

Business 200 D100: Business Fundamentals



Week 2

Beedie School of Business



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Agenda



Recap week 1

Lecture: The Environment of Business

Test Your Learning

Course Details: Assignments

Homework

Chapter 2

The Environment of Business

Learning Objectives

- Concepts of *organizational boundaries* and *multiple organizational environments*.
- Importance of the *economic environment* to business and identify the factors used to evaluate the performance of an economic system.
- The following environments and their role in *business*:
 - *Technological environment*
 - *political-legal environment*
 - *socio-cultural environment*
- Emerging challenges and opportunities in the business environment.
- Understand the recent trends in the redrawing of corporate boundaries

Organizational Boundaries and Environments

External Environment

- Factors beyond an organization's boundaries that cannot be controlled
- Ex: Competition, regulations, economic situation, etc.

Organizational Boundaries

- That which separates the organization from its environment

Is the environment of business changing?

The world's largest accommodation provider, owns no real estate.

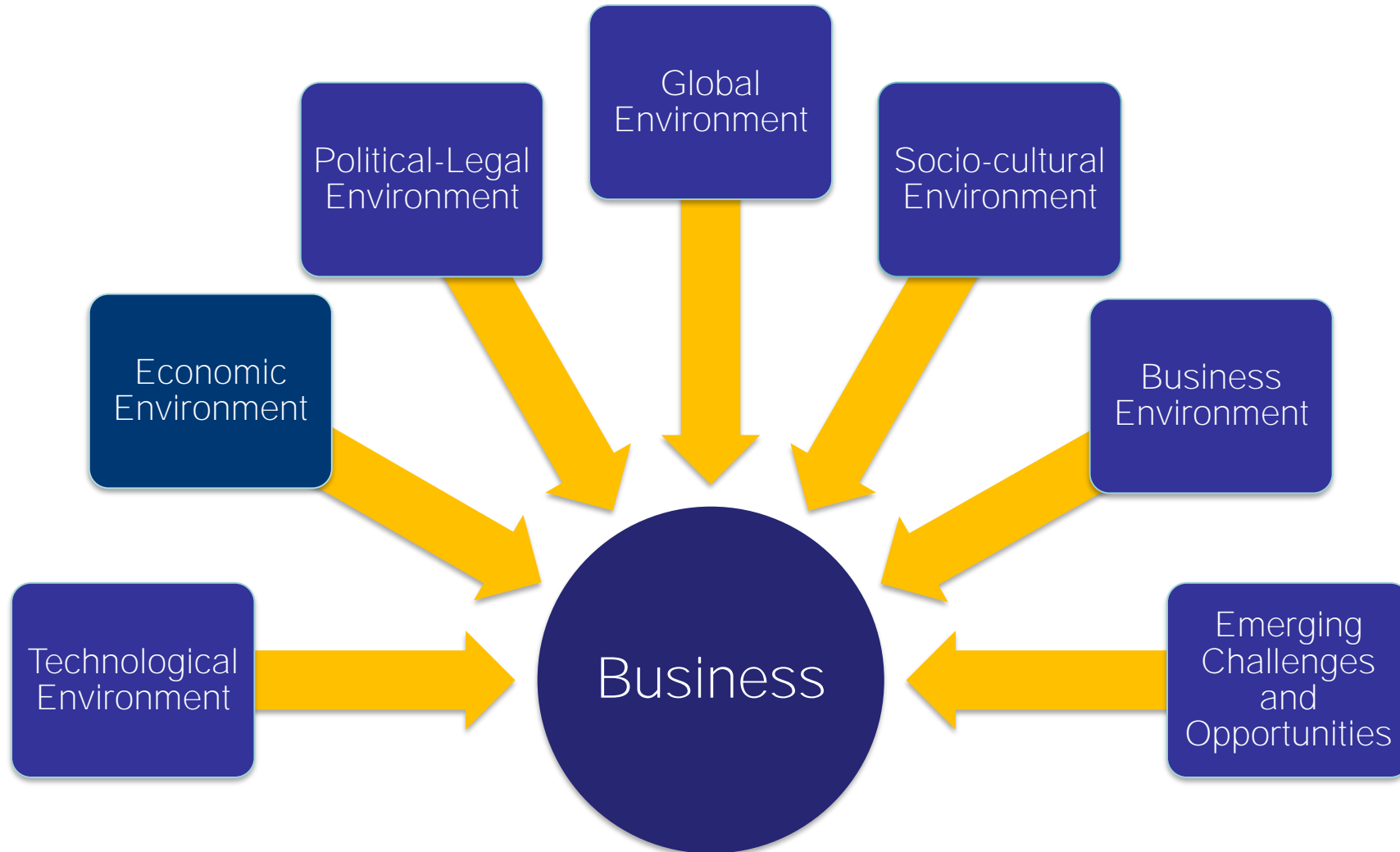
The world's most valuable retailer, has no inventory.

The world's biggest taxi company owns no vehicles.

The world's most popular media company creates no content.

