

**CHAPTER I****INTRODUCTION  
TO  
BUSINESS****1.1 Introduction & Concepts****1.2 Trends & Evolution****1.3 Classification****1.4 Business Process & Analysis****1.5 Stakeholders****1.6 Business Environment**

**"Success is not final; failure is not fatal: It is the courage to continue that counts."**

**- Winston S. Churchill**



### Concepts & Issues that emerge from the content

- ✓ Business concept –
  - Introduction
  - Needs and wants
  - Products – Goods & Services
  - Market
- ✓ Characteristics of business - Involve sale or exchange, Dealing in goods and services, Regular dealings, Profit motive, Have a risk, Create wants, Economic activity
- ✓ Business activities –
  - Fulfills the needs and wants
  - Adding value to the resources (value added)
- ✓ Aims of business – Vision, Mission, Goals & Objectives
- ✓ Self-sufficient economy - Direct production, Personal specialization
- ✓ Evolution of business –
  - Barter system
  - Indirect production
  - Trade
- ✓ Usage of money - Evolution of money
- ✓ The industrial revolution – Commerce, Trade, Auxiliary Services / Business Support services
- ✓ Knowledge economy - Electronic Commerce
- ✓ Business trends – Globalization, Electronic businesses, Electronic money
- ✓ Business classification criteria –
  - Nature of production
  - Ownership
  - Aims / objectives
  - Scale
  - Production sector
- ✓ Contribution of each production sector to the gross domestic production
- ✓ Inputs and outputs process of business
- ✓ Functions of business
- ✓ Stakeholders of business –
  - Reasons
  - Importance
- ✓ Business Environment –
  - Introduction – Internal, External, Task & Macro
  - Necessity to study
  - Classification

# INTRODUCTION

## What is a business?

It can be a profit or non-profit seeking economic activity that provides goods & services aka products designed to satisfy human needs & wants. In other words; an organization or economic system where goods and services are exchanged for one another or for money.

Ex-



## What are the 2 types of Businesses found?

1. Producing & Selling -

Ex-

2. Buying & Selling -

Ex-

3. Hybrid / Both -

Ex-

## What is an Organization?

An organization can be broadly defined as a group of people who are working together to achieve a common goal. They can be small or large depending on their situation & capacity.

Ex-



## What is a Business Organization?

Business organizations can be broadly defined as enterprises of different types which exist to provide a range of goods & services to fulfill human needs & wants.

Ex-

## What is Trade?

Trade can be broadly defined as the *exchange or ownership between parties*. The 2 parties can be a buyer & a seller where it can happen both locally & internationally. Therefore when trade occurs;



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**What is Auxiliary / Supporting Services?**

These are the supporting services in the business world which *exist to help business organizations* in their business processes. In other words;

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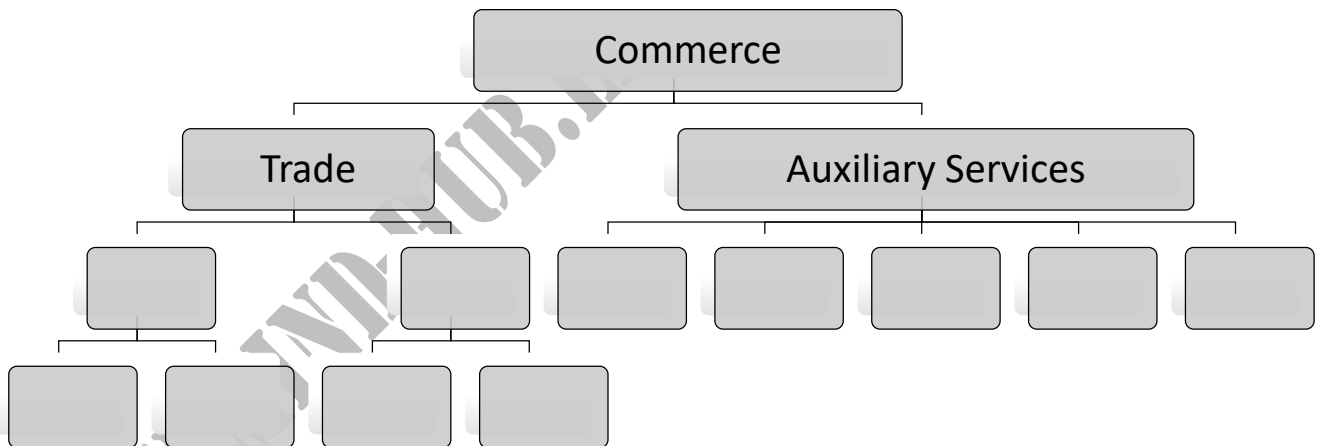
Ex-

Banking	Insurance	Transportation	Communication

**What is Commerce?**

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 In other words, the entire process of distributing goods & services from the producer till the customer is commerce. It can be further explained as, when all trade & the organizations involved plus the organizations supporting them joined together, it becomes commerce

**How can you classify Commerce?**



**What are Needs?**

A need is a state of felt deprivation of some basic satisfaction (Marketing Management – 12<sup>th</sup> edition by Philip Kotler). In other words;

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**What are Wants?**

A want is a desire for specific satisfaction of a need (Marketing Management – 12<sup>th</sup> edition by Philip Kotler). In other words;

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Ex-

NEED	WANTS
FOOD	
WATER	
AIR	
CLOTHING	
SHELTER	
PROTECTION	
EDUCATION	
HEALTH	
COMMUNICATION	
TRANSPORTATION	
LOVE	
SLEEP	
ENTERTAINMENT	

