

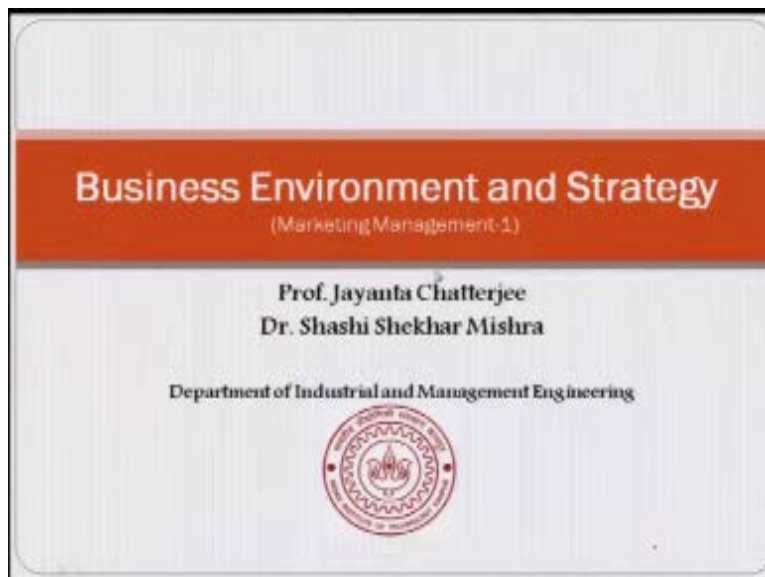
Indian Institute of Technology Kanpur
National Programme on Technology Enhanced Learning (NPTEL)
Course Title
Marketing Management – 1

Lecture: W2.I.4
Business Environment & Strategy

by
Prof. Jayanta Chatterjee
Dr. Shashi Shekhar Mishra
Dept. of Industrial Management and Engineering
I.I.T. Kanpur

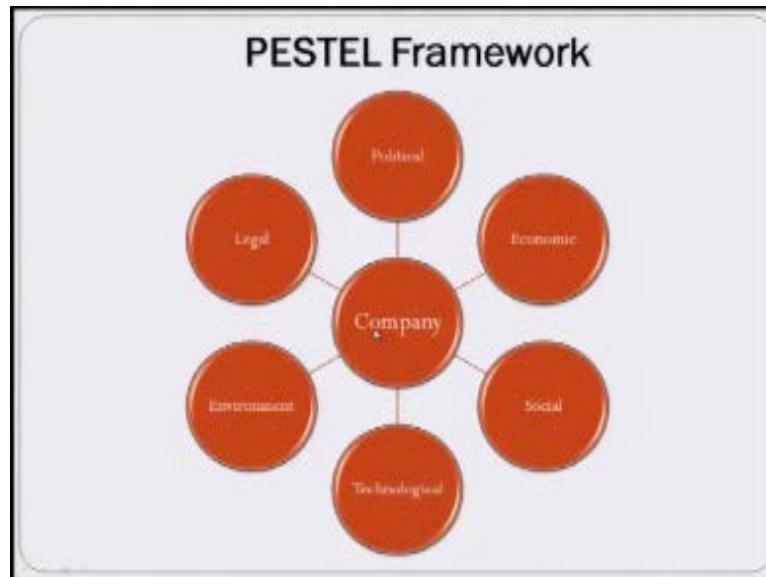
Dr. Shashi Shekhar Mishra: Hello, and welcome to the another session of this course marketing management 1.

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Dr. Shashi Shekhar Mishra: We are going into this second module of this course which is on business strategy, which is on business environment and strategy which are commonly used by market to analyze the factors that affects their organization and how basically they are accounted to formulate the marketing strategies.

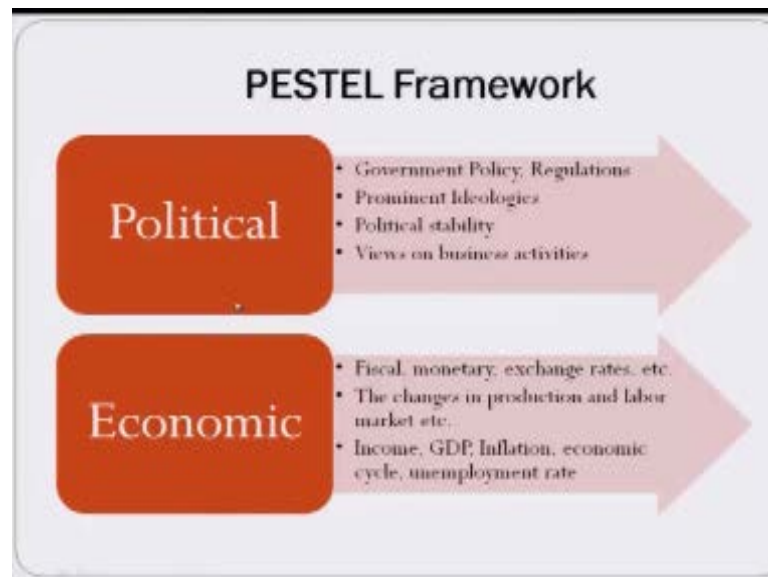
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Dr. Shashi Shekhar Mishra: This is part of overall situational analysis, the two important tool we are going to talk about is, the first one is Pestel framework. So we say broadly there are certain micro environmental factors that affects the organization. This framework is very commonly abbreviated as Pestel, P-E-S-T-E-L, so P stands for political, E stands for economic, S stands for social, T stands for technological factors, E the second E stands for the environment, and the last L stands for the Legal.

