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VIRTUAL CLASSES
ORGANISED BY BOS, ICAI

FOUNDATION LEVEL
PAPER 4 PART II
BUSINESS AND COMMERCIAL KNOWLEDGE

Faculty : CA Arjit Sethi



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Chapter 2 **Business Environment**

Faculty : CA Arjit Sethi



Please be assured!

Last 10 Minutes

**Questions from previous
session and this session.**

:)



What are we going to study today?

- What is Business Environment?
- What are its components?
- How to analyse these components?
- Post Analysis, how to strategically respond to the Business Environment?



Before we begin...

Remember Typewriter? Handwritten Letters? Horse Tongas?

Remember Air Travel being only for the rich?

What happened? Why did they go obsolete?



Dear A-Rod,

This is the first time I've tried to write script since the fourth grade. As you can tell, I am horrible at it. I promise this is really from me, and not from a serial killer.

Thank you belatedly for your note. When I see a note with that type of penmanship, I assume someone is writing to thank me for a waffle toaster I bought for a wedding.

But you were saying sorry. Alex, we didn't need an apology from you! You have provided such consistently hilarious entertainment and made baseball so uncomfortable. The New York Yankees must be losing their minds. They look at you like some \$275 million dollar piano tie they have in the closet. "Why do we still have this piano tie! We are never going to use this piano tie!!"

We're looking forward to what is sure to be a very awkward season. And thank you very much for the waffle toaster, we use it all the time!!

Sincerely,

Jason
P.S. Stay out of Jeter's locker!



Before we begin...

CHANGE! The business environment in terms of **Technology** and **Customer's needs CHANGED!**

***Most of the animals on Earth got extinct**, because they could not adapt to the changes in environment and their surroundings on Earth. Similar things happen in the business world. **DINOSAURS, SPARROW, HUGE ELEPHANTS, etc.**

*"It is not the strongest and most intelligent who survive, but the ones who react swiftly to changes." -
Charles Darwin*



Quick Quiz #1

A business can operate in isolation from its environment.

- A. True
- B. False



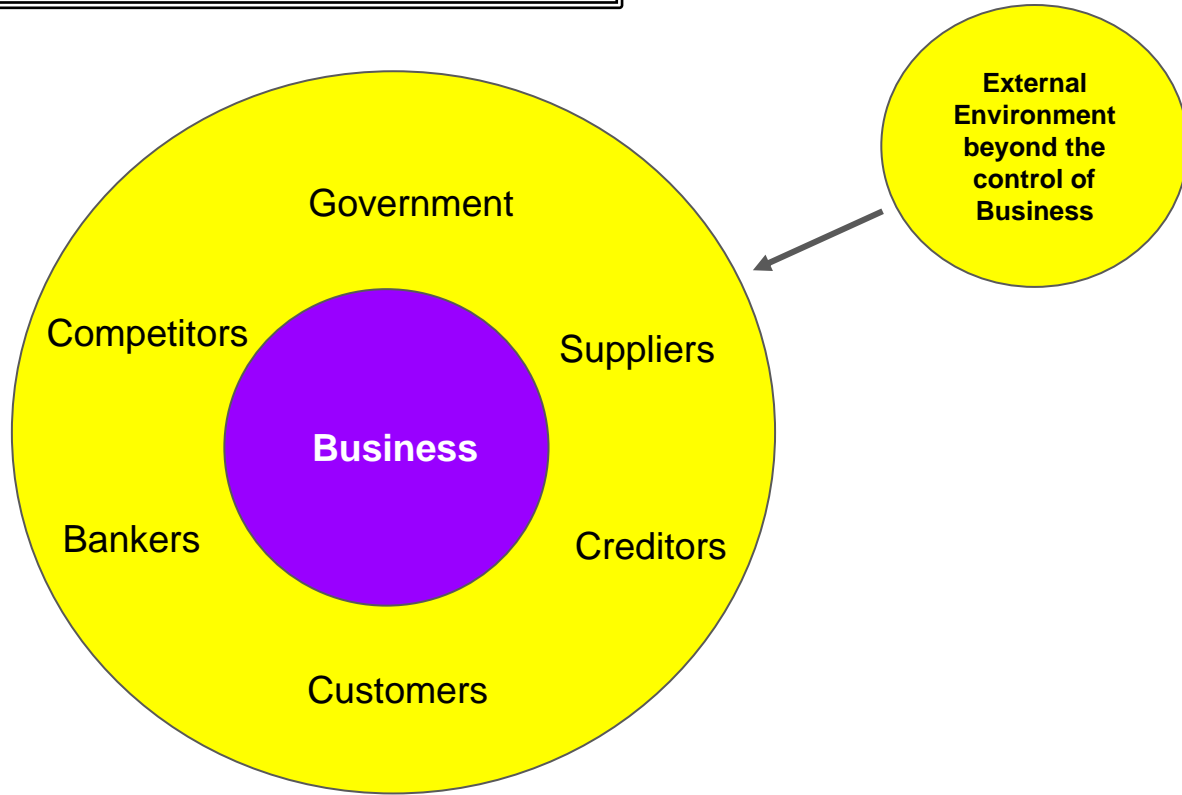
Quick Quiz #1

A business can operate in isolation from its environment.