**What are the Methods of fulfilling Needs?**

1. Self-Production

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2. Coercion

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3. Begging

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4. Exchange

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**How can we compare Needs & Wants?**

For a comparison to be made, we need to identify the similarities & differences. The similarities between needs & wants can be;

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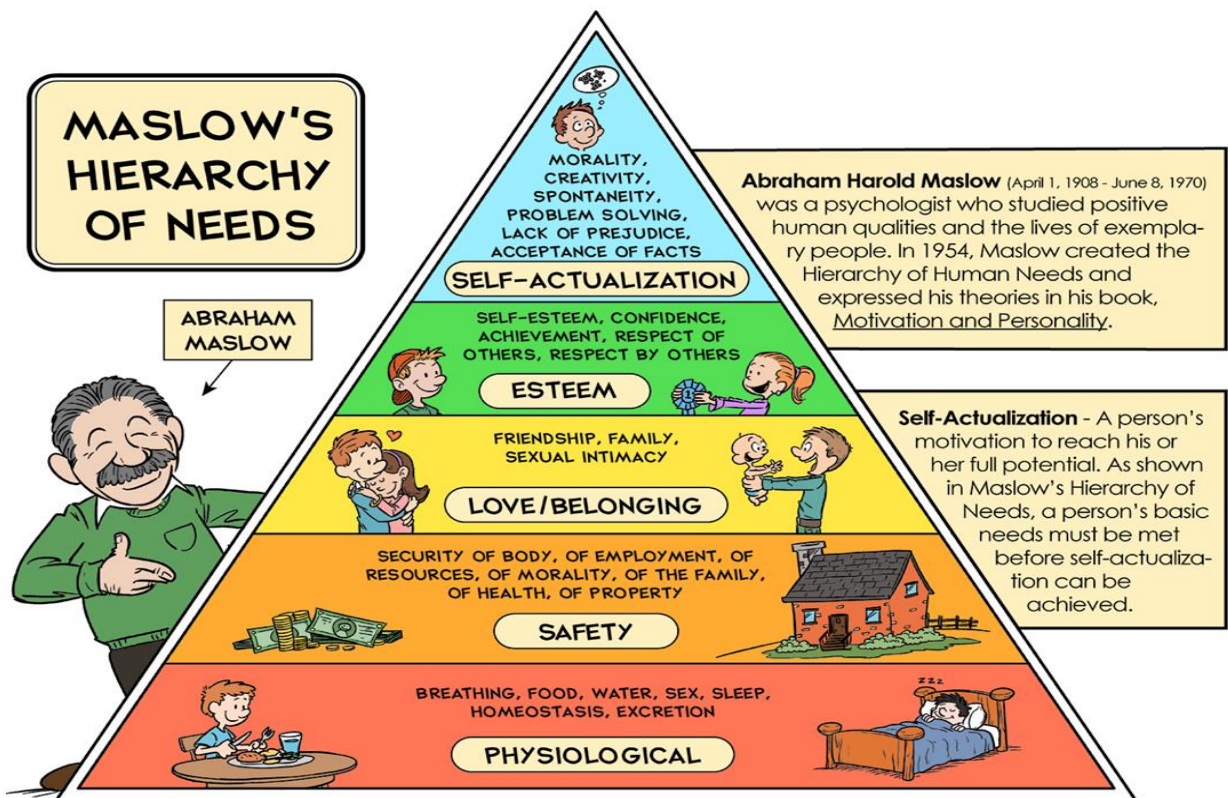
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Similarly the differences can be;

Needs	Wants

**What is the Maslow's Hierarchy of Needs?**



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## What is Demand?

Demand can be broadly identified as the *want for a specific product that are backed by the willingness & ability to buy it*. In simple

language Demand can be the want or desire for a given good or service. For a Demand to be created, the following 3 factors must be fulfilled;

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## What is Exchange?

Exchange is the *act of obtaining something from someone by offering something in return*. Exchange is an activity & sales takes place through an exchange. An exchange should benefit both parties involved who are normally the buyer & seller (Sometimes there can be brokers).

Ex-



For an Exchange to occur, the following *conditions* must be fulfilled;

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## What is Transaction?

Transaction is the *trade of a product with a value between 2 or more parties*. Trade will ensure that ownership changes & transaction will confirm it. A transaction will involve;

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## What is value?

Value is simply the *worthiness of a product to a given customer*. In other words, the customer's estimation on how well the product is capable to fulfill his or her needs & wants. It is basically measured on the combination of Quality, Services & Price (QSP). Value can be calculated as;



### What is Satisfaction?

Satisfaction is basically *how much happy the customer is & will be* by the purchase, owning & usage of the product. In other words, the psychological happiness feeling of a customer on the way the product was designed & able to fulfill his or her needs & wants. It can be simply said as; the fulfillment or gratification of a desire, a need, or an appetite.

Note-



### What is Profit & Loss?

Profit is basically the *excess or surplus of income over the expenditure* while Loss is basically the *shortage or deficit of income over expenditure*. In other words, profits is the amount received or receivable from the sale of products after deducting the relevant expenses & taxes.

Profit is a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something while the vice-versa is a loss. Any profit that is gained goes to the business's owners, who may or may not decide to spend it on the business.

Note-

### What is Production?

Production is *the process of adding value to inputs & then converting it to output*. In other words; Production is a process of combining various material inputs and immaterial inputs (plans, know-how) in order to make something for consumption (the output). The result of production is the "Product".

