

# Introduction to Business Environment



## **BUSINESS ENVIRONMENT**

# Content



## **Introduction to Business Environment**

- Contemporary Scenario of Business
- Nature of Modern Business
- Economic Factors
- Socio cultural Factors
- Technological Factors

## **The Fundamentals**

- Scope and Subject matter of Macroeconomics
- An introduction to Economics of Growth and Development
- Concept of HDI

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## **Macroeconomic Environment of Business : National**

- Economic System
- Economic Fluctuations
- Economic Indicators
- Macroeconomic Policies: Fiscal & Monetary
- Federal Budget

## **Financial Environment of Business: National**

- Indian Financial System
- Financial Markets
- Current trends in Banking

# Content



## **Industrial Environment: National**

- New Industrial Policy-1991
- Privatization & Disinvestment
- Industrial sickness
- Role of Small Scale Industries

## **India & World**

- Technology Transfer & Multinational Companies
- Strategies for going global
- Foreign Investments
- India & BOP
- India & WTO
- Economic Integration

# What is Business???



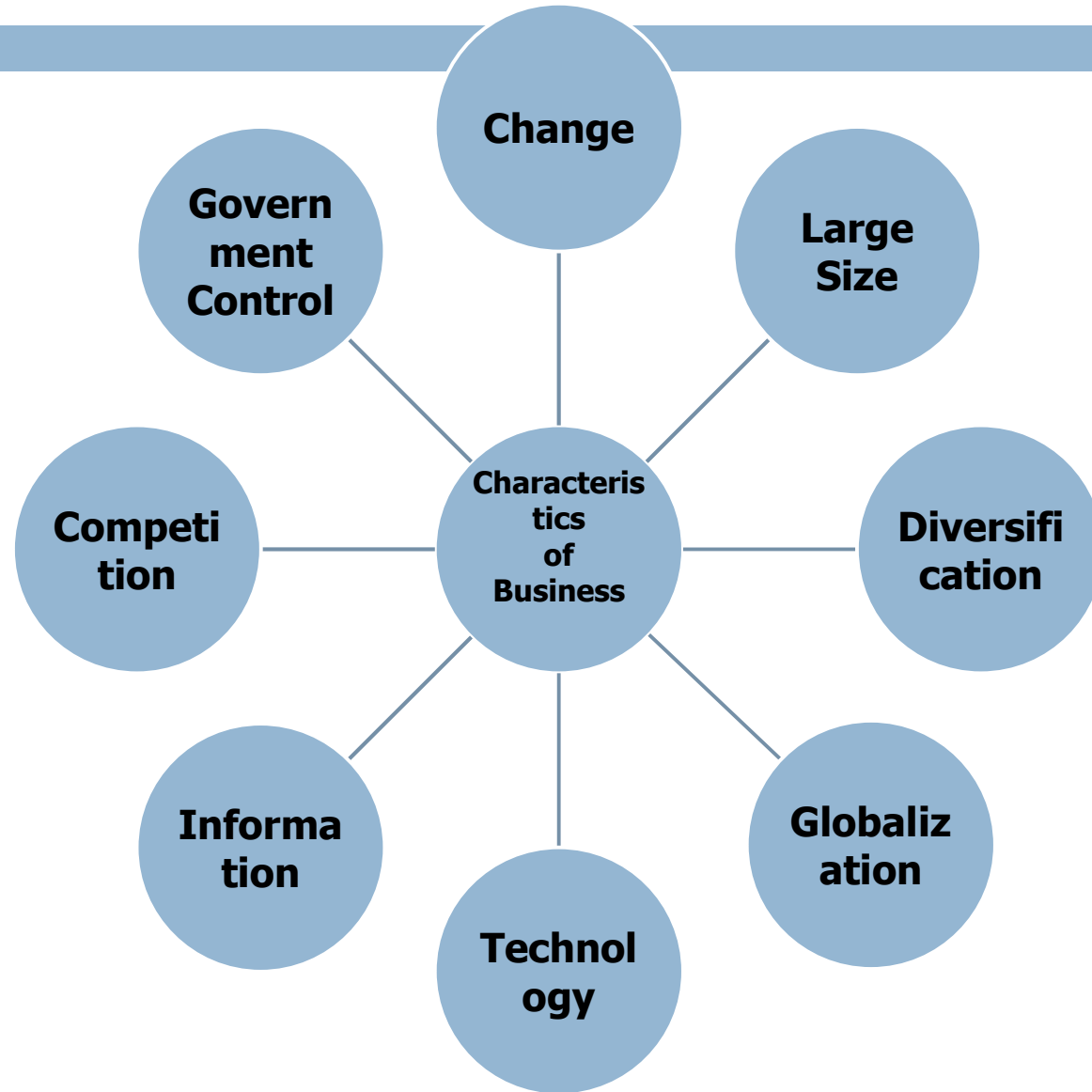
Business may be understood as the organized efforts of enterprises to supply consumers with goods and services for a profit