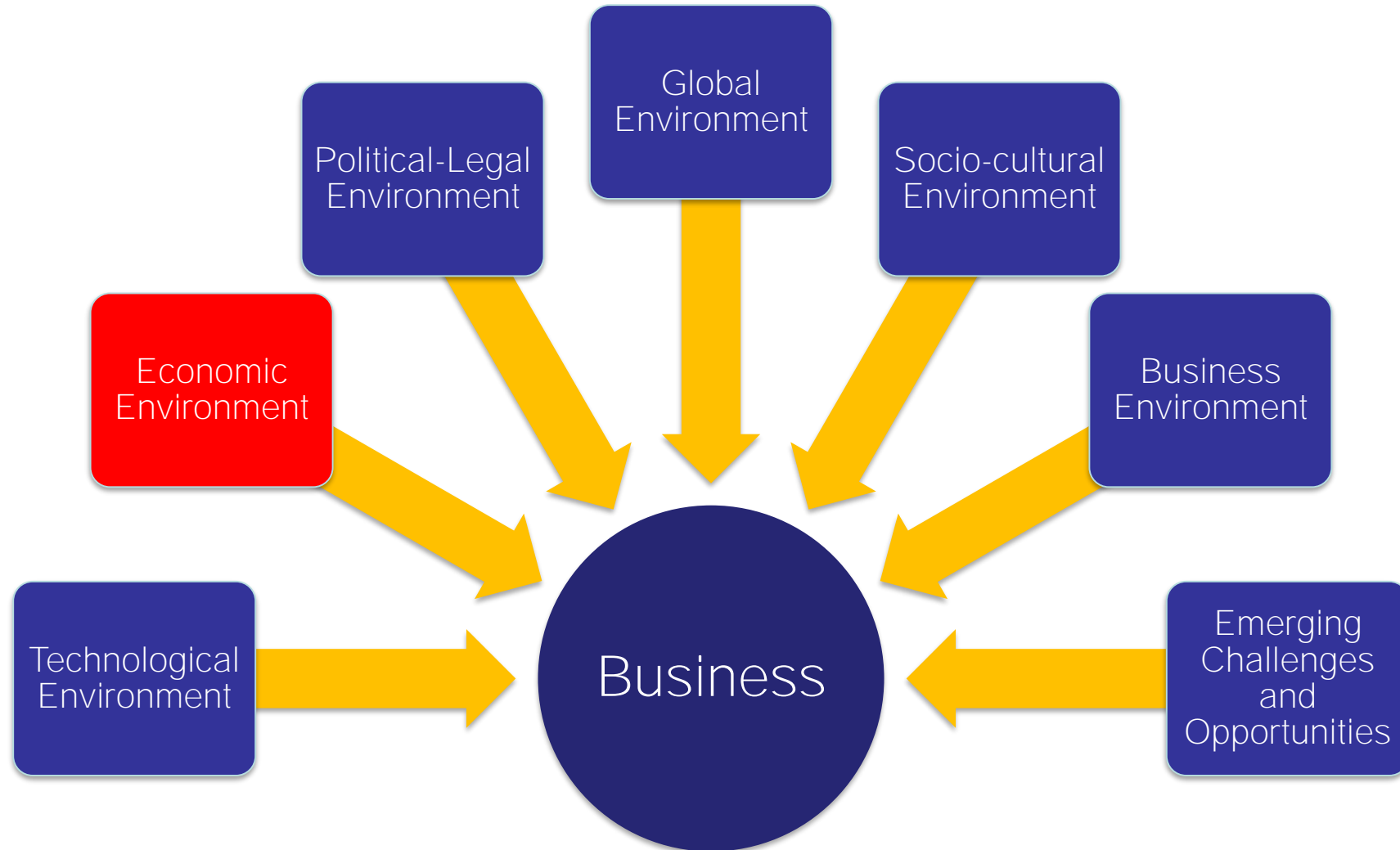
Dimensions of the External Environment

Multiple Organizational Environments



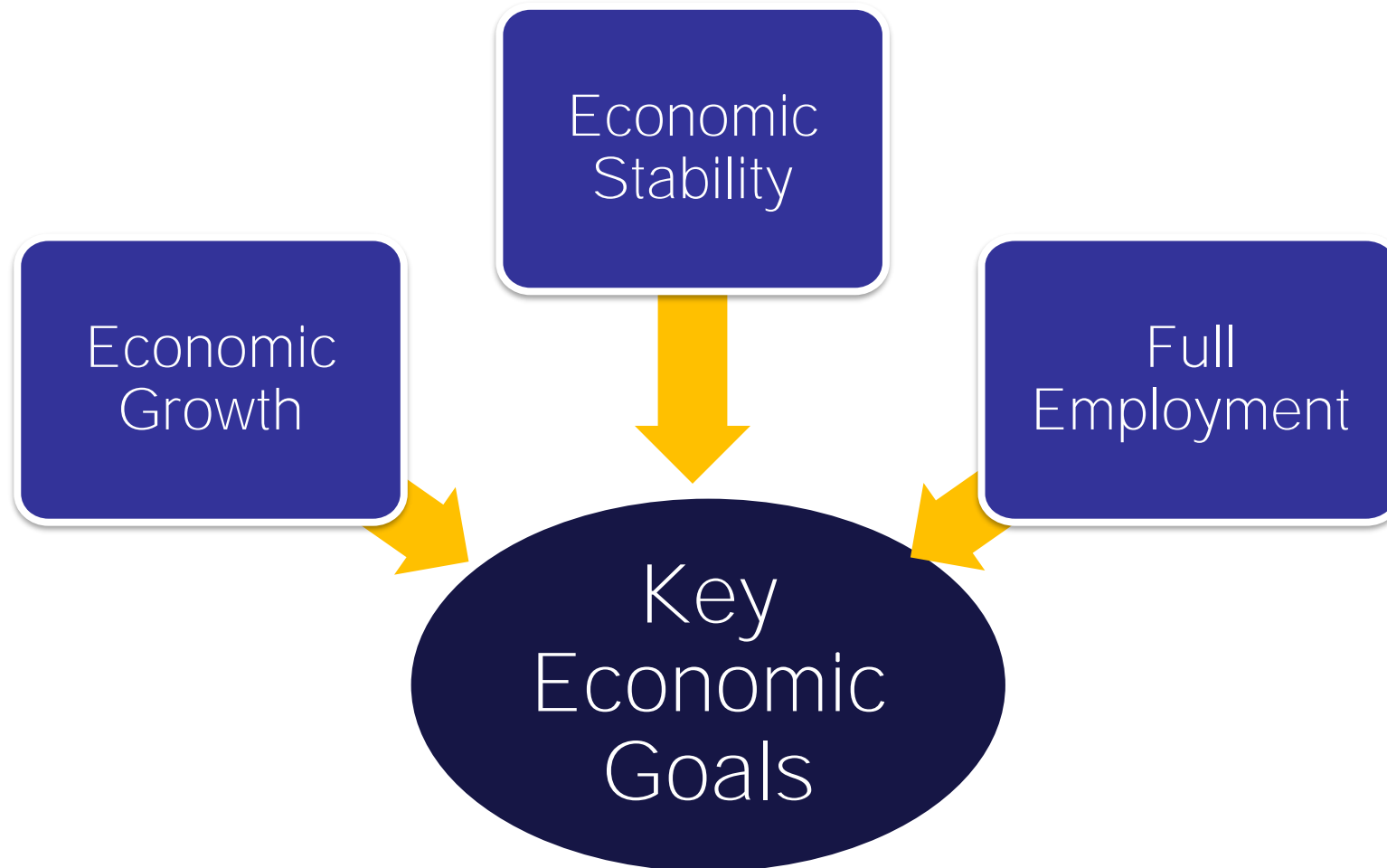
Dimensions of the External Environment

Multiple Organizational Environments



The Economic Environment

Conditions of the economic system in which an organization operates



The Economic Environment

Economic Growth Overview

1. Aggregate Output and the Standard of Living

2. Productivity

3. Business Cycle

*4. Gross Domestic Product (GDP) and
Gross National Product (GNP)*

5. Balance of Trade

6. National Debt

The Economic Environment

Aggregate Output

- Measure of economic growth
- Total quantity of goods and services produced by an economic system during a given period

Standard of Living

- Total quantity and quality of goods and services that a country's citizens can purchase with their currency

The Economic Environment

Productivity

- Measure growth
- Compares the output of an economic system with the resources that are needed to produce the output
- Standard of living improves through increases in productivity

The Economic Environment

Example

A company that processes fruits and vegetables is able to produce 400 cases of canned peaches in one half hour with 4 workers.

What is the labor productivity?

Solution: Labor productivity = Output Produced / Labors Hours Needed

$$\frac{400 \text{ cases}}{4 \text{ workers} \times 1/2 \text{ hours / worker}} = \mathbf{200 \text{ cases per labor hour}}$$

