MASTERING

ABC

OF

BUSINESS

(synopsis)

Excerpts from - Entrepreneurship: Mastering ABC of Business by Aaron Dendero 2014©

ISBN-13:978-1494805418

ISBN-10:1494805413

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CHAPTER 1:
AN ENTREPRENEUR AND ENTREPRENEURSHIP

An Entrepreneur

An entrepreneur is a person(s) who is/are willing and able to convert a new idea or invention into a continuous successful innovation, **receives any profits** and **bears any losses.**

Entrepreneurship and competition

There is a populist hostility to capitalism worldwide yet many simply do not understand what this word really means.

Joseph Alois Schumpeter explained:
In a free market (enterprise) system, capitalism is the perennial gale of creative as innovations cause old inventories, ideas, technologies, skills, and equipment to become obsolete.
Capitalism (pursuit of own self-interest) ignites entrepreneurship.
Entrepreneurs innovate not just by figuring out how to use inventions, but also by introducing new means of production, new products, and new forms of organizations that compete with existing ones in the marketplace, taking customers by offering lower prices, better performance, new features, catchier styling, faster service, more convenient locations, higher status, more aggressive marketing, or more attractive packaging. Enterprises survive by streamlining production with newer and better tools that make workers more productive.
This creative destruction causes continuous progress and improves the standards of living for everyone, none so more evident than in the developed world to the point where we have forgotten the whole of it is man made not naturally occurring.

An enterprise

An enterprise is considered to be any entity (Person, partnership, organization, or business unit which has a legal existence, for which accounting records are kept, and about which financial statements are prepared) engaged in an economic activity, irrespective of its legal form.
This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.

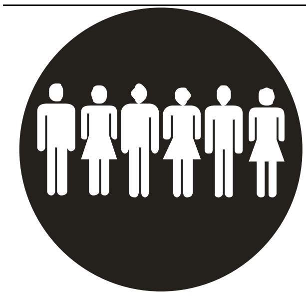
Enterprise categories

Micro enterprise

a micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed £2 million

Small enterprise

a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed £ 10 million.

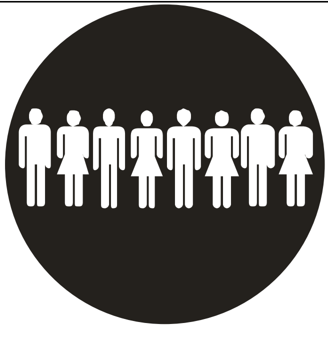


Medium enterprise

is defined as an enterprise which employs between 50 and 250 persons, whose annual turnover is between £ 10million and EUR £50 million and/or an annual balance sheet total not exceeding EUR 43 million.

Large enterprise

is defined as an enterprise with more than 250 persons and which have an annual turnover exceeding EUR 50 million, and/or an annual balance sheet total exceeding £ 43 million.



Chapter 2: Market theories

The birth of a firm

Fundamental human needs

Fundamental human needs are few, finite, classifiable and constant through all human cultures and across historical time periods, food, shelter, clothing, healthcare and so forth.

Human wants

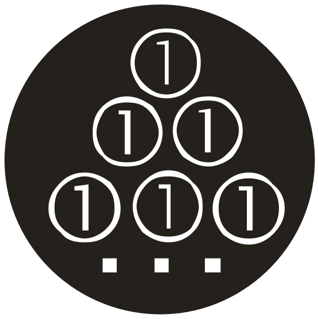
Infinite wants create infinite business opportunities.
Fundamental economic problem is how to satisfy infinite human wants using scarce resources. Therefore, the 'origin of every enterprise that enters a market is a 'specific human want' an economic problem that 'an entrepreneur(s)' believe(s) he/she/they can 'solve' through 'better use' of scarce resources available than competitors to produce economic goods (goods where effort is needed to produce them for a return).

Utility

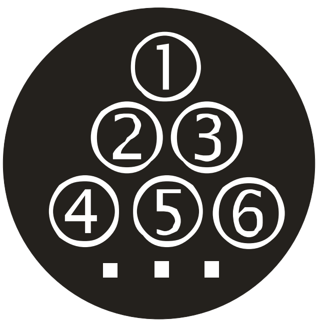
The concept of **utility** is what underlies the **theories of demand and supply.**
Theories of demand and supply, demand for labour and other factors of production collectively form economy of consumers and enterprises.
Utility is divided into two groups:

Marginal utility

Marginal utility is the additional satisfaction, or amount of utility, gained from each **'extra unit of consumption of the same thing'**.
Although total utility usually increases as more of a good is consumed, marginal utility usually decreases with each additional increase in the consumption of a good. This decrease demonstrates the law of diminishing marginal utility. Because there is a certain threshold of satisfaction, the consumer will no longer receive the same pleasure from consumption once that threshold is crossed.



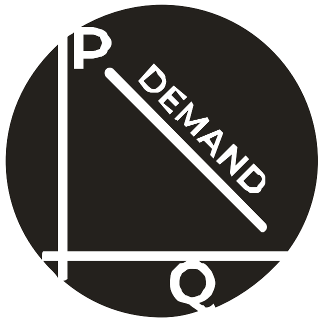
Total utility



Total utility is the aggregate sum of satisfaction or benefit that an individual gains from consuming a **'given amount of different things'** in an economy, the sum of all marginal utilities.
The amount of a person's total utility corresponds to the person's level of consumption. Usually, the more the person consumes, the larger his or her total utility will be.

Theory of Demand

Theory of demand states that, assuming all other factors that may affect demand stay constant, there is an inverse relationship between the price of a good and demand. As prices drop, demand from consumers will rise and vice versa as price rises, demand will fall.



Theory of Supply

Supply is defined as the quantity of goods that an enterprise is **willing and able to supply** onto the market **at a given price in a given time period**. The higher the price, the more an enterprise would like to sell.

Goods that don’t obey theory of demand

The assumptions on which demand theory is based are known to hold in most instances.
However, there exist goods whose demand has no link to price rise or fall.

Giffen goods - an inferior good, with lack of close substitutes and constitute a substantial percentage of the buyer's income, example, staple foods – potatoes, rice, wheat

Diamond-water paradox – a rare good like art, antique trade and so forth where there are no substitutes.

Game Theory – a good where demand depends on action of others, for example, housing and stock markets, betting and so forth.

CHAPTER 2:1 PRODUCTS

Products and services will determine the organizational structure and the nature of business processes to be undertaken. Economic goods fall into two main categories, tangible goods which refer to all physical products and intangible goods which refer to non physical or simply services. Below is a simple tangible goods table that will help you understand where a product falls among groups.