# Contemporary Business goals



- Profit (Bottom-line)
- Growth
- Market Leadership
- Customer satisfaction
- Employee satisfaction
- Quality Products & Services
- Service to Society

# Characteristics of Business



# Indian companies – Fortune 500

- 8 Indian companies have made it to Fortune 500 list in 2010.

These are:

- Indian Oil Corporation
- Reliance Industries
- Tata Steel
- *Tata Motors*
- Bharat Petroleum
- Hindustan Petroleum
- State Bank of India
- ONGC

# Contd..



The league of 500 elite companies for 2010 is topped by U.S. retailer Wal-Mart Stores, followed by oil giant Royal Dutch Shell and another oil major, Exxon Mobil, in that order.

A total of 54 Chinese companies made it onto the list this year.  
Out of which **three** are in fortune 10 list

Rank	Company	Revenues (\$ millions)	Profits (\$ millions)
1	Wal-Mart Stores	408214	14335
2	Royal Dutch Shell	285129	12518
3	Exxon Mobil	284650	19280
4	BP	246138	16578
5	Toyota Motor	204106	2256
6	Japan Post Holdings	202196	4849
7	<b>Sinopec</b>	187518	5756
8	<b>State Grid</b>	184496	-343
9	AXA	175257	5012
10	<b>China National Petroleum (CNPC)</b>	165496	10272

# Government Control



- To correct market failures in case of externalities
- To create stable business conditions (stimulate Aggregate Demand) through monetary & fiscal regulation
- To provide Public goods

# Diversification as a growth strategy



- Diversification strategies are used to expand firms' operations by adding markets, products, services, or stages of production to the existing business.
- When the new venture is strategically related to the existing lines of business, it is called **Concentric** diversification.
- **Conglomerate** diversification occurs when there is no relationship between the new and old lines of business; the new and old businesses are unrelated.

# Diversification: Vertical or Horizontal?



- Vertical integration occurs when firms undertake operations at **different stages of production**.
- When a firm diversifies closer to the sources of raw materials in the stages of production, it is following a ***backward*** vertical integration strategy.
- ***Forward*** diversification occurs when firms move closer to the consumer in terms of the production stages.

# Globalization



- It is a phenomenon which permits mobility of factors of production across globe except land.
- Refers to a process of deepening economic integration, increasing economic and growing economic interdependence between countries in the world economy.

# Nature of Competition




- Monopoly
- Duopoly
- Monopolistic competition
- Oligopoly

# BUSINESS CHALLENGES



- Managing Bottom line
- Meeting stakeholders expectations
- Developing and retaining top talent
- Creating a customer responsive organization
- Diminishing time to market
- Market agility
- Pricing and quality

# What do you mean by Business Environment???



The environment of any organization is “ the aggregate of all conditions, events and influences that surround and affect it.”

Characteristics of Business Environment:

- Complex
- Dynamic
- Multi-faceted
- Far- reaching impact

# Why Study Business Environment



- Development of broad strategies to ensure sustainability
- To foresee the impact of socio-economic changes at the national and international levels on firm's ability
- Analysis of competitor's strategies and formulation of effective counter measures
- To keep oneself dynamic

# Types of Environment



- Internal Environment
- External Environment
  - ▣ Micro environment
  - ▣ Macro environment
    - ❖ Economic
    - ❖ Non Economic

# Internal Environment

- Refers to all the factors that are within an organization which **impart strengths or cause weaknesses of strategic nature.**
- Controllable factors. These include:
  - Value system
  - Mission and Objectives
  - Management Structure and Nature

# Components of Internal Environment



- Human Resources
- Company Image and Brand Equity
- Other Factors
  - ▣ Physical Assets and Facilities
  - ▣ R & D and Technological Capabilities
  - ▣ Marketing Resources
  - ▣ Financial Resources