- A. True
- B. **False**



What is Business Environment





Quick Quiz #2

What in your opinion should be the right flow to understand and react to a business' environment?

- A. Analyse - Respond - Identify - Revise
- B. Analyse - Identify - React - Respond
- C. Identify - Analyse - Respond - Revise
- D. Identify - Respond - Revise - Analyse



Quick Quiz #2

What in your opinion should be the right flow to understand and react to a business' environment?

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- B. Analyse - Identify - React - Respond
- C. Identify - Analyse - Respond - Revise
- D. Identify - Respond - Revise - Analyse



Characteristics of Business Environment

- It is **COMPLEX**

Because it has multiple factors and each factor has its own importance.

Ex: Mobile Phones/Laptops sent Music Players and notebooks out of Business.

- It is **DYNAMIC**

Ever Changing. Unstoppable. Inevitable. And Frequent.

Ex: The latest OTT Platforms of all major media houses are a perfect example of ever changing industry trends.



Characteristics of Business Environment

- It is **MULTI-FACETED**

Opportunity for one is the Threat to another. It works both ways.

Ex: UBER and OLA, created immense opportunity for new people to earn from driving cabs while it ran down the age old yellow taxi business to dump.

- It has **FAR REACHING IMPACT**

Environment has the ability to move the mightiest of businesses. It's implications are far and wide.

Ex: Aditya Birla Group shifted from textile to cement to retail model to recent Financial Services and is planning to enter the EdTech very soon.



Quick Quiz #3

COVID19 has been a big hit to the economy. Where some big brands filed bankruptcy, while some new ones took major advantage.

Fill in the below, as to whether **COVID19 has been a threat or an opportunity** for the particular industry/company?

Luxury Clothing	Hotels	E-Commerce	Online Grocery	Fast Food Chains	Internet Providers	Video Conferencing	Healthcare Sector



Quick Quiz #3

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Threat	Threat	Opportunity	Opportunity	Threat	Opportunity	Opportunity	Opportunity

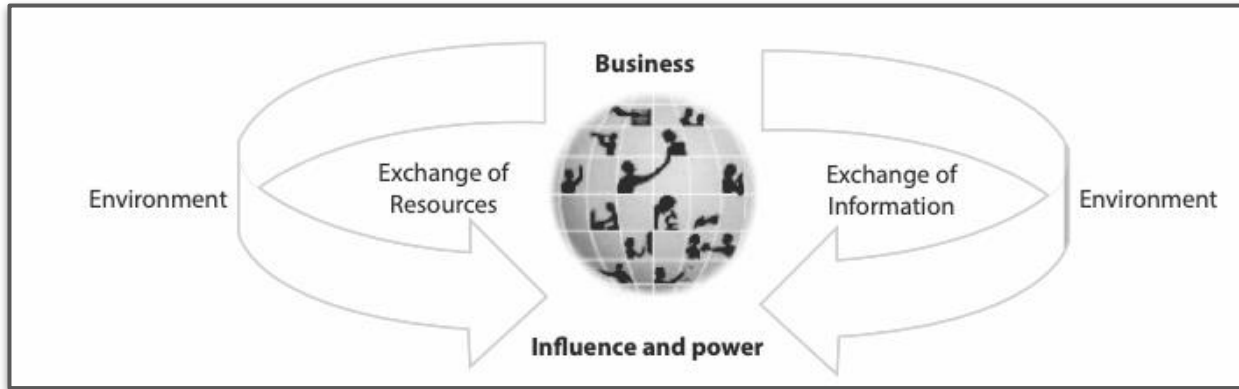


Why is Business Environment Study so Important ?

- **Determining Opportunities and Threats** : Just like last activity
- **Giving direction for Growth** : Opportunity should not be missed
- **Continuous Learning** : Increases early identification
- **Image Building of the Company** : Ex: Green Practices
- **Meeting Competition** : Awareness of Competition



Relationship b/w Business and its Environment



Information : Laws and Regulations, New Technological Breakthroughs, Political News, Calamity Warnings, etc.

Resources : Employees, Shareholders, Creditors, Customers, etc.

Influence and Power : If a firm can influence environment in its favour, it enjoys autonomy and creditworthiness in the market. **Eg: Patanjali**



Quick Quiz #4

What in your opinion defines the nature of relationship between a business and its environment?

- A. Size and Age of the Organisation
- B. Nature of Ownership
- C. Professionalism of the Management
- D. All three are important to define the relationship



Quick Quiz #4

What in your opinion defines the nature of relationship between a business and its environment?