Productivity Country Comparison

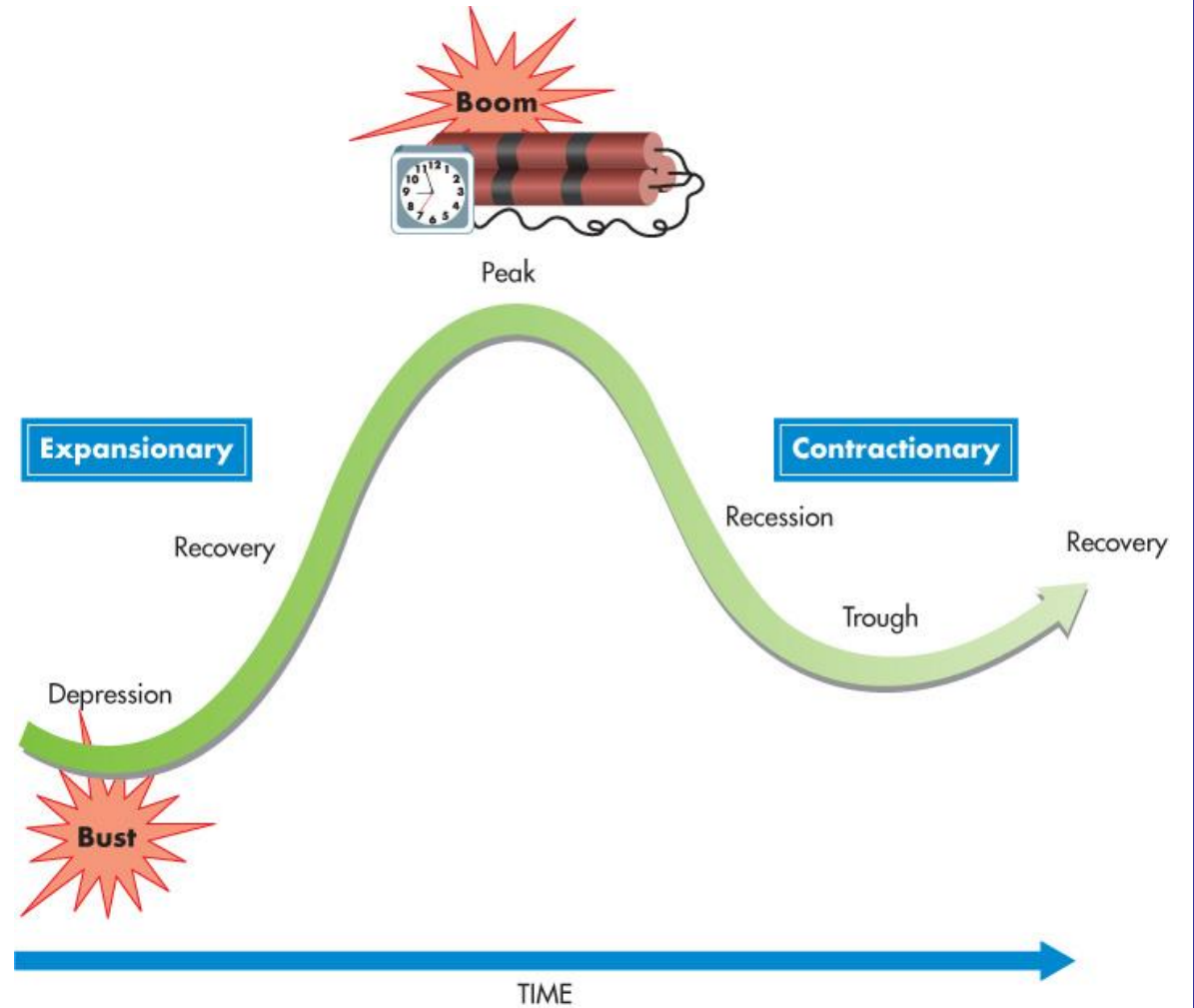
Canada ranked 17th in 2012

Productivity ratio of 73.8% compared to the US.

The Economic Environment

Business Cycle

- The typical pattern of short-term ups and downs in an economy
- 4 phases: peak, recession, trough and recovery



The Economic Environment

Business Cycle

Peak

Economic indicators are at its highest but do not grow further

Recession

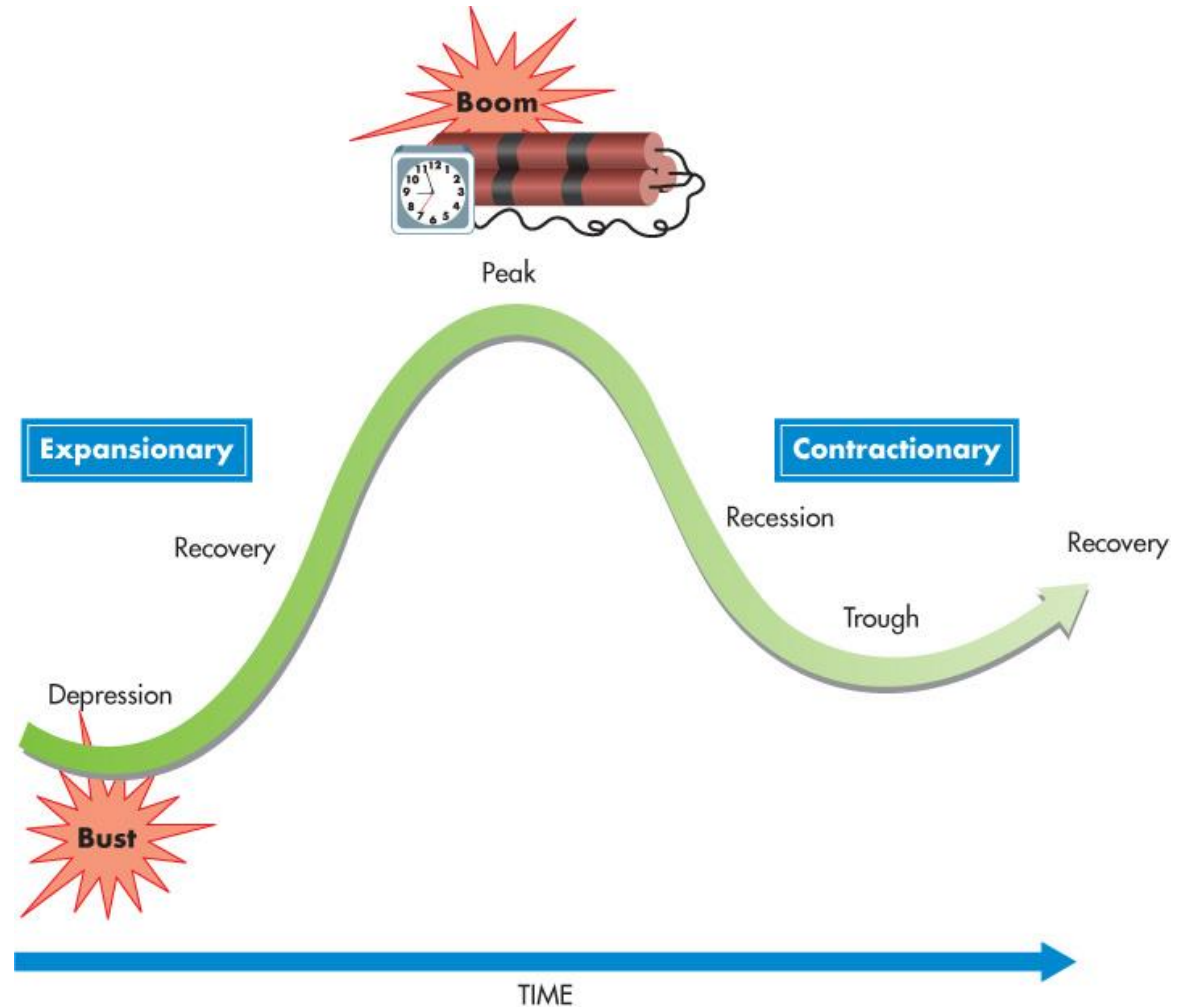
Gradual decrease in demand of products

Trough

Lowest level, economy shrinks

Recovery

Lowest level is passed



The Economic Environment

Gross National Product (GNP)

- value of all goods and services produced by a national economy within a given period **regardless of production location**

Gross Domestic Product (GDP)

- value of all goods and services produced by a national economy **within a given period** with domestic factors of production

Canada's GDP in 2014 was approx 1.8 trillion,.

2.5% of global worldwide GDP

Top five countries: US, China, Japan, Germany, France

The Economic Environment

	GNP	GDP
Meaning	The value of goods and services produced by the country's citizens irrespective of the geographical location	The value of goods and services produced within the geographical limits of the country
What is it?	Production of products by the enterprises owned by the residents of the country.	Production of products within the country's boundary.
Basis is...	Citizenship	Geographical Location
Focus on..	Production by nationals	Domestic production
Outlines	How the residents are contributing towards the country's economy.	The strength of the country's domestic economy.

