



An assignment on
The Business Environment and the Market Forces
How they shape business decisions
Part of Unit 01 (LO 1.3 and 1.4) of the
Pearson BTEC HND in Business Programme at BAC Bangladesh

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Task 1 (Lo 1.3.1): Explain how market structures determine the pricing and output decisions of Ollo.

To start with, Ollo has started its operations in Bangladesh which has a mixed economic system. As such, the price is determined by the market. i.e. the demand and the supply.

The demand, supply and price are all interrelated and the rise or fall of one usually affects the others. However, it is possible for both the demand and supply to change while the price remains constant. This is caused by non-price factors, some of which are listed below:

NON-PRICE FACTORS AFFECTING DEMAND	NON-PRICE FACTORS AFFECTING SUPPLY
<ul style="list-style-type: none">• Price change in substitutes• Price change in complementary products• The income level of consumers• Advertising and promotional activities• Demography• Weather, natural disasters and other external factors such as strikes	<ul style="list-style-type: none">• Prices of other products• Cost of production• Changes in technology• Weather, natural disasters and other external factors such as strikes

It must be noted that Ollo is entering into the market as a substitute product for other ISPs (Internet Service Providers) such as Banglalion, Qubee, Grameen and Citycell. As such, the cross price elasticity must be high; i.e. the change in price for Ollo will affect the demand for its competitors, and vice versa.

Thus, it might not be wise for Ollo to go into a price war with its competitors early on as they might hold on to their market by reducing their prices, taking advantage of their large scale operations and economies of scale.

Moreover, Banglalion, Qubee, Grameen and Citycell have all done extensive advertising and are expected to have gained brand loyalty from a good portion of their customers. This will make it even more difficult for Ollo to enter into the competition.



Considering the income levels and demography of the majority of its potential users, it could be seen that they would be younger, tech-savvy, mid-income students. A smaller portion of the target market would be high income businessmen or new entrepreneurs.

While the younger students would be happy with a reasonable speed as long as the price is affordable, the businessmen (or corporate users) would demand high bandwidth and stability of the network. The younger market is larger in size and the users are more likely to try and switch between products. On the contrary, corporate users would be very cautious in making changes so as not to disrupt their business.

Thus I would recommend Ollo to initially target the younger generation in Dhaka, going by the price of their competitors while offering stable speed. This would allow them to create market which would pave their way towards growth.

I think the demand among the young generation would be quite income inelastic but may be highly sensitive to price. Therefore, market prices should be followed while increasing demand using during promotions and quality services.

The Dhaka division would be the ideal starting point due to the following reasons:

- Higher supply of competent labour
- Less vulnerable to unsuitable weather and natural disasters
- Larger market

Despite the existence of tough competition, the number of quality ISPs in Dhaka are still quite few. Banglalion and Qubee are still new in the market and consumers are probably still in the experimenting stage. Thus, it is a good time for Ollo to enter into the market to have its share of the cake.