So these are basically six important factors, the changes across these factors influence the way probably a company does the business, the profitability are probably the financial parameters of the factors, financial parameters of a company. So I am going to take you through each one of these factors, what are the things that inside these factors affects an organization that needs to be considered.

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Dr. Shashi Shekhar Mishra: So the first one is basically the political factors, as you can see I have listed out here that government policy regulations, they are some of the very important concerns for any of the business organization for any company to operate in the new market, these are the factors that affects them and acquired a big manner. So if there are changes in the regulations for example, recently Government of India has come out the changes in the employee provident fund organizations, regulation where probably this 5% of that overall corpus can be invested in the equity market.

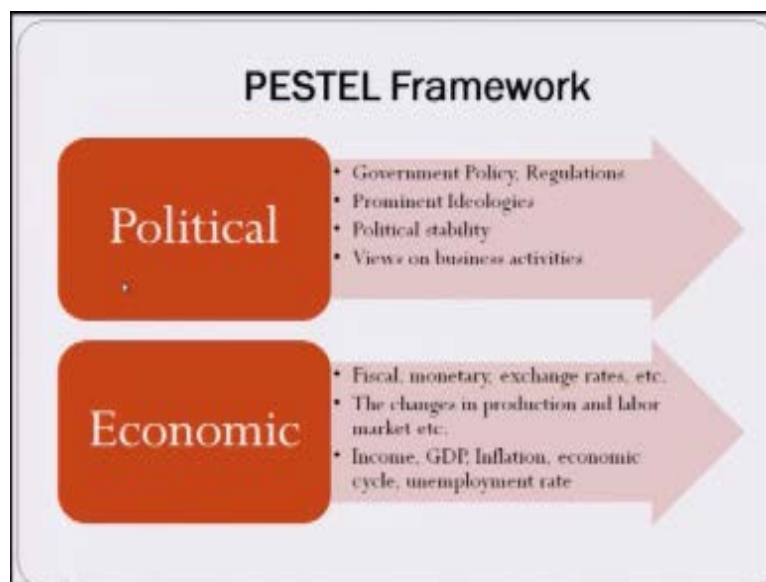
So that has given a huge opportunity to all these mutual funds to probably come out with a scheme and that take a part of that big pie of that emerging market. So this is one example whether the political changes are the changes in the regulation and policy has affected are probably created some sort of market and the opportunity for the organizations. Also there are political factors like the prominent ideologies which are present in any society political ideologies.

So there are some political organizations which are seen as pro business there are some organizations which basically see business as their adversaries are probably not so good for the

society. So all those basically things are fixed the company are probably the business environment in which the company operates, because depending on which kind of political organization is in power, that will also affects their ideology is going to affect the kind of policy they are going to frame which are going to affect all the organizations.

Another thing which comes into this political factor that is the political in stability. So how much is this political stability exists in the market will affect basically, broadly the kind of investment that will come into that market. All those things will basically affect probably how the company is basically going to get invested in a particular market, and how it is going to expand, how it is going to operate. So this is the first factor which I have talked about the political factor.

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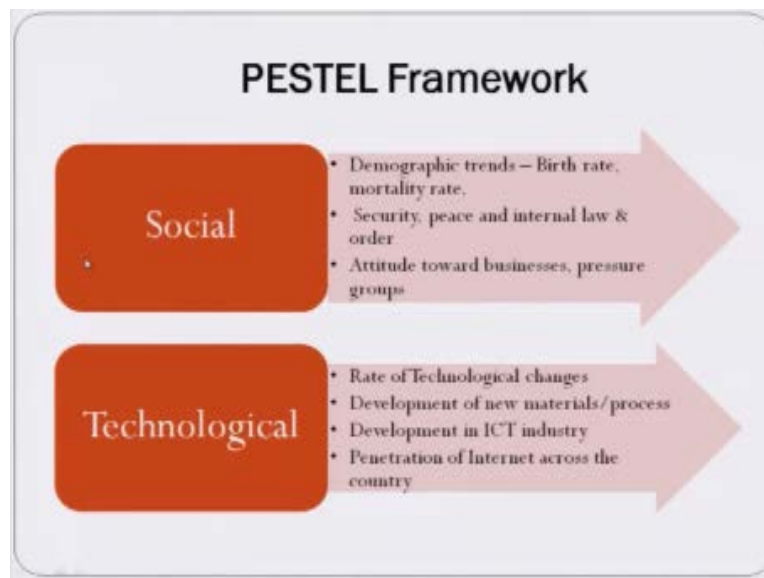
Dr. Shashi Shekhar Mishra: The second important factor that affects the business organization is the economic factors. So inside this economic factor we can see, we have physical policy monetary policy, exchange rate, changes in the production and the labor markets, income GDP inflation, growth rate, economic cycle and unemployment rate. All these factors are going to affect the overall business environment.

So you see when probably interest rate is on the lower side and the inflation rate is on a higher side that means a person will find out there are not much of the benefit investing into the fixed deposit and in that point of time considering the devaluation of the money the rate of which probably the money is going through this erosion in its value probably a person will like to invest more into the mutual funds or probably equity markets.

So you see how basically these economic factors affect the way that consumer behaves, so in turn that will basically bring in the opportunities for some organization or probably some kind of product and also probably, and the challenges for some kind of products like I just talked about the probably it is an opportunity for products like equity based products or probably mutual fund related product.