# External Environment



- Includes all factors outside the organization which provide opportunities or pose threats to the organization
- Uncontrollable factors
- **Consists of Micro and Macro environment**

# Micro Environment



**“It consists of the factors in the company’s immediate environment that affect the performance of the company”.**

# Micro Environment Factors



**Suppliers**

**Customers**

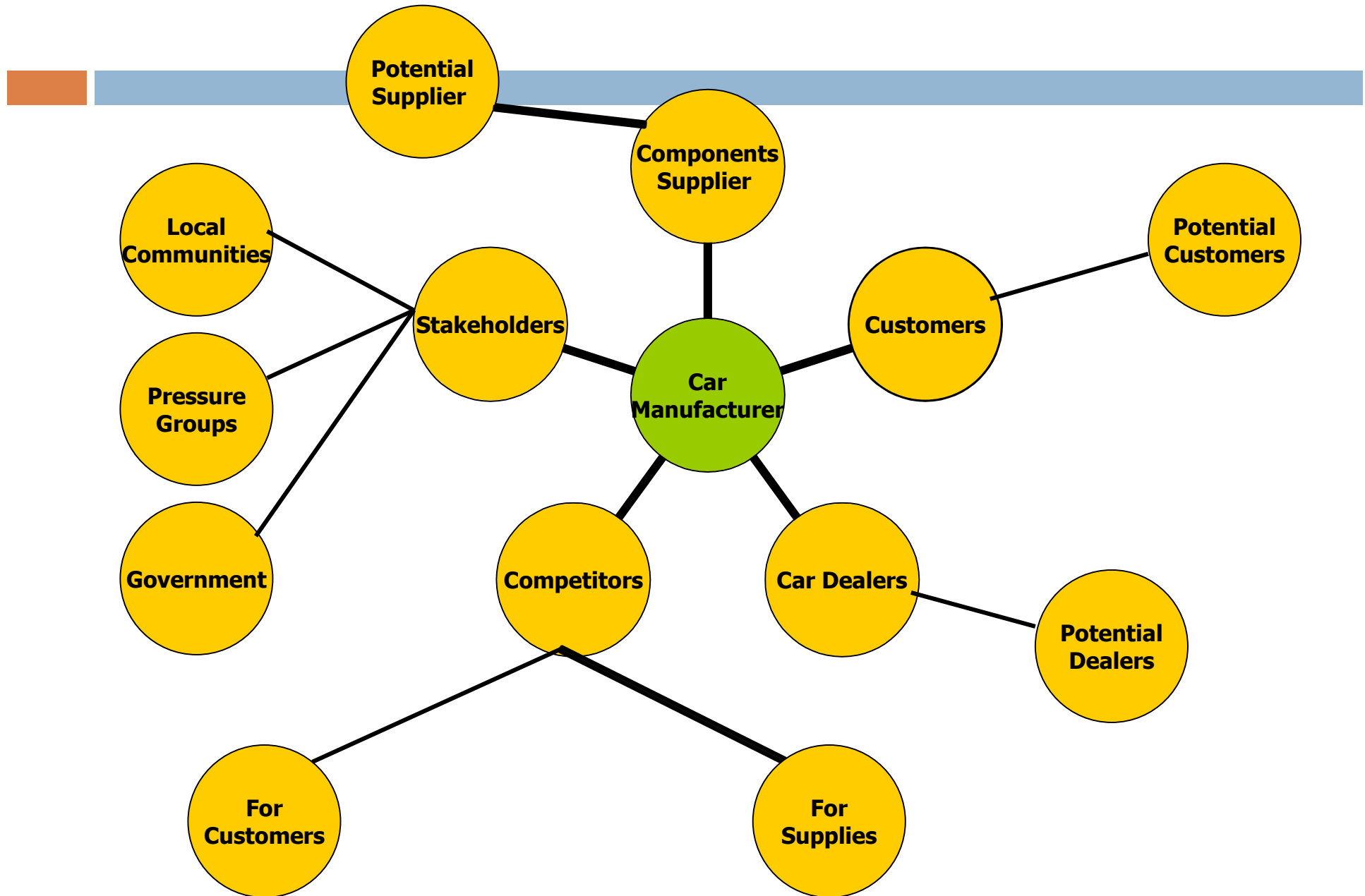
**Marketing Intermediaries**

**Competitors**

**Publics**

**Financial Community**

# Micro Environment of a typical car manufacturer



# Macro Environment



**It comprises general trends and forces that may not immediately affect the organization but sooner or later will alter the way organization operates.**