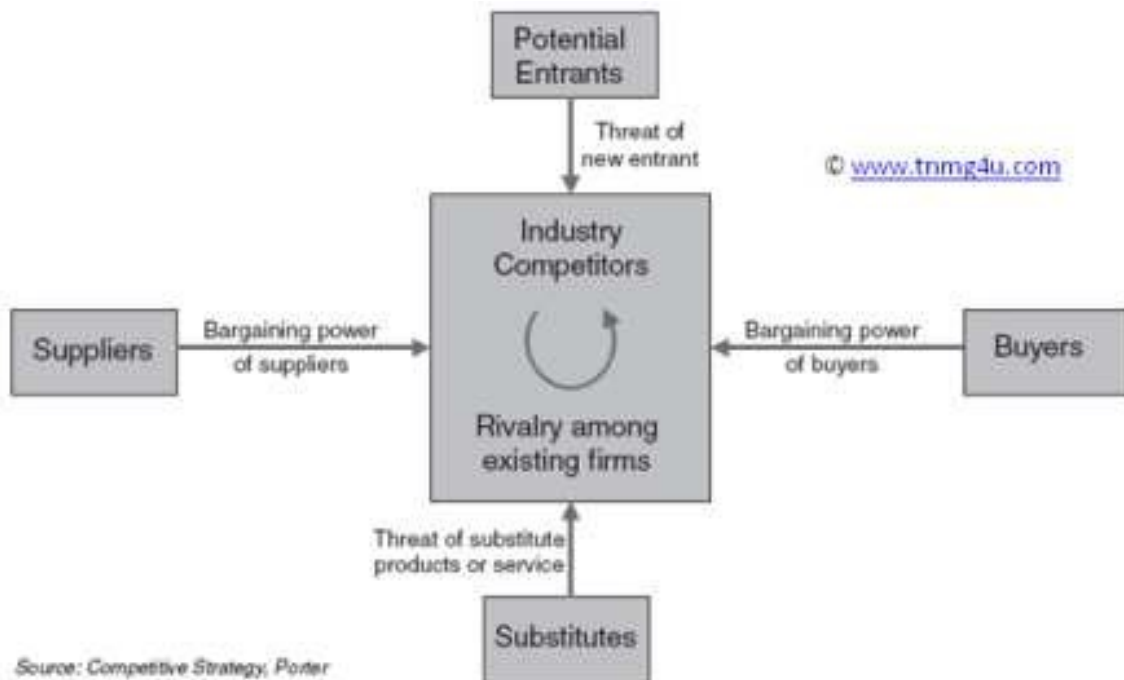


Task 2 (Lo 1.3.2): Illustrate the way in which market forces shape Ollo's responses using a range of examples.

The competition among ISPs in Dhaka would be best described as an oligopoly. This is primarily due to the high barriers to entry in the industry and the difficulties in exit as well. Once these barriers become easier to overcome, the market is likely to shift towards perfect competition.

It would be difficult for Ollo to compete with Grameen outside Dhaka as Grameen has a very wide network of coverage. Moreover, Banglalion and Qubee would also be able to spread rapidly, utilising their already built infrastructure, resources and experience. Thus, it would be best for Ollo to start from Dhaka for all the reasons discussed under Task 1.

The market forces affecting Ollo's entry in the ISP market can be explained using Michael.E.Porter's 5 forces model. The following diagram is an illustration of his model, extracted from <[www. Tnmg4u.com](http://www.Tnmg4u.com)>



Source: <tnmg4u.com/porter's-five-forces-model-2/>



The **barriers to new entry** in the ISP market is quite high. This is due to the following reasons:

- The existing ISPs obtain economies of scale through years of operation
- Existing firms achieve product differentiation through advertising and quality
- This is a high investment industry
- The switching cost involves the cost of a modem and the risk of switching to a less efficient service
- Difficulty in creating distribution channels and agents to sell modems, new connections and prepaid cards.

The high barrier to entry (and to exit) in the ISP is promising for Ollo as there might only be a handful of competitors for Ollo for quite some time.

As for the **threat of buyer power**, it is relatively balanced. According to Wikipedia, about 3.5% of the total population¹, i.e. more than 5.5 billion Bangladeshis use the internet.

This huge number of users might suggest a low buyer power. However, as explained before, the demand among majority of the buyers will be quite sensitive to the price. Also, switching to another ISP is not very costly. Thus the buyer power can be considered to be medium.

The **threat of substitution** could be very high due to the *differentiation of products* created by the existing service provider and the low switching cost, which is expected to decrease further as modem costs will go down.

The **supplier power** could be considered to be very high as the licenses are provided solely by BTRC at very high prices. According to Wikipedia's article, "Internet in Bangladesh", Banglalion and Qubee have obtained their license from BTRC at auction for 2.15 billion taka (i.e. 31 million USD) under an agreement to pay 27.5% of its earnings to the government.

The **competitive rivalry** would be medium or high, considering the price wars between Banglalion and Qubee. This is also an existing culture in the country as can be seen among the mobile operators.

To summarise, we can the following regarding the 5 market forces affecting Ollo:

- Barrier to new entry is high
- Buyer power is medium
- Threat of substitutes is high
- Supplier power is high
- Competitive rivalry is high

¹ Wikipedia, **Internet in Bangladesh**, Available at <en.wikipedia.org/wiki/Internet_in_Bangladesh>



As can be seen, Ollo will face tough competition from existing users, especially due to them being ahead in experience and promotions. Yet, due to the medium buyer power and high entry barrier, there is a good prospect.

Initially, I would recommend Ollo to follow a differentiation strategy, distinguishing its brand through innovative advertisements and distinguishing its service with stability and quality. Its main target market, the youth, are always attracted to something different.

Overtime, Ollo can pursue a focus strategy, gaining cost leadership in particular segments while focusing on being different in others.

It is essential to research and be innovative in order to gain a competitive edge in technology. Ollo can work on providing wireless internet at public places like airports and rail-stations along with major educational and business areas such that user do not have to buy a modem. The cost of a modem (which can be around 1000 taka or even more) actually acts as a deterrent for many users to switch their ISP. Ollo can make its wireless connection available to any user through a registration number purchased from agents and distributors (i.e. the registration numbers can be sold the way GP sells flexiload).