On the other side it will be this kind of changes will probably be a challenge for retaining the customers or probably getting the investment into the fixed deposit at any particular point of time. If the inflation rate is high and the interest rates are on the lower side.

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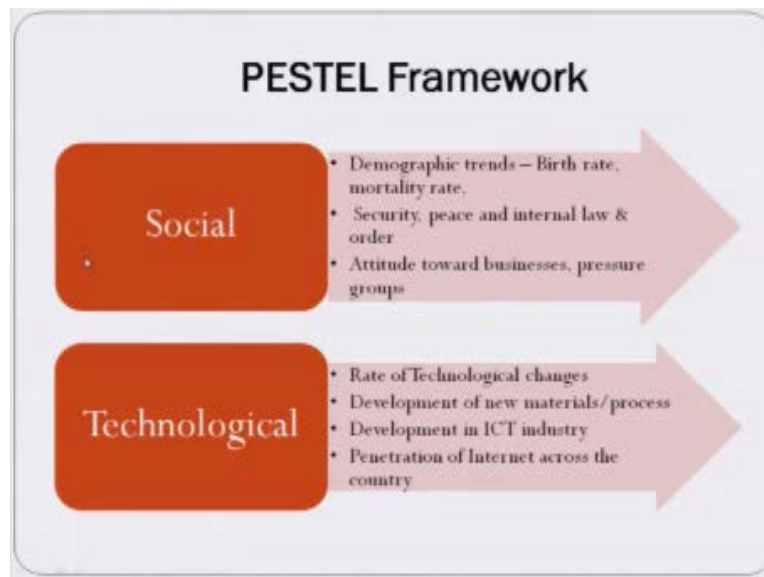


Dr. Shashi Shekhar Mishra: So the next factor which I'm going to talk about is a social factors this is another very, very important factor that probably a market that needs to understand is inside it is that demographic trends like what is a birth date, what is a mortality rate, what is basically the gender ratio with male and female. So lot of these kind of factors will affect the way probably the market demand are and the way the market demands are moving up -- are going to move up in the future.

So that will basically decide what kind of -- that will shape of the company offerings then you have security P's internal law and order these are some of the very important things you can see the effect of security P's internal law and order some of these have a very far reaching implication in the travel and tourism industry. So places which are not perceived as a secure place which have law and order problem.

There will be the tourist intention or travel to those places will be far less than two places probably which are perceived as a very peaceful, and then good security for anyone who wants to travel from outside. Then what are basically the different activist groups, what are the different pressure groups, how they operate in a society all those things are going to come up inside the social factors and that is going to affect the business environment. The fourth factor is basically this technological factor.

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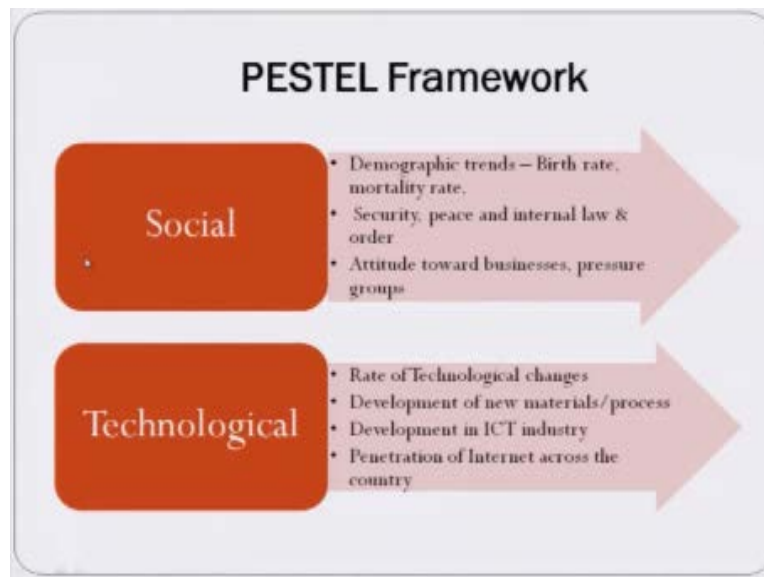


Dr. Shashi Shekhar Mishra: Inside technological factors one of the very important thing that comes inside this factor is the way probably with the rate at which the technologies are changing or the rate of technological development that is something which is very, very important in today's world, because rate of technological development can make certain industry to just pop up in no time and on the other side you will see there will be some in comment firms there will be certain existing industries which will just go out of the time.

If you map the industry certain industry in this memory devices over the period of last one, one and a half decade you will find out there where different forms of the product that came and went out of the market. So you have the floppy disk, you have the CDs, then you have been drive and people today are using basically this virtual spaces for having the memory.

So you will see that this changes in the technology the way probably of a people are restoring their data has changed over the period of time and that has led to certain companies come as probably emerge as a leader in the market, on the other side when the technological changes happening at such a fast rate you will also see that some of the industries have gone out of the market.

