chapter 1

Understanding Business Environment

Introduction to Business
DBB 1213

Instructor Lecture PowerPoints

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LEARNING OBJECTIVES

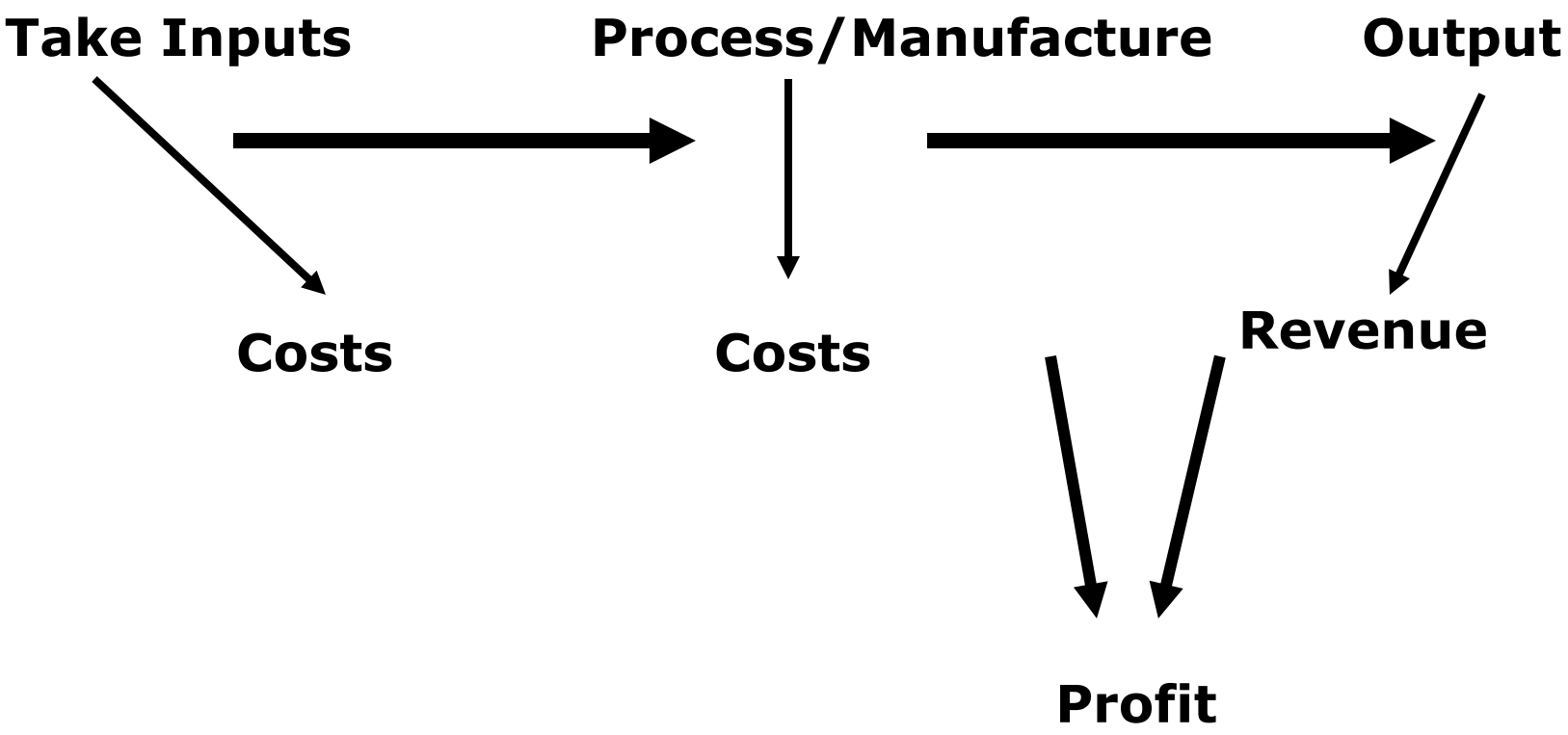
After reading this chapter, you should be able to:

1. Define business and understand its concept.
2. Explain factors of production and its example.
3. Describe the classification of business activities and the role for each of them.
4. Discuss the six external environment of business and how it affect business.

