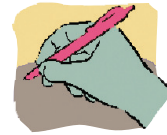




# 1 Business opportunities

## Introduction

Human needs and wants are fulfilled by consumption of goods and services. These goods and services are produced by business organizations. Therefore, production, distribution and selling of goods and services have become the main features of many businesses. As a result of changes in the economy; business opportunities have been derived. The opportunity available for such production is known as “business opportunity”.



The factors that have an impact on business activities as a whole are referred to as business environment. There are controllable factors, and uncontrollable factors in this environment. Collectively we call these factors that influence businesses as “Business environment”.

The factors that can be controlled and arising internally can be termed as “internal business environment” and out side environment with uncontrollable factors is called “external business environment”. Business environment can create both positive and negative influences and it can also influence the businesses while creating strengths, weaknesses, opportunities and threats. Owners, managers, customers, and employees are the factors of internal business environment of an organization.

External environmental factors of an organization consist of political, legal, Economic, community, social, cultural, scientific, technological, natural and geographical factors. Any activity that returns healthy profit or any investment that generates reasonable return on the risk taken on doing that activity is called “Business Opportunity”. The intention to get involved in such a business activity can be called “Business Idea”.

Characteristics of good business opportunity are as follows. Available market demand for the intending product or the service, healthy return on investment, competitiveness, availability of resources, reachable objectives, good environment, legality and availability of attractive market.

After completing this chapter, you will be able to identify internal and external environmental factors that influence business, identify business opportunities and evaluate those opportunities to select the best opportunity.

## Business Environment

Factors that influence a business are called 'business environment.'

These factors can be generated both from internal and external environment. The factors which affect internal activities of a business are called internal environmental factors and the factors which affect from the outside of a business are called external environmental factors.

Owners, managers, employees and customers are internal factors of a business. Political and legal environment, economic and demographic environment, social and cultural environment, natural and geographical environment are external factors of a business.

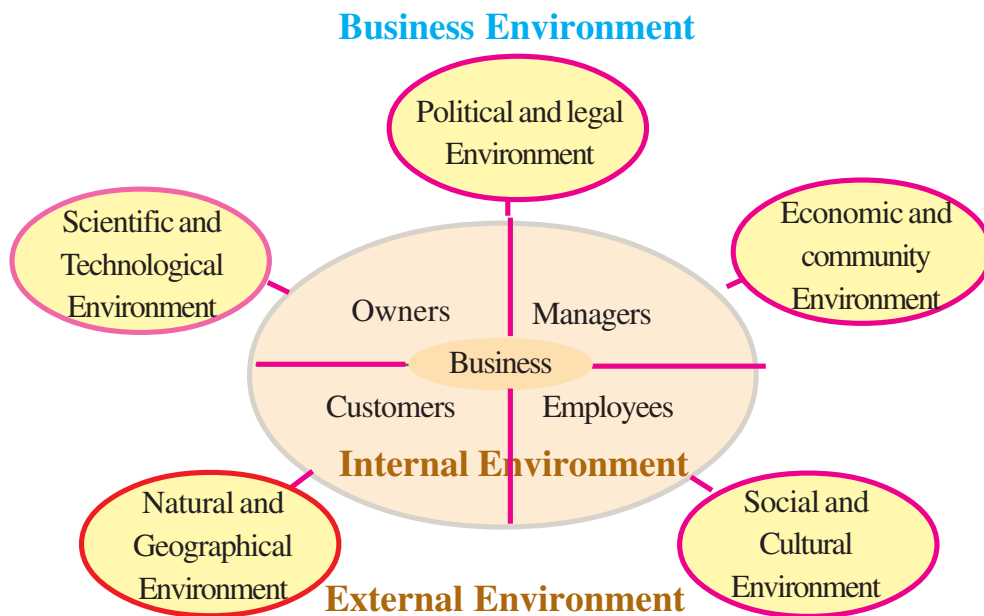


Diagram 1.1

## Internal Business Environment

Closest environmental factors of the business such as owners, managers, employees, and customers are called the internal business environment.