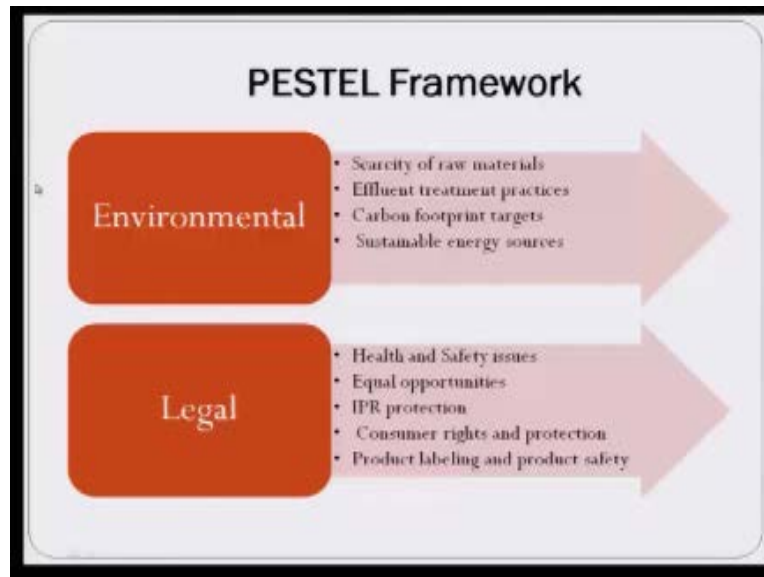
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Dr. Shashi Shekhar Mishra: So those are very important aspects of the technological change which affects the overall business environment. The next thing is inside this technological environment is how they basically the technologies are getting developed in the areas of new materials in the process, because what happens is a technological development in one industry are one type of material or process will probably create a -- or probably will support a certain kind of -- or will make certain kind of product and process feasible which was not possible earlier.

So it will certainly probably as or suddenly probably develops a new type of industry. There is a basically development in information communication technology the convergence in these industries which are basically affecting lot of industries and probably the way the business and this distribution is happening in the market. Penetration of Internet across the countries another factor that, that has affected lot of industries.

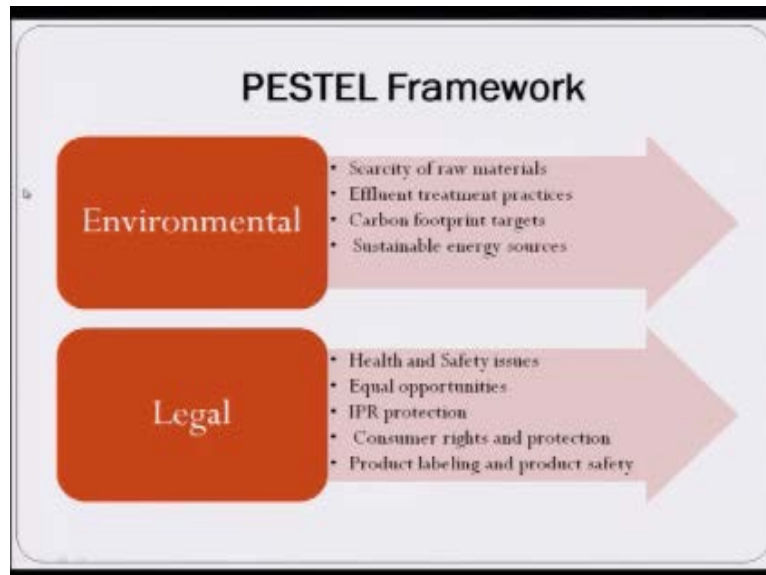
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Dr. Shashi Shekhar Mishra: Then we have a environmental factors how basically what are the impacts of the business on the basically this our nature with every passing day across the globe you will see that the awareness is increasing and people are becoming more and more concerned about the business practices that affect the nature. So there are basically more time we see in the coming time.

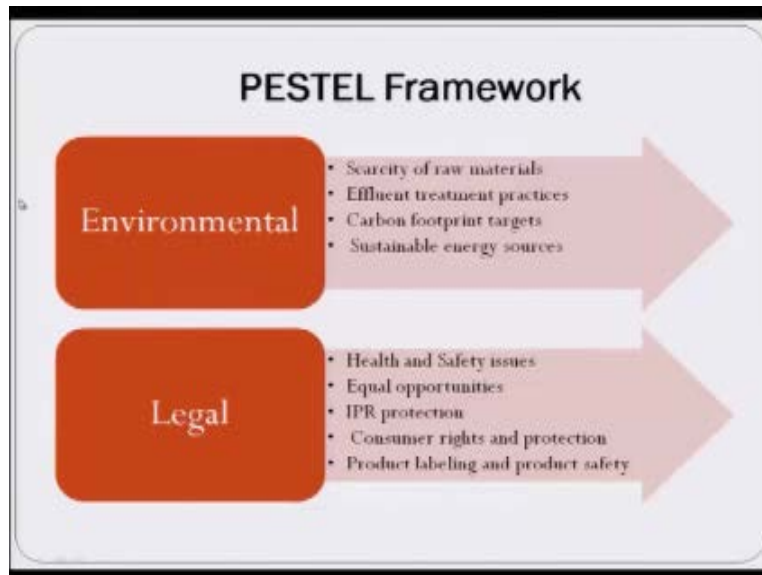
The more stringent regulations and the law coming up and that will basically we enforced on these companies to be more responsible towards the environment in which we live. So from that point of view, the companies or the organizations have to face these challenges where in they probably have to be more responsible towards the nature also.

