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CHAPTER 2
The Environment of Business

CHAPTER OPENER

The business environment is comprised of external forces within which firms must operate. The chapter covers the ways in which competition, social environment, globalization and technological growth challenge and provide opportunities to business owners. The PEST Model is used to explain the impact of various environments on a business.

LEARNING OBJECTIVES

After studying this chapter, students should be able to:

1. Describe the macro business environment and explain why managers must be aware of changes taking place.
2. Explain how managers use the PEST model to analyze external business opportunities and threats.
3. Explain how sociocultural and technological forces can impact the profitability of a business.
4. Describe how Porter's five forces model is used to analyze the ways competiton affects an industry.
5. Summarize the four degrees of competition that may exist within an industry.
6. Explain why government in Canada allows some monopolies to exist and how consumer interests are protected.
7. Explain the impact that perfect competition has on selling price.

KEY TERMS

business environment *(p. 21)*
competition *(p. 30)*
competitive environment *(p. 21)*
diversity initiative *(p. 27)*
economic environment *(p. 24)*
four degrees of competition *(p. 32)*
globalization *(p. 24)*
green economy *(p. 27)*
legal monopolies *(p. 33)*
macro environment *(p. 21)*
monopolistic competition *(p. 33)*
monopoly *(p. 32)*
natural monopolies *(p. 33)*
oligopoly *(p. 33)*
perfect competition *(p. 33)*
PEST model *(p. 22)*
political–legal environment *(p. 23)*
Porter's five forces model *(p. 30)*
sociocultural environment *(p. 25)*
technological environment *(p. 28)*

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DETAILED LECTURE OUTLINE

I. Business Environment Introduction

A. The macro business environment

1. What strategic issues are outside of management's control?
2. What are the different business environments in which organizations operate?
   a. Political-legal environment
   b. Economic environment
   c. Sociocultural environment
   d. Technological environment
   e. Competitive environment

II. PEST Model

A. Analysis of the business environment to identify opportunities and threats

1. Identify and analyze political legal factors
   a. Government policy and political decisions can affect many vital areas for business. Factors may include ethical considerations, employment laws, competition laws, product regulations, consumer laws, sustainable environmental practices, and health and safety legislation.
   b. How does the law affect an organization?
2. Identify and analyze economic factors
   a. Changes in the local, national, or global economy can affect business operations. Factors may include interest rates, economic growth, industry changes, inflation and exchange rates, and taxation changes.
   b. Globalization involves the merging of economies around the world as technology, goods and services, labour, and capital move back and forth across international borders.
3. Identify and analyze sociocultural factors
   a. Socio-cultural environment is an inter-connected system of different demographic factors such as race, ethnicity, gender, age, income distribution, sexual orientation, and other characteristics.
   b. Consumer behaviour and preferences will affect decisions about product offerings. Environmentally friendly business processes are affecting demand patterns and creating business opportunities. Other factors may include social trends, population, demographics, and ethical considerations.
   c. How does an aging population affect business?
   d. How does diversity affect business?
   e. How does the "green movement" affect business?
   f. How does the socio-cultural environment affect you?

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4. Identify and analyze technological factors
    a. As technology changes, companies must adjust business practices to compete in the global business world. Factors include new technologies, online shopping, research and development, and global access.
    b. Items and services such as smartphones, computer software, and digital broadcasting make businesses more efficient and productive. E-commerce, document management, workflow technologies, and identification management software all provide these opportunities.
    c. How expensive it is to keep up with technology?
    d. How has the internet changed the way business is done?
    e. How do tech changes affect business?

III. The competitive environment
  A. Analysis of competition using Porter's Five Forces model
    1. How does competition influence business?
      a. Threat of new entrants
      b. Threat of substitutes
      c. Bargaining power of buyers
      d. Bargaining power of suppliers
      e. Rivalry among existing competitors

IV. Degrees of Competition
  A. Summary of four degrees of competition
    1. Monopoly
    2. Oligopoly
    3. Monopolistic competition
    4. Perfect competition

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SUGGESTED SOLUTIONS TO DISCUSSION QUESTIONS

BLOOM'S TAXONOMY: Discussion Questions have been matched to a level of difficulty within Bloom's Taxonomy of Learning Domains. Bloom's Taxonomy Model is in three parts: Cognitive domain (intellectual capability, i.e., knowledge or 'think'), Affective domain (feelings, emotions and behavior, i.e., attitude or 'feel'), and the Psychomotor domain (manual and physical skills, i.e., skills or 'do').

Bloom's cognitive domain involves knowledge and the development of intellectual skills. There are six major categories in Bloom's cognitive domain, starting from simplest behavior to the most complex. The categories can be thought of as levels with each level increasing in degree of difficulty, and the lower levels must normally be mastered before the next level can take place.

Bloom's Taxonomy Cognitive Domain Model:
Level 1) knowledge (recall data),
Level 2) comprehension (understand),
Level 3) application (use, apply),
Level 4) analysis (analyze structure/elements),
Level 5) synthesis (create/build), and
Level 6) evaluation (assess, judge in relational terms--most difficult level).

For example: A situational questions at the analysis level would indicate that students must know about, understand, and be able to apply the concept before they can analyze a situation. This may require students to research a topic before they can analyze a situation. Some questions may ask students to think at multiple levels and their answers may be focused at the lower levels, rather than the higher levels of Bloom's Taxonomy; in these cases, the professor may decide to delve deeper or accept the lower level answers.