Those factors can directly influence the matters of the business. Therefore, let's pay individual attention to each factor. Inner circle of the diagram represents the internal environment.

## Owners of the Business

People who provide capital for the Business are the owners

These people directly involve in organising and running of a business. Owners' attitude, talents, dedication, experience and education may influence the success or the failure of the business and the owners' capabilities and financial strengths also influence the business directly.

The existence of a business depends on the profitability of that business. The owners run the business if they get a reasonable profit. When they get losses they might give up the business activities. The above information reveals that the owner affects the business activities directly.

## Managers

Managers are the people who direct the resources of the business for the process of production to fulfill the target of the business. Managers' duty is to convert the decisions of entrepreneurs into action.

Therefore, the success of the entrepreneurial decision making is depending on manager's performances. If managers become successful in their actions, organization will develop. When managers fail, organization incurs losses and as a result business will fail.

The cordial relationship among customers and employees is depending on manager's ability and success of work. Therefore, the managers' roles in business influence the business environment greatly.

## Customers

People who buy or consume goods and services are called customers.

Customers generally involve in buying, selling and a variety of other related tasks of the business. Suppliers, Clients, debtors and creators are examples for the customers.

Customers are a very important factor in internal business environment as they are the buyers of the products. When customers buy more, profitability of organization will increase. If customers buy less, business would gain less profit. When the product or the service satisfies the customers they tend to buy more. As a result, profit will increase for the business. Or else profit will decrease, as a result of low sales.

People and organizations who supply raw materials and goods to the business organization are called suppliers. In a production organization, if continuous flows of raw materials do not occur, their production cannot be done on time. Therefore, contribution of suppliers is also very important.

People who buy products and services on credit are called debtors. If they don't settle their payments on time, business will get into cash flow problems. With internal cash flow problems it is difficult to run business properly.

As the organization has promised to repay creditors, if that's not been done it is a disgrace to the organization. On the other hand it will create additional burden on debt by increasing interest. Above information reveals that the customers are one of the main factors who influence the business.

## Employees

People who perform business activities in the organization are called employees.

Organization's relationship with its customers depends upon employee's behaviour. Organizational functions are determined by employee's performances. Employee's attitude, talents etc. play a great role in extending business functions of the organization and its performance at large.

When employee's behaviour is bad it is difficult to achieve organization's intended objectives. Efficient, effective and satisfied employees should fulfil organization's activities successfully.

As far as employees are concerned they organise themselves to win their own rights in the form of employees' unions. In order to win their rights they make demands for their rights through union actions. Picketing and strikes, usually disturb organizational functions and also bring disrepute to the Organization.

Therefore internal business environment influences directly the business activities of the organizations. It is the responsibility of an entrepreneur to minimize and control bad influence of internal environment of the organization.

## External Business Environment

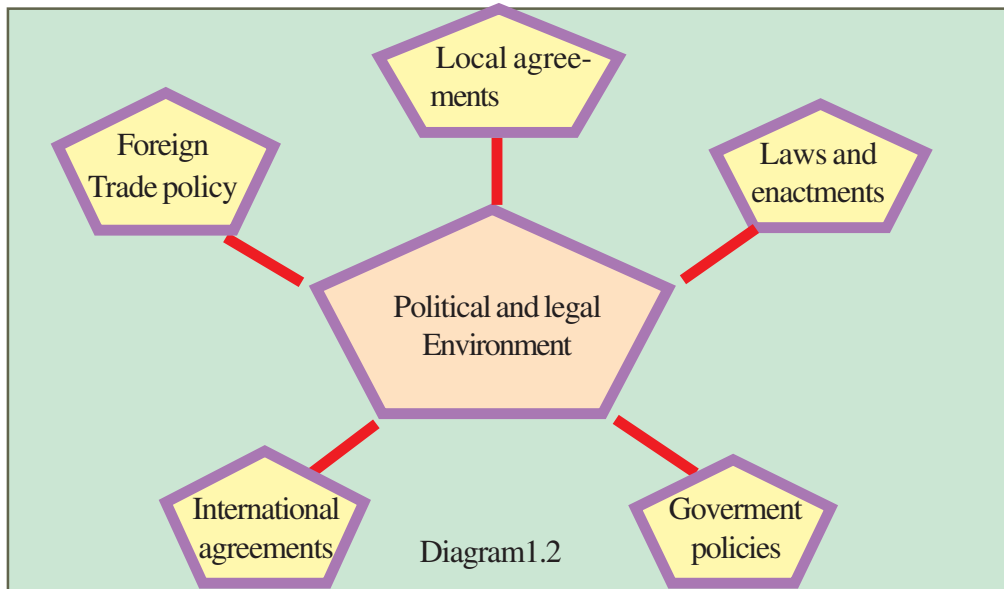
Factors that influence the business activities that the organization can't control are defined as external environment of the organization.