- A. Size and Age of the Organisation
- B. Nature of Ownership
- C. Professionalism of the Management
- D. All three are important to define the relationship



How does the Environment influence the Business and the decisions it takes?

Environmental factors are essentially the "**Givers**" within which the organisation must work/deliver to achieve its objectives and goals.

VARIES / DIFFERS BUSINESS TO BUSINESS

Example: Cadbury Case





How to understand the Environmental Influences?

- **Check Certianity**

Changes frequently or delayed. Eg: Cloth changes very quick with Fashion, but food preferences change slowly.

- **List of majorly affecting factors**

List of Factors/Components of environment : Competitors, Seasonality, Legal Suits on Competitors, Promotion techniques, etc.

- **More Focus on immediate factors**

like Competitors and Customer Preferences



Data **versus** Information

“Any **data having commercial importance is an **information**.”**

Information helps in taking strategic decisions.

For example,

Change in vehicle motor laws is data for a biscuit manufacturer, but it is information for an automobile manufacturer.



Purpose of Environment Analysis?

- Provides view of changes in Environment

It is important to be aware of the environment to formalise, and understand the environment.

- Should Provide Inputs for Strategic Decision Making

Mere data collection is not enough. It should also be useful in decision making for the business.

- Should foster strategic thinking in the Organisation

It should challenge current wisdom and mission of the business, by getting fresh viewpoints in the organisation.



Catch Up

We just understood;

- What is Business Environment?
- Why is it important to study about environment?
- How it influences the Business and how can a business influence it back?
- How and Why to understand Environment Influences?

These were the basics of understanding the Business Environment.

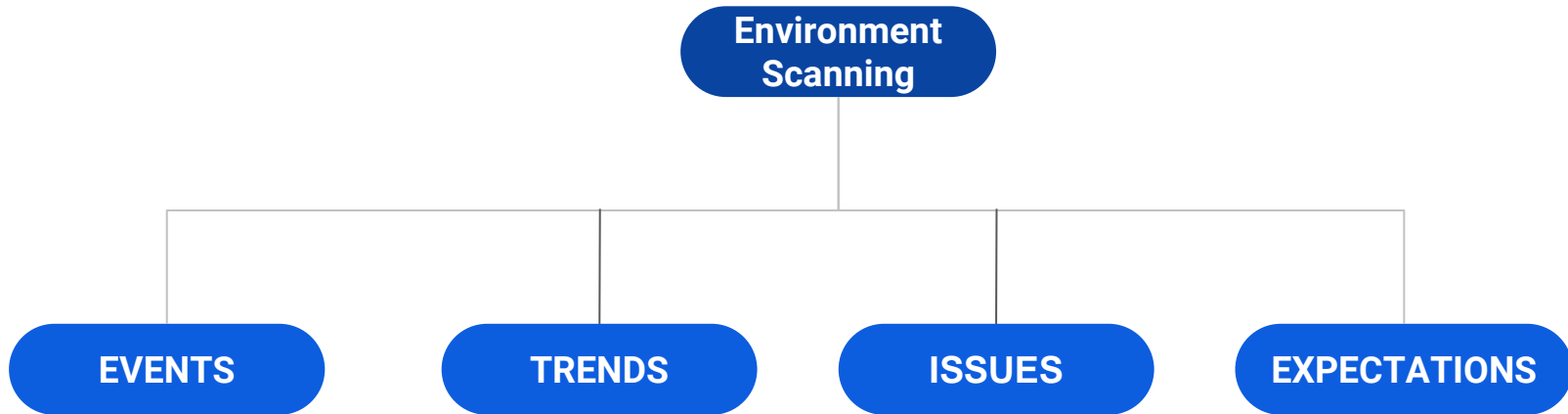
Now,

What are the components of environment, and do we Identify and Analyse them?



ENVIRONMENT SCANNING

Process by which an organisation monitors their relevant environment to identify opportunities and threats.





ENVIRONMENT SCANNING

- **Events**

Certain happenings in the Environment.

Ex: Chinese Applications boycott, a huge impact for TikTok, Xiaomi, Oppo, etc.

- **Trends**

Grouping of similar events of occurrences. Can also call Pattern.

Ex: Organic Foods and Supplements



ENVIRONMENT SCANNING

- **Issues**

Concerns that arise in response the above trends or events.

Eg: Issue for TikTok, Xiaomi, Oppo

- **Expectations**

Demands made by affected customers in response of the issues.

Eg: Indian App Developers expected to bring in alternatives.



Quick Quiz #5

What do you think could be the benefits of analyzing the environment?