OPENING DISCUSSION: Coffee, Economics and Fair Trade

Discussion Questions:

1. Why do you think coffee has become so central to our culture? Can you think of any other current social–cultural issues that might be shaping our society? (Bloom's: application)
2. Thousands of small coffee farmers are victims of the volatility of coffee prices. What could these small farmers do to strengthen their bargaining position and increase there profitability? (Bloom's: synthesis)
3. Why do companies like Starbucks and Tim Hortons participate in fair trade programs when it forces them to pay more for coffee? How might this be good for business? (Bloom's: analysis)

*Answers***:**

1. Student answers will vary, however one general response would be a variation of what the discussion refers to as "coffee culture" and its centrality to society as a gathering place and social activity.
2. There are a couple of tactics farmers could consider. 1) Organize to control production based upon global forecasts; b) Negotiate higher minimum price to be paid when supplies are greater than demand.
3. Fair trade programs don't only ensure supply of coffee inventory, but also adds to the firms' sense of corporate social responsibility, which appeals to a growing and more enlightened consumer base.

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BETTER BUSINESS, BETTER WORLD:
Do You Prefer To Do Business with Companies You Can Trust?

Discussion Questions:

1. Why is it important for businesses to build trust with consumers? Why is it important that consumers can trust the businesses they buy from? (Bloom's: comprehension, application)
2. Why would a business want to obtain BBB accreditation? Does this accreditation mean that consumers can trust the products the business sells to be high quality? (Bloom's: knowledge, comprehension)
3. Have you ever been "scammed" by a business? What was the situation and what did you do about it? Did you go to the BBB for help? Why or why not? (Bloom's: application, analysis)

Answers:

1. The corporate image has a strong and potentially lasting influence on public relations and the future direction of a business. Trust is a critical component of a corporation's image. A loss of trust will have a certain impact on any business. In most cases, the effect is straightforward and immediate: consumers will stop shopping at these businesses. The damage to a business can be extensive as consumer complaints and discontent often appear in various media, on the internet, in newspapers and magazines. This spreads the "bad publicity" and makes the poor corporate image known to a wider audience.

2. Most business accreditation is good for business. BBB accreditation sends a signal to consumers that the company supports honesty and agrees to the BBB conditions, has been audited by BBB and met the requirements set forth in the accreditations. Don't mistake what the accreditation means: It does not guarantee quality, but rather that the company will be truthful in the marketing and advertising of the products. This permits the consumer access to complete and truthful information with which they can make informed decisions.

3. Many students will have a story about how they might have been "scammed" by a company in the past. Many will wish to share their stories. This is a good opportunity to get students to participate. It is likely that the solutions involved some form of compensation, but in some instances there will still be anger about the experience and the general conclusion is that they will not go back to that business again. This will likely influence the others in the class, who hear their stories and make the decision to avoid that business as well.

BizChat
Apple: Taking a Bite Out of Microsoft

Questions:

1. Some people say that Microsoft imitated Apple's "look and feel" in their user interface. Why might they do that?
2. You likely remember the TV commercials that pitted the cool Mac guy against the awkward PC nerd. Are these ads effective in illustrating the competition between companies? Why or why not?
3. Are you a Mac or PC person? How do you think you developed this preference?

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Answers:

1. If it were true that Microsoft imitated Apple's user interface, the action could only be attributed to Microsoft's admiration of the software, and more to the point – Microsoft would have acknowledged the market potential of Apple's platform. As the saying goes, "imitation is the highest form of flattery".
2. This is a purely subjective question, so each student will have his or her own opinion as to whether the ads were effective in illustrating the competition. A follow up question (and discussion) might be, "were the ads successful to Apple in not only positioning them as the cooler brand, but positioning PC (Microsoft) as the somewhat less relevant brand.
3. This question can be treated as a class poll by show of hands, with the follow-up "How" question aimed at selected students as part of the discussion.

ON TARGET
All Kinds of Tablets

Questions:

1. A market that was once thought of as a pure monopoly by Apple has now opened up to some interesting competition. Or do you think Apple and Samsung have a lock in the tablet market?
2. In what ways has increased competition in the tablet market benefited consumers?
3. How do the manufacturers of tablets attempt to differentiate their products to compete for sales.

Answers:

1. To answer this question, it will be imperative that students access the most recent data by simply performing an internet search using a search phrase such as "global tablet market share for (year)", then making observations and conclusions accordingly.
2. There are two key categories of benefits to consumers, which always result from monopoly division. They are: price decrease and quality increase.
3. Differentiation is likely a fairly new word to students at this point, so it is worth while pausing to define the term. Following this brief discussion, it would be beneficial, as with question 1, to have students go to the websites for each involved firm, and explore how each are being represented. Alternatively, again, another web-search using "tablet comparison" as a search phrase would reveal data and spur discussion.