Political and Legal, Economic and community environment, socio cultural, scientific, technological, natural and geographical factors are included in External Business Environment.

Let's consider how these factors influence on running a business.

## Political and Legal Environment

According to the vision of the political party in power, the government carries out its economic activities, and policies of the country. Economic development policies are formulated by the national government. Based on the vision of the government economic policies are determined. Therefore Legal environment to carryout businesses by both private and public sector is decided upon government’s economic and political vision. The government attitude towards private and public sector businesses, government activities on business promotion, involvement of private and public sector on economic development and political stability are the components of the political environment of a business. The legal matters related to conducting a business is called legal environment. Components of legal and political environment of a business are illustrated in the diagram



Government laws and regulations are enacted in order to protect employees, to conduct proper businesses and to protect consumer’s rights. Weighing and measuring related regulations, consumer protection authority, tax policy, regulations related to agreements, protection of health and environment and policy on state income and expenditure are some examples.

Policy on foreign trade, international agreements and the regional markets and the trends in international facilities also influence the businesses.

At present legal influence on business has increased. Competition, creating good business practices, environmental conservation, Production process protection, honesty in advertising, labelling and pricing are the main sectors which have been influenced by legal environment factors.

## Economic and community Environmental Factors

Economic activities including the population are termed as economic and community environmental factors in a business.

**Let's consider these factors separately**

### Economic Factors

Factors that determine the level of the economy in a country is called economic factors.

Interest rates, salary scales, consumption, savings, foreign currency exchange rates, price level, production, are regarded as the economic factors. The changes of these factors influence business activities.

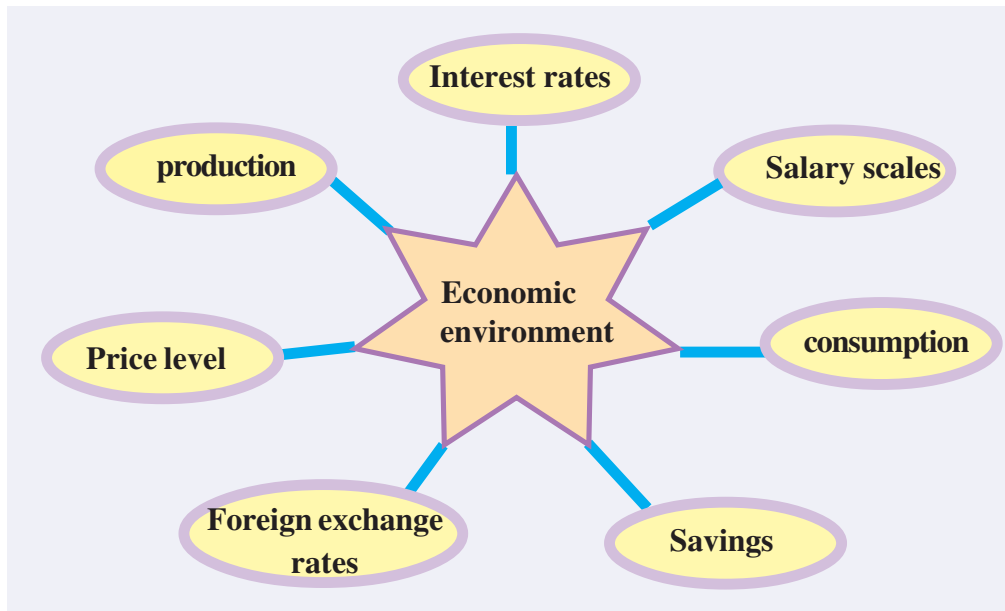


Diagram 1.3 – Economic Factors

### Interest rate

Expense or cost of borrowing can be described as interest.