- A. Optimal Resource Planning
- B. Early warning systems to prevent threats
- C. Develop defensive and progressive strategies
- D. All of these

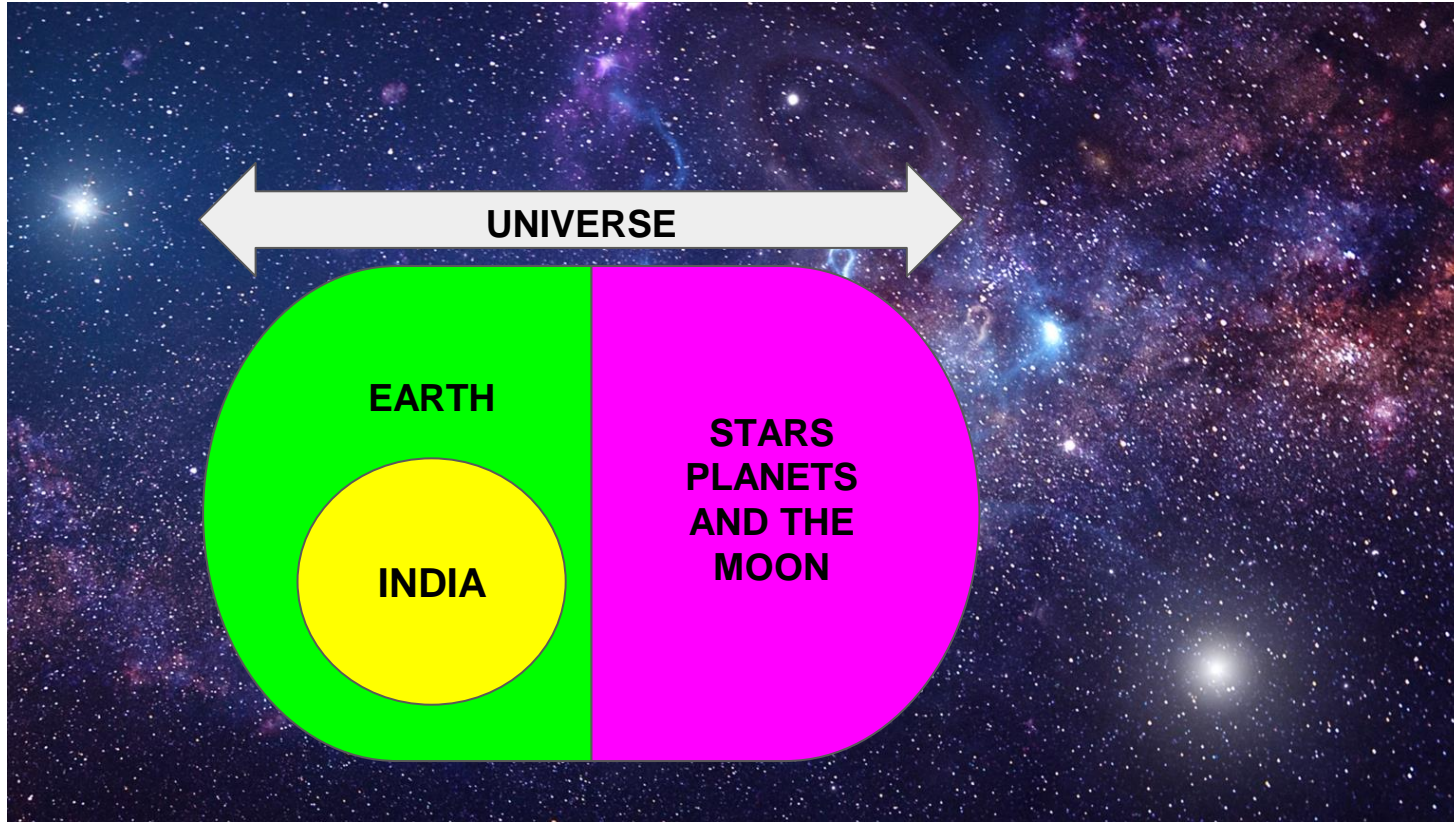


Quick Quiz #5

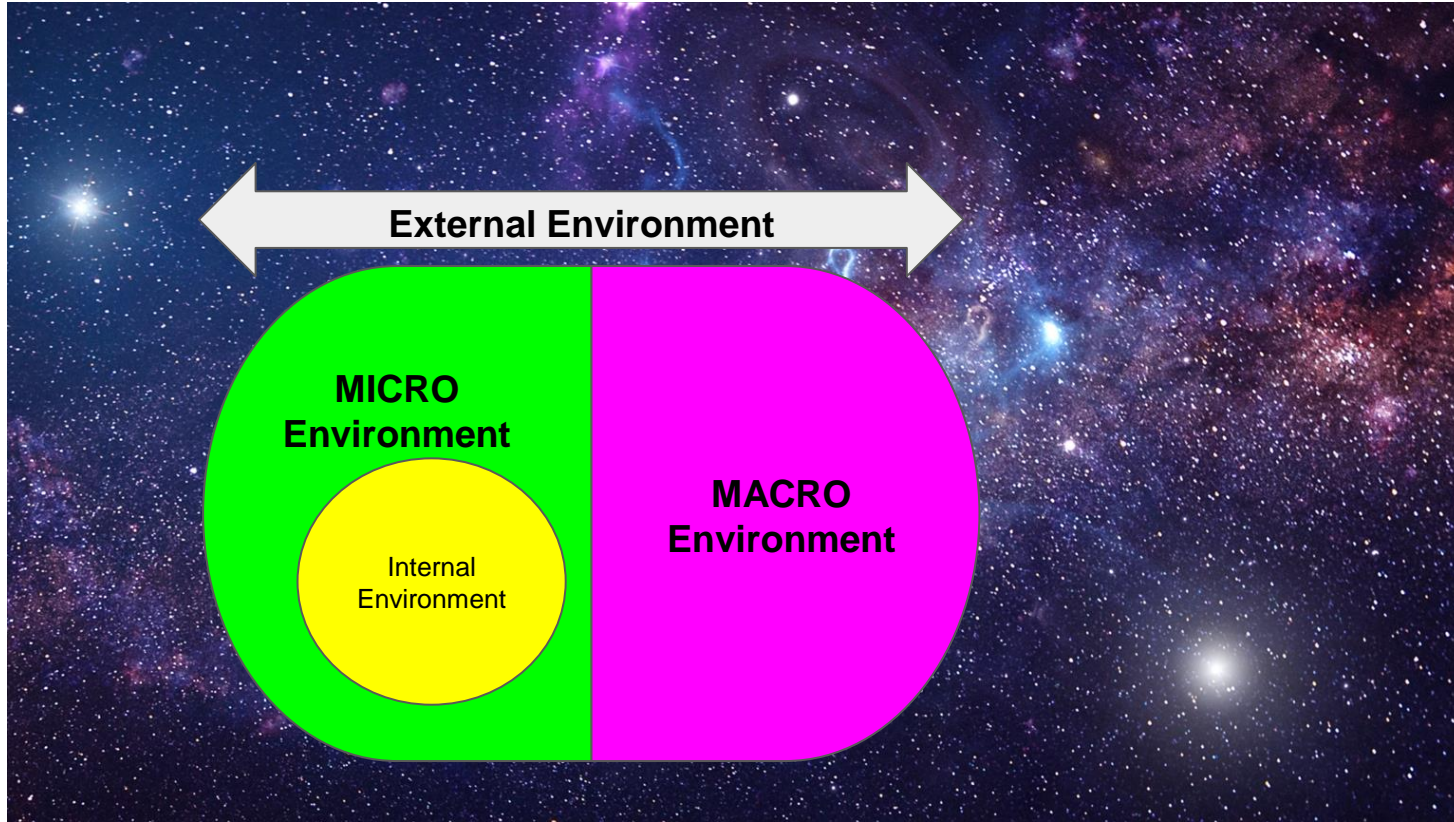
What do you think could be the benefits of analyzing the environment?