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4. IN-CLASS ACTIVITIES

Activity	Description	Time Required	Reference	Bloom's Taxonomy
Supplemental In-Class Activity 1: *Ice Breaker*: Knowledge is power.	This activity helps students begin to appreciate the value of environmental analysis.	20 min.	IM – see below	Knowledge, Comprehension, Application
Supplemental In-Class Activity 2: Porter's Five Forces	Continuation of Activity 1, this activity uses the same company, but utilizes group discussion to discover the many forms of competition facing that company.	10–15 min.	IM – see below	Knowledge Comprehension Application Analysis
Learning Catalytics	This activity allows students to participate on the mobile device of their choice to answer questions that gauge their understanding of chapter topics.	5 min. including discussion	MyBizLab	Any level of Bloom's Taxonomy
***Business Today* Videos**	Students can watch a related current events video, followed by instructor's questions and joint class discussion. See the Syllabus for a full list of videos by chapter.	1 to 10 min. long videos + discussion time	Videos Appendix and MyBizLab	Knowledge Comprehension Application Analysis

SUPPLEMENTAL IN-CLASS ACTIVITY 1: *Ice Breaker*: Know the Competition

Activity Overview: This activity helps students begin to appreciate the value of environmental analysis.
Time Limit: 20 minutes

What to Do:

1. Divide the class into 4 groups, and secretly allocate one of the 4 PEST model categories to each group. This can be done by simply writing the letters P, E, S, T on separate sheets of paper and delivering them face down to each group. Caution the groups not to share the name of their category out load with the class. Give a brief description of each PEST category, drawing their attention to Table 2.1 (p. 23). Next, announce the name of a well-known company – preferably one that is currently in the news. Instruct the groups to brainstorm and create a list of forces facing that company, which fall into the PEST category assigned to each respective group. Provide guidance where necessary. (10 minutes)

2. Have each group approach the front of the class and write 2 of their discovered environmental forces on to the white board. (5 minutes)

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3. With each group's list on the whiteboard, discuss class-wide to determine which PEST category belongs to each list. (5 minutes)

Don't Forget: This activity encourages students to participate and use their communication skills. It also allows students an opportunity to get to know each other. The underlying agenda is to get them talking to each other, setting the stage for active participation throughout the class.

Wrap-Up: Wrap up the discussion by discussing what each of the PEST factors have in common – namely that they are externally generated and uncontrollable forces to the firm. Therefore they provide the firm with both opportunities and threats. At this point you can even scribble an "O" or a "T" beside each point written on the board.

SUPPLEMENTAL IN-CLASS ACTIVITY 2: Porter's Five Forces

Activity Overview: Continuation of Activity 1, this activity uses the same company, but utilizes group discussion to discover the many forms of competition facing that company.

Time Limit: 10–15 minutes

What to Do: Using the same groups as designated for Activity 1, have each group come up with one example of a potential competitor for the company discussed previously. Descriptions of the five forces, found on pages 31-32 can be used as reference.

Don't Forget: Encourage students to focus more on the "New Entrants" and "Substitutes" as these can often sneak up on firms.

Wrap-Up: Ask students what they learned.

LEARNING CATALYTICS

A pedagogy, not just a technology.
Learning Catalytics is a "bring your own device" student engagement, assessment that allows instructors and students to work together to Generate classroom discussion, guide your lecture, and promote peer-to-peer learning with real-time analytics. Accessing Learning Catalytics is easy. Students bring their devices to class, and then input the login code provided by the instructor. Instructors release questions, and students answer in real time. The results are aggregrated and help direct class discussion and/or assessment. They can also be saved for a more detailed analysis after class.

Below you will find a selection of Learning Catalytics questions that have been correlated to this chapter. You can access the interactive questions by connecting to the Learning Catalytics site through the MyBizLab home page.

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Learning Catalytics 1:
Question Type: Matching

Prompt: Match the environmental force example, from the list on the right, with the appropriate PEST category on the left.

Answer: Definitions, descriptions and examples are found in pages 21-29.

PEST Force	PEST Force Example
Political-Legal	Millennial work force in Canada (S)
Economic	Biofuel innovations (T)
Sociocultural	Decreasing value of the Canadian Dollar (E)
Technological	Increase in legal drinking age (P)

Learning Catalytics 2:
Question Type: Confidence

Prompt: You have four votes to place on any of the options to the following question. If you are certain of on response, place all your votes there. Otherwise you may distribute your votes according to your confidence in the given response.

Question: Air Canada and WestJet make up the vast majority of Canada's commercial passenger air travel industry. This industry is an example of what degree of competition?

a) Monopoly
b) Oligopoly
c) Monopolistic Competition
d) Perfect Competition

Answer: Definitions, descriptions and examples are found in pages 32-34.

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SUGGESTED SOLUTIONS TO END-OF-CHAPTER QUESTIONS

CRITICAL THINKING QUESTIONS

Questions:

1. It is not unusual to encounter businesses that have streamlined their activities to accommodate for environmental forces. Can you think of examples of businesses that might be forced to alter their business decisions based on how they are impacting the environment? How might these decisions affect their profits?
2. Most business owners agree that keeping up with the pace of technological change is a challenging task. Imagine you are the owner of a new restaurant business and must decide what technology would best suit your needs. From what types of technology would this business benefit?
3. You are considering the possibility of opening a grocery store. What kinds of government regulations do you think will impact your business? What are the advantages and disadvantages of government regulation of business?

Answers:

1. First, instructors must pause to distinguish between the two contexts of the word "environment" being used in this question. "Environmental forces" are those discussed in the chapter, categorized and analyzed using the PEST model. "Impacting the environment" is clearly a reference to the natural environment of air, land and water. Once that clarification is made, the responses provided by students will vary, but common examples would be those businesses receiving media coverage due to environmental activist scrutiny. Any business involved in energy or manufacturing, for instance, would be a reasonable response. When operations activities are altered in order to adhere to political-legal or socio-cultural forces, there is typically a decrease in profit at least temporarily due to capital costs of such alterations.