Interest should be paid when obtaining a loan. When interest rate is higher, borrowing is less. When the interest rate is lower borrowing of loans goes up. Therefore interest rate and loan borrowing has reverse order relationship.

The earning on savings is also called interest rate and savings and interest is having primary order relationship. When interest rate goes up savings will become high and on the other hand, when the interest rate goes down savings decrease. Loans are obtained to start and carry on business. So the interest is an economic factor which influences the business organizations as it should be paid when obtaining a loan.

## Salary

The cost of labour is called salaries.

Salary is decided on the demand and supply of labour. Business Organizations need to pay market decided salaries determined by the market forces for their employees. Therefore, salary is a significant component of the production cost as it decides expenditure on production. When production expenditure goes up, the profit decreases. Therefore, salary is a very significant economic factor which influences business organizations.

## Consumption

Process of using goods and services to satisfy needs and wants is called consumption.

Large amount of production of an organization is diverted to consumption. The demand for goods is based on consumption of these goods. Therefore, consumption at household level is a determining factor of production. So, household consumption is a significant factor that influences business organizations.

## Price Level

Common price level of all the goods and services produced in a country is called price level.

Price of goods and services is measured by common price level and common price level is calculated through price index. Common price index of Sri Lanka is measured by using Colombo consumer price index. If this value goes up it indicates that overall price level of the country is increasing.

On the other hand, common price index indicates changes of the prices of raw material and prices of the products in a business organization. When price increases, demand for goods and services decreases. When demand goes down, sales of businesses will become less. Therefore, price level is a determinant economic factor for a business organization.

## Gross out put

The total value of goods and services produced in a country during a given period of time is called gross out put.

National production and National Income are some common terms to represent total production of a country. Production determines, supply of goods and services into market.

Employees gain income through involving in production process. When production increases people can consume more goods and services. Increase in production will cause utilization of resources higher in a country. Therefore, total production level of the economy is a determinant economic factor for business organizations.

## Savings

The remaining portion of total income after consumption is called the savings.

Savings can be generated through four major sources namely, household savings, business savings, government savings and foreign savings. Funding needed for businesses is created through savings. Interest rate is also a determinant factor of savings. Therefore, savings is an influential factor on business organizations.

## Foreign Exchange Rate

The conversion rate of local currency into foreign currency is known as foreign currency exchange rate.

Example -     \$ 1 = Rs. 110  
                  £ 1 = Rs. 180

If we had to by one dollar and one pound we good have to pay Rs. 110 and Rs. 180 respectively. Foreign exchange is needed to import raw materials from overseas. When produced goods are sold in overseas, organization gets money in foreign currency. In such occasions exchange rate for foreign income is determined by foreign exchange rate. Therefore, it has become an influential factor for business organizations

## Demographical Environment

The factor related to population in a country is called demographical factors.

Population represents the market factors such as population growth rate, age group, sex, regional distribution of ethnicity of a population are influence the business organizations. These factors decide how much of goods and services would be bought. When a country possesses a large female population there will be more demand for female oriented products. And also when there is a higher child population there will be more demand for child foods, clothes, equipment for schooling, and that would create a market for these products. Therefore, entrepreneurs have to focus their attention on demographic environment.