MAIN GROUP	**SUB GROUP**	**PRODUCTS**
PRODUCTION MATERIALS	RAW MATERIALS - primary materials in their 100% raw form	GRAINS
		SOFTS
		LIVESTOCK
		ENERGY
		METALS
	SEMI FINISHED & PROCESSED GOODS - primary materials that have gone some way through a chemical process	PLASTICS
		CHEMICALS
		PULP, PAPER, BOARD
		FOODSTUFFS
	COMPONENT PARTS & ASSEMBLIES - materials that are complete but have no function on their own	AUTOMOBILE CHASSIS
		ELECTRONIC MOTHERBOARDS
		BOLTS, NUTS
		MISCELLANEOUS PARTS
FINISHED GOODS	CONSUMABLE GOODS - Goods that are eaten, drunk, or taken in other ways within animal kingdom	FOOD
		PET FOOD
		NON ALCOHOLIC BEVERAGES
		ALCOHOLIC BEVERAGES
	PERSONAL PRODUCTS - goods for beautification, personal hygiene and general personal use	APPAREL & ACCESSORIES
		COSMETICS
		FRAGRANCES
		HEALTH & BEAUTY
		OVER THE COUNTER MEDICINE
		HOUSEHOLD CLEANING & PAPER PRODUCTS
		STATIONERY & OFFICE SUPPLIES
		MISCELLANEOUS HOUSEHOLD
	DURABLE GOODS - goods with longer utility or services	APPLIANCES
		AUTOMOBILE 7 RELATED PRODUCTS
		COMPUTER (HARDWARE/SOFTWARE)
		ELECTRONICS & OFFICE EQUIPMENT
		HOME FURNISHINGS ?& BUILDING SUPPLIES
		PHOTOGRAPHIC EQUIPMENT
		MUSIC INSTRUMENTS
		SPORTING GOODS
		TOYS

CHAPTER 2:2 SERVICES

In economics and marketing, a service is the non-material equivalent of a good. Service provision has been defined as an economic activity that does not result in **transfer of ownership**, and this is what differentiates it from providing physical goods.
By supplying some level of skill, ingenuity, and experience, providers of a service participate in an economy without the restrictions of carrying stock (inventory) or the need to concern themselves with bulky raw materials.

Key features:

1. **Intangibility** - They cannot be seen, handled, smelled, etc. There is no need for inventories for resale.
2. **Perish ability** - Unsold service time cannot be regained once is offered, it is a lost economic opportunity.
3. **Lack of transportability** – often service is utilised at the point of "provision" with exception of outsourced business services.
4. **Non - homogeneous** – Most of the time, a service is customised to suit each client or each new situation. This can be seen as a problem of inconsistent quality. Both inputs and outputs to the processes involved providing services are highly variable, as are the relationships between these processes, making it difficult to maintain consistent quality.
5. **Labour intensity** - Services usually involve considerable human activity, rather than a precisely determined process. The human factor is often the key success factor in service industries.
   It is difficult to achieve economies of scale or gain dominant market share.
6. **Demand fluctuations** - It can be difficult to forecast demand (which is also true of many goods). Demand can vary by season, time of day, business cycle, etc.
7. **Buyer involvement** - Most service provision requires a high degree of interaction between client and service provider.
8. **Client-Based Relationships** - Is based on creating long-term business relationships. Accountants, solicitors, and financial advisers maintain long-term relationships with their clients for decades.
   These repeat consumers refer friends and family, helping to create a client-based relationship.

PART II:

AN ENTERPRISE AND THE MICROENVIRONMENT

ELEMENTS THAT IMPACTS A BUSINESS'S DAY TO DAY OPERATIONS ARE NORMALLY REFERRED TO AS **MICRO-ENVIRONMENT.**

THERE ARE SIX MAJOR MICRO-ENVIRONMENT FORCES: SUPPLIERS, INPUT FACTORS OF PRODUCTION, DISTIBUTION CHANNELS, CUSTOMERS, COMPETITORS, AND THE GENERAL PUBLIC

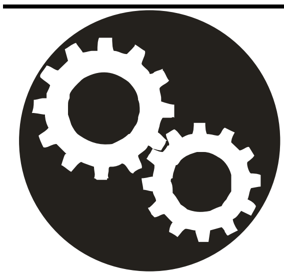
CHAPTER 1: SUPPLIERS

Suppliers are other enterprises that provides an enterprise with input products and services necessary for the production/processing of the its output products or services. Suppliers form an integral part of every business's operations. From the point of origin to the point of consumption, because of the length of supply chains, vulnerability increases, anything can go horribly wrong, and prevent An enterprise from achieving its objectives of serving the customer profitably, the challenge that faces every business is how to minimize risks to supplies.

Supply vulnerabilities

Vulnerability is a degree to which supply is susceptible to harm, degradation, or destruction.

There are four main types of risks to supplies:



Operational risk

Day to day operations can be severely disrupted by basic things like power outage, telecommunication failures, natural disasters and countless other things.

Compliance risk

An enterprise as a legal entity must abide to the law and monitor suppliers to ensure they follow the applicable laws as well, any breaches can be costly.

Strategic risk

Business are built on long term relationships, there is a lot that can go wrong with suppliers

Quality risk

Due to long supply chains supplies are prone to quality issues.

CHAPTER 2: INPUTS FOR PRODUCTION

An enterprise's inputs for production are its internal environment (resources). Resources refer to factors necessary for production or processing of an enterprise's output goods or services. To succeed, an enterprise must achieve a healthy mix of the various factors of production. The following are factors of production.

Land – fixed factor

Built and non-built
Non - built land refers to natural resources as inputs for production. These are used in economic activity in a variety of ways: for growing crops and keeping animals; for extracting minerals; and to provide sites for infrastructure - buildings, roads, railway, utilities and leisure facilities. The payment to land is rent.

Variable factors

Capital

Capital is an extremely vague term and its specific definition depends on the context in which it is used. Traditionally, Capital in the context of inputs for production referred to 'man made means of production' that is, real capital - Plant, Property and Equipment (P,P&E) and the money used to buy, rent, hire or lease them. However, today capital also includes intangibles like software, domain names and other intellectual capital.

Labour

In economics, labour is a measure of the work done by human beings. Labour expends resources from land and capital to produce a firm's output goods. All work done by human beings involve processes, it starts with something and finishes with another. In business this is known as **business processes.** People are central to business processes is people. The compensation to labour is wages in relation to time.