**Macro Environment :-**

- **Economic**
- **Non Economic**

# Economic Environment



- ❑ Economic stages that exists at a given time in a country
- ❑ Economic system that is adopted by a country for example. Capitalistic, Socialistic or Mixed Economy
- ❑ Economic planning, such as five year plans, budgets, etc.
- ❑ Economic policies for example, monetary, industrial and fiscal policies
- ❑ Economic Indices such as National Income, Per Capital Income, Disposable Income, Rate of growth of GNP, Distribution of Income, Rate of savings, Balance of Payments etc.
- ❑ Economic Problems
- ❑ Functioning of economy

# Non Economic Environment



- ▣ Regulatory Environment
- ▣ Socio- Cultural Environment
- ▣ Demographic Environment
- ▣ Technological Environment
- ▣ Political Environment

# Non- Economic Environment



- **Cultural Environment**

- Social Customs & Rituals and practices

- Lifestyle patterns

- Family structure

- Role & position of men, women, children and aged in family & society

# Non- Economic Environment



- **Demographic Environment**
  - Growth of population
  - Age Composition
  - Life Expectancy
  - Sex Ratio
  - Fertility and Mortality rates
  - Inter-state migration

# Macro Environment



- **Technological Environment**
  - Sources of technology
  - Technological development
  - Impact of technology
- **Political Environment**
  - Political parties in power
  - Political Philosophy

# Macro Environment



- **Regulatory Environment**

- Constitutional framework

- Policies relating to pricing and foreign investment

- Policies related to the public sector, SSIs, development of backward areas and control of environmental pollution

# International Environment



Important factors that operate at global level which have an impact on organization are:

- Growth of world economy
- Distribution of world GDP
- International institutions IMF,WTO ILO
- Economic relations between nations
- Global human resource-nature and quality of skills, mobility of labor
- Global technology and quality standards
- Global demographic patterns

# WTO and its relevance for Indian companies



The main guidelines of WTO are:

- Trade without discrimination
- Growing market access
- Promotion of fair competition

The response of Indian government to WTO constitutes the following actions

- Reduction of tariffs
- Opening Indian markets for Global Players
- Rationalizing industrial licensing and removal of controls on the size of operations