Note-







**What is Direct Production?**

Direct production is simply *producing products by yourself for yourself*. In other words the production of goods & services by a person just to meet his or her or family’s needs & wants. Here there shall not be;

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Ex-

**What is Indirect Production?**

Indirect production is simply *producing products for the market*. In other words the production of goods & services by a person or organization to meet the needs & wants of a market. Here there shall be a;



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**What is a Product?**

A product can be broadly identified as anything which is able to satisfy human needs & wants. In other words, a product can be identified as a set of benefits & values presented to the market for the fulfillment of human needs & wants.

A product is basically a good or service but the “complex separation” says otherwise;

Complex Separation of Products	

**How can a Product be classified?**

A product can be classified using many bases where some of them are as follows;



# Tangibility

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# Durability

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# Usage

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**Goods VS Services**

**Goods**

**Services**

**How to classify Consumer Goods?**

Consumer goods can be broadly classified as “Necessities” & “Luxuries”, while mainly classified as;

**1. Convenience Goods**

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**2. Shopping Goods**

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Note-

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**3. Specialty Goods**

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**4. Unsought Goods**

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**How to classify Industrial Goods?**

Industrial goods can be mainly classified as;

**1. Materials & Parts**

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**2. Capital Items**

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**3. Supplies & Business Services**

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**How can you differentiate Consumer & Industrial Goods?**

# Consumer

# Industrial

**How to classify Services?**

Services unlike goods cannot be seen or touched, but felt & experienced where it can be classified in many ways, but a simple classification can be;

Tourism	
Leisure	
Financial	
Professional	
Personal Care	
Repair	

**What is a Market?**

A Market is basically a *location or situation where a buyer & a seller would meet*. In another way it can be defined as a group of customers who are willing & able to buy a given product such as market for Samsung mid-range smart phones or market for high end super sports cars.

Ex-



A market can be basically classified as;

- 1. Market Place**

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2. Market Space

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On the other hand, a market can be broadly classified as;

Consumer market	
Service market	
Capital goods market	
Labour market	
Housing market	
Money market	
Capital market	
Commodity market	
Industrial market	

**What is E-Commerce?**

The concept e-commerce can be broadly defined as the *commercial transactions conducted electronically on the internet*. In other words the transactions of buying & selling taking place online. E-commerce will have *trade & auxiliary services electronically & online*.

Ex-



**What is E-business?**

This is a business organization that exists & functions electronically & online. In other words any business that sells its products over the internet is an e-business. All e-businesses use the internet as their platform to exist, function & deal with customers where mostly the transaction is completed using e-money.



## What are the characteristics of a Business?

A conventional business organization will have all or most of the following characteristics;

Economic activity	
Producing &/or Buying & selling	
Continuous process	
Profit motive	
Risks & uncertainties	
Creative & dynamic	
Customer satisfaction	
Social activity	
Government control	
Optimum use of resources	



**What are the activities of a Business?**

In order to fulfill needs & wants of customers, a business will involve in the following activities;

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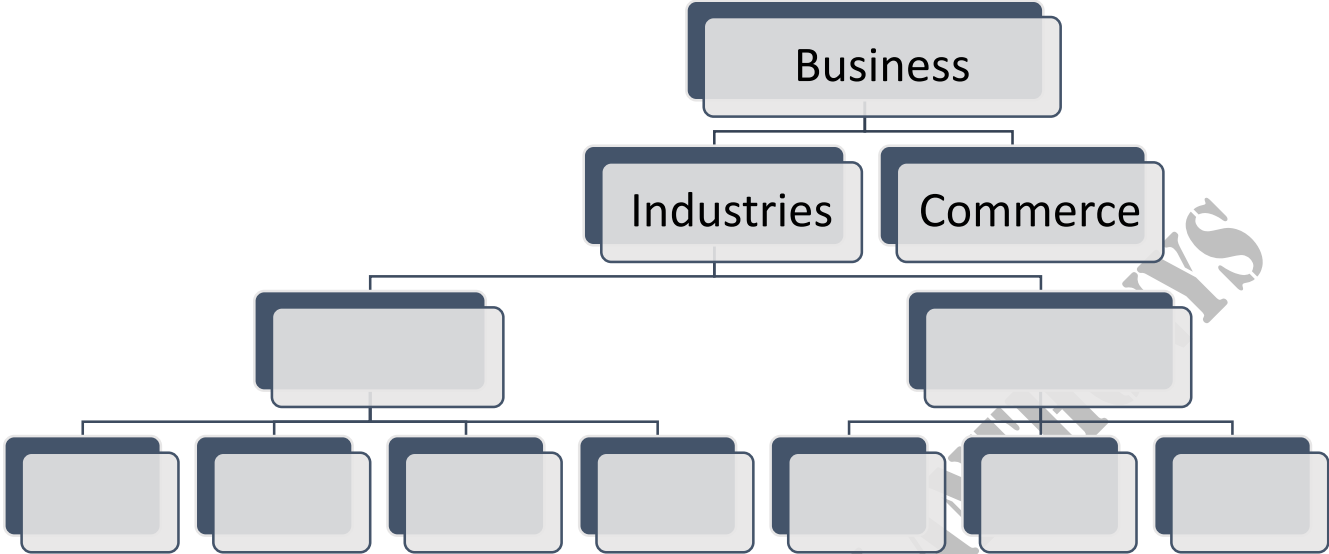
**How can Businesses be classified?**

All business organizations existing can be classified in the following manner using multiple bases;