What is Business

- **Business**
  - An organization that provides goods or services that are then sold to earn profits.
  - Some are run by only one person who carry out all of the required function.
  - Others employ thousands of people and provide goods and services to people all over the world

What Business Do



Profit, Revenue and Cost

- Profits
  - Profit is the difference between a business' revenues and expenses. It is also the rewards owners get for risking their money and time.

Profit = Revenue – Cost

- Revenue
  - Money that a company get from the sale of good and services.

- Cost
  - Amount that a company spend in order to run the business.

The Concept of Business and Profit

- ABC Incorporated obtain a revenue of RM 10 for each unit of product sold
- They manage to sell 500 units of their product
- The cost incur to run the business is RM 3000

- What is the profit gained by ABC Incorporated?

Stakeholder

- **Who are the stakeholders? – Anyone who has an interest in the success of a business**
  - Customers
  - Managers
  - Employees
  - Owners
  - Suppliers
  - Government
  - Creditors
  - Investor

The Benefits of Business

- The Benefits of Business
  - Provision of goods and services
  - Employment of workers
  - Increased quality of life and standard of living
  - Enhanced personal incomes of owners and stockholders
  - Tax payments support government

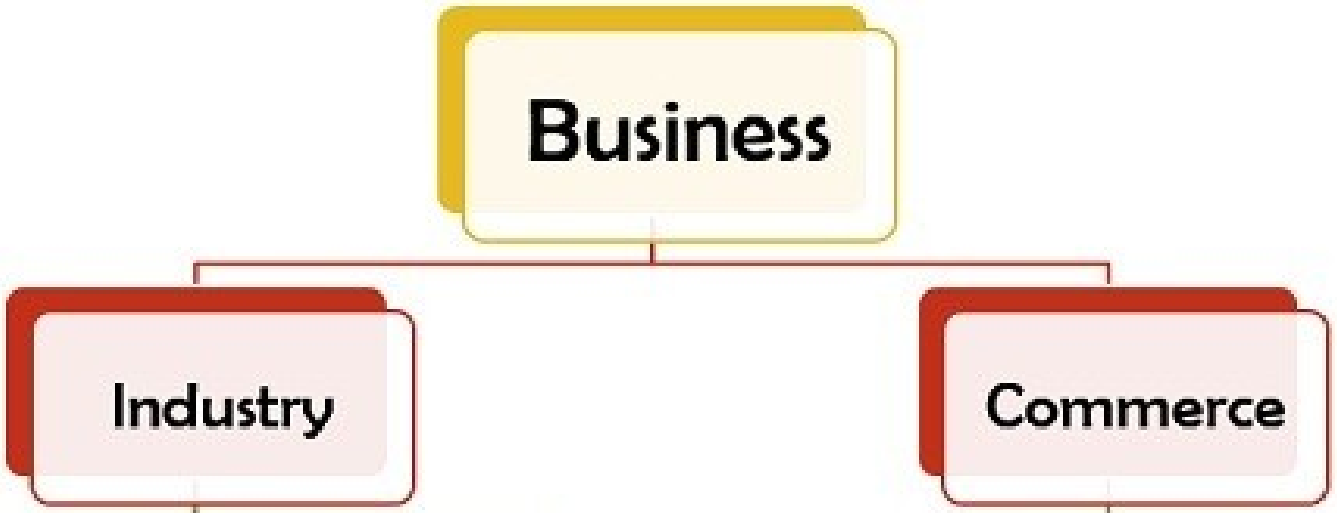
Factors of Production

- Factors of Production
  - The inputs used in the production of goods or services in order to make profit. These include any resource needed for the creation of a good or service.