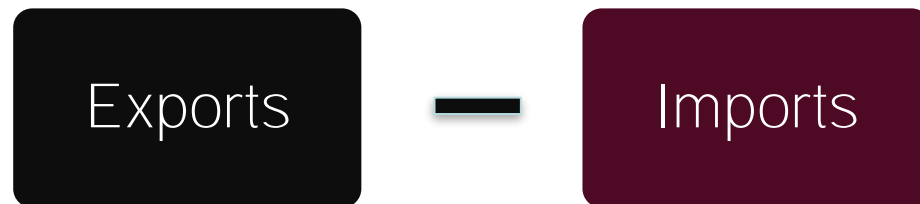
The Economic Environment

Other factors that can hinder or help economic growth are

- Balance of Trade
- National Debt

Balance of Trade

- value of all exported products minus imported products



The Economic Environment

Negative Balance of Trade

- More imports than exports
- Also called a trade deficit
- Hinders economic growth

Positive Balance of Trade

- More exports than imports
- Also called a trade surplus
- Helps economic growth

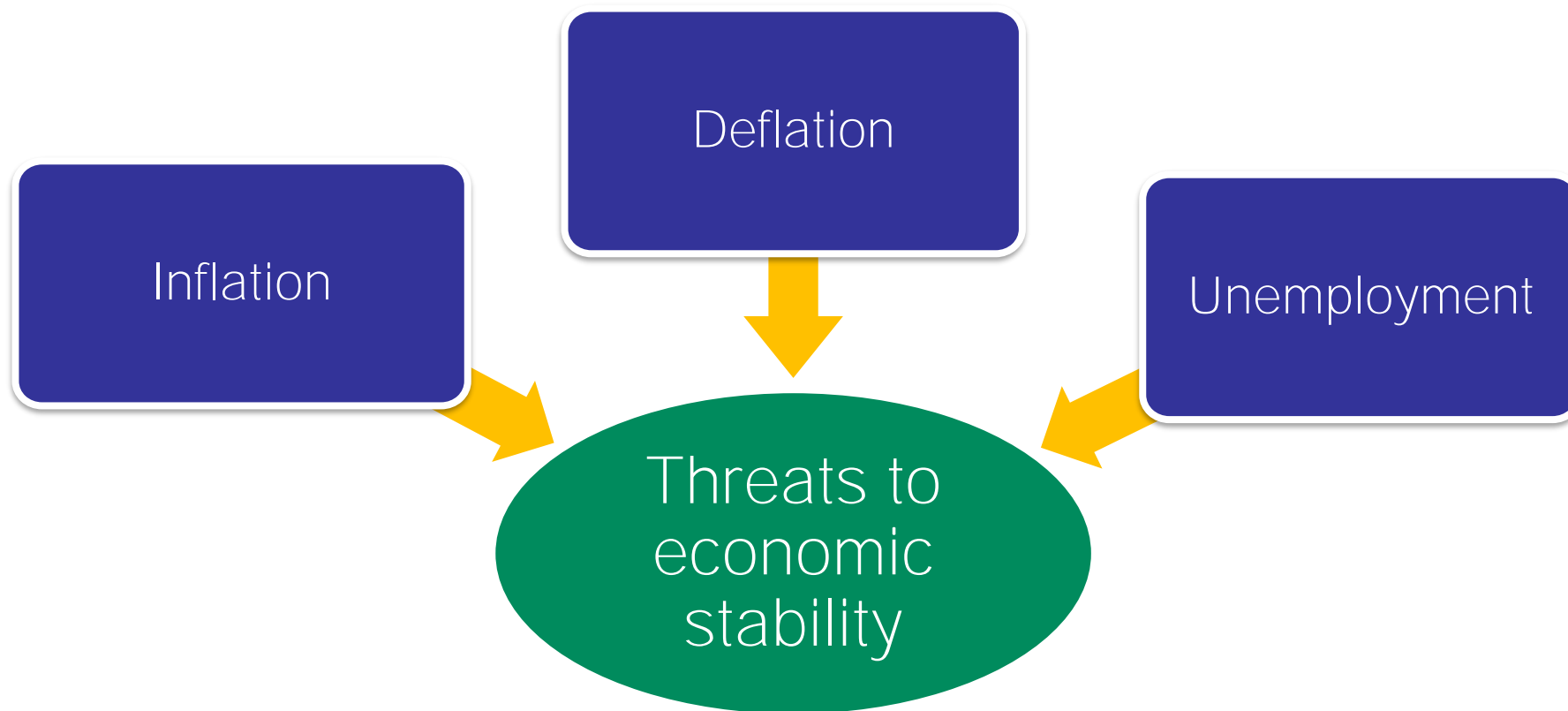
The Economic Environment

National Debt

- amount of money that a government owes its creditors
- increases/decreases based on the budget deficit/surplus

Economic Stability

When money available and quantity of goods & services produced grow at about the same rate



The Economic Environment

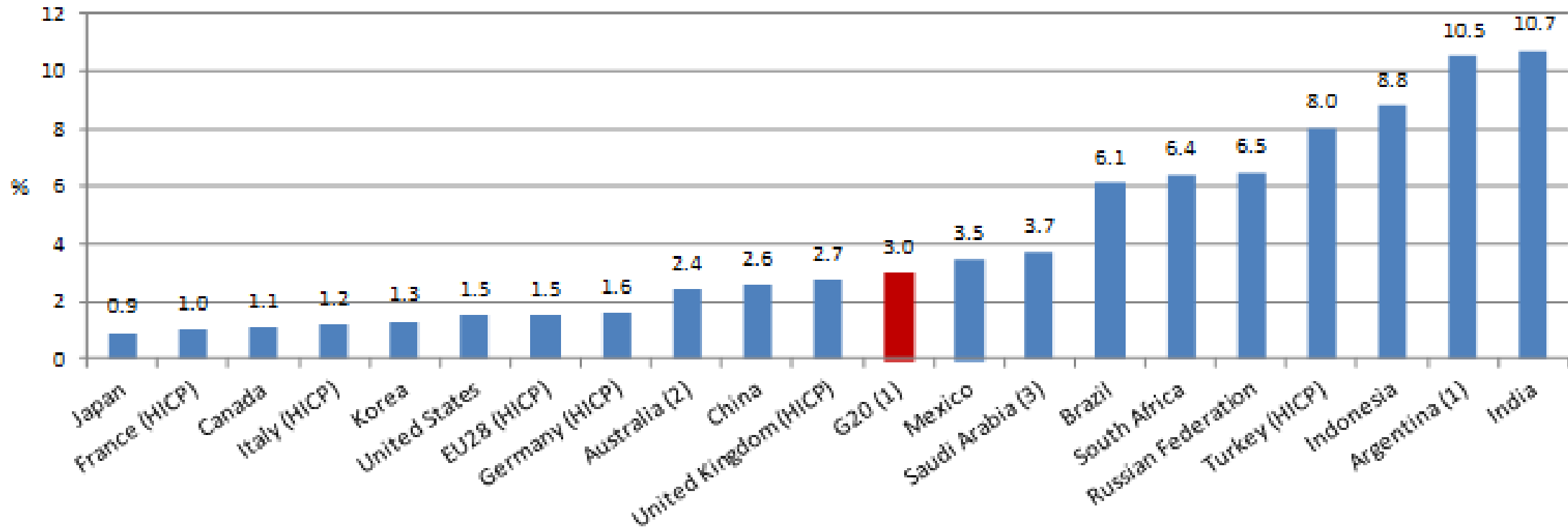
Inflation

- occurs when there is widespread **price** increases in an economic system

Consumer Price Index (CPI)

- tool used to measure inflation

Change in Consumer prices, all items, G20 countries



Source: IMF, 2013, http://www.imf.org/external/hp/sec/pr/2013/pr13405.htm?utm_source=twitterfeed&utm_medium=twitter