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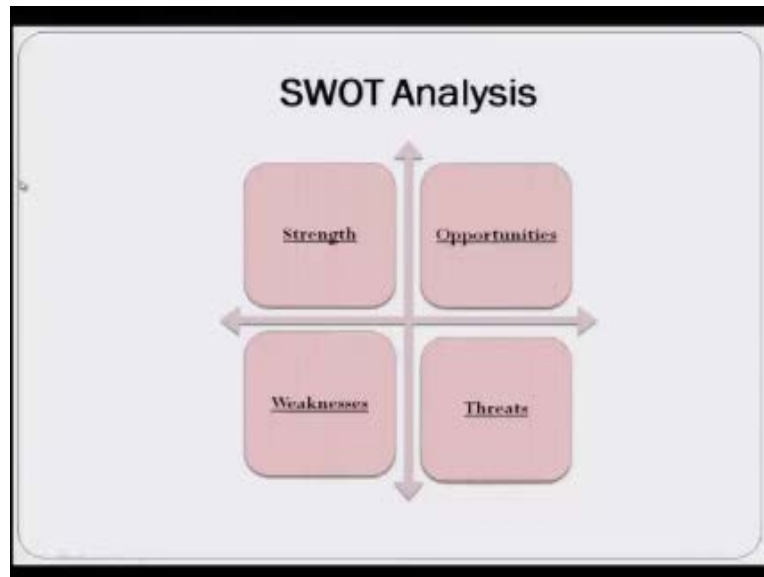
Dr. Shashi Shekhar Mishra: The last factor that legal environment where probably health and safety related issue comes into the picture. The equal opportunity the biases towards the gender or probably raise or any other kind of discrimination all these challenges also have to be faced and the organizations have to be more justified in all their ways probably they do the business. So the way they conduct and their business it takes is going to be very important.

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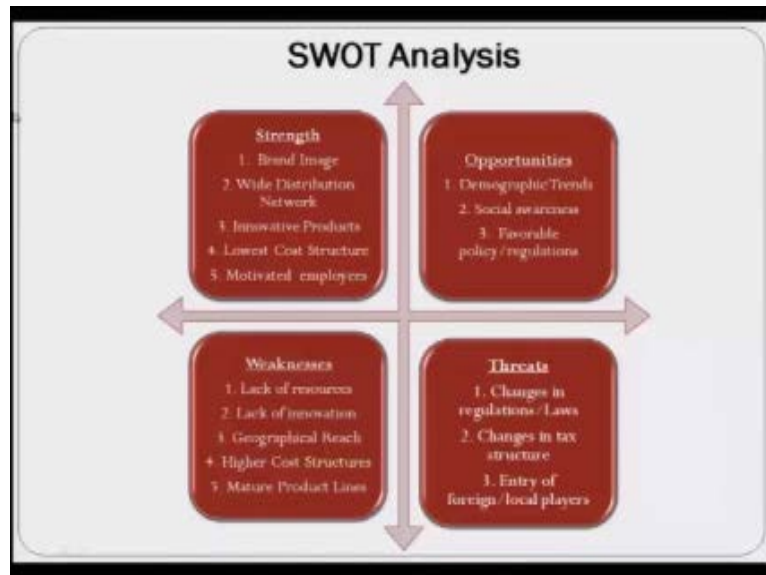
Dr. Shashi Shekhar Mishra: Another thing that is going to affect in this legal factor is this IPR regime or the IPR fact intellectual property rights related issues. So that you as a business should not infringing into the others intellectual property rights. So being aware of all these factors is also important. So this is the Pestel framework which talks about the overall business environment in which companies operate. And how basically these six factors affect any company and its operations.

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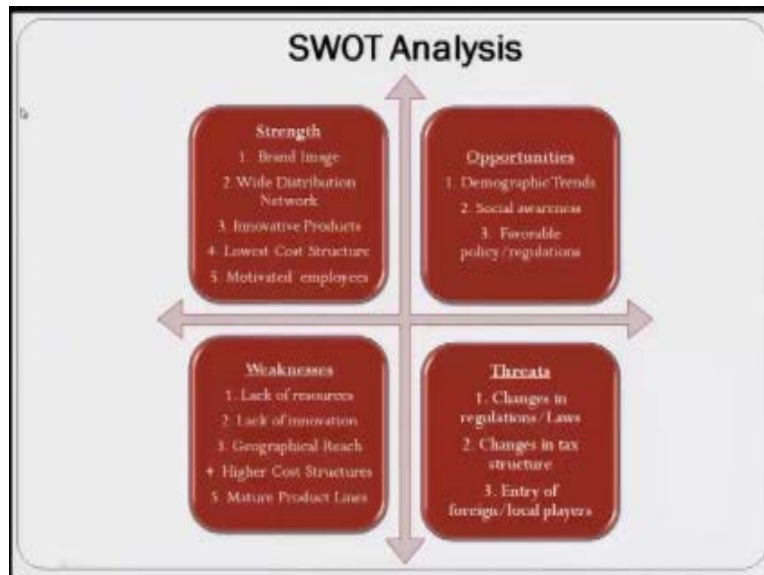
Dr. Shashi Shekhar Mishra: So the next framework I am going to talk about, is about internal analysis of the organization which is called as SWOT analysis or is strength, weaknesses, opportunities and threat. Inside this analysis tool you will find out there are four factors that an organization or company needs to be concerned about, or they need to analyze about the first one is the strength, the second one is basically its weaknesses, the third one is opportunities which are existing in front of that organization and the threats to the kind of challenges it is going to face.

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Dr. Shashi Shekhar Mishra: So I have listed basically some type of strengths, sometimes some type of weaknesses possible opportunities for some of the organization, or in the some of the emerging markets, or some of the kind of evolving markets, then certain kind of threats that are coming up in front of the organization, because of the environmental factors that I have talked about. So if I talk about this kind of strength certain organization established organizations which have a portfolio of a strong brands they will find out their brand image is one of their key strength.