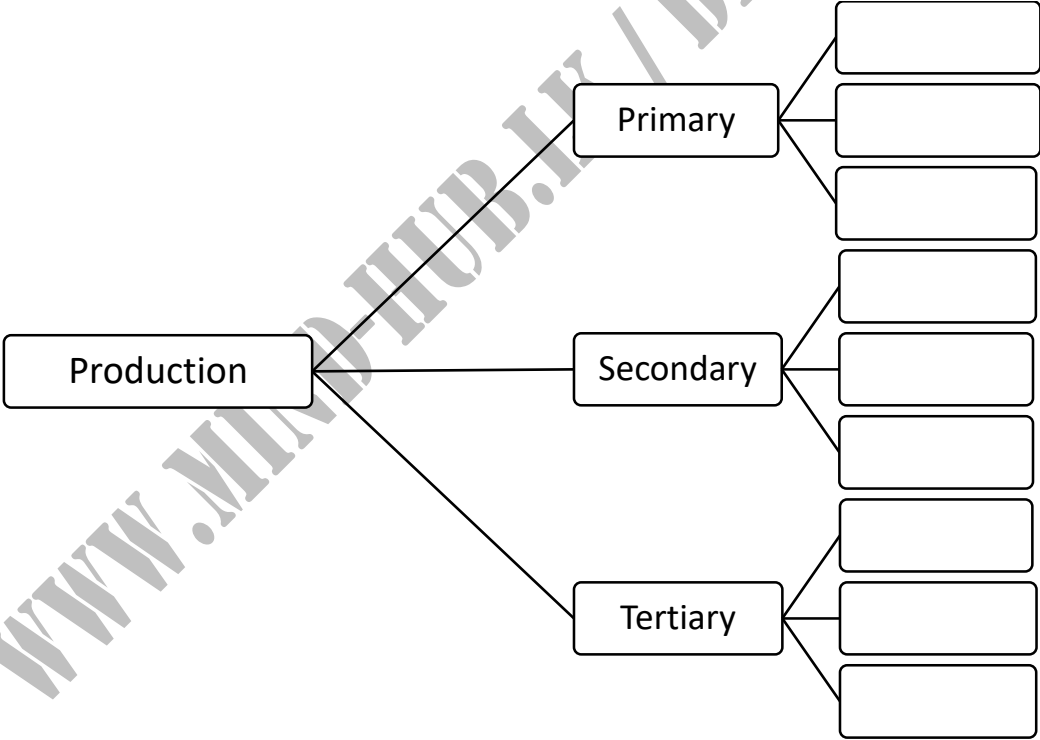
Base	Classification
Production nature	- - -
Production sector	- - -
Scale	- - - -
Geographical expansion	- -
Ownership	- -
Motive	- -
Organization structure	- - - - -
Market	- -
Product Nature	- -



**Classification of Business**



**Classification of Production**



**What are levels of Business Activities?**

Business activities can be classified into 3 based on the production sector, which is elaborated as follows;



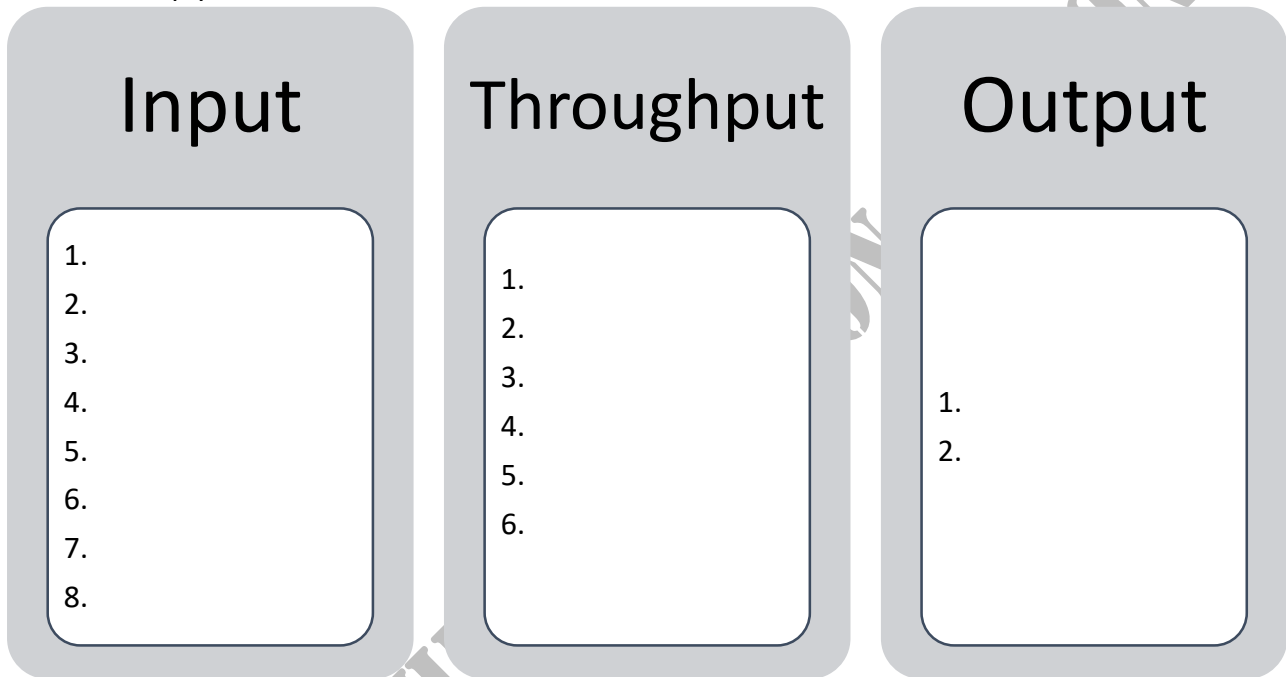




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**What is the Business Process?**