The Economic Environment

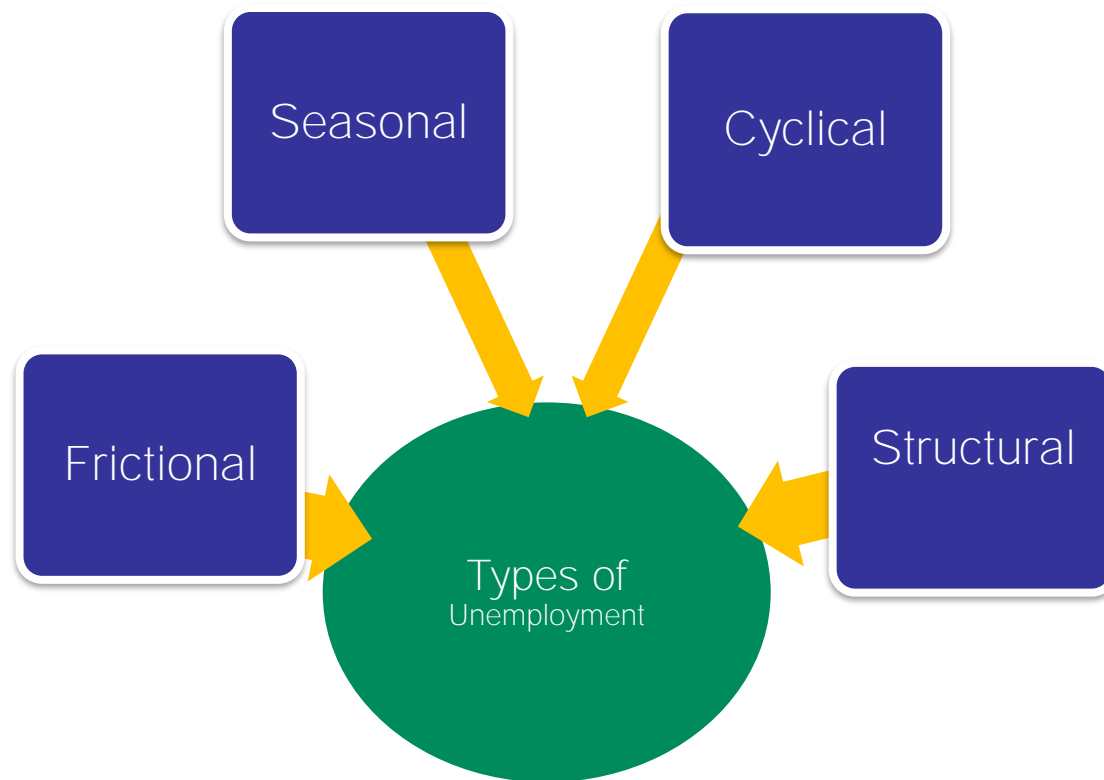
Deflation

A period of generally falling prices

- Can lead to economic stagnation and high unemployment.
 - Consumers will **hold off on spending money** because things will be cheaper in the future.
 - Firms will be producing less, needing to layoff workers i.e. high unemployment
- Periods of deflation have been rare in the 20th century

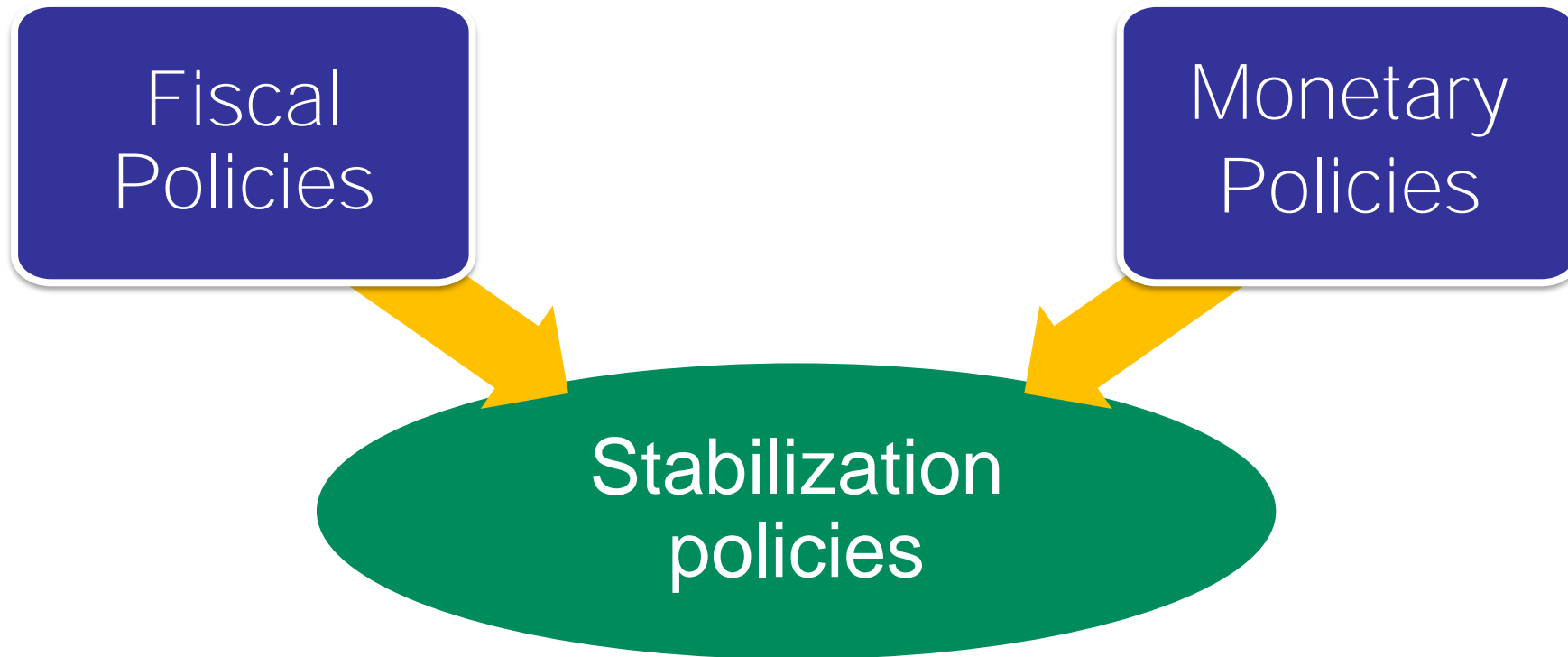
Unemployment

Level of joblessness among people **actively seeking work** in an economic system



The Economic Environment

Managing the Canadian Economy



Discuss

- What are examples of consolidation in a sector?
- What are examples of fragmentation in a sector?
- What are examples of leverage by the consolidated sector and the fragmented sector?

Dimensions of the External Environment

Multiple Organizational Environments



The Technological Environment

All the ways a company creates value for its customers

- knowledge, work methods, physical equipment, etc.



Apple is betting consumers will flock to the new Apple Watch like they have to their other star products. Will the device deliver the promised benefits to the consumer and to the company's bottom line? Time will tell.

Pawan Kumar/Alamy

The Technological Environment

Research & Development (R&D)

- Provides new ideas for products services and processes

Basic R&D

Research that does not (yet) have an immediate market

- Example: Duct tape

Applied R&D

How a new idea can be put to use in a product or market.