Business Processes

A business process is a collection of related, structured activities or tasks that produce a specific service or product (serve a particular goal) for a particular customer or customers.
Sequence of interdependent and linked procedures which, at every stage, consume one or more resources (employee time, energy, machines, money) to convert inputs (data, material, parts, etc.) into outputs. These outputs then serve as inputs for the next stage until a known goal or end result is reached.

Henry Ford's assembly line and distribution of labour

Distribution of labour refers to specialization in the production process.
The logic behind this method is that, complex jobs can be less expensively completed by a large number of people each performing a small number of specialized tasks rather than by one person attempting to complete the entire task.
Division of labour is the basic principle underlying the assembly line in mass production systems. The reason why there are so many roles in various organizations.

Organizational structures

It is easier to understand processes once you understand organizational structures.
Structure shows you where a process fits within an organization.
An organizational structure is a hierarchical concept of subordination of entities that collaborate and contribute to serve one common aim.
Organizations are a variant of clustered entities. The structure of an organization is usually set up in many styles, dependent on their objectives.
The structure of an organization will determine the modes in which it shall operate and will perform.
Organizational structure allows the expressed allocation of responsibilities for different functions and processes to different entities. Ordinary description of such entities is as branch, site, department, work groups and single people.
Contracting of individuals in an organizational structure normally is under timely limited work contracts or work orders or under timely unlimited employment contracts or program orders.

Value chain

The value chain framework of Michael porter is the model that helps to **analyse specific activities** through which enterprises can create value and competitive advantage.

Primary activities (line functions)

- **Inbound logistics -** includes receiving, storing, inventory control, transportation planning.
- **Operations** - includes machining, packaging, assembly, equipment maintenance, testing and all other value creating activities that transform the inputs into the final product.
- **Outbound logistics** - activities required to get finished products to customers - Warehousing, order fulfillment, transportation, and distribution management.
- **Marketing and Sales** - the activities associated with getting buyers to purchase the product, including channel selection, advertising, promotion, and selling, pricing, and retail management.
- **After sales services** - the activities that maintain and enhance the products value, including customer support, repairs, installation, training, spare parts management, upgrading.

Support activities

Support activities often are viewed as "overheads"; still they can be used to develop a competitive advantage.

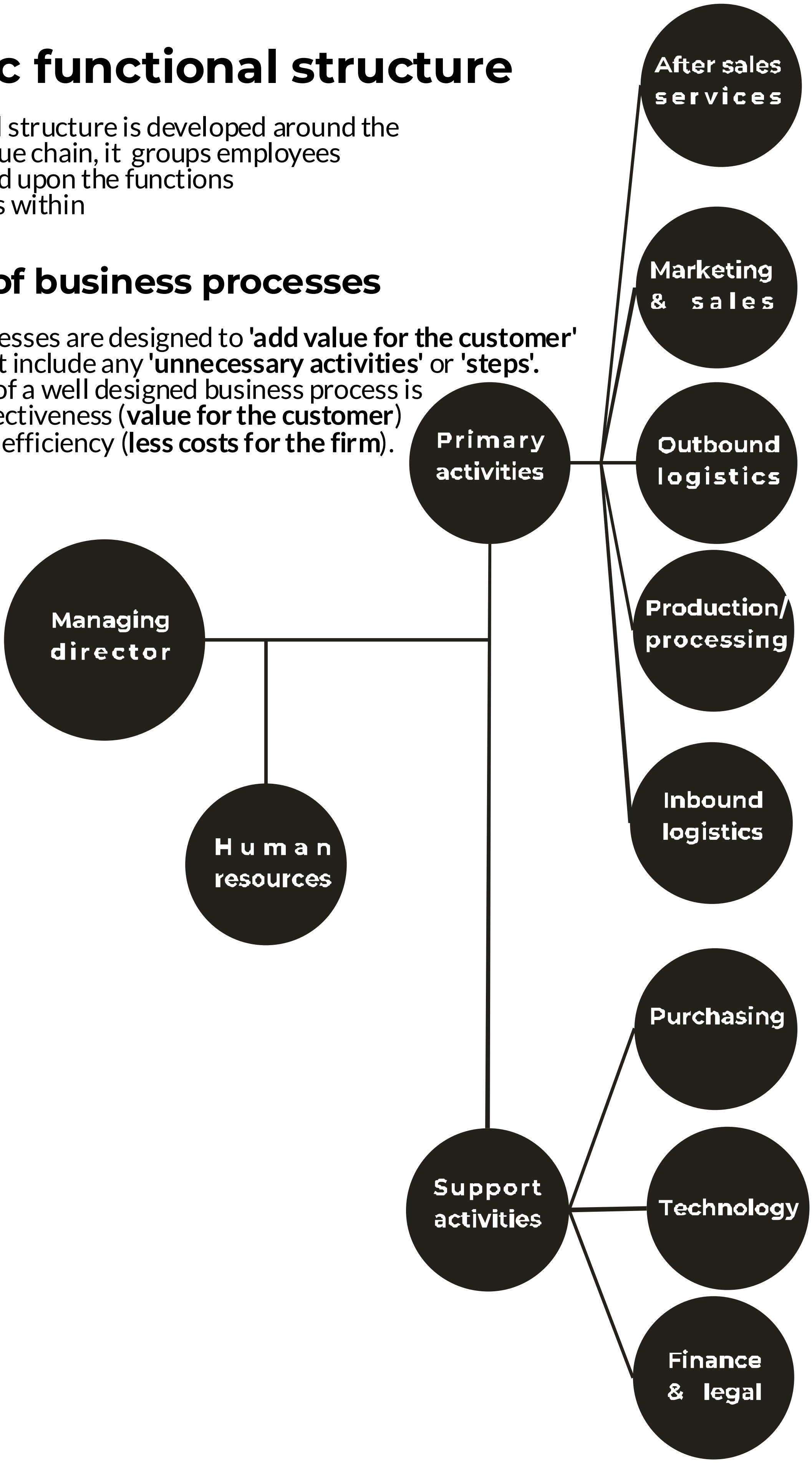
- **Procurement/purchasing** - procurement for consumption, conversion and resale, example: buying raw materials, servicing, spare parts, P, P & E and Intangibles (software, domains).
- **Technology development** - includes technology development to support value chain activities: Such as Research and Development, process automation, design, redesign.
- **Human Resources management** - the activities associated with recruitment and selection, retention, training and development, rewards, appraisals, disciplinary and grievances.
- **Infrastructure** - includes general management, planning management, legal, finance, accounting, public relation, quality management.