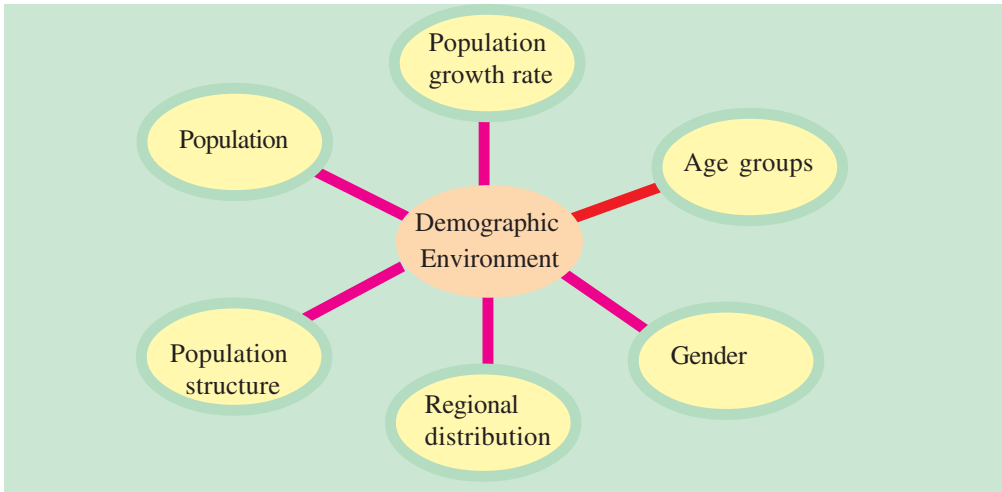


Diagram - 1.4

### Social and cultural Environment

People’s attitude, traditions, beliefs, norms ethics, practices, etc. are indicated in social and cultural environment.

