sentiments in other countries, hike in crude oil prices etc.

- Particularly important for the industries directly depending on imports or exports and import-competing industries
- Recession, economic boom, liberalization
- Major international developments have their spread effects on domestic business. E.g. Oil price hikes increased the cost of production and the prices of certain products such as fertilizers , synthetic fibres. So usually, the demand for natural fibres and manures increased. Also demand for automobiles that economise energy consumption got increased.