Business process is the production process regarding the inputs & outputs of a business organization. It can be simply laid down as follows;



**What are the Business Inputs?**

In order to produce &/or buy & sell products to fulfill customer needs & wants, a business organization needs to utilize the following inputs / resources;

**1. Land**

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**2. Labour**

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3. Capital

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4. Entrepreneurship

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5. Knowledge

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6. Time

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7. Information

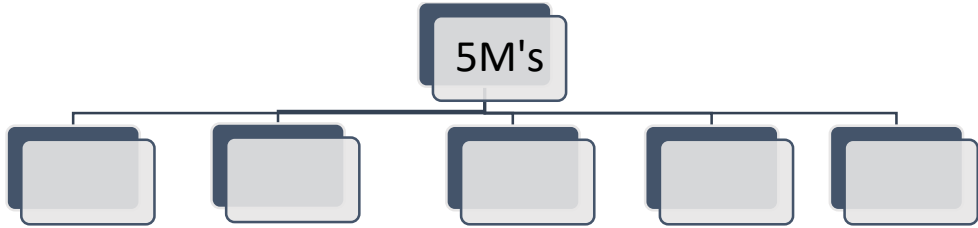
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8. Energy

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**What are the 5M's of Business?**



**What are the functions of a Business?**

When a business works towards its goals & objectives, it will involve in many activities & functions, where the most common & conventional functions can be as follows;

**1. Production / Operations**

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**2. Finance**

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**3. Marketing**

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**4. Administration**

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**5. Human Resources**

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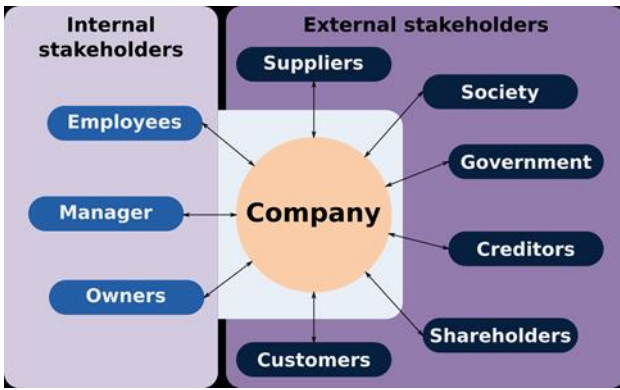
**6. Research & Development**

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**Who is a Stakeholder of a Business?**

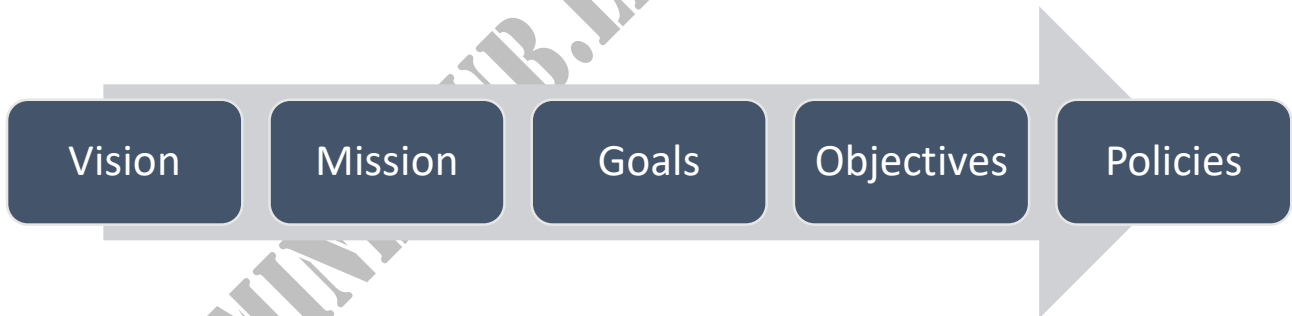
A stakeholder is basically any party interested in a business' activities. In other words, any person, group or organization that interested in a particular business & its activities can be identified as a stakeholder of a business.

They can be in small numbers or large groups depending on the relationship, type of business & area of interest. Some of the common stakeholders & their interests can be given as follows;

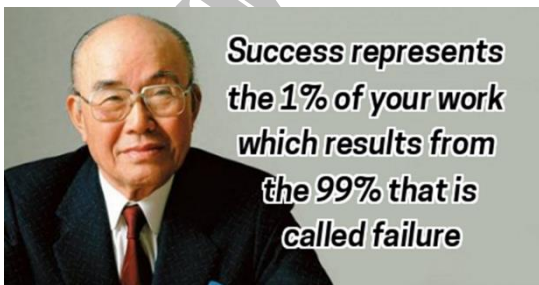
Stakeholder	Interests

**What are Business Expectations?**

These are the *things a business expects to achieve through & during its business process* over its period of time. It can be both short term & long term & can be simply laid down as follows;



**What is Vision?**



It is a dream in action that steers the organization towards its direction. In other words the statement of guidelines & directions covering all activities of the organization. A vision statement contains long term goals without deadlines.