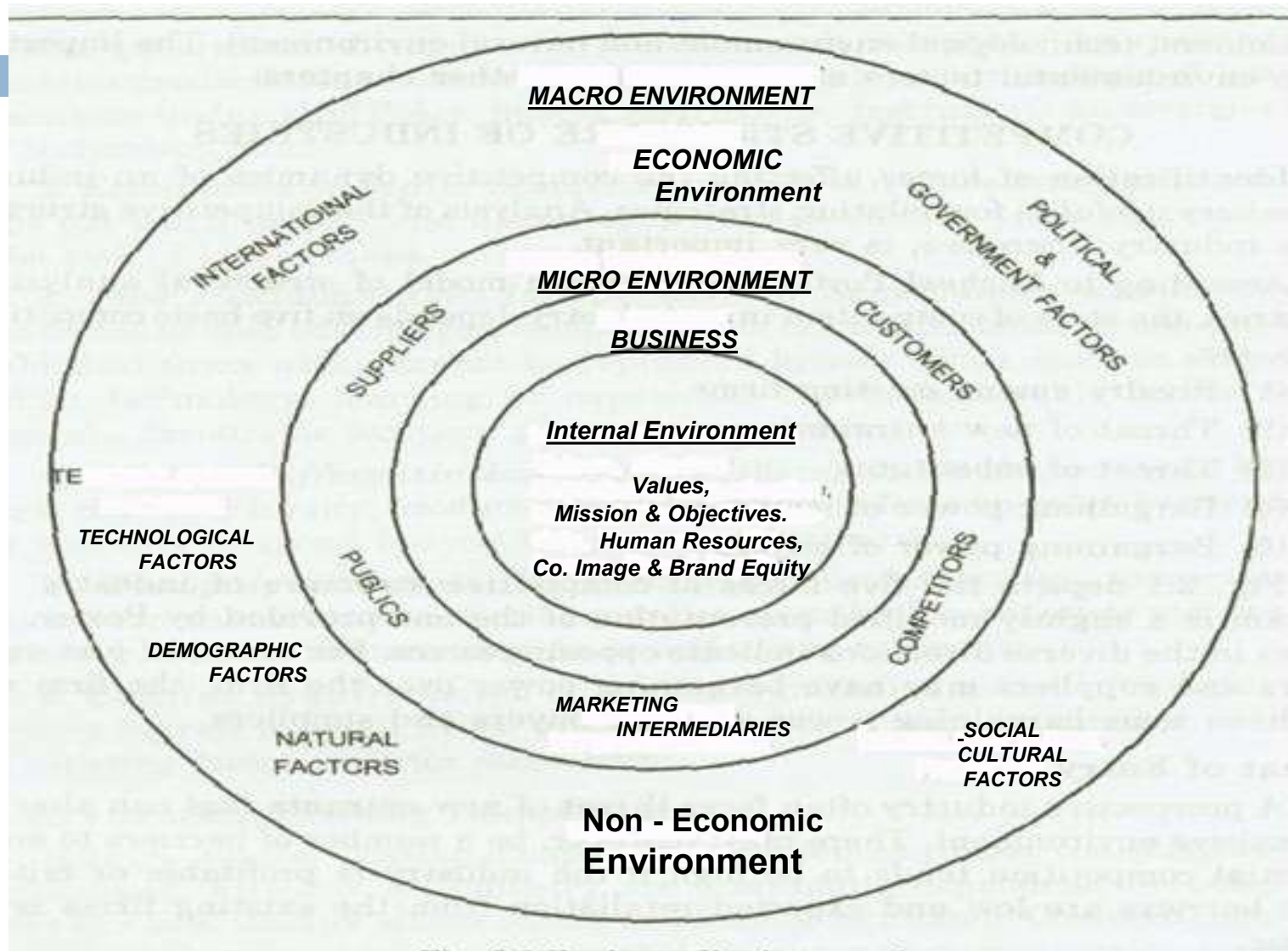
# WTO and its relevance for Indian companies



The impact of WTO on Indian companies is likely to include the following :

- Increasing competition
- Consolidation of activities in core competence areas
- Improvements in infrastructure to negate structural disadvantages.
- Shake out of minor players and M&As to gain global scale.

# Overview of Business Environment



# Environmental Analysis



## Environmental Scanning

The process by which organizations monitor their opportunities and threats affecting their business is known as environmental scanning

## SWOT Analysis

# Tools for Analyzing the Environment



- PEST Analysis
- PESTLE
- STEEPLE
  - ▣ S - Social
  - ▣ T - Technological
  - ▣ E - Economic
  - ▣ E - Environmental
  - ▣ P - Political
  - ▣ L - Legal
  - ▣ E - Ethical

# Global Competitiveness Index



- **The World Economic Forum has ranked 139 economies in its 2010-2011 Global Competitiveness Report.**
- In overall competitiveness India scores a passable 51<sup>st</sup> place. It ranks notably ahead of Latin America's powerhouse Brazil (58) and way ahead of its neighbors Pakistan (123), Sri Lanka (62) and Bangladesh (107), but behind China (27).
- Switzerland tops the chart and USA is on 4<sup>th</sup> position due to economic instability from 2007-10

## Delhi tops 2010 ranking of India's most competitive city

- Chennai cornered the second position in the list ahead of Mumbai , which dropped to third place from second position last year.

Chennai's ranking improved on the back of good performance under all the sub-indices used to benchmark the cities, particularly its educated workforce and logistics infrastructure, while Mumbai's fall was primarily due to the worsening state of its physical infrastructure.

Bengaluru is at fourth place in the list, followed by Kolkata, Hyderabad , Ahmedabad, Pune, Nagpur and Jaipur.

- Ahmedabad and Pune have emerged as the most competitive tier-two cities in India.

# Questions for Case Study



Prepare the environmental threats and opportunity profile (ETOP) for Arvind Mills.

Prepare the strategic advantages profile (SAP) for Arvind Mills.

On the basis of ETOP and SAP, propose strategic alternatives before Arvind Mills.

List down all components of Internal & External Environment of Arvind Mills & identify its strengths & Weaknesses

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**Thank You**