Components of socio cultural environment are illustrated in diagram 1.5

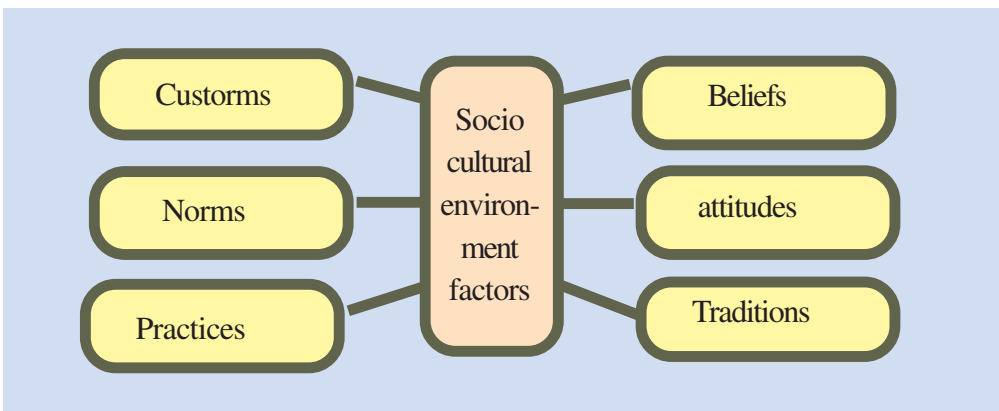


Diagram 1.5

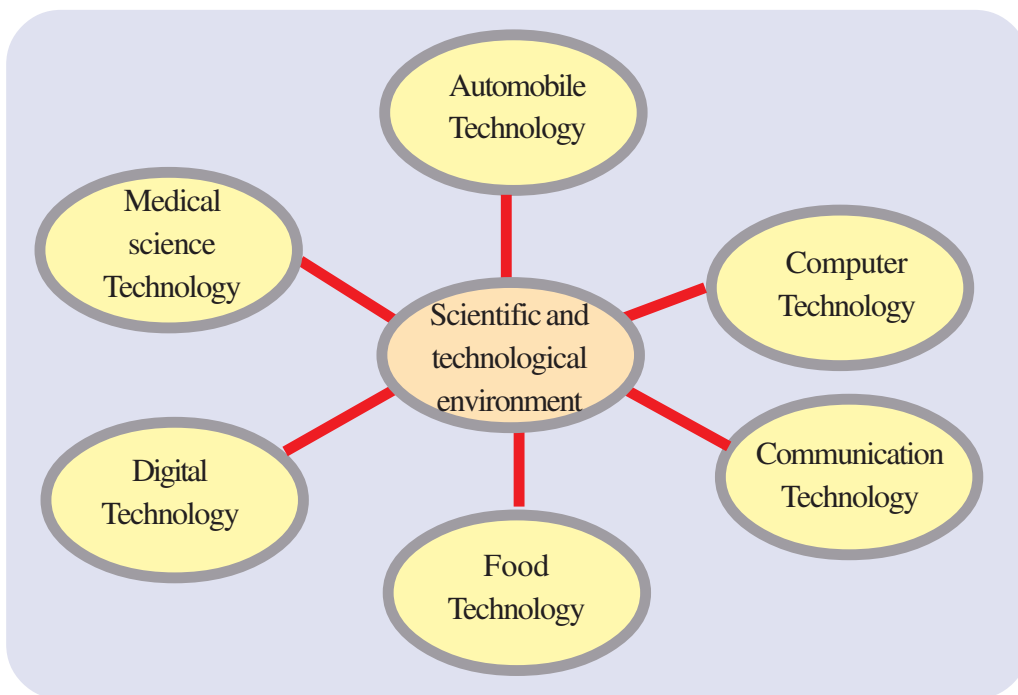
Individual's family and social entities are social factors. Persons living in a society have their own characteristics. Person’s nationality, caste, religion, and culture shape their customs, traditions, beliefs, attitudes, values, etc. Therefore, when conducting businesses, socio cultural environment has to be taken into consideration. Due to rapid developments in communication technology people’s attitudes are changing. So the business organizations have to carefully consider the socio cultural factors.

## Scientific and Technological Environment

Influences arising from science and technology on business activities are called scientific and technological environment.

Medical science, automobile technology, computer technology, communication technology, food technology, digital technology etc. can be taken as examples for factors of science and technology.

Changes in technological environment cause changes in business environment. When



new technology comes, existing goods get obsolete. So the new goods get created

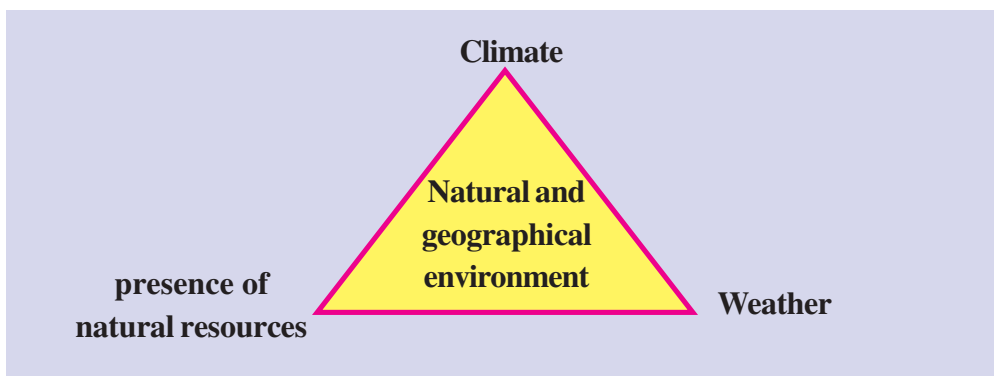
Technology has influenced on changing people's life style at present. It has affected the business activities too. Developments in the technology, creates new business opportunities. As a result of new technology new goods and services enter the market. Making new equipment to diagnose new diseases, making new gadgets for motor vehicles, new components for communication, Robots for labour, new methods for preserving food items, are examples for new inventions.

Changes in technological environment cause changes in business environment. When new technology comes, existing goods get obsolete. So the new goods get created and existing goods will become updated.

New technology will also affect the activities like, production, sales distribution and financing. Therefore, scientific and technological environment creates new business opportunity, while developing existing businesses and also eliminating some businesses.

## Natural and Geographical environment

Natural and geographical environment factors include weather and climatic conditions, nature of natural resources etc.....



Factors of natural and geographical environment are illustrated in diagram 1.7

Natural and environmental factors cause many influences on businesses. Climate is changing from one location to another, and also from country to country. Some climatic conditions help some businesses but, other locations without these conditions do not. For example, vegetables can be successfully cultivated in Nuwara Eliya but do not grow the same way in Colombo.