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Note-



Following are "2 vision statements" of organizations I like;

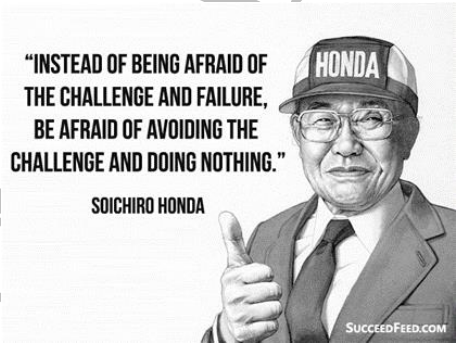
**What is Mission?**

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In other words, the statement containing what the business wants to achieve over a long period of time. It describes the basic function of the society in terms of products it supplies to its customers.

Ex-

A mission statement has to address the following;

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Following are "2 mission statements" of organizations I like;

**What is a Goal / Aim?**

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A goal is a general statement of aim, task or purpose, where only qualitative facts are stated. A business may have a wide variety goals that spans over a period which they want to achieve over the course of business.

Ex-

Following are "2 goal statements" of organizations I like;





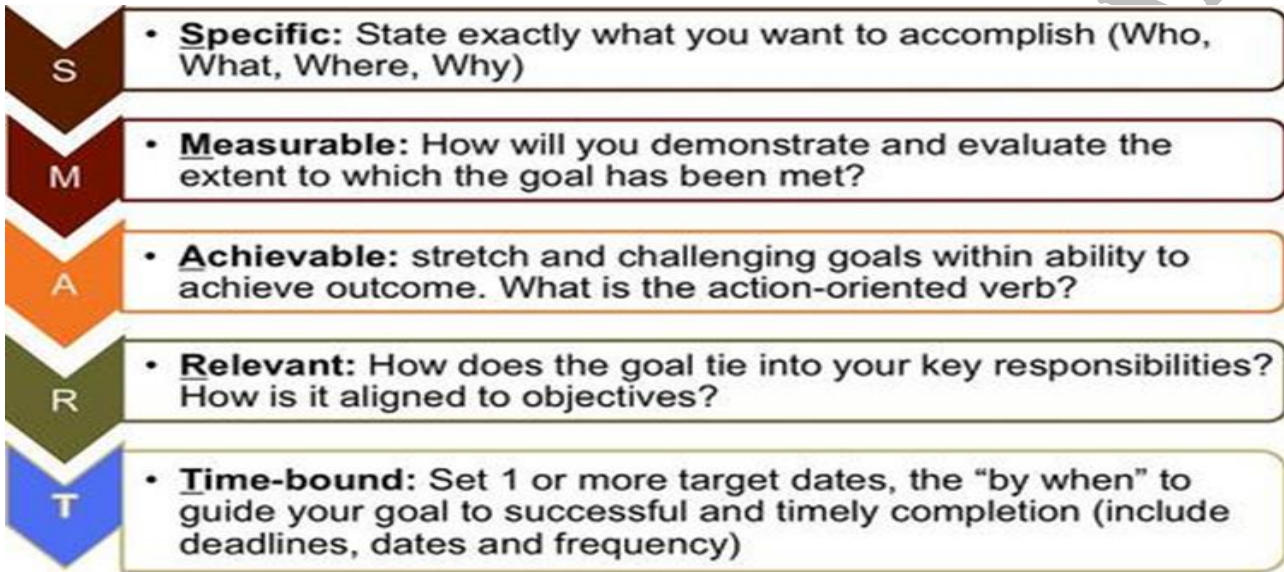
### What is an Objective?

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An objective is the quantification (measured) of goals. Therefore mainly an amount & time period will be stated as to what & when the business wants to achieve.

Ex-

An objective of an organization should be "SMART";



Note –

Following are "2 objective statements" of organizations I like;

### What factors will a business consider when preparing Goals & objectives?

When a business organization prepares a statement of goals & objectives, it needs to consider all or most of what is mentioned below;

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**What are the benefits of having goals & objectives?**

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**What are the common goals & objectives of a conventional business?**

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**What is a Policy?**

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A policy is a guideline on how the business should function when achieving its stated goals & objectives. This guideline is mainly for the managers & employees of the organization.

Note –

Some of the policies, I have & follow are;





## What is the Evolution of Business?

Back in the days, there existed a direct production system within a self-sufficient economy. This direct production went on to create a personal specialization which resulted in excess production.

This excess production made humans compulsory to exchange their excess items for

the ones which they did not have or produce, which created trade. Therefore due to trade, production of goods & services for the market started, which is indirect production.

Initially trade started as barter system, but due to its drawbacks, money was introduced to eliminate the drawbacks. Since money made the transaction process easy, auxiliary services such as banking, insurance, transportation, communication, warehousing etc started to emerge, in order to support the entire business processes. The combination of trade & auxiliary services went on to create commerce.

Industrial revolution went on to create large scale production & this mass production further expanded trade. The usage of Information technology in businesses created E-commerce & doing business activities through the internet has created E-businesses.

Barter System

Trade

Usage of Money

Supporting Services

Industrial Revolution

Information Technology

E-commerce

E-business





**What is Barter System?**

This is the system of exchanging goods for goods. In other words, this is where one party directly exchanges goods for goods with another party in order to fulfill his needs. This is the point where trade began but there was no usage of money here. Excess production & personal specialization made humans to exchange, but this system did not continue for too long, due to its drawbacks, which can be;

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**What is Industrial Revolution?**

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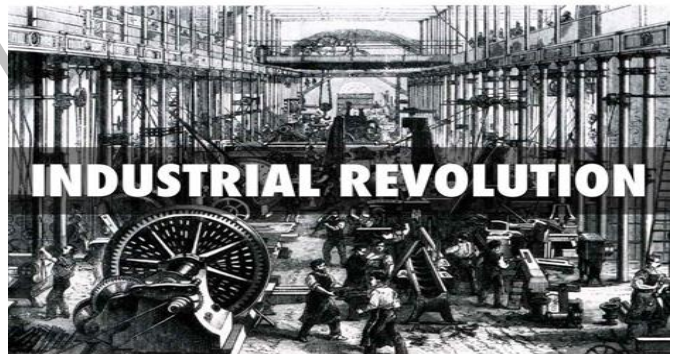
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This went on to affect the global commercial growth at large having a major economic impact on the world’s economy especially due to the British influence on the world through its colonies from 16<sup>th</sup> century onwards. This includes Sri Lanka too.