- Example: Apple pay



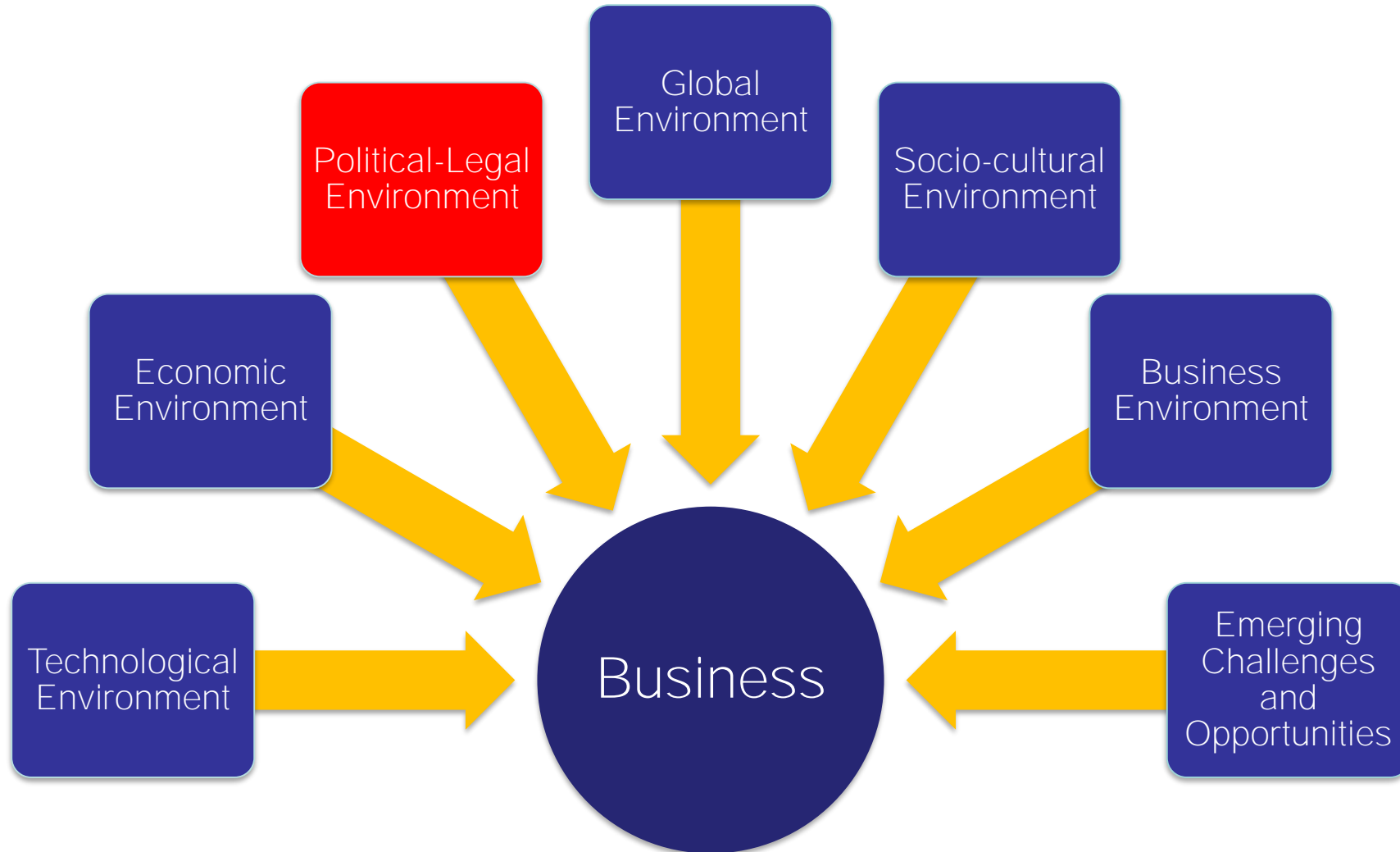
<<< Bauer has 52 percent market share of the global hockey equipment market. The company must constantly stay ahead of the technological race with its competitors for products like composite sticks.

Alex Brandon/AP Images

Bauer constantly innovates and spends heavily on R&D

Dimensions of the External Environment

Multiple Organizational Environments



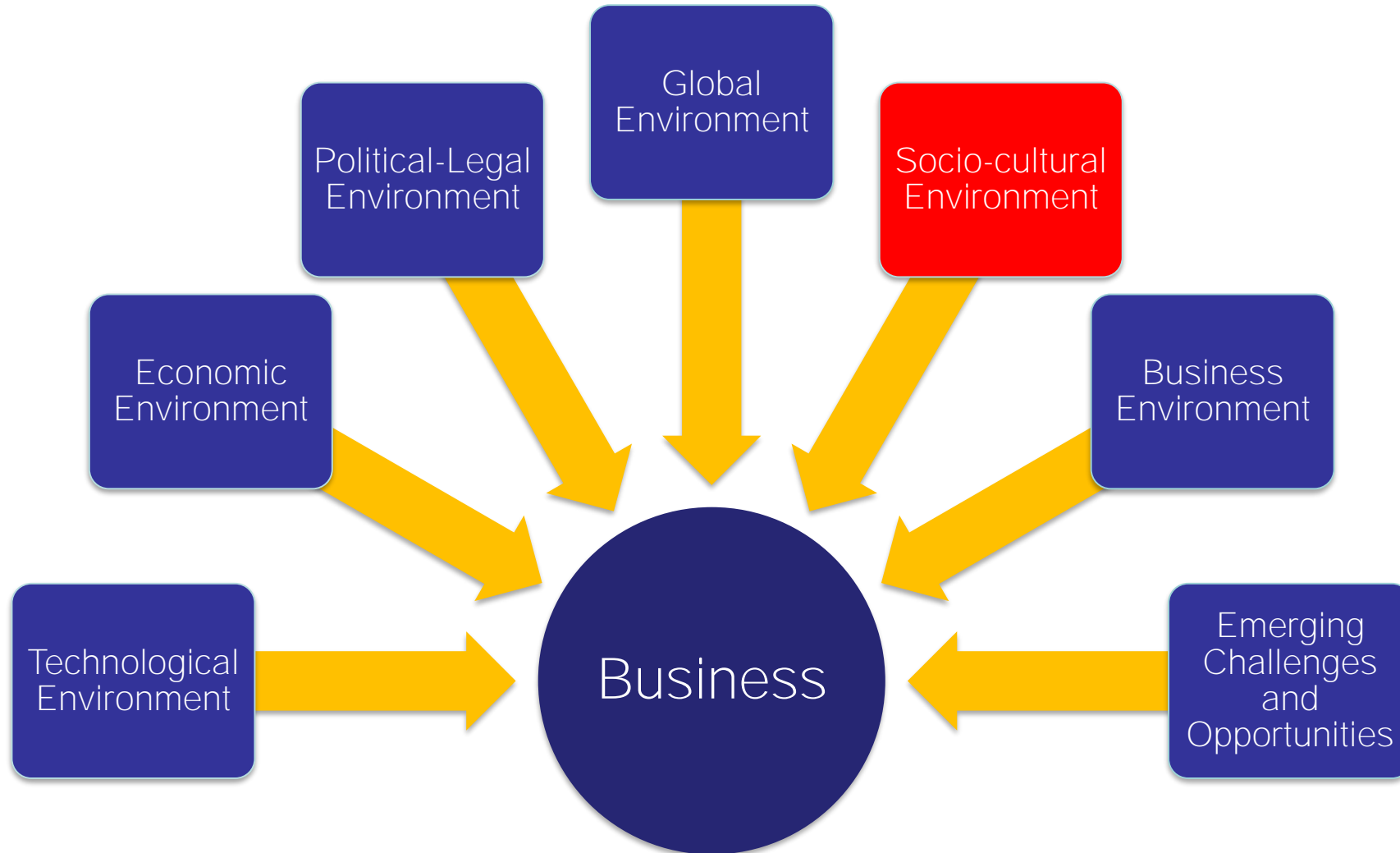
The Political-Legal Environment

Reflects the relationship between business and government (e.g., regulations, taxation)

- pro- or anti-business sentiment
- political stability
- international relations

Dimensions of the External Environment

Multiple Organizational Environments



The Socio-Cultural Environment

Customs, values, attitudes and demographic characteristics of the society in which an organization functions

