

Chapter 1 - Business Environment

Short Questions - Answers

Ans.1 **Business environment** refers to the sum total of all individual, organisations and the forces that lie outside a business enterprise but influence its functioning and performance.

Ans.2 **Two components of social environment are :**

(i) Demographic trends-size and distribution of population, age composition, male- female ratio, income distribution.

(ii) Family structure and values.

Long Questions – Answers

Ans.1 **Three external factors of micro environment are :**

(i) **Customers-** The people who buy the firm's products and services are its customers. A business exists to create and satisfy customers. A firm has different types of customers like individuals, households, government departments. A company must understand the needs and expectations of its customers. A firm can select the target customer group or market segment on the basis of factors like profitability, elasticity of demand, degree of competition and growth aspects. Due to globalization customer is becoming more global in marketing.

(ii) **Competitors-** A company may have direct and indirect competitors. Direct competitors are the other firms which offer the same products or services. For example, Sony TV faces direct competition from other brands like LG, Samsung. Indirect competition comes from firms discretionary income. For example, a cinema house from malls (Inox) marketing entertainment. Due to liberalisation and globalisation, Indian firms are facing competition from both domestic companies and multinational companies.

(iii) **Financiers**- The shareholders, financial institutions, debenture holders and banks provide finance to a company. Financial capacity, policies and attitudes of financiers are important factors for the company. For example, the company cannot raise funds through shares if the financiers are not taking risk taking.

Ans.2 **SWOT analysis** is the acronym for strengths, weaknesses, oppurtunities and threats.

Strength is an inherent capacity of the company which it can use to gain strategic advantage over its competitors. Country-wide distribution network is the strength of Hindustan Unilever Limited.

Weakness is an inherent limitation of the company which creates strategic disadvantage for it. Family fuel is today a weakness of Reliance Industries.

Oppurtunity is a favourable condition in the company's external environment which enables it to strengthen its position. Growing demand is an example of opportunity.

Threat is an unfavourable condition in the company's external environment which causes a damage to its position.

Exercises - Answers

Ans 1. **Micro environment** refers to those internal and external factors which exercise a direct influence on the working and performance of an individual business organization.

Ans 2. **The importance of business environment are :**

(i) **First mover advantage**- Awareness of environment helps an enterprise to take advantage of early oppurtunities instead of losing them to competitors. For example, Maruti became the leader in small car market, first to recognise the need of small car demanded by middle class in India.

(ii) **Early warning signal-** Environmental awareness serves as an early warning signal. It makes a firm aware of the threat so that the firm can take timely actions to minimize the adverse effects, if any. For example, when new firms entered in the mid segment cars (threat), Marutu Udyug increased its production to make faster delivery. As a result captured a substantial share of the market and became the leader.

(iii) **Customer focus-** Environmental understanding makes the management sensitive to the changing needs and expectations of customers. For example, Hindustan Lever and several other FMCG companies launched small sachets of shampoo and other products realising the wishes of customers. This move helped the firms to increase sales.

(iv) **Strategy formulation-** Environmental monitoring provides relevant information about the business environment. Such information serves as the basis for planning and policy making. For example, ITC realized that there is a vast scope for growth in the travel and tourism industry in India and the Government is keen to promote this industry because of its employment potential. With the help of this knowledge, ITC planned new hotels in India and abroad.

(v) **Coping with change-** Business leaders are expected to cope with rapid changes in environment. In order to decide the direction and nature of the change the leaders need to understand the aspirations of people and other environmental forces through environmental scanning. For example, environment requires prompt decision making and power to people. Therefore, business leaders are increasingly delegating authority to empower the staff and to eliminate procedural delay.