2. A restaurant would benefit from advanced technologies in a wide range of categories including:
    - Database management systems for orders from suppliers and sales tracking
    - Customer relationship management systems
    - Website and social media communication with customers

3. Government regulations affecting a grocery store would be extensive. Student responses will vary, however common themes would be around ensuring public health with food being sold and zoning regulations which would be unique to a grocery store (parking, delivery vehicles, etc)

TEAM TIME:
Cultural Awareness: An Unwritten Law

Discussion Questions:

1. What were some challenges encountered in your business scenario and how did you overcome them?
2. Why is it important for multinational companies to research a foreign country with which they intend to conduct business?

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Answers:

1. Answers will vary. The focus of this exercise is to encourage students to discuss the dynamic nature of competition, from both sides – consumer and business. Organizations which are responsive to consumer demands and offer a unique and distinct high-quality product at a reasonable price will win more market share and earn greater profits. Another key to business success is developing excellent customer relationship. Finally, it is crucial that organizations work to earn repeat business and gain customer loyalty by remaining responsive to changing customer demands and anticipating customer desires before they are expressed.

2. Answers will vary. It is critical that multinational corporations (MNC) research the values and customs within a foreign country with whom they intend to conduct business. Even the most well planned businesses, with the best plans and limitless financial resources, can go failure in their endeavours if foreign cultural sensitivities are offended. Some of the more obvious of the cultural factors include language, educational, literacy, gender relationships, etiquette, and religion. Also, *attitudes* toward cooperation (between management and labour) and toward work in general are important considerations.

CLOSING CASE: How Much Snooping is Too Much Snooping?

Discussion Questions:

1. Do you think it is an invasion of privacy for a government to want to monitor digital communications? Is it the government's right to do so? Why or why not?
2. What political–legal and sociocultural pressures is Black- Berry dealing with?
3. What might happen to BlackBerry's sales if it permits monitoring of digital communications? If the communications service provider does not oblige the Indian government, do you think the country would ban the service? Why or why not?

Answers:

1. This question should prompt discussion (perhaps heated) around the foundational aspects of an individual's right to privacy vs the greater population's need for security and safety.
2. Blackberry is dealing with federal governments' obligation to protect their citizens from terrorism, supported primarily by the socio-cultural insistence to hold governments responsible for such things. On the other hand, the socio-cultural factor surround right to privacy creates an opposing force to the mandate of security.
3. Discussion around this question is speculative based on the time of publishing. It would be prudent for instructors to direct their students to conduct appropriate web searches to determine the outcome of this issue.

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SUPPLEMENTAL MATERIAL

ADDITIONAL CRITICAL THINKING QUESTIONS

1. Distracted driving laws in Canada are an example of political-legal forces impacting cellular service providers Rogers, Telus, Bell and others. However, the political-legal force was not the only area of the PEST model involved in business decisions by these companies. Identify the other areas of PEST involved and state whether they posed threats or opportunities for big cellular service providers. (Blooms: knowledge, application)

2. Walmart is the world's largest retailer, while Proctor and Gamble is the biggest consumer goods company on the planet. While they have an interdependent relationship in order to maximize sales, they both also represent a form of competitor for one another how is this so? (Bloom's: comprehension, application)

3. Unlike other planning activities, which are formally conducted annually, semi-annually or quarterly, PEST analysis should be an ongoing activity in that managers should constantly be mindful of PEST activities all the time. How can an obsession with PEST forces provide firms with a competitive advantage?

Answers:

1. The socio-cultural forces of public outcry for laws against distracted driving was the first environmental factor to begin the movement which eventually became law. In this sense, the socio-political force was a threat. However, technologies available between major automotive manufacturers and their partnerships with digital communications firms such as Blue Tooth, provided a technological opportunity. Finally, the general societal addiction to cell phone use, was certain to ensure that cell phone use would continue unabated, regardless of laws.

2. Proctor and Gamble imposes bargaining power of supplier upon Walmart, while Walmart represents bargaining power of buyer against P&G.

3. Answers will vary, however, a case could be made that constant surveillance of any of the 4 areas of PEST and or competitive forces will provide managers with knowledge that could help (opportunity) or hurt (threat) them. However, the best answer would be constant observation of ALL macro-environmental forces will serve firms most fully in their efforts to seize opportunities or thwart the impact of threats.

APPLICATION EXERCISES

1. **Demographics**. Imagine you are starting a new retail clothing business in the city where you attend school. To what demographic area would you market? Think about the following factors: race, ethnicity, gender, age, income, and sexual orientation. Visit http://www.statcan.gc.ca/ to locate reports on the demographic area you are interested in. Do you believe your business can thrive in this area? If not, what area would be conducive to your obtaining future customers? Would you have to change your retail clothing products in any way for the demographic market?

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2. **Languages of the Global Marketplace**. As globalization increases and the world markets become more intertwined, language barriers become important. Investigate online resources for automated translation tools. What happens if you want to read a Web page posted by a German firm? Can you make online purchases from a company based in Asia? What resources are there for translating telephone conversations in real time? Investigate Babelfish.com and personal interpreter services like LanaguageLine.com.