Weather factors also influence on businesses. Low country rice seeds cannot be cultivated in up country fields is an example. Presence of natural reasons also influence on businesses. Southern beaches in the country facilitate fisheries industry, but this cannot be followed in the middle of the country.

When natural resources are consumed continuously for production they will diminish. Some resources develop with time; therefore, when natural resources are over and consume they will be gone forever. On the other hand, over-consumption of natural resources creates environmental degradation. The society as a whole is interested in these issues. Therefore business organizations have to consider the natural and environmental factors carefully.



### Activity 01

1. A person who wants to start up a new business expects your advice. List out your advices based on the following factors.
  - Influence of internal environmental factors that can affect the business organization and the actions you take to minimize them.
  - Influence of external environmental factors and how to success fully use them in the business.



### Summary

Various changes in an economy create many business opportunities. These opportunities will end up as businesses. These businesses are influenced by environmental factors. These factors are divided into two groups as internal and external factors. Internal environmental factors can be controlled by a business organization but external factors are difficult to be controlled directly. Better understanding of Internal and External environment is a critical factor on becoming a successful entrepreneur.

## Business opportunities

A business opportunity means an activity which brings enough profit for an investment or which can create a satisfactory benefit under risky conditions.

Profitable production is a business opportunity. Business opportunities are available in the economy. Economies change very often. So, when the economy has been changing, business opportunities naturally come up.

Entrepreneurs perform the activities of identifying the changes of business environment and related business opportunities, chase behind these available opportunities, and choose suitable business opportunities and work out on these selected business opportunities. New business opportunities have been created by the changes in the economy, and increase of personal income and changes in the environment.

For instance, as a result of prohibition of using polythene, there will be a new business opportunity to make substitutes. As the price of fuel has increased a market has been created for alternative sources of energy. There will be a demand for the vehicles which can run more kilometers on less fuel.

One can identify a business opportunity by analyzing the environment keenly. Goods or services have been created to fulfil the needs and necessities of customers through those business opportunities.

### **Business ideas and business opportunities**

A business idea means a concept that is in the mind of an entrepreneur as a solution for a problem or regarding a fulfillment of a need of a certain party, an individual, a group or an organization.

The entrepreneurs deeply analyse the ideas which are born in their minds as solutions to problems for the needs of the environment.

Business ideas are pre conditions for a business that can be implemented as a successful business at the end. The business ideas such as successful response for a need of the market compete successfully in the market. Ability of taking advantage from the changing technology, capability of introducing new goods or development of the goods, the capability of minimizing the risks, would be ideas to convert as business opportunities.

### **Characteristics of a good business opportunity**

We can convert a business idea to a business opportunity. The entrepreneurs must be creative to make business ideas practical. This creativity is essential to present the goods and the services which are suitable for the needs of the customer. We can define the word creativity as the ability of making new designs and production of goods which are in higher quality than present and, then turn these business ideas to a good business opportunity. There are several characteristics of a good business opportunity.

Some of them are as follows. There must be an effective demand. There must be sufficient benefits for investments, availability of resources, It must be competitive. Objectives must be fulfilled and there must be a market.

### **There must be an effective demand**

The customers must have the willingness and ability to buy the goods and the services the entrepreneurs hope to present to the market: An effective demand will be created combining the willingness and buying power of the customers. If the product is available at the present market, the new product should fulfil the very needs of the customers which are not fulfilled by the former one. By introducing these new products an effective demand can be created. When producing goods which are not available at the present market, the price must be decided to compel the customer to buy it. Then there must be an effective demand for that product

### **There must be sufficient benefits for the investment**

There must be a substantial benefit for the capital invested and risk taken. The capital which we invest in the business must be more profitable than the income which we could earn from another work through the same capital. It is essential that goods and services must be better or equal in its quality when comparing the goods and services which exist at the present market.

### **Must be competitive**

Offer a similar or superior product or service to presently available products or services in the market. If it is not done it is difficult to be in the market.

### **Existence of resources**

For a business it is essential to ensure that the knowledge, talents, attitudes and experiences and all the human and physical resources and the proper technology are available.