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Components of Environment

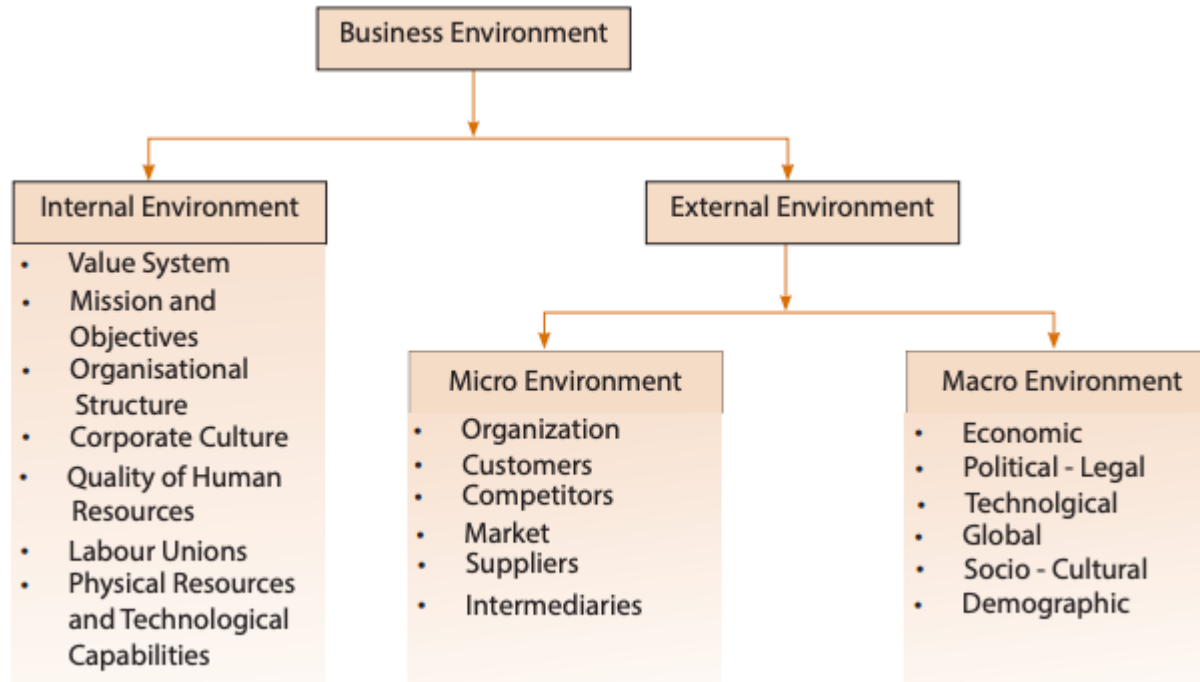


Components of Environment





Components of Environment





Components of Environment

This Chapter specifically talks about **External Environment**.