3. **E-commerce**. Did you know there are Web sites dedicated to keeping businesses and consumers up-to-date on the latest e-commerce news and trends? Check out www.ecommercetimes.com and find a recent e-commerce trend, and write a brief summary.

4. **Political-legal Environment.** The Political-legal macro-environment of business affects business operations in many ways. For instance, the government has changed the consumer tax structure into a single federally administered tax, the Harmonized Sales Tax (HST). You will find information online at http://www.cra-arc.gc.ca and http://www.hstincanada.com. Previously businesses applied a goods and services tax (GST) and a provincial sales tax (PST) to most sales transactions. How might this change in the legal environment affect business operations? Does HST apply to all provinces, all businesses and all consumers?

5. **Socio-cultural Environment**. Public opinion has a huge bearing on how companies and the Canadian government act. Conduct online research to find a recent news event that discusses consumers responding negatively to some business venture or change. For instance, communities often respond negatively to garbage dumps and nuclear plants being placed in their neighbourhoods. They protest through rallies, writing letters to government, posting online discussions and opinions, word of mouth, meetings with company leaders, emails, etc. Share your findings with the class.

Answers:

1. Answers will vary. Students need to examine age groups and products that may sell to those age groups, examine ethnic groups and clothing that appeals to those groups, income levels will affect the price range consumers can afford to pay for clothing, etc.

2. Refer to websites to learn about options for translation tools that aid global online business.

3. Answers will vary. E-commerce is growing quickly and there are always new trends occurring.

4. HST is being applied by most provinces, albeit at varying rates. This would mean that businesses would need to reprogram their POS machines to incorporate such changes in tax laws. They also have to incorporate changes in accounting practices and reporting practices when HST is used instead of GST or PST (and whenever there is an increase or decrease in percentage applied for HST).

5. Public opinion regarding opening a new business (such as large bulky wind turbines, garbage dumps, nuclear plants, or noisy factories) that destroys parks, lakes and streams, historical sites, etc. is often negative. The public can quickly take a negative view of any organization which disregards the public value of the affected site.

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MYBIZLAB RESOURCES & TEACHING TIPS

ONLINE CAREER SKILLS: Ten Easy Rules for Academic Success and Beyond

Visit the Online Career Skills module "Ten Easy Rules for Academic Success and Beyond" in MyBizLab, where you will gain insight on how to become an academic all-star. You will learn how to get the most out of all the resources your school provides and how to build transferrable skills that you can apply to your academic and professional careers.

Chapter 1, Related Websites

http://www.ic.gc.ca	Industry Canada works with Canadians throughout the economy and country to improve conditions for investment, innovation, global trade, and build a fair, efficient and competitive marketplace.
http://www.tbs-sct.gc.ca	The Treasury Board of Canada Secretariat provides a list of Crown corporations, departmental corporations and shared governance organizations.
http://www.statcan.gc.ca	Statistics Canada produces statistics on population, resources, economy, society and culture in Canada as well as comparisons with other countries. This information provides a solid foundation for informed decisions by elected representatives, businesses, unions and non-profit organizations, as well as individual Canadians.
http://www.bbb.org/canada/	The Better Business Bureau ensures high standards for trust are set and maintained between businesses and consumers. BBB is a key advisor, a reliable evaluator and objective expert on the topic of trust in the marketplace.

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ENHANCING THE ONLINE COURSE

Competitive Analysis: Select a business currently in the news. Have students write a five point summary listing each different form of completion from Porter's Five Forces, and an example of each facing that company. Ask students to post these on the discussion page.

Oligopolies vs Monopolistic Competitions: In analyzing the four degrees of competition, monopolies and perfect competitions appear to be fairly straightforward. More subtle differences exist between oligopolies and monopolistic competitions, however. Ask students to develop a table to depict the differences between the competitive degrees of oligopolies and monopolistic competitions. Have students post their tables on the discussion board.

Mindmap: Ask students to create an online "mindmap" (a chart with connected "branches") using the graphics tools on the computer. This mindmap would depict the socio-cultural factors as they relate to Lululemon. Ask your students to write a paragraph describing how all the branches contribute to the business and post these on the discussion board or post them as graded assignments.

Environment Slide Presentation: Divide the online course into four groups. (NOTE: Most online platforms have a method for doing this randomly through the system itself.) Assign each group one of the following topics: competitive environment of business, social environment of business, globalization, and technological environment of business. Ask each online group to work together through the discussion board and chat room features to post a 5 slide presentation on the major points related to the topics.

Environment Video Presentation: Divide the online class into four groups. Assign each group one of the following topics: competitive environment of business, social environment of business, globalization, and technological environment of business. Ask each group to prepare a 10 minute presentation. The online groups will need to "elect" a leader/presenter. Require them to use their microphone feature (most online platforms provide for this) or ask the groups to create a video using their own camera phones. Have students send it to you digitally through the online platform.

Podcast: Create a short discussion on the topic of macro-environmental forces and how they reveal opportunities and threats. Record it using the microphone on your computer. You can create a podcast of the mini-lecture using the RSS link that is usually one of the features in an online environment.

Regulator Research: Divide the online class into groups. Assign each group one of the various levels of regulators of Canada's oil sands industry. Require each group to research the mandate of that regulator and to prepare and post a written summary of the research.