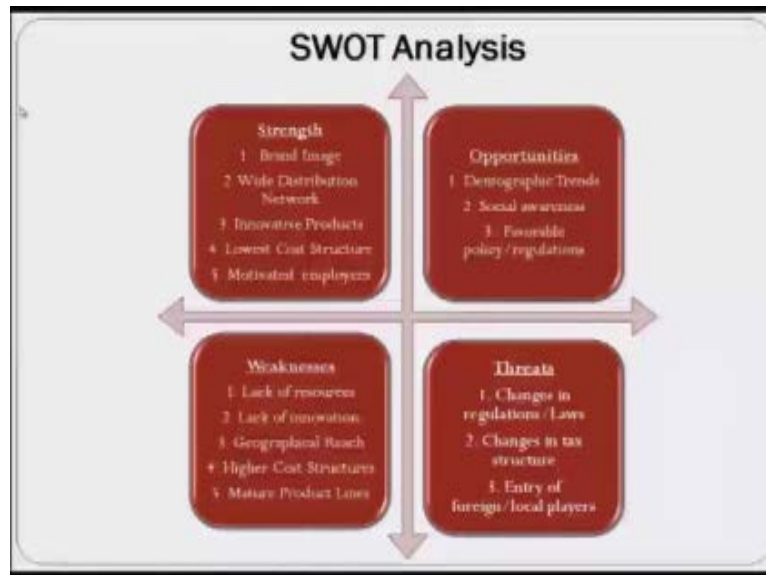
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Dr. Shashi Shekhar Mishra: Another basically strength probably which probably organization which is a source of a probably a long creature competitive advantage, sustainable competitive advantage is basically wide distribution network. So major difference one of the example possibly in India with respect to this wide distribution network is, Hindustan Unilever limited distribution network.

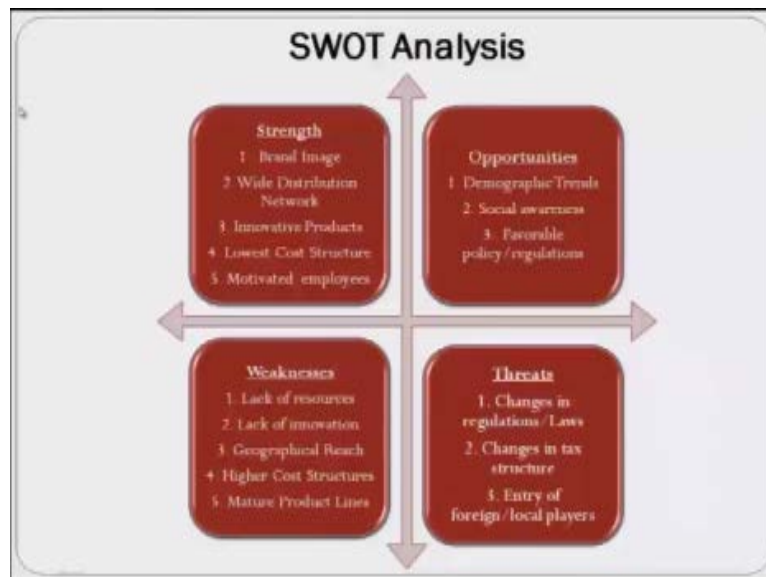
With others distribution network actually has a very, very strong distribution network which is probably one of the key contributors to its success in the Indian market, then the innovative products, the company's ability to ring out the innovative products in the market, companies like Apple have the ability to come out with the innovative products in time and again and then that is probably one biggest strength with them.

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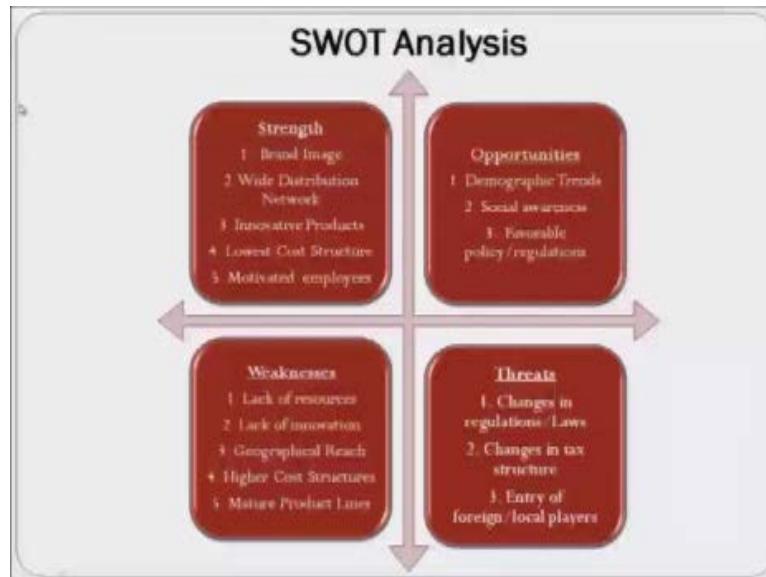
Dr. Shashi Shekhar Mishra: Then you have the company's which have lowest-cost structure. So that gives them the opportunity to charge less or probably be more competitive in the market in terms of the prices or if, if they are pricing at the level of the competition are probably with other competitors their profit margin is going to be higher. Then motivated employees can also be strength, you see in a lot of startups small companies, they have a very good bunch of talented young engineers which are coming out with this motivated employees.