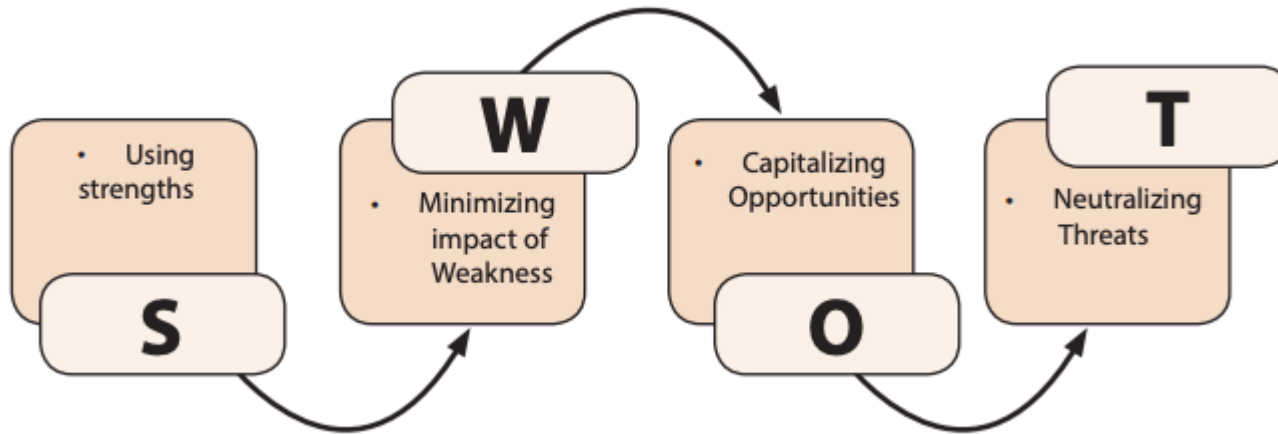
Internal Environment is talked in later stages of the course at Intermediate Level in-depth.





How to Analyse Environment?

SWOT Analysis helps to analyse the Environment and identify which factors are beneficial and which are to be worked on.





How to Analyse Environment?

Strength : inherent capacity to create strategic advantage over its competitors. Ex: Strong R&D, Mouth Publicity for Patanjali

Weakness : inherent limitation which creates a strategic disadvantage. Ex: Single Product Line

Opportunity : favorable condition in environment that enables a strengthening of position. Ex: We discussed organic food items

Threat : an unfavorable condition in environment that poses risk or damage. Ex: Rise of Patanjali has been a threat to Unilever and Colgate



How to Analyse Environment?

An understanding that you will not find in books,

Strength and Weakness : Majorly fall under Internal Environment

Opportunities and Threats : Majorly fall under External Environment



Quick Quiz #6

The latest investment in Reliance Jio from Facebook, Silver Lakes Ventures and Google, are a threat for which of the following?

- A. Byju's EdTech Company
- B. Bharti Airtel
- C. Mother Dairy
- D. Ambuja Cement