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chapter 2

The Environment of Business

Better Business

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Learning Objectives

1. Describe the macro business environment and explain why managers must be aware of changes taking place.
2. Explain how managers use the PEST model to analyze external business opportunities and threats.
3. Explain how sociocultural and technological forces can impact the profitability of a business.
4. Describe how Porter's five forces model is used to analyze the ways competition affects an industry
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6. Explain why government in Canada allows some monopolies to exist, and how consumer interests are protected.
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Environments of Business

Business Environment – forces ***outside the business*** that can affect the firm's industry.

- Government regulations and policies
- The economy
- Social and cultural issues
- Demographic shifts
- Technology

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Environments of Business

Macro environment – the external environment that cannot be controlled by a business.

- Political-legal
- Economic
- Sociocultural
- Technological

Competitive environment – groups and organizations that have a direct relationship with business.

- Suppliers
- Distributors
- Competitors
- External customers

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The Political-Legal Environment

Factors to consider that arise from the political-legal environment:

- Government type and stability
- World trade agreements and restrictions
- Environmental regulations and protection
- Freedom of press, rule of law, and levels of bureaucracy and corruption
- Tax policies, and trade and tariff controls
- Consumer protection laws, employment laws, health and safety laws and regulations
- Political stability
- Competition laws and regulations
- Government organization and attitude

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How Does the Law Affect an Organization?

- Laws pertaining to taxes, competition, consumers, products, and the environment (land, air, and water) are some of the laws about which organizations need to be aware.
  - In Canada, there are strict regulations about advertising for alcohol, tobacco, and broadcasting.
- Laws and regulations tell organizations what they can and cannot do, and companies that do not abide might be fined, have their managers imprisoned, or have their businesses closed for noncompliance with the law.

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The Economic Environment

- The **economic environment** consists of factors that affect consumer purchasing power and spending patterns.

- **Globalization** is the movement toward a more interconnected and interdependent world economy.

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The Economic Environment

Factors to consider that arise from the economic environment:

- Levels of disposable income (after paying taxes) and income distribution
- Interest rates, taxes, and inflation
- Overseas economic growth and emerging markets
- Current and projected economic growth
- Stage in the business cycle
- Impact of technological changes on the economy
- Government spending
- Unemployment and supply of labour
- Labour costs and supply

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The Sociocultural Environment

Sociocultural environment - an interconnected system of different demographic factors such as race, ethnicity, gender, age, income distribution, sexual orientation.

- The social environment changes constantly.
- An influx of immigrants can change racial demographics.
- An economic slump can change income distribution demographic.

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The Sociocultural Environment

Factors to consider which arise from the sociocultural environment:

- Cultural aspects, health consciousness, population growth rate, age, distribution
- Migration flows - labour mobility
- Consumer demand for environmentally safe business practices
- Lifestyle changes and trends
- Demographics: gender, age, family size, etc.
- Work/life balance attitudes

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How Does an Aging Population Affect Business?

- Changing demographics affect patterns in consumer demand.
- Canadians are living longer, better educated, wealthier, and have higher living standards than ever before.
- Opportunities exist for businesses to market to **baby boomers** as they age.
- Many companies market specific product lines to boomers.
  - Example, cosmetics company Revlon is targeting the aging population with an anti-aging beauty line aimed at baby boomer women.

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How Does an Aging Population Affect Business?

- An aging population presents **challenges** for the Canadian economy.
- As the ratio of the nonworking population to the working population increases, problems could occur:
  - Increased health care needs
  - Higher taxes
  - Reduction in government spending on pensions and health care

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How Does an Aging Population Affect Business?

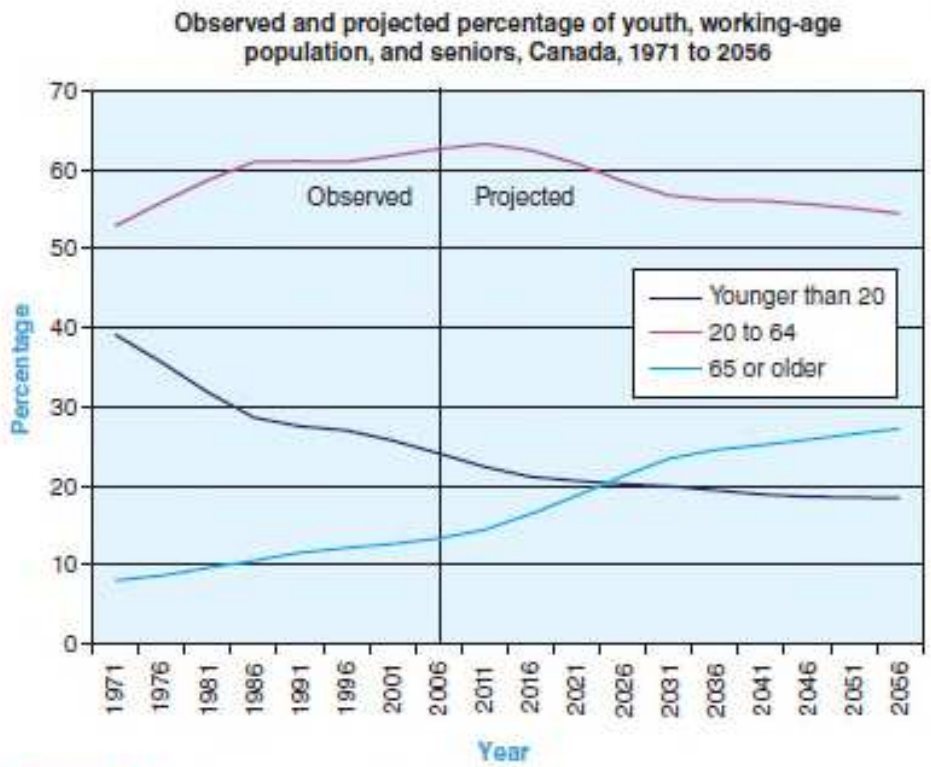


Figure 2.1 Change in Age Demographics

Source: Data points from Statistics Canada, "Observed and Projected Percentage of Youth, Working Age Population, and Seniors, Canada, 1971 to 2056," accessed February 10, 2011, http://www.statcan.gc.ca/pub/82-229-x/2009001/demo/desc/poc-desc1.2-eng.htm.

