

# A level Business – Lesson 2

## The External Environment

### **external environment**

*composed of all the outside factors or influences that impact the operation of business*



# Lesson Objective: The External Environment

Learn a key topic/concept: 'The External Environment'.

By doing this lesson you will

1. Understand the term 'External Environment'
2. Explain why it is an important consideration for businesses
3. Be able to list and explain some of the key external influences a business face, and
4. Practice the application of them to 2 businesses within the same industry, but which are aiming for different market segments

# The External Environment

In year 1 which follows the AS course, you will learn all about the elements of a business that it can influence, its choice of leaders their style, ownership, where and how they source materials, set up production, recruit etc.

In year 2, you then consider how a business can achieve its aims and objectives whilst operating in an external environment in which they have no control or minimal influence.

Successful businesses constantly monitor what is happening to the external environment so they can adapt their business to maintain/increase success levels. If companies fail to adapt they will fail. Thomas Cook and Toys r Us both failed to adapt to changing customer needs/habits and were behind their competitors in terms of e-commerce, so were technologically disadvantaged. Part of this was due to them being unable to adapt due to their low profitability caused by high costs associated with loan funding so were unable to adapt. Businesses use a tool called a PESTEL analysis to inform them of changes they need to be aware of.

# The External Environment: Activity 1

Watch the following video:

<https://www.cipd.co.uk/knowledge/strategy/organisational-development/pestle-analysis-factsheet>



P

- Government policy
- Political stability
- Corruption
- Foreign trade policy
- Tax policy
- Labour law
- Trade restrictions

E

- Economic growth
- Exchange rates
- Interest rates
- Inflation rates
- Disposable income
- Unemployment rates

S

- Population growth rate
- Age distribution
- Career attitudes
- Safety emphasis
- Health consciousness
- Lifestyle attitudes
- Cultural barriers

T

- Technology incentives
- Level of innovation
- Automation
- R&D activity
- Technological change
- Technological awareness

E

- Weather
- Climate
- Environmental policies
- Climate change
- Pressures from NGO's

L

- Discrimination laws
- Antitrust laws
- Employment laws
- Consumer protection laws
- Copyright and patent laws
- Health and safety laws

# Covid-19 has rapidly changed many external influences on firms.

Political – Lockdown, many firms were forced to close

Economic – it is expected many businesses will down size to reduce costs so will need less workers. This will increase unemployment so firms will probably face fewer orders especially for non essential goods (elastic products)

Social – employees and customers need safety reassurance and their buying habits changed eg toilet roll, leisure wear saw large increases in demand.

Technological – organisations which could offer robust e-commerce, homeworking or 'Capital Intense' were able to adapt better than those which employed many people as part of the production process or whose products or services were sold from physical locations.

Legal – social distancing rules and the need to keep workers and customers safe from infection has increased the need for cleanliness and has limited the amount of people in workplaces.

# The External Environment: Activity 2

Use a supermarket you are familiar with and Ocado. Research both and ideally have a fact finding conversation with the grocery shopper in your household. Use the data to conduct a PESTEL analysis on them.



These links may help with Ocado

<https://www.bbc.co.uk/news/business-48592391>

<https://www.bbc.co.uk/news/technology-43968495>

<https://www.business-live.co.uk/retail-consumer/ocado-suspends-service-amid-staggering-17947503>

# Pestle + C

Pestle is a useful tool but for business studies it misses perhaps the most crucial element that businesses can not control – the action of their competitors!

As a consequence in Business studies we will refer to it as PESTLE + C





# The External Environment: Activity 3

Return to your Pestle analysis – add in the businesses key competitors. They face the same external influences but may be better/worse placed to survive/adapt than your business due to the decisions they made internally about what they produce, where and how, who they employ and how they treat their workers

**Make a judgement** – which of the 2 companies you researched will be able to adapt best to the External environment & why (evaluate)