Generic functional structure

The functional structure is developed around the concept of value chain, it groups employees together based upon the functions of specific jobs within an enterprise.

The aim of business processes

Business Processes are designed to **'add value for the customer'** and should not include any **'unnecessary activities'** or **'steps'.** The outcome of a well designed business process is increased effectiveness (**value for the customer**) and increased efficiency (**less costs for the firm**).



CHAPTER 3: DISTRIBUTION CHANNELS

There are two types of marketing channels

Direct channels

Refer to outlets that are owned by the producer to sell products directly to the final consumer.

Distribution/marketing intermediaries

An intermediary is enterprise with a profit motive not consumption that expedites the distribution of goods and services from the producer to consumers or business users. Marketing intermediaries comprise of all the individuals or enterprises who help in the promotion, selling, and distribution of the enterprise's products.

According to research:

It is **estimated 97% of all products purchased** by the **consumer** are bought through **marketing intermediaries.** Meaning only 3% of products purchased by the consumer are purchased directly from producers.

Examples of intermediaries

1. **Retailers** - operate outlets that trade directly with household customers.
2. **Wholesalers** - Stock a range of products from several producers and sell onto retailers.
   Wholesalers usually specialise in particular products.
3. **Distributors or dealers** - Have a similar role to wholesalers except they have narrower product range and often sell onto the end customer rather than a retailer.
4. **Agents** - sell the products and services of producers in return for a commission (a percentage of the sales revenues).
5. **Franchises** - Independent businesses that operate a branded product (usually a service) in exchange for a licence fee and a share of sales.

CHAPTER 4: CUSTOMERS

There are two types of customers that a business can sell its goods or services to:

Consumer markets

Consumer markets comprise of a large number of individual buyers with small purchases.
If a business sells exclusively to consumer markets then it is a B2C (Business to Consumer) meaning most of its transactions will be cash payments.

Industrial markets

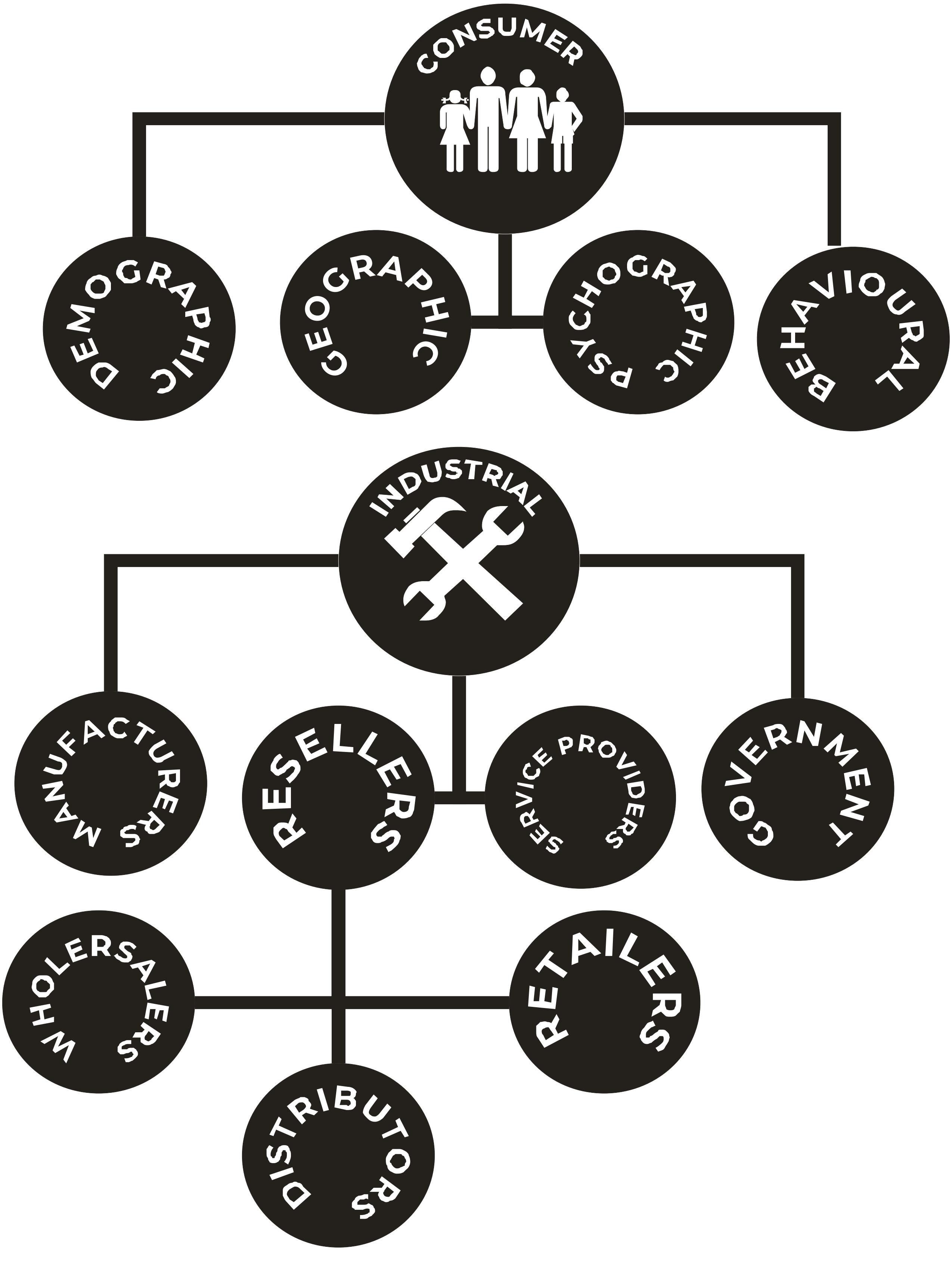
Industrial markets have few buyers with large purchases.
If a business sells exclusively to industrial markets then it is a B2B (Business to Business) meaning most if not all its transactions will be on deferred payments – trade credit.

Strictly speaking a firm's dealings with the markets involves only persons who are buying for personal use or on behalf of their organizations purposes of consumption, conversion or resale.
Some important definitions

1. **Customer** or client is a person who chooses and decides to buy goods or services.
2. **Consumer** is a customer or client who buys goods or services for personal use.
3. An **end-user** is the last person or thing in the distribution chain that goods or services are designed for .