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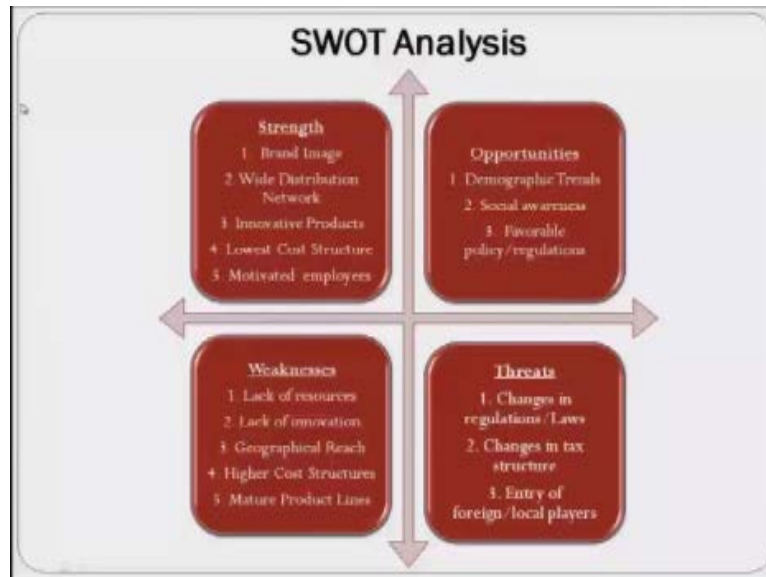
Dr. Shashi Shekhar Mishra: Then you have certain type of weaknesses which we often see in the organizations, lack of resources probably that is very relevant with probably sort of startup form which will have scarcity of financial resources and that will also create a sort of crunch for them in all getting are acquiring all sorts of other resources in the market. Then you have lack of innovation another problem with lot of organization that their inability to come out with a new products are the new offering with the changing trends in the market.

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Dr. Shashi Shekhar Mishra: Geographical reach which is coming out because of your limited distribution network or your ability to reach to so, only certain parts of the, the markets then higher cost structures because of different reasons, because of your legacy, processes, or the kind of technology which you are using in your processes or your procurement process, your cost structure might be higher. And then also because of matured product lines you have products in the later stages of product lifecycle and if you are unable to innovate that is another sort of weaknesses.

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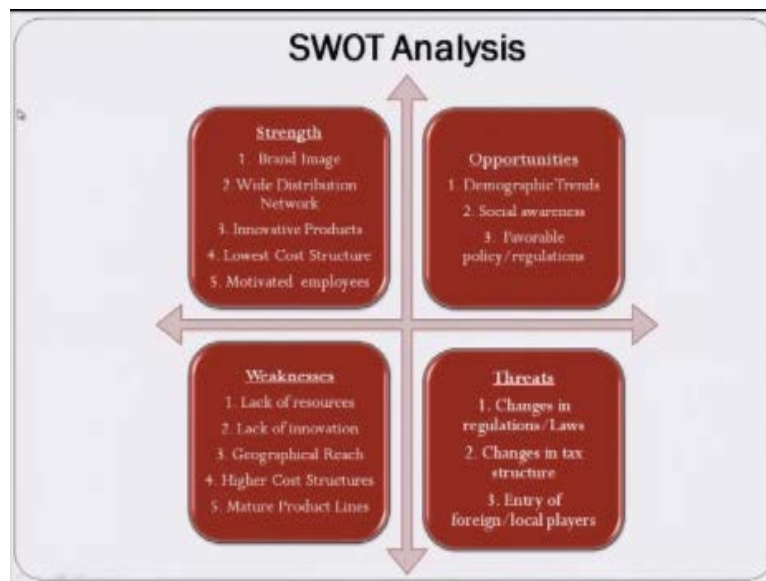


Dr. Shashi Shekhar Mishra: Then in terms of common opportunities, which probably -- which are seen across the markets are the demographic trends, which are showing that the market size is increasing or probably within certain size of the market. The demographic shift that is changing the, the way the markets are favorable to certain kind of products and that kind of products might be favorable to certain companies. Then the social awareness about certain kind of product is increasing like a personal hygiene is something in India which were probably the social awareness has gone up.

And that is that, that will certainly affect the consumption of a certain kind of personal hygiene related products, then you have favorable policy and regulations you, you look at basically certain changes in the policy and regulations, where probably particularly it is if, if I give you an example of the oil, and probably this refining business we are probably our exploration of oil business where the company have to face lot of basically regulations and they have to be more responsible with the way probably they do the cracking and all those process, are probably the exploration is happening.

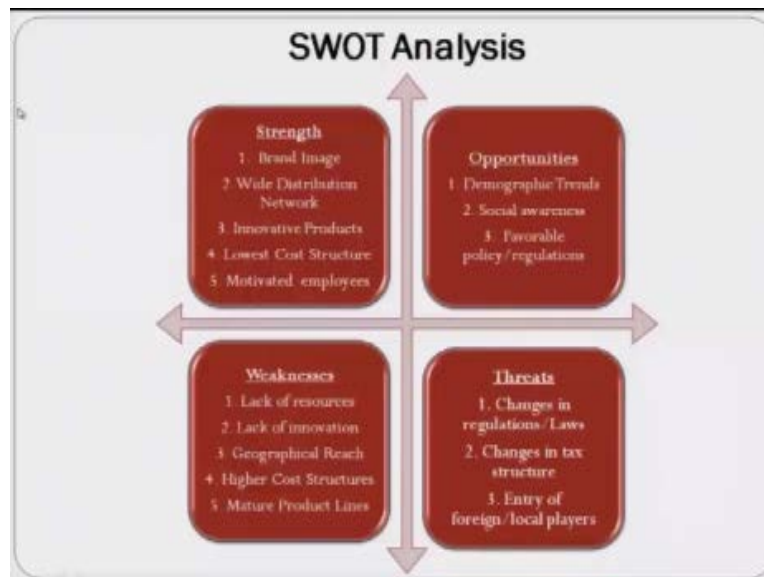
So they, they have to be they have to face and they have to avoid by lot more stringent regulations and in that case, that basically will create the need of certain type of products for them to use and that will probably create the market are probably opportunities for certain type of products..