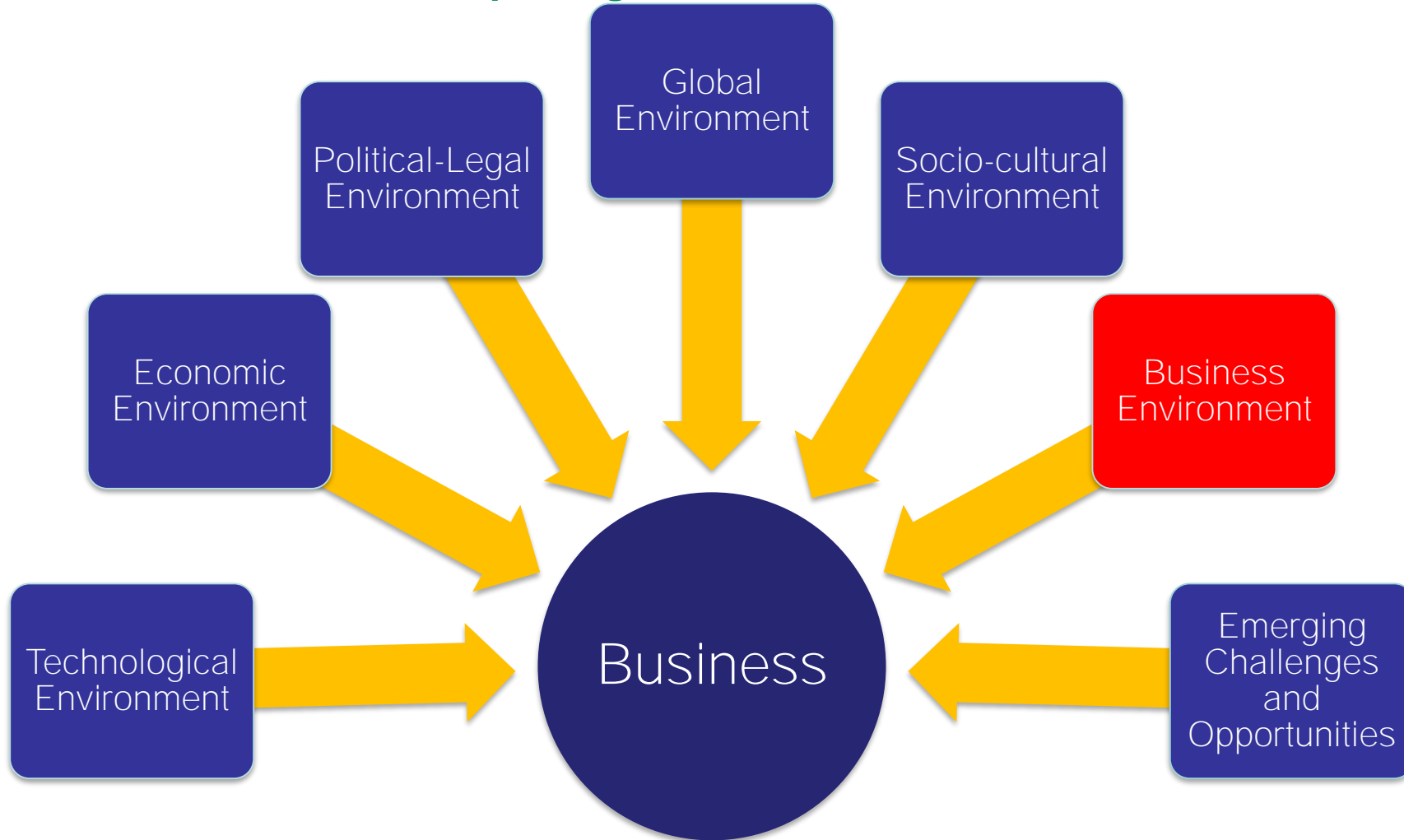
Customer preferences and tastes

- vary across and within national boundaries
- Change over time

Ethical compliance and responsible business behaviour

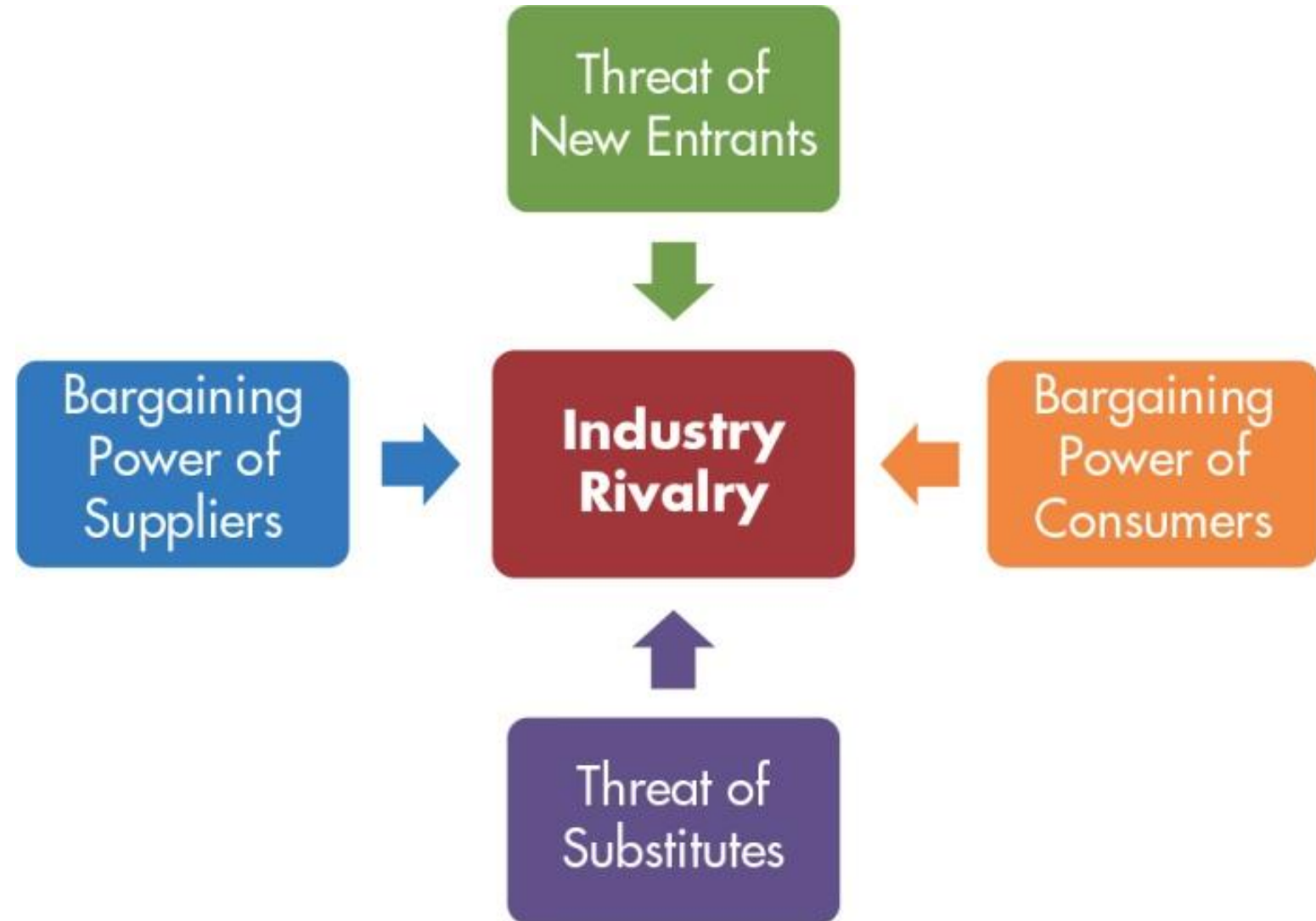
Dimensions of the External Environment

Multiple Organizational Environments



The Business Environment

Porter's 5
forces
model



Porter's Five Forces Model – Example Fast Food industry

1. Industry Rivalry

How strong is the competition among established firms in an industry?