The consumer and industrial markets definitions are at their narrowest, only useful for mass market approach, however, most if not all firms target a specific market for their output goods or services called market segments.

A simple market segments tree.



CHAPTER 5: COMPETITORS

An enterprise's competitors are other enterprises (physical and virtual) in the same industry or a similar industry which offers close substitute products or services to the same market segments. Perfect competition is the base of competition. One of the requirements for perfect competition is that the products of competing firms should be perfect substitutes. When this condition is not satisfied, the market is characterized by product differentiation.

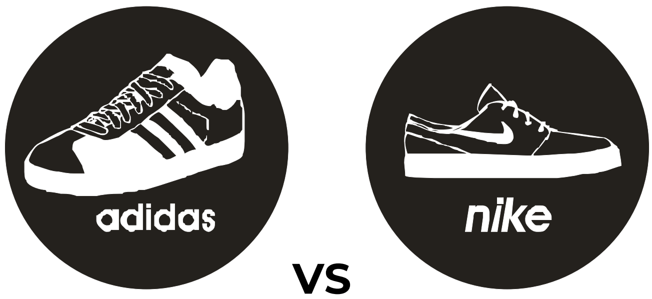
Competition

Competition is an open market rivalry in which every seller tries to get what other sellers are seeking at the same time-sales, profit, and market share-by offering the best practicable combination of price, quality, and service. Competition gives consumers greater selection and better products. The greater selection typically causes lower prices for the products compared to what the price would be if there was no competition (monopoly) or little competition (oligopoly).
Two levels of economic competition are classified as:

Direct competition

Market situation where two or more businesses offer essentially the same good or service.

EXAMPLE: TRAINERS ⏩



VS

Indirect competition

Competition among the suppliers of different types of products that satisfy the same needs.

⏪EXAMPLE: FAST FOOD

Pizza Hut

VS

McDonald's

Identifying a competitor

Example 1: durable goods

sector of industry	Industry	Product/ service	Function	Market	Market segment	Examples
Secondary	auto & truck manufacturers	car	transportation	luxury cars	(Manufacturer Suggested Retail Price)	type of bodywork
						four-door saloon
					entry level (price £23 - 29,000)	BMW 3 Series, Lexus IS, Audi A4, Mercedes-Benz-C-Class, Saab 93, Jaguar X-Type
					mid luxury (price £30 - 50,000)	Mercedes Benz-E-Class, BMW 5 Series, Audi A6, Saab 95, Jaguar S-Type Alfa Romeo 166
					high end luxury (price£50 -100,000	Mercedes Benz-S-Class, BMW 7 Series, Audi A8, Jaguar XJ, Lexus LS
					ultra luxury (price £100,000 Plus	Rolls Royce, Bentley, Maserati, Aston Martin, BMW 760, Mercedes Benz S600, Audi S8, Lexus LS600h L

From the table above, Mercedes Benz has a range of products targeting different market segments; it is not the case of Mercedes versus BMW but the battle between Mercedes Benz C class and BMW 3 Series on entry level luxury, four door saloon cars and so forth.

Identifying a competitor

Example 2: Personal products

Product	Function	Company	Market	Market segment
Ball point pen(Biro)	Writing	BiC	Stationery	General stationery
		MONT BLANC	Gift	Corporate
		PARKER		Individual

A second example of ball point pen, Montblanc and Parker compete in the same market, they have two segments individual and corporate gifts, whereas Bic is in stationery market, basic writing instrument for everyone. Therefore, Bic neither compete with Montblanc nor Waterman.

Identifying a competitor - Services

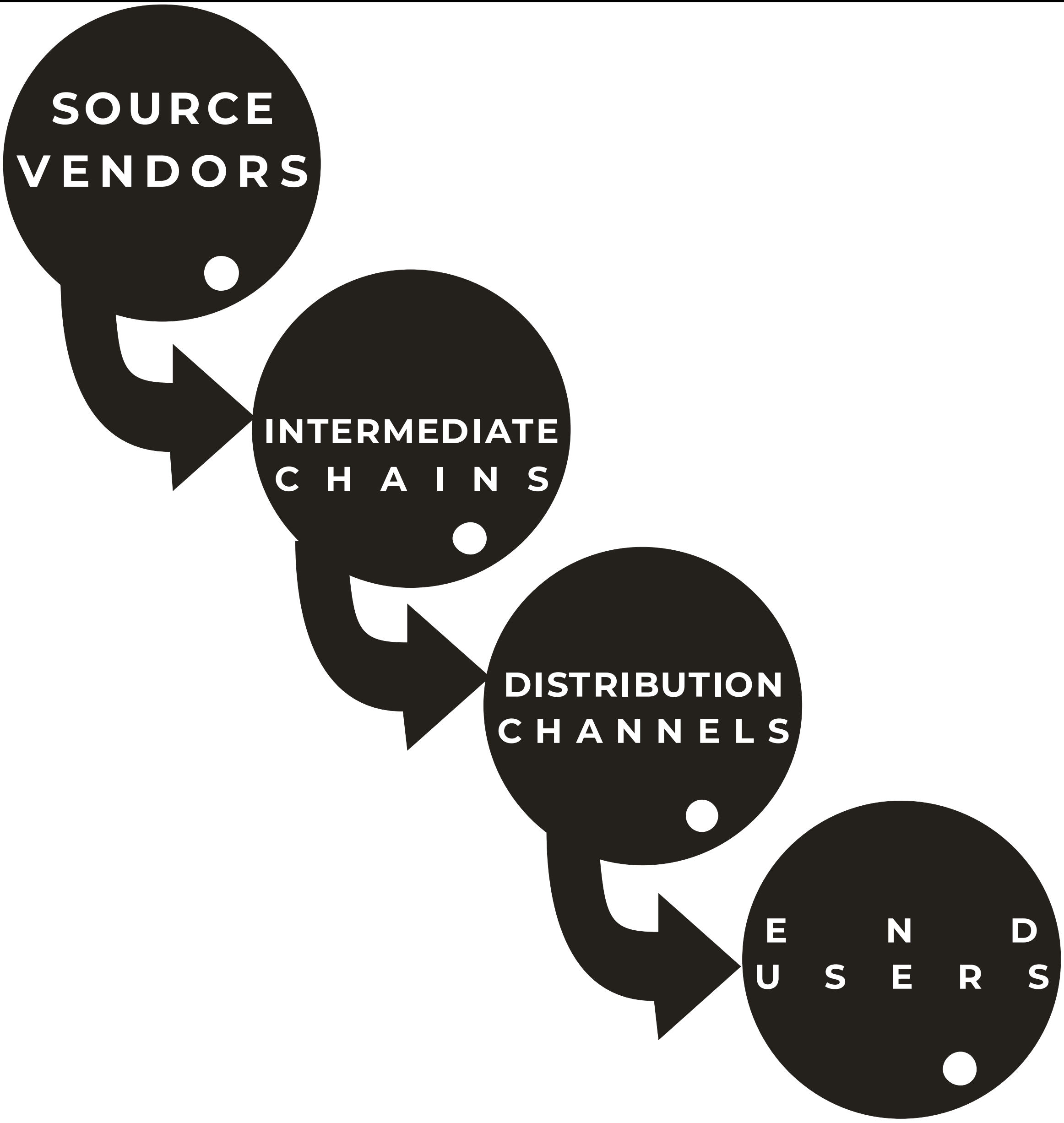
sector of industry	Industry	Product/ service	Function	Market	Market segment	Examples
Services	Sports & Leisure	football	entertainment	Football league	Premier league 2019/20 Season	Arsenal
						Aston Villa
						Bournemouth
						Brighton
						Burnley
						Chelsea
						Crystal Palace
						Everton
						Leicester City
						Liverpool
						Manchester City
						Manchester United
						Newcastle United
						Norwich City
						Sheffield United
						Southampton
						Tottenham Hotspur
						Watford
						West Ham United
						Wolverhampton