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Dr. Shashi Shekhar Mishra: Then you have a common threats which are seen exchanges in the regulation and the laws which will probably make certain type of products obsolete, because if they have a negative impact on the environment or the society the government may come out with the regulation are probably prohibit the use of certain kind of technology and products. Changes in the tax structure, so that can also favor a certain kind of industry and are certain kind of a business model on the other side.

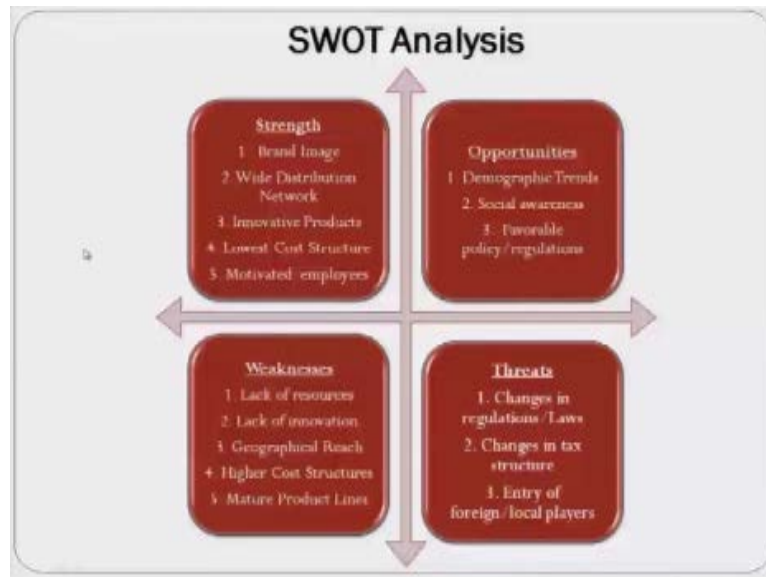
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Dr. Shashi Shekhar Mishra: Certain business model may find difficult to operate with the changing tax, tax regime. Then you have an entry of foreign or local players into the market. So if the foreign players enters into the market they comes with certain type of resources, they will have knowledge and strong R&D of different market, they have financial resources and with that probably they can compete very hard with existing players. On the other side if the local player comes since they have a better knowledge about the culture of the local needs.

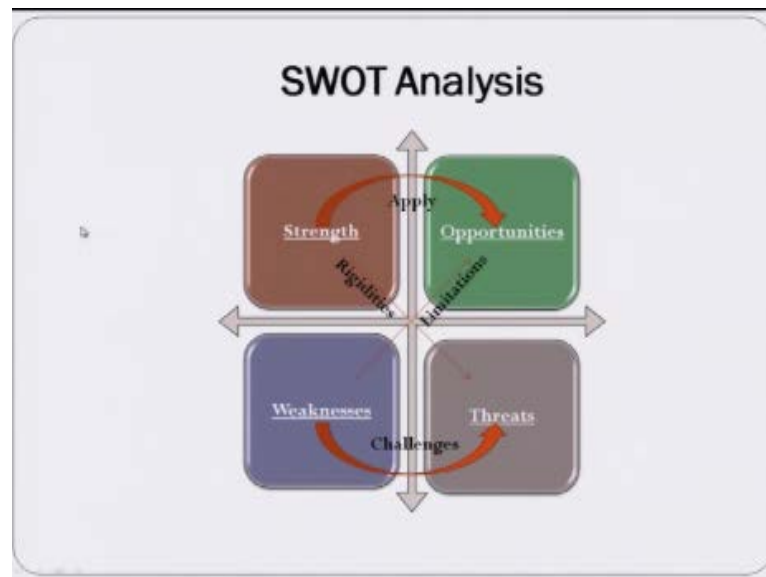
So they can come out or probably they can design the product, distribution network which might favor them or it could also be, because of the local sentiments, which will probably favor the local players.

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Dr. Shashi Shekhar Mishra: So this is basically the summary of strength weakness opportunities, and threats.

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Dr. Shashi Shekhar Mishra: Now if you see, how this framework is used is that here a strength can be applied to exploit the opportunities which are emerging in the market. And your weaknesses will be the limitations as it is shown, that the weaknesses will probably create a sort of limitations to exploit the opportunities in the market, and you will see that your weaknesses will become your challenges are a sort of threats in the market.

And another thing which is very important is sometimes your strength becomes your rigidities and that creates a threat for sudden incumbent organizations like if you are invested in certain type of technologies or certain type of products, so you would like to first mean that probably would like to cultivate your investment in that particular market .

However the technological -- if you remain invested in the face of the technological changes you may probably find yourself to be going out of the market, because of the new forms of the product are the changes in the technology will be more favorable to the changing environment there changing business environment.

So this is what probably the use of the SWAT is, so what I suggest to you is that you take certain organizations example from India and try to apply some of these concepts or tools in the context of those organizations. And then probably you will be able to understand the utility of these tools and the concept, and with this I will finish this or probably -- I will conclude the session see you in the next session, thank you.

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