- How many close competitors exist in the industry?
- What is the size of the closest competitors? How much market share do they have?
- Do they have price wars?
- How much advertising?
- What is the industry structure (oligopoly, monopoly, perfect competition, etc.)?
- What is the industry growth rate?
- Etc.

2. Threat of new entrants

How easy is it for new business to enter the industry?

- How loyal are the customers in a market?
- How easy is it for customers to switch to another product?
- How regulated is the industry?
- Does it required large capital investments to enter the industry?
- How easy is it to gain access to distribution/sales channels?
- How easy is it for new workers to be trained?
- Etc.

Q: What does this look like for the fast food industry?

3. Threat of Substitutes

Are there goods and services that perform similar function?

- How many close substitute products are there?
- How expensive are they?
- What is the quality of substitutes?
- Etc.

Q: What does this look like for the fast food industry?

4. Bargaining power of suppliers

How strong are your suppliers?

- How many suppliers can you use?
- How many other customers or industries does your supplier serve?
- Does the business have high switching cost?
- Etc.

Q: What does this look like for the fast food industry?

5. Bargaining power of consumers

How strong are your buyers/consumers?

- How many buyers do you have?
- How much sales do they account for?
- Can your buyers easily switch to a competitive offering?
- Are the buyers able to enter your business themselves?
- Are buyers only purchasing from you (loyal) or also from other firms?

Cost leadership
Differentiated
Focus

Dimensions of the External Environment

Multiple Organizational Environments



The Business Environment

Emerging Challenges and Opportunities

The most successful firms are getting leaner by focusing on their *core competencies*

- the skills and resources with which an organization competes best and creates the most value for owners
- Outsource non-core processes, i.e. pay other firms to perform them



Mike Cassese/Reuters/Landov

The Business Environment

Outsourcing

- Paying suppliers and distributors to perform certain business processes

The Growing Role of Social Media

- Now an integral part of daily communication (especially among Millennials)

Business Process Management

- Moving away from department-oriented organizations toward process-oriented teams

Redrawing Corporate Boundaries

Acquisitions

- One firm buys the other

Mergers

- Consolidation of two firms
 - horizontal, vertical or conglomerate mergers

Divestitures and Spinoffs

- Selling part of existing business or setting it up as a new corporation

Redrawing Corporate Boundaries

Friendly Takeover

- Acquired company welcomes the acquisition
 - May be because it needs cash or gets other benefits

Hostile Takeover

- Acquiring company buys enough of the other company's stock to take control
 - a poison pill is a defense tactic that management can adopt to make a firm less attractive

Redrawing Corporate Boundaries

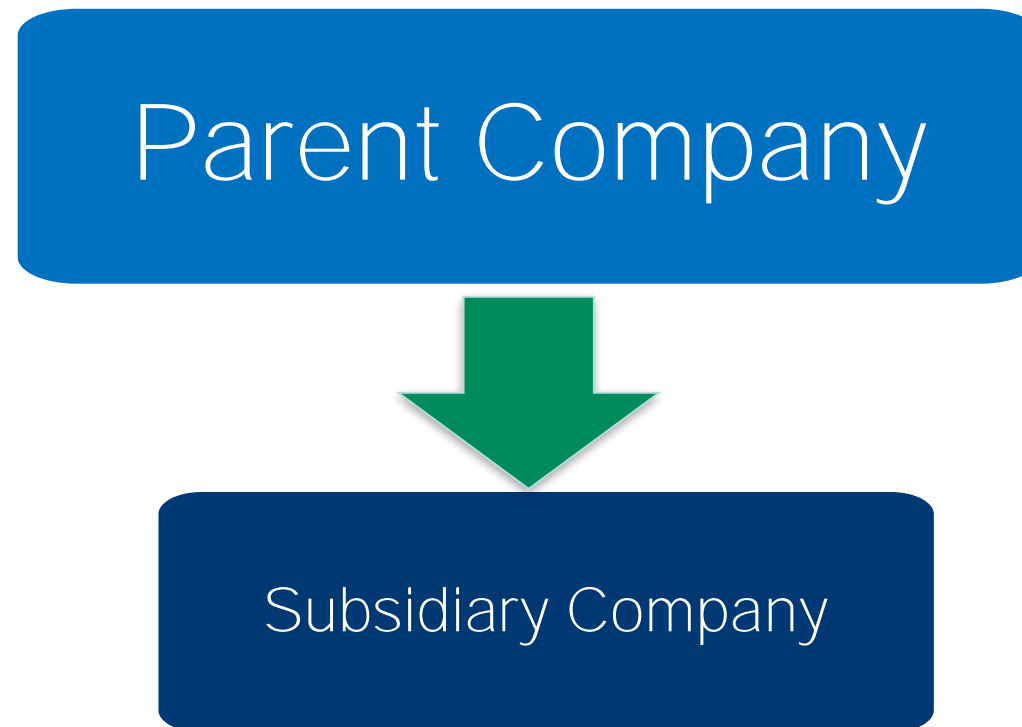
Strategic Alliances

- Two or more companies temporarily join forces
- Often called a joint venture

Redrawing Corporate Boundaries

Subsidiary and Parent Corporations

- subsidiary corporation owned by another corporation
- parent corporations own subsidiary corporations



Test Your Understanding



QUICK-CHECK QUESTIONS

- 1) Environmental protection laws, interest rates, societal values, and the emergence of new technologies can significantly impact the profitability of a firm. These types of issues can not be controlled by a business as they are considered to exist in the _____.
- A) external environment
 - B) internal environment
 - C) organization's boundaries
 - D) global context
 - E) all of the above answers

A) external environment

QUICK-CHECK QUESTIONS

2) The total amount of money that a country owes its creditors.

- A) National Deficit
- B) Purchasing Power Parity Index
- C) National Debt
- D) Gross Domestic Product

C) National Debt

QUICK-CHECK QUESTIONS

- 3) The federal government manages the Canadian economic system through two sets of policies: fiscal and monetary. Fiscal Policy refers to:
- A) the control of the money supply
 - B) the control of interest rates
 - C) the government's approach to its spending and taxation
 - D) the effective management and control of the national debt

C) the government's approach to its spending and taxation

QUICK-CHECK QUESTIONS

- 4) Simon would like to buy a Valentines gift for his girlfriend as a sign of his affection. To his disappointment he discovers that roses cost \$75 a dozen. Luckily, he can buy chocolates for \$20. According to Porter's *Five Forces Model*, chocolates are a less costly _____.
- A) option
 - B) substitute
 - C) replacement
 - D) complement

B) substitute

QUICK-CHECK QUESTIONS

- 5) An organization's *core competencies* refers to:
- A) The company's strategies to increase market share
 - B) The company's product offerings which achieve the highest profit levels
 - C) The training programs used to increase employee productivity
 - D) The skills and resources with which they compete best and create the most value for owners.

D) The skills and resources with which they compete best and create the most value for owners.

QUICK-CHECK QUESTIONS

- 6) The value of goods and services produced by an economy within its geographical boundaries is called
- A) Gross National Product (GNP)
 - B) Gross Domestic Product (GDP)
 - C) Balance of Trade
 - D) Standard of Living

B) GDP is the value of output within a countries boundaries.

QUICK-CHECK QUESTIONS

- 7) Inflation typically impacts a **country's** economic growth
- A) Positively, because workers earn more wages
 - B) Negatively, because as prices are falling, firms produce less products
 - C) Negatively, because consumers compete for products, and prices of products go up
 - D) Positively, because it increases the standard of living

C) Negatively, because consumers compete for products, and prices of products go up

Course Quizzes & Assignments



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Homework

Read Chapter 3

Take the Chapter 3 quiz (before
next class)