The 20 teams are competing against one another for one Premier league trophy

Where exactly do enterprises compete?

Enterprises compete with one another only through their **‘supply chains’**, that is, the **entire network** of local, national or international entities, directly or indirectly interlinked and interdependent in serving the same customer from source vendors that supply raw materials, intermediate chain links that produces or process products or services and distribution channels which bring the product to the end user.
An enterprise’s supply chain consist of may **individual product supply chains**.

Supply chain



Competitive environment

Competitive environment is the number and strength of rival enterprises in the market.

Market structures (forms)

Market structure refers to the size and number of firms in a market in terms of competition. The basic market forms are: perfect, oligopolistic, oligopoly and monopoly competition.

Sequence of market structures

The correct sequence of the market structure from most to least competitive is perfect competition, monopolistic, oligopoly and pure monopoly.

The main criteria by which one can distinguish between different market structures are:

1. The **number and size** of **producers** and **consumers** in the market.
2. The **type of goods** and **services being traded**.
3. The degree to which **information** can flow freely.

Competitive advantage

Competitive advantage is a position that a firm occupies in its competitive landscape. A competitive advantage, sustainable or not, exists when an enterprise makes economic rents, that is, their earnings exceed their costs, including cost of capital. Competitive advantage is achieved through core competences.
Core competency is something that an enterprise can do well and that meets the following three conditions:

i. Provides consumer benefits.
ii. Difficult for competitors to imitate.
iii. Can easily be diversified to more products and markets.

A core competency can take various forms, including technical/subject matter know how, a reliable process, and/or close relationships with customers and suppliers.

Competitive advantage & strategies

i. Michael Eugene Porter is an American academic focused on management and economics. He has made important contributions to strategic management and strategy theory, Porter's main academic objectives focus on how an enterprise or a region can build a competitive advantage and develop competitive strategy.

Porter 5 forces analysis

Supplier power, buyer power, threat of new entrants, threat of substitutes and industry rivalry **forces determines the 'ultimate profit potential'.**

Classification and examples of barriers

Michael Porter classifies the markets into four general cases:

1. High barrier to entry and high exit barrier
   Examples: Telecommunications, Utilities
2. High barrier to entry and low exit barrier
   Examples: Consulting, Education
3. Low Barrier to entry and high exit barrier
   Examples: Hotels
4. Low barrier to entry and low exit barrier
   Examples: Retail, E-commerce

Profit margins

1. Those markets with 'low barriers to entry' and 'low exit barriers' have 'lots of players' and thus 'low profit margins'.
2. Those markets 'high barriers to entry' and 'low exit barrier are unstable' and 'not self-regulated', so the 'profit margins fluctuate' very much along time.
3. Those markets with 'low barriers to entry' and 'high exit barriers' are 'stable and self-regulated', so the profit margins do not fluctuate along time.
4. Those markets with high barriers to entry and high exit barrier have few players and thus high profit margins. The higher the 'barriers to entry and exit' the more prone a market tend to be a 'natural monopoly'.

Porter generic strategies

In his 1980 classic **Competitive Strategy: Techniques for Analysing Industries and Competitors,** Porter simplifies the scheme by reducing it down to the three best strategies.
They are cost leadership, differentiation, and market segmentation (or focus). Market segmentation is narrow in scope while both cost leadership and differentiation are relatively broad in market scope.

Empirical research on the profit impact of marketing strategy indicated that enterprises with a high market share were often quite profitable, but so were many enterprises with low market share. The least profitable firms were those with moderate market share.
This was sometimes referred to as **the hole in the middle problem**.
Porter's explanation of this is that enterprises with high market share were successful because they pursued a cost leadership strategy and enterprises with low market share were successful because they used market segmentation to focus on a small but profitable market niche. Enterprises in the middle were less profitable because they did not have a viable generic strategy.

Hole in the middle

Example

Woolworths was once loved by millions of UK shoppers. They brought everything under one roof went burst, its demise was due to it not having a viable competitive strategy. Just what is the point of it?
If you want a '**cheap suit**' you think of **'Primark'** and if you want **'expensive food'** you think of **'Waitrose'**, but there were '**no items'** to '**associate'** with Woolworths.
Eventually Woolworths went burst.

CHAPTER 6: GENERAL PUBLIC

General public is the company's various publics, which can be any individual or group that can affect the company's ability to achieve its objectives, such as citizen action groups, the media, or the government.

Example 1: the government

Planning restrictions due to public opposition can hinder a business expansions.

Example 2: Citizen Action groups

There countless groups that we have seen or heard their actions like,

Greenpeace, anti-capitalist, anti-fur, anti-GM and so forth .

All these actions can disrupt and sometimes completely close business operations within a country and far beyond.

Corporate Social Responsibility (CSR)

CSR is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure their adherence to law, ethical standards, and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality.

Essentially, CSR is the deliberate inclusion of **public interest** into corporate decision making, and the honouring of a triple bottom line.