Quick Quiz #6

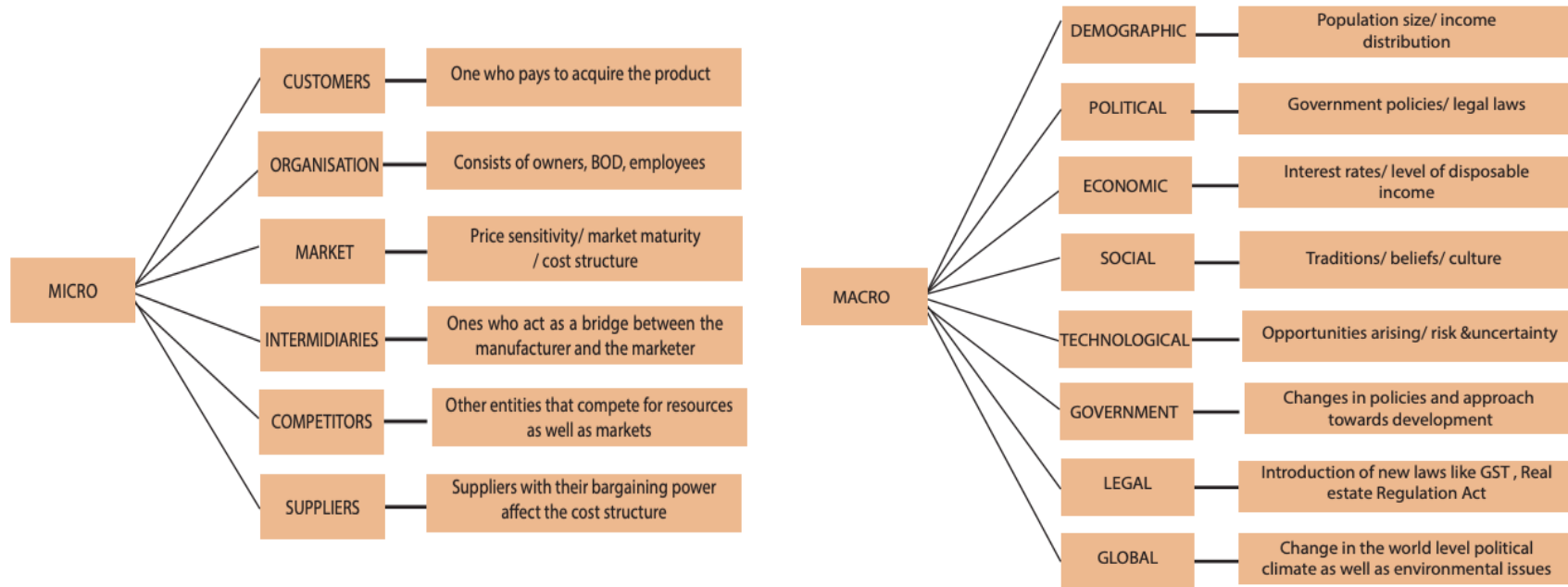
The latest investment in Reliance Jio from Facebook, Silver Lakes Ventures and Google, are a threat for which of the following?

- A. Byju's EdTech Company
- B. **Bharti Airtel**
- C. Mother Dairy
- D. Ambuja Cement



External Environment

The two bifurcations of External Environment:





- **Micro Environment**

Immediate peripheral of the organisation which affects a firm on a daily basis. One has the ability to change the micro elements.

- **Macro Environment**

The things common for all firms. These are beyond their control. One can only act and react to them, but not change macro elements.

We shall now discuss each and every element of Micro and Macro in detail with examples.



MICRO ENVIRONMENT

Customers | Competitors | Organisation | Market | Suppliers | Intermediaries

- Aim of a business is to create and retain customers.
- Customers are those who pay for the business' products.
- Products can be : Goods (Ghee, Phone, Bed sheet) OR Services (Dry Cleaning, Parlor, Car Wash)



Quick Quiz #7

Is there a difference between a Customer and a Consumer?

- A. Yes
- B. No



Quick Quiz #7

Is there a difference between a Customer and a Consumer?

- A. Yes
- B. No

Consumer is the one who finally consumes/ utilizes the goods/services.

However, customer may or may not be the consumer.

Ex: A father buys books for her daughter. Customer is father but consumer is daughter.



MICRO ENVIRONMENT

Customers | Competitors | Organisation | Market | Suppliers | Intermediaries

So we can infer that,

Marketers should focus on preferences of the ultimate consumers to make the product attractive.

Business should be able to analyse:

- Who are the consumers?
- What are their preferences?
- What are their buying patterns?



MICRO ENVIRONMENT

Customers | **Competitors** | Organisation | Market | Suppliers | Intermediaries

Business should be able to analyse:

- Who are the competitors?
- What are their objectives and strategies?
- Who are the most aggressive and powerful competitors?



MICRO ENVIRONMENT

Customers | **Competitors** | Organisation | Market | Suppliers | Intermediaries

Competition can be;

Direct as well as Indirect



Quick Quiz #8

Identify which is Direct Competition and which is Indirect Competition?

- A. Competition in Indian Shampoo Market, where consumers have plethora of options to buy from with almost the same packing and advertisement. each one wanting to increase their share in market.

- A. Competition between Car Manufacturers and Holiday Resorts, as to who can attract the disposable income of the affluent consumers.



Quick Quiz #8

Identify which is Direct Competition and which is Indirect Competition?

- A. Competition in Indian Shampoo Market, where consumers have plethora of options to buy from with almost the same packing and advertisement. each one wanting to increase their share in market.

DIRECT COMPETITION

- A. Competition between Car Manufacturers and Holiday Resorts, as to who can attract the disposable income of the affluent consumers.

INDIRECT COMPETITION



MICRO ENVIRONMENT

Customers | Competitors | **Organisation** | Market | Suppliers | Intermediaries

- **Owners**: Founders, Shareholders, Individuals or firms having major stake in business.
- **Board of Directors**: Individuals who have been selected and elected to look after the business as a whole. They are responsible for key decisions and increase in wealth of the Shareholders.
- **Employees**: People who actually work on the decisions taken by the BoD and Management. It is important that the employees embrace and uplift the value system of the business.