**What are the effects of Industrial Revolution?**

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**What is Division of Labour?**

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Division of labour is the assignment of various portions of a particular task among a number an organization’s employees. Under this system, one employee will do only one activity & not the entire process.

Note –

Advantages of Division of Labour	
To Organization	To Employee
+	+
+	+
+	+
+	+
+	+
+	+
+	+

Disadvantages of Division of Labour	
To Organization	To Employee
+	+
+	+
+	+
+	+
+	+
+	+
+	+

**What is Specialization?**

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Specialization is the process of concentrating on and becoming expert in a particular subject or skill. In other words, a particular area which someone concentrates on or is an expert in.







**What are the new Trends in the Business world?**

Globalization

E-Business

Technological Advances

Environment Concern

Business Ethics

Customer Power

Heavy Competition

Trade Blocs &amp; Agreements

Strategic Management

Business Process Outsourcing

Downsizing

Digital Revolution

Product Varieties

E-Money



**What are the positives of Globalization?**

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**What are the negatives of Globalization?**

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**What is the Business Environment?**

Business environment is the sum total of all external and internal factors that influence a business & its functions. These factors may have a direct, indirect, positive & negative impact on the business & its functions & activities.



**BUSINESS ENVIRONMENT**

**Why should a Business study its environment?**

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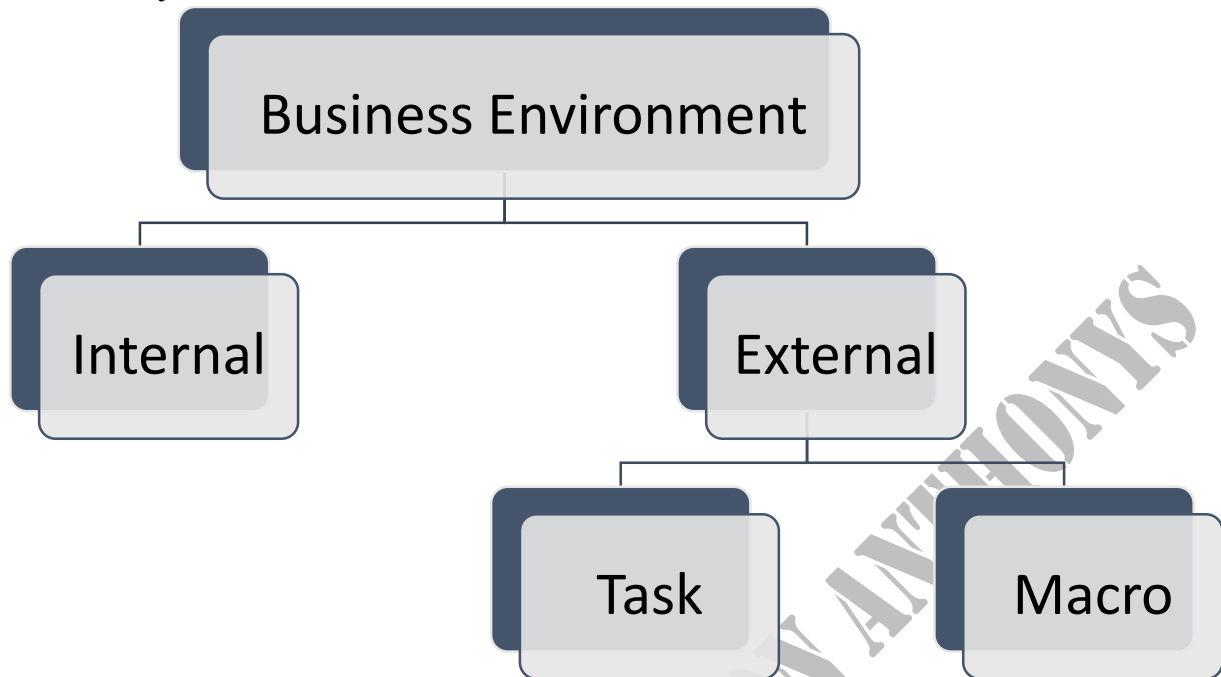
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## How to classify the Business Environment?



## What is Internal Environment?

An organization's internal environment is composed of the elements within the organization, including current employees, management, and especially corporate culture, which defines employee behavior.

By studying the internal environment, the business can identify its strengths & weaknesses. This environment is deemed to be controllable.