PART III:

AN ENTERPRISE AND THE MACROENVIRONMENT

ELEMENTS THAT MAY AFFECT A BUSINESS’S FUTURE OPERATIONS ARE NORMALLY REFERRED TO AS **MACRO-ENVIRONMENT.**

THERE ARE FIVE MAJOR MACRO-ENVIRONMENT FORCES: MACRO-ECONOMIC, SOCIAL, CULTURAL AND DEMOGRAPHIC, NATURAL, TECHNOLOGICAL, POLITICAL AND LEGAL.

CHAPTER 1: MACROECONOMICS

Macroeconomics is concerned primarily with the forecasting of the whole of a nation's income, through the analysis of major economic factors that show predictable patterns and trends, and of their influence on one another.
The economic environment consists of all factors-such as salary levels, credit trends, and pricing patterns-that affect consumer spending habits and purchasing power.
Unless there is a blanket economic sanctions imposed to a country, every country's economy comprise of both **domestic** and **international trade.**

Circular flow of Income

Circular flow of income is a model that indicates how money moves throughout an economy – it measures the total economic activity.
The less money flows throughout an economy the less economic activity and vice versa.

Circular flow of income refers to a simple economic model which describes the reciprocal circulation of income between producers and consumers. In the circular flow model, the inter-dependent entities of producer and consumer are referred to as "enterprises" and "households" respectively and provide each other with factors in order to facilitate the flow of income. Enterprises provide consumers with goods and services in exchange for consumer expenditure and "labour" from households.
The cycle of money flowing through the economy is as follows: total income is spent (with the exception of "leakages" such as consumer savings), while that expenditure allows the sale of goods and services, which in turn allows the payment of income (such as wages and salaries). Expenditure based on borrowings and existing wealth – i.e., "injections" such as fixed investment – can add to total spending.
In equilibrium;

1. Leakages equal injections and the circular flow stays the same size.
2. If injections exceed leakages, the circular flow grows (i.e., there is economic growth).
3. If they are less than leakages, the circular flow shrinks (i.e., there is a recession).

International trade

OECD (Organisation for Economic Co-operation and Development) definition

The two main data items used in the concept of international trade are imports and exports.

- **Imports of goods** - measures the value of goods that enter the domestic territory of a country irrespective of their final destination.
- **Exports of goods** - similarly measures the value of goods which leave the domestic territory of a country, irrespective of whether they have been processed in the domestic territory or not.

Imports (and exports) of services reflect the value of services provided to residents of other countries (or received by residents of the domestic territory).

The balance of trade or (net exports)

Net exports is the difference between the monetary value of exports and imports in an economy over a certain period of time.
A positive balance of trade is known as a **trade surplus** and consists of exporting more than is imported; a negative balance of trade is known as a **trade deficit.**

Importance of International trade

In most countries, International trade represents a significant share of gross domestic product (GDP). International trade is a major source of economic revenue for any nation that is considered a world power. Without international trade, nations would be limited to the goods and services produced within their own borders.

Exchange rates

All international trade financial transactions, involve exchanging one currency with another with an exception of Euro-zone where member countries use a single currency, the Euro €, selling within this zone does not involve currency exchange.

Types of exchange rates

1. **The spot exchange rate**
   refers to the current (quoted) exchange rate.
2. **Forward exchange rate**
   Currency price set between two parties for delivery on a future date. If that date lies within two business days, it is a spot transaction; otherwise it is a forward exchange transaction.
3. **Fixed exchange rate**
   System in which the value of a country's currency, in relation to the value of other currencies, is maintained at a fixed conversion-rate through government intervention.
4. **Floating exchange rate**
   System in which a currency's value is determined solely by the interplay of the market-forces of demand and supply (which, in turn, is determined by the soundness of a country's basic economic position), instead of by government intervention. However, all central banks do try to defend these rates within a certain range by buying or selling their country's currency as the situation warrants.

Economic globalization

Economic globalization is an advanced stage of international trade. A core element of globalization is the expansion of world trade through the elimination or reduction of trade barriers, such as import tariffs. Economic globalization go further into integration of economies around the world, through the movement of goods, services, movement of people (labour) and knowledge (technology) and capital across international borders.

How did modern economic globalization begin?

Globalization, since World War II, is largely the result of planning by politicians to break down borders hampering trade to increase prosperity and interdependence thereby decreasing the chance of future war.

Bretton-Woods conference 1944

In the summer of 1944, delegates from 44 countries in the midst of World War II met at Mount Washington Hotel in rural Bretton Woods, New Hampshire to reshape the world's international financial system. An agreement was passed by the world's leading politicians to lay down the framework for international commerce and finance, and the founding of several international institutions intended to oversee the processes of **economic globalization** was passed. Among the institutions include the International Bank for Reconstruction and Development (the World Bank), and the International Monetary Fund. Globalization has been facilitated by advances in technology which have reduced the costs of trade, and trade negotiation rounds, originally under the auspices of the General Agreement on Tariffs and Trade (GATT), which led to a series of agreements to remove **restrictions on free trade.**

CHAPTER 2:1 SOCIAL ENVIRONMENT

Social environment main issues like health, education, housing, crime and so forth every enterprise in one way or another.

Health

Figures:
According to Health and Safety Executive (HSE) in the United Kingdom
there are 30.7 million Working days lost due to work-related ill health and non-fatal workplace injuries annually.

Housing

Housing market distress distorts labour market outcomes by impeding household mobility.

Education

Enterprises' success depend on a stable supply of well-educated and competent workers.

Crime

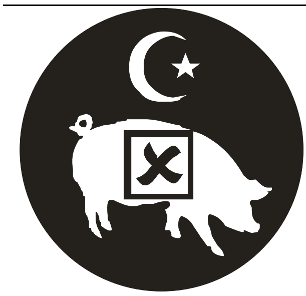
Figures:
According to the Home office the cost of crime against enterprises in the UK is in excess of £9 billion pounds.

CHAPTER 2:2 CULTURAL ENVIRONMENT

Culture is all the ways of life including arts, beliefs and institutions of a population that are passed down from generation to generation. **Culture is the way of life for an entire society**. It includes codes of manners, dressing, language, religion, rituals, norms of behaviour such as law and morality, and systems of belief as well as the art. Large societies often have subcultures, or groups of people with distinct sets of behaviour and beliefs that differentiate them from a larger culture of which they are a part.