To conclude the topic of responding to the market forces, I must say that Ollo needs the perfect marketing mix – excelling in its products and promotions and making the right decisions regarding prices in the right places.



Task 3 (Lo 1.3.3): Judge how the business and cultural environments shape the behaviour of Ollo.

The business environment of any organisation depends on a few factors such as :

- i. **P**olitical factors
- ii. **E**conomic factors
- iii. **S**ocial factors
- iv. **T**echnological factors
- v. **E**nvironmental factors
- vi. **L**egal factors

These factors are together called by the acronym, '**PESTEL**'. Each of these factors will affect Ollo, possibly in the following:

- The **P**olitical factors:

The highly volatile political situation of Bangladesh means more hartals and closures. These should be considered by Ollo while making forecasts.

It should also include grease money in its accounting as it is a common expense in Bangladesh and it might increase with changes in political positions. It also needs to have proper liaison with political figures in order to speed up its paper work.

- The **E**conomic factors:

With the prices of basic commodities increasing, the demand for Ollo's products is expected to be very sensitive to price. Also, the cost of operations will increase along with the prices of fuel, electricity and labour costs. Thus, Ollo needs to have cost efficient systems, especially in HRM, operations and maintenance in order to offer competitive prices.

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- *The Social factors:*

As I mentioned earlier, most internet users are from the youth, probably within the age group of 15-40. The promotional schemes of Ollo, like its competitors, should cater to their needs. It may highlight the speed with which an Ollo user can Skype or some students carrying out a virtual group-study.

It can also gain competitive advantage by offering special discounts to students and educational institutes. This will be a promotional CSR (Corporate Social Responsibility) programme for the ISP.

It might even gain access to particular educational genres from online libraries, such as medical books or business books, and offer them free to its users and make them accessible from mobile devices. This will be a pioneering step, not only in terms of service but also towards digitising the education sector.

- *The Technological factors:*

This is one of the most important factors shaping Ollo's organisational structure, culture, marketing schemes, products and almost all of its activities. Being an ISP, it must ensure that it does not fall behind its competitors in any technological aspect – be it in maintaining its equipments or be it in the billing section of one of its offices.

It should aim to develop a superior MIS such that the information is not only used for day to day operations but also for analysing and strategic planning.

IT should be efficiently used in all sections to ensure proper Human Resource Planning and cutting down on unnecessary labour costs.

Call centres and customer feedbacks are key performance areas of modern service organisations. As such, it must ensure that their equipments are up to date and all information and feedback can accessed with ease and speed.

The widespread use of technology among the youth and how this can be utilised by Ollo has already been covered under 'Social factors'.



- *The **E**nvironmental factors:*

The Bangladeshi media and the internet has played a positive role in making citizens aware about the environmental responsibilities of businesses.

Olo should therefore highlight its contributions in keeping the environment clean. This could be by making 'paper-free' offices like those of Grameen Phone. They can also sponsor 'environment-friendly' activities like cleaning and decorating streets and parks and tree plantation programmes.

Apart from CSR activities, the environmental factors to be considered, especially with regards to equipments and network maintenance, are:

- The unpredictable weather of Bangladesh and the high humidity
- Fluctuations in electricity, especially during thunder storms
- Unplanned erection of tall buildings which may disrupt network

- *The **L**egal factors:*

As discussed earlier, ISPs such as Banglalion and Qubee have to pay 27.5% of its earnings to the government. Olo will probably have to do the same as thus have to plan its pricing accordingly.

Olo must also ensure that its licenses are up to date and its services are not being used to provide illegal VOIP service.

It is not unusual for the government to shut down websites or TV channels when it feels they are being misused. Olo must be aware of this as even a temporary shutdown can mean a substantial loss of market and a vicious cycle of legal complications.

Apart from the **PESTEL** factors, some have mentioned that **E**thical factors also shape business activities. The extra E is included in the acronym **STEEPLE**. Paying attention to ethics and the culture of the country, Olo can take the unique step of filtering all anti-social elements such as violence and pornography from its internet service. With such a move, it will earn the praise of many and might even lead to government subsidies and brand loyalty.



Task 4 (Lo 1.4.1): Discuss the significance of international trade to UK business organisations.