## What are the Internal Environmental Forces?

Force	Explanation
Owners	

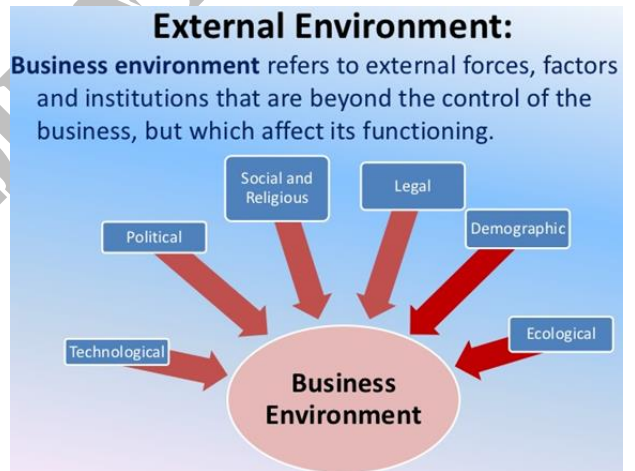


Managers	
Employees	
Organization Culture	
Organization Structure	
Resources	

**What is External Environment?**

An external environment is composed of all the outside factors or influences that impact the operation of business. In other words, this refers to the major factors and forces outside the organization that have the potential to significantly affect the performance of an organization.

By studying the external environment, a business can identify opportunities & threats. This environment is deemed to be uncontrollable. The external environment can be further classified as; Task & Macro.



**What is Task Environment?**

Task Environment of an organization is the environment which directly affects the organization from attaining business goals. In brief, Task Environment is the set of conditions originating from suppliers, distributors, customers, stock markets and competitors which directly affects the organization from achieving its goals.

**What are the Task Environmental Forces?**

Force	Explanation
Customer	
Suppliers	

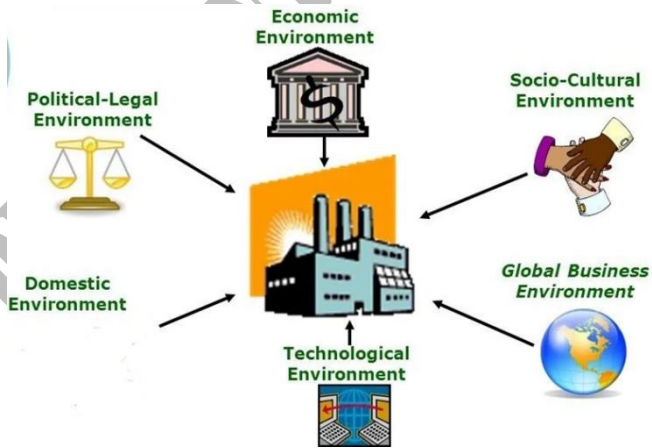


Competitors	
Producers of Substitutes	
Potential Businesses	
Intermediaries	

**What is Macro Environment?**

The external elements that exist outside of a company's control that can significantly impact its performance and ability to compete in its marketplace.

Examples of macro environment elements are the economy, government policy-making, technology, social conditions, and nature. For companies with a global foot-print, their exposure to macro environment elements is magnified.



**What are the Macro Environmental Forces?**

Force	Explanation
Demographic Environment	
Technological Environment	
Economic Environment	
Social & Cultural Environment	
Natural Environment	
Political & Legal Environment	
Global Environment	



**What are the Sub-factors of Macro Environmental Forces?**

Force	Sub Factors
Demographic Environment	
Technological Environment	
Economic Environment	
Social & Cultural Environment	
Natural Environment	
Political & Legal Environment	
Global Environment	

**What is S.W.O.T?**

1. Strengths

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2. Weaknesses

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3. Opportunities

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4. Threats

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**What is SWOT Analysis?**

SWOT analysis is a study undertaken by an organization to identify its internal strengths and weaknesses, as well as its external opportunities and threats. In other words;



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## What is the SWOT Matrix?

	Strengths (S)	Weaknesses (W)
Opportunities (O)	<b>SO Strategies</b> <i>Using internal strengths to take advantage of external opportunities</i>	<b>WO Strategies</b> <i>Taking advantage of external opportunities to offset or mitigate internal weaknesses</i>
Threats (T)	<b>ST Strategies</b> <i>Using internal strengths to mitigate or minimize external threats</i>	<b>WT Strategies</b> <i>Strategies and tactics that minimize both internal weaknesses and external threats</i>

S	W	O	T
STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> <li>• Things your company does well</li> <li>• Qualities that separate you from your competitors</li> <li>• Internal resources such as skilled, knowledgeable staff</li> <li>• Tangible assets such as intellectual property, capital, proprietary technologies etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Things your company lacks</li> <li>• Things your competitors do better than you</li> <li>• Resource limitations</li> <li>• Unclear unique selling proposition</li> </ul>	<ul style="list-style-type: none"> <li>• Underserved markets for specific products</li> <li>• Few competitors in your area</li> <li>• Emerging need for your products or services</li> <li>• Press/media coverage of your company</li> </ul>	<ul style="list-style-type: none"> <li>• Emerging competitors</li> <li>• Changing regulatory environment</li> <li>• Negative press/media coverage</li> <li>• Changing customer attitudes toward your company</li> </ul>

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- ❖ Online – [www.mind-hub.lk/programs/business-studies](http://www.mind-hub.lk/programs/business-studies)

### **Economics (Theory Program) by Mr. Imran Hasheem**

- ❖ Sigma Institute – Colombo 06 – Info – 0112-559877
- ❖ Online – [www.mind-hub.lk/programs/economics](http://www.mind-hub.lk/programs/economics)

### **Accounting (Theory Program) by Mr. Pasindu Wijerama**

Contact on 0773002551, 0705002551 for more details on the Accounting class.

More details visit [www.mind-hub.lk](http://www.mind-hub.lk) & register for online classes. Hotline 0777277729  
General Information hotline – 011-2559877, 011-4935135

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Dilon Anthony