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How Does Diversity Affect Business?

It is predicted that by 2031, in Canada:

- 25 - 28 percent of the population could consist of people ***born outside*** of Canada.
- 29 - 32 percent of the population could ***belong to a visible minority*** group, as defined by the *Employment Equity Act*.
- ***Visible minority groups*** could comprise more than half of the populations of Toronto and Vancouver.

A **diversity initiative** outlines a company's goals and objectives for managing, retaining, and promoting a diverse workforce. It might include a non-discrimination policy, minority network, or diversity education.

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How Does the Green Movement Affect Business?

Green Economy - factors ecological concerns into business decisions.

Businesses that manufacture products that contribute to higher emissions of carbon dioxide and consume inordinate amounts of fossil fuels ***must adapt to this new environmental awareness*** if they want to be relevant in a green economy.

The demand for more green products ***presents new opportunities for entrepreneurs*** to meet those needs, and "green-collar" jobs could revitalize the Canadian and U.S. manufacturing economies.

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The Technological Environment

- **Technological environment** - human knowledge, work methods, physical equipment, electronics and tele-communications, and various processing systems used to perform business activities.
- Technology can:
  - Help streamline businesses and cut costs
  - Increase productivity, security, and transparency
  - Improve communication with customers
- Giving employees the technology they need to get their work done more efficiently and effectively is the simplest way to increase productivity.

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The Competitive Environment

- **Competition** arises when two or more businesses contend with one another to attract customers and gain an advantage.
- One of the most important external factors that affects most companies is the degree of industry competition - how fiercely businesses compete for the same customers, the same resources, or with products or services similar to what they sell.
- The intensity of the competition within an industry has a big influence on how a company operates.

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Porter's Five Forces Model

Porter's five forces analysis model - used by managers to analyze competitive situations and depicts the five forces that affect industry competition.

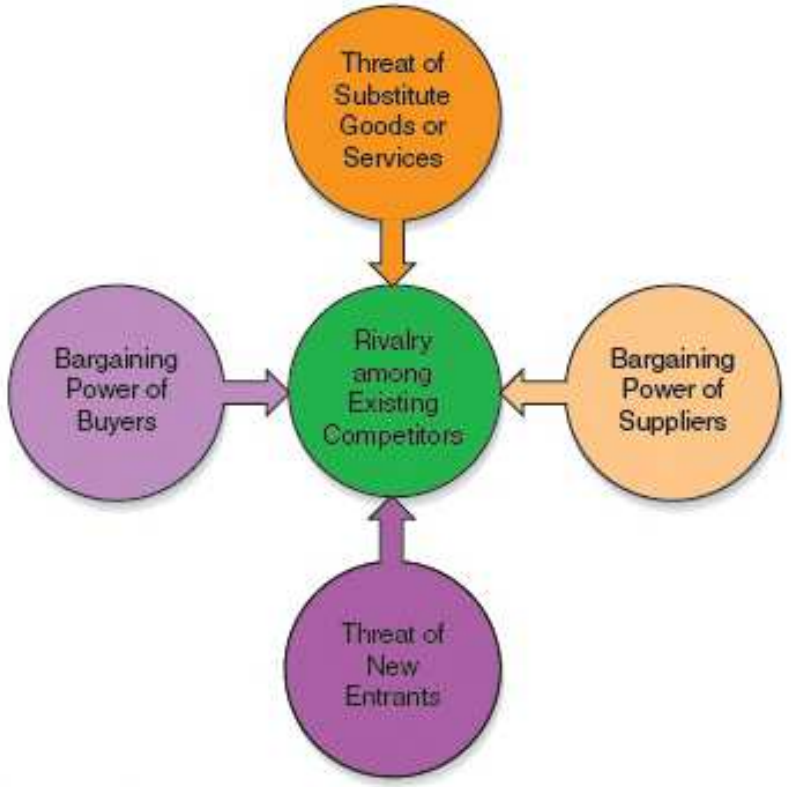


Figure 2.2 Michael Porter's Five Forces Model: The Five Forces That Shape Industry Competition

Source: "Michael Porter's Five Forces Model: The Five Forces That Shape Industry Competition" by Michael Porter from Five Competetive Forces Model Porter. Copyright © 2010. Published by the author.