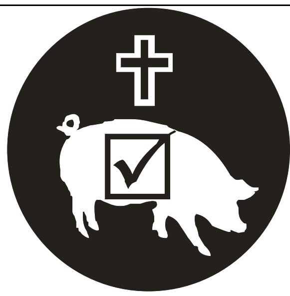
Culture and consumption

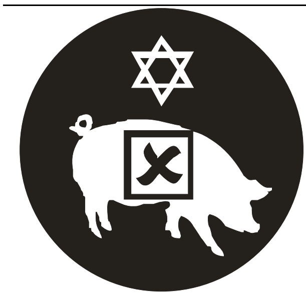
Culture determines **what type of goods** or **services are consumed.**
Example: The humble pork



Muslims don't eat pork as is forbidden (haram) in Holy Quran due to the meat being impure, unhealthy and harmful for humans.

Most Christians eat pork which has nothing to do with religion as Old testament prohibit it but all to do with pork being the cheapest source of protein.





Jews don't eat pork as in Torah is not kosher as the swine is unclean as it does neither chew cud nor regurgitate.

CHAPTER 2:3 DEMOGRAPHIC ENVIRONMENT

Demographic environment is a statistical socio-economic characteristics or variables of a population, such as age, sex, education level, income level, marital status, occupation, religion, birth rate, death rate, average size of a family, average age at marriage) .

Demography

Demography is the statistical study of human populations' dynamics. It can be a general science that can be applied to any kind of dynamic population, that is, one that changes over time or space.
It encompasses the study of the size, structure and distribution of populations, and spatial and/or temporal changes in them in response to birth, death, migration and ageing.

Why is demography important to an enterprise?

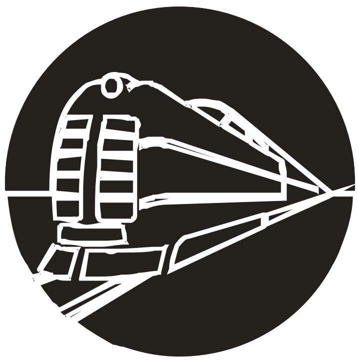
Demography is important to an enterprise for three main reasons:

1. The size of population helps to determine the quantity of things demanded.
2. The age structure of the population, socioeconomic, gender, affect the 'types of products' demanded.
3. The regional distribution of the population will determine the locations of most demand.

CHAPTER 3: NATURAL ENVIRONMENT

Natural environment is the environment that exist naturally, supports human life, the air we breath, the water we drink, the food we eat, clothing we wear, the houses we live in and infrastructure, that is, large-scale public systems, services, and facilities of a country or region that are necessary for economic activity, namely, railways, roads, airports, ports, water and sewerage, gas and electricity and telecommunications.


Human life

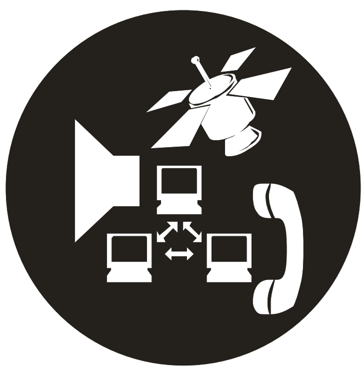

Railways


Roads


Airports


Ports


Water and sewerage
Electricity and gas

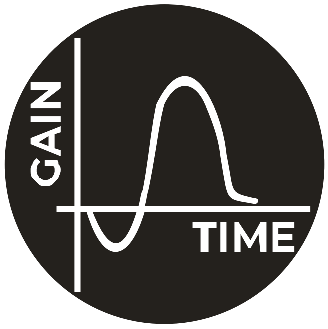

Telecommunications

CHAPTER 4: TECHNOLOGICAL ENVIRONMENT

The technological environment consists of those forces that affect the technology and which can create new products and processes, new markets, and new marketing opportunities.

Technology lifecycles

Every technology has finite life, it may be measured in months, years decades or even centuries but eventually it gets old and something comes along to replace it. In the early days of a new technology there is enormous potential for application. No one knows quite what to do with it and may try things that turn out to be impossible. This phase is characterized by lots of experimenting around the technology and its applications.



The innovation cycle model helps us in two ways:

1. It is comforting to know even disruptive change does tend to follow a pattern.
   Therefore it is easier for us to learn and predict how things will change as time goes by.
2. For an enterprise, it helps you to think in strategic terms as obsolete technology is a costly blunder.

Dominant standards

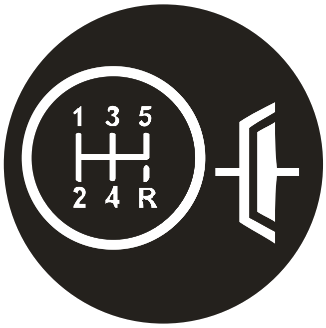
Gradually these experiments begin to converge around a **dominant design** – something which begins to set up the rules of the game. Innovation does not stop at the dominant design but it moves from being big steps and radical experimentation to focusing more on improvement and refinement. As the technology matures further, the incremental innovation becomes more significant and emphasis shift to factors like cost, as at a certain point the patents or designs rights will expire and threat of generics is imminent which means efforts within the industries which grow up around these product areas tend to focus increasingly on rationalization, on economies of scale and on process innovation to drive down costs and improve productivity.

Dominant standards examples

Motor vehicles – manual gear

All manual cars use a clutch to shift through the gears.

The configuration follows the same principle regardless of car brand.



Motor vehicles – automatic gear

All automatic cars have no clutch, gears shift automatically, you just have to move to the right position as indicated.

The configuration follows the same principle regardless of car brand.

Electricity - Alternating current (AC)

All generators, motors, transformers, electricity transmission uses Nikola Tesla’s Alternating current.

Electricity – Direct current (DC)

All dry cell batteries in small appliances – phones, torches, radios and hybrid cars uses Thomas Edison’s direct current.

CHAPTER 5: LEGAL AND POLITICAL ENVIRONMENT

A country's legal system and political stability are essential to **investments**.

Legal environment

Every single part of an enterprise's activities are covered by the law on implied or expressed form.
Every law has jurisdiction area, it can be local, nationwide, regional or worldwide.

The legal definitions below explain:

- Ignorantia juris non excusat - 'ignorance of the law does not excuse'.
- Ignorantia legis neminem excusat – 'ignorance of the law excuses no one'.
- Nemo censetur ignorare legem – 'nobody is taught to ignore the law'.

The above are legal principles holding that a person who is unaware of the law may not escape liability for violating that law merely because he or she was unaware of the content.

Political environment

Political environment has to do with politics and political structure, a country is politically stable when there is some equilibrium, that is, a situation where there is a smooth power transition regardless of political parties that maintain things as they for both individuals and enterprises.