International trade plays a significant role in a country's economy and impacts local businesses in both positive and negative ways. The need for international trade stems out from the basic economic problem of infinite needs and wants versus finite resources. Trading is a means of efficient allocation of finite resources such that producers specialise and increase their produce and then exchange their surplus. This allows larger amounts of production (due to specialisation) and a wide range of choices for consumers (due to trading). International trading is very similar to local trading except that it takes place at a larger scale.

Some of the key benefits of international trading for UK businesses (and also for Bangladeshi businesses) are as follows:

- (i) The larger market offers more opportunities and reduces the risk of local market saturation.

Edexcel International, a UK based provider of exam services and educational qualifications, would have had making new markets in the UK. However, it made full use of the international market where sky is the limit.

The same could be said about Bangladeshi garments going international. It would be advisable to constantly look for new European or maybe the oil-rich Arab markets, so as not to reach a saturation point.

- (ii) Some products, by their nature, require international availability and operations. Tata, for example, would have to make its spare parts available in the Bangladeshi market once its cars reach the shops.

Continuing with Edexcel's example, it needs to arrange offices, centres and training in the countries where it operates.

A risk involved is the loss of quality which may affect the brand image and thus, there has to be vigilance regarding maintenance of standards and the availability of complementary components, without which, the product becomes useless.



- (iii) Going international allows larger investments and leads to larger returns. One of the benefits of large scale operation is enjoying economies of scale - the same resources can be utilised for a much larger production and operation with very few additional costs. For example, Edexcel's expenditure on curriculum development and training has probably not increased as much as its sales after going international. It can utilize its already developed curriculums, qualifications and assessment mechanisms worldwide, with few customisations to suit the market.

Apart from the benefits for individual businesses, the country's economy also benefits from international trade. By utilising the theory of comparative cost advantage, nations help in increasing the total world production and are mutually benefitted.

For example, if UK and Bangladesh are both providing higher educational qualifications and producing garments, it could be assumed that the qualifications provided by Bangladesh would require a lot more resources in order to match the quality of those provided by the UK. This could be due to the much lower percentage of the population being highly educated. Similarly, UK's output of garments would not match that of Bangladesh due to the high labour costs in UK.

So, theoretically speaking, Bangladesh has a comparative advantage over UK in garments production as its opportunity cost is much lower than it would be in UK. Similarly, UK has a comparative advantage over Bangladesh in providing higher educational qualifications.

Thus, it would be more productive for both the countries to specialise in their specific fields of expertise - this would result in more garments and qualifications being available, which could be made available to the people of the two countries through international trading.

These theoretical advantages are not always true in real life. Trade barriers, transport costs and other legal, political and cultural obstacles can make international trade unfeasible.

Despite the positives of international trade such as more production, choices, competition and specialisation, there are a few major drawbacks for the local UK industries and population. Some of these have been discussed below.

- (i) Recently, many UK firms are turning to China for cheap labour, thus creating unemployment locally.
- (ii) Chinese goods are a constant threat for UK (and other) producers. According to them, the cheap labour in China, which is often acquired through exploitation, as opposed to the minimum wages in the UK makes the competition completely unfair.



An indicator for governments to intervene and create trade barriers is when it has a large deficit **balance of payments**. The balance of payments is the difference between the value of total exports and imports. Thus, a deficit balance shows that the country's total imports are more than its exports.

While the UK enjoys a trade surplus in invisible good (i.e. services such as banking, tourism and education), it has a trade deficit in visible goods (i.e. raw materials and manufactured products).²

A deficit balance of payment may initiate the UK government in setting :

- Tariffs – A tax levied on imported goods
- Quotas – A limit set on the amount imported
- Trade embargos – A complete ban on trade with a particular country (usually due to political conflicts)

Each of these actions would affect the UK based importers. In case of tariffs and quotas, the importing businesses would have to bear the costs and increase their prices.

It might also mean that local demands need to be met from other sources which would require local business who were previously importing to make new supply channels within a short time.

Moreover, such controls can cause retaliation from the exporting countries such that they impose trade barriers on imports from UK. This would in turn affect the UK based exporters, making them less competitive.

In the end, I think the advantages of international trade for UK businesses clearly outnumber the disadvantages. UK itself is not rich in minerals and raw materials; thus, imports are justified. On the other hand, with its skilled and educated population, it is among the leading service providers (i.e. exporters of invisible goods). It would, however, face tough competition from countries like India where the percentage of educated population are increasing and who might be providing similar quality services at more affordable prices.

² Chambers,I , Hall,L. and Squires,S. (2006), Longman Business Studies for IGCSE, Pearson Education Limited.



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