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Porter's Five Forces Model: *Threat of New Entrants*

- How easy is it for new entrants to start competing?
  - Some industries (e.g., auto manufacturing) require huge capital investments and are extremely difficult to enter.
  - Other industries (e.g., home cleaning / lawn care) require very little capital and are relatively easy to enter.
  - Government regulations may restrict entrance until certain criteria are met.
  - ***The threat of entry of new competitors is high when brand names are not well known, capital investment is low, government regulation is not restrictive, and there is little differentiation between products.***

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Porter's Five Forces Model: *Threat of Substitutes*

- How easily can customer needs be satisfied by the products or services offered by other industries?
  - If there are many substitutes available, the industry is more competitive and the profit potential for the firms in the industry is decreased.
  - To combat the threat of substitutes, companies differentiate their products, which may include price (low-price guarantee), quality (Maytag - You'll never need to call the repairman), service (WestJet), or image (the iconic "hip Mac" versus "stuffy PC" commercials.).
  - ***The threat of substitutes is high if consumers can easily switch to the products of another industry that are cheaper, can find a substitute that has better quality or performance, or can switch at a low personal cost.***

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Porter's Five Forces Model: *Bargaining Power of Buyers*

- Can they order large volumes to push the cost down?
  - When there are only a few buyers and many suppliers, the buyers have a great deal of bargaining power, but when there are only a few suppliers and many buyers, the buyers have little bargaining power.
  - ***The bargaining power of buyers is high when buyers purchase products in high volume, buyer switching costs are low, and substitutes are available.***

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Porter's Five Forces Model: *Bargaining Power of Suppliers*

- Do many potential suppliers exist or only a few?
  - If there are many suppliers from which a company can order its supplies, then the suppliers do not have much bargaining power (the company has the power).
  - When there are only a few suppliers from which a company can order the supplies it needs to do business, then the suppliers have a great deal of bargaining power.
  - ***The bargaining power of suppliers is high when the product is highly differentiated, or substitutes are unavailable.***

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Porter's Five Forces Model: *Rivalry among Existing Competitors*

- Does a strong competition among the existing players exist? Is one player very dominant, or are they mostly equal in strength and size?
  - Companies try to increase market share. They must devise creative marketing strategies, cut costs, and improve customer service and product quality.
  - Some companies focus on quality, image, or service (such as BMW), while others focus on lower prices (such as Walmart).
  - ***The intensity of rivalry is high when there are many competitors, competitors have equal size or market share, there is little differentiation between products, or consumers have no preference for a particular brand.***

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Four Degrees of Competition

- The number of substitutes for a certain product or service determines the ***degree of competition.***
- Economists have identified **four degrees of competition:**
  - monopoly
  - oligopoly
  - monopolistic competition
  - perfect competition

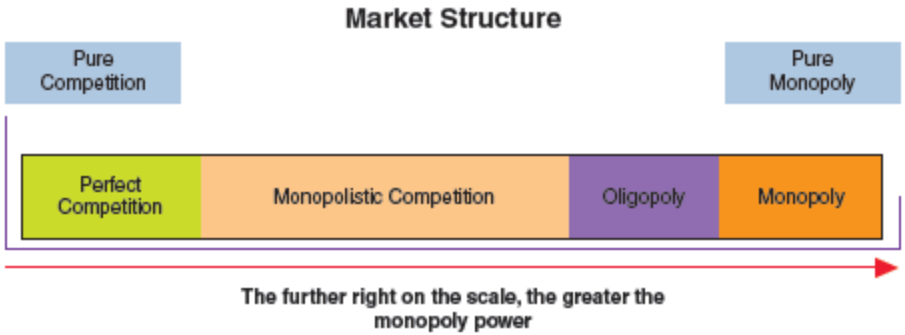


Figure 2.3 Degrees of Competition: The Further Right on the Scale, the Greater the Monopoly Power

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Monopoly

- A **monopoly** occurs when there is only one provider of a service or product and no substitutes for the product exist.
  - In Canada large monopolies are rarely allowed.
  - Canada's **Competition Bureau** reviews all mergers in all sectors to determine whether they will likely result in substantial lessening or prevention of competition.

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Monopoly

- **Natural monopolies** - public utilities (gas or water).
  - Require huge investments, and is inefficient to duplicate the products they provide; therefore, they may be permitted to hold monopolies in an effort to conserve natural resources.
  - The government regulates the prices for these goods and services.
- **Legal monopolies** - when a company receives a patent giving it exclusive use of an invented product or process.
  - Polaroid held a patent on instant photography technology for a number of years (patents exist for a predetermined amount of time).

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Oligopoly

- **Oligopoly** - a form of competition in which only a few sellers exist.
  - When there are few sellers in a given market, each seller has a fairly large share of the market.
  - Typically, oligopolies occur in industries in which there is a high investment to enter, so oligopolies are often major corporations in the airline, pharmaceutical, high-tech, automobile, and tobacco industries.

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Monopolistic Competition

- **Monopolistic competition** - when there are many buyers and sellers and little differentiation between the products, but there is a ***perceived difference among consumers***, who favour one product offering over another.

- Examples:

  - The shoe industry: Nike, Adidas, Under Armour.
  - The coffee industry: Tim Hortons, Starbucks, Country Time.
  - The ice cream industry: Breyers, Häagen-Dazs, and Chapmans.

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Perfect Competition

- **Perfect competition** - many buyers and sellers of products are virtually identical and any seller can easily enter and exit the market.
  - When these conditions exist, ***no single supplier can influence the price.***
  - Selling price will be determined by the ***market*** based on available supply and existing demand for the product.
  - In reality, there are very few, if any, examples of perfect competition. Agricultural products (grains, fruits, and vegetables) are a close example.

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