MICRO ENVIRONMENT

Customers | Competitors | Organisation | **Market** | Suppliers | Intermediaries

Market = Large group of consumers

Business should be able to analyse:

- **Actual Size of Market.** Like, 7.5 Billion people on earth, 72% people need toothpaste daily
- **Potential Size of Market.** Like. Growth potential of another 28%, plus people need a new toothpaste on an average every month.
- **Attractiveness of Market.** Like, the profit margin is >30%, thus, very attractive.
- **Cost Structure.** Capital Intensive or not
- **Existing Distribution System**



MICRO ENVIRONMENT

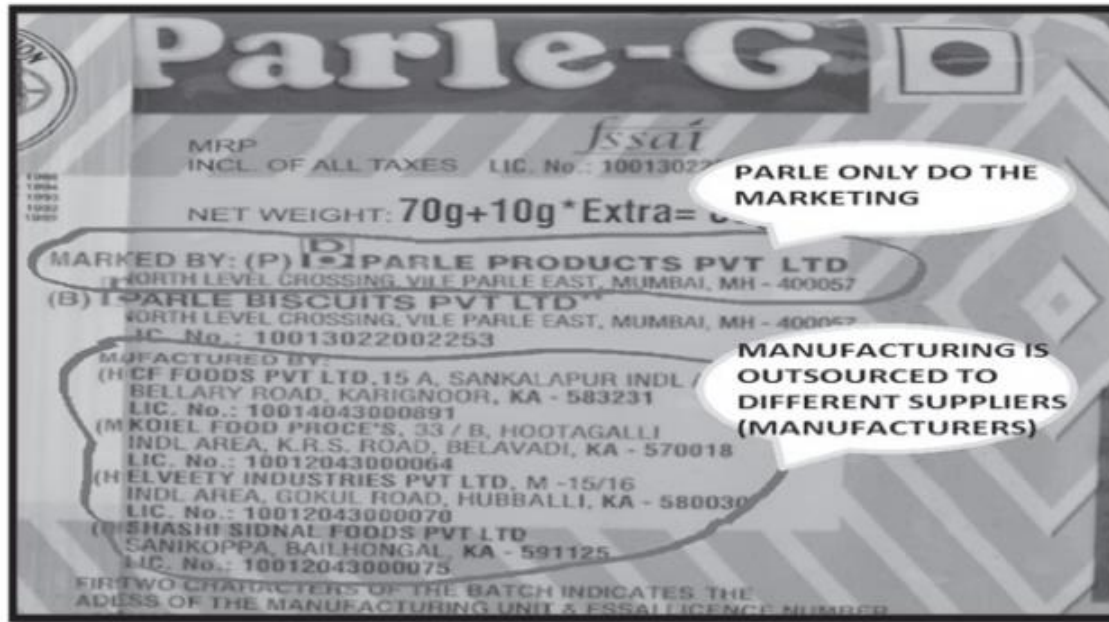
Customers | Competitors | Organisation | Market | **Suppliers** | Intermediaries

- They provide raw materials, equipment, services, etc.
- Large companies can have hundreds of suppliers.
- The importance of the material they supply can affect their bargaining power for the business.
- Business needs to decide whether to "outsource" or produce "in-house".



MICRO ENVIRONMENT

Customers | Competitors | Organisation | Market | **Suppliers** | Intermediaries





MICRO ENVIRONMENT

Customers | Competitors | Organisation | Market | Suppliers | **Intermediaries**

- **Sometimes consumers do not know the manufacturer of a product/service, but only rely on a departmental store's credibility or a big retailers' position.**

Like, Pantaloons stores have clothes from various brands but a consumer opts to buy because of Pantaloons has it on its shelves.

Here Pantaloons is an intermediary for multiple firms producing clothes, and thus, a very crucial part of their Micro Environment. Decisions and preferences of Intermediary would decide these firms' profitability.



Quick Quiz #9

Which of the following elements is not part of Micro Environment?

- A. Customers
- B. Suppliers
- C. Economy
- D. Organisation



Quick Quiz #9

Which of the following elements is not part of Micro Environment?

- A. Customers
- B. Suppliers
- C. Economy
- D. Organisation



What have we studied till now in Ch2 Business Environment;

- What is Business environment? (**Forces within and outside the control that shape the decisions**)
- Its relationship with Business (**It is vast, multi-faceted, wide, dynamic**)
- How it influences business strategy (**confines business decisions and needs constant review**)
- Environmental Response via Internal Strategies: Administrative, Competitive and Collective
- How to Identify them (**Environment Scanning: events, trends, issues, expectations**)
- How to Analyse the Environment (**SWOT Analysis**)
- Two Types - Internal and External, External further has Micro and Macro



Dated :

**Thank You!
Stay Home.
Stay Safe.**

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