Factors of Production

- Four Factors of Production:
  - Land: Natural resources
  - Labor: Human resources
  - Capital: Financial resources
  - Entrepreneurs: Persons who risk starting a business

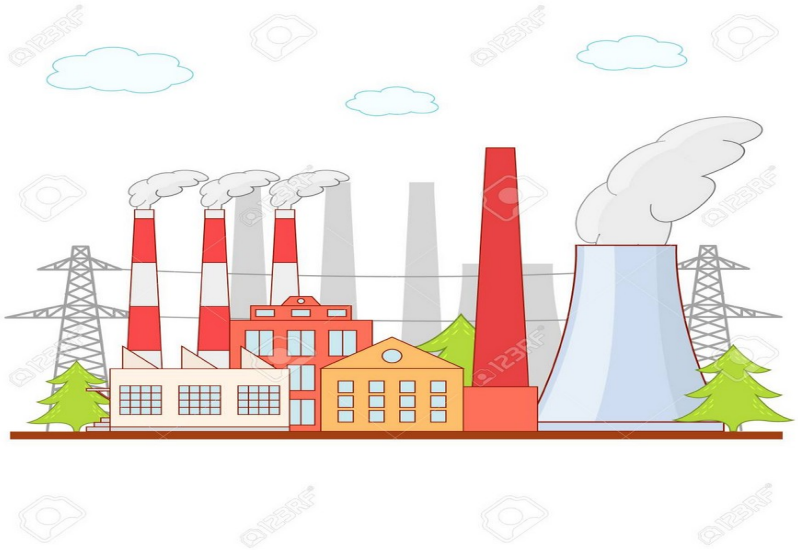
Classification of Business



- Business can be classified into two categories which are industry and commerce.

Industry

- The sector where raw material gets converted into useful products is called industry.
  - Activities related to production, processing & reproduction of animals or other living species are all included in the industry.



Commerce

- Commerce are all those activities which help in the distribution of goods to the ultimate consumer.
- There will be no use of producing goods unless these goods reach the ultimate consumer.
- Goods are produced at one place and consumers are scattered at different places.

The External Environments of Business

- External Environment
  - The **external environment** of business is everything outside an organization that might affect it.

The External Environments of Business

- External Environment
  - There are six external environment of business:
    - The domestic business environment
    - The global business environment
    - The technological environment
    - The economic environment
    - The political-legal environment
    - The sociocultural environment

The External Environments of Business (cont.)

- **Domestic Business Environment**
  - The environment where a firm conducts its operations
  - Include relationship with customer suppliers, competitors, and distributors.
  - Need to:
    - Be close to its customers
    - Establishing strong relationships with its suppliers
    - Distinguishing itself from its competitors

The External Environments of Business (cont.)

- **Global Business Environment**
  - The international forces that affect a business
  - Happen when you expand your business globally.
  - McDonalds in India

The External Environments of Business (cont.)

- **Technological Environment**
  - Technology is changing every 6 months
  - Organization cannot control what technology is developed.
  - Typewriter is no longer used
  - Social media advertising

The External Environments of Business (cont.)

- **Economic Environment**
  - Organization cannot control what happens to the economy
    - If an economy is doing well enough that most people have jobs, a growing company may find it necessary to pay higher wages and offer more benefits in order to attract workers from other companies.

The External Environments of Business (cont.)

- **Political-Legal Environment**
  - The regulatory relationship between business and the government (legal system) and its agencies that define what organizations can and can't do:
    - Product identification laws
    - Advertising practices
    - Safety and health considerations
    - Acceptable standards of business conduct
  - Singapore band chewing gum.

The External Environments of Business (cont.)

- **Sociocultural Environment**
  - The customs, mores, values, and demographic characteristics of the society in which an organization functions.
  - Sociocultural processes determine the goods, services, and standards of business conduct a society is likely to accept.

END OF CHAPTER 1