### **Fulfillment of aims**

There are many ambitions which entrepreneurs expect to fulfil by entering the business world.

### **It must be a good environment**

The facts, such as economic, political, legal, and geographical conditions must be available in good condition to the business opportunity.

Business activities should be done according to the rules and regulations of the country and according to regulations in the economy. The business will be illegal if it works against the laws.

## Attractiveness

The goods and services of the selected business opportunity should be more attractive than that of other competitors. The attractiveness of the goods or services can be affected through the place where to buy, the appearance and the quality of the product.

## There should be a market

There must be a sufficient amount of customers for the product. There must be the possibility to expand the market in the future. When we select a business opportunity, it must be assessed. Business opportunity can be assessed by checking the above mentioned characteristics of a good business opportunity.

It is useful to assess business opportunities by considering the things, such as how to get the maximum use of limited resources, how to reduce the risk, how to increase the benefits and identifying weaknesses and strengths and taking correct decisions.

The connection between the assessing of business opportunities and their advantages are shown in the diagram 1.8

## Identifying a business opportunity and assessing

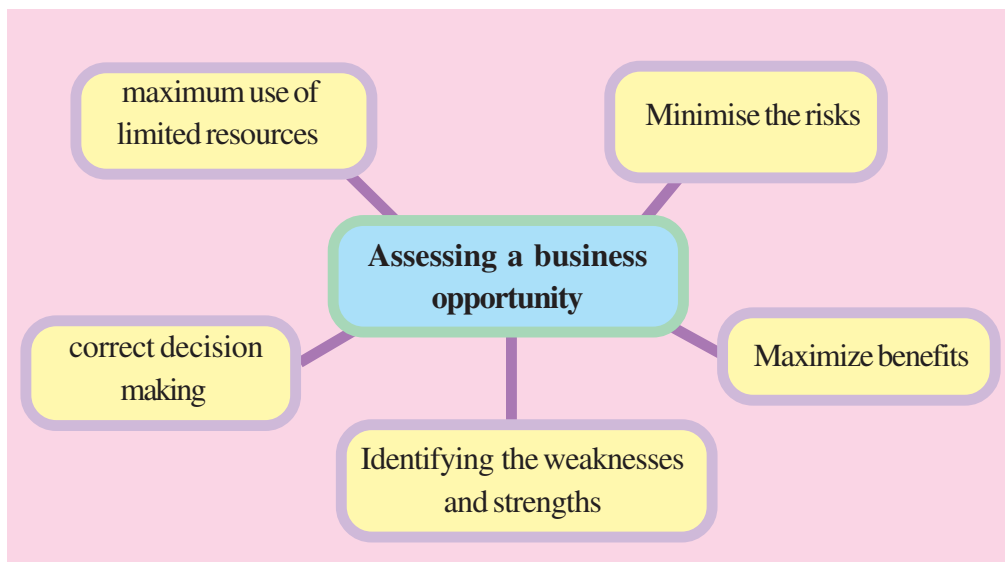


Diagram 1.8

Resources are undoubtedly limited. This saying is correct when you consider a country or a business enterprise. Assessing of success and the failure must be essential to take maximum use of resources to get the maximum benefits out of the capital, which has been invested for the business and to minimize the risks. Through those assessments we can identify the existing weaknesses and strengths. By considering them, there will be opportunity to take correct decisions.



### Exercise 01

Mention a suitable idea for a business. What are the factors that must be considered when selecting business opportunities to the above mentioned business idea?



### Activity 02

Consider the trends of the environmental factors.

Select a business idea that you can do successfully according to your strengths and weaknesses.

Decide the certain business which is suitable or not suitable by assessing these business opportunities for that business idea.

Hand over the report of your assessment to the teacher.



### Summary

New business opportunities will be created due the changes in the business environment, . As a result of that, business ideas will be born through business opportunities. All of these business ideas will not be suitable to be a successful business opportunity. Therefore, it is essential to analyze whether there are any suitable business opportunities. The suitability of a business opportunity can be decided by assessing it.