

External environment

The aim of this topic is to give students an insight into economic and other external factors while keeping the issues simple and relevant to their chosen business. The two PowerPoints plus research activities will provide evidence to allow students to achieve the highest mark band for AO1 on this unit.

Materials

- ◆ WS1.3
- ◆ IS1.1, 1.2
- ◆ PPT1.1, 1.2
- ◆ DVD/video: *Business and External Factors* (TV Choice)
- ◆ Portfolio assignment, section A (task 2)

Approximate timing

4 lessons plus 3 hours portfolio work

Lesson notes

- 1 Recap on the aims and objectives of business. Explain that the aims and objectives of businesses are constrained by external factors. Distribute IS1.1 and use the diagram to explain the idea that many of these factors are often put under the PEST headings.
- 2 Show the DVD/video. At the end of each section, ask students what factors might come under each of the PEST headings and summarise their contributions on the board. Try to lead the discussion towards how a business could be affected, drawing attention to any opportunities and threats.
- 3 Use PPT1.1 to reinforce the PEST factors and relate them to a firm such as Tesco. To avoid 'spoon-feeding', ask students to consider and discuss the impact **before** showing the impact slides.
- 4 Issue WS1.3. This could be a homework exercise or could be done in lessons with library and textbook resources to hand. You will need to go over students' work to check and clarify it.
- 5 Give out IS1.2. Spend a lesson creating graphs using the data and labelling them correctly. Show how students can insert the graphs into a Word file for their portfolio assignment.
- 6 Go through PPT1.2. Discuss the questions on the penultimate slide and ask students to complete the activity on the final slide. They first need to use the internet to find examples of firms reacting to social trends. Then show students how to use the templates in Publisher to do a one-page newsletter — point out the many templates for newsletters that students could use. They may also need to be shown how to copy and paste images from the internet (Google image search, perhaps) to their Publisher document.
- 7 Issue section A (task 2) of the portfolio assignment and ask students to complete this by a given deadline.

External environment

The legal and competitive environment

Using a range of AS business studies and applied business textbooks and business dictionaries, make notes to explain the following terms and legal Acts.

Competition

Oligopoly

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Monopoly

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Consumer protection legislation

Sale of Goods Act

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Weights and Measures Act

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External environment

Food Safety Act

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Trade Descriptions Act

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Other legislation

Environment Protection Act

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Minimum Wage Act

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Disability Discrimination Act

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External environment

Self-regulation (use www.asa.org.uk)

British Code of Advertising Practice

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Advertising Standards Authority

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TV Advertising Standards Code

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Radio Advertising Standards Code

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Questions

1 How might a firm in an oligopoly market try to compete with other rival firms?

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External environment

2 How might legislation affect the ability of a firm to achieve objectives of high profits and sales? (Refer to any relevant laws from this worksheet to help your answer.)

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3 How could self-regulatory bodies such as the Advertising Standards Authority affect a supermarket's ability to achieve the objective of high sales?

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4 How could planning permission restrictions by local councils affect Tesco's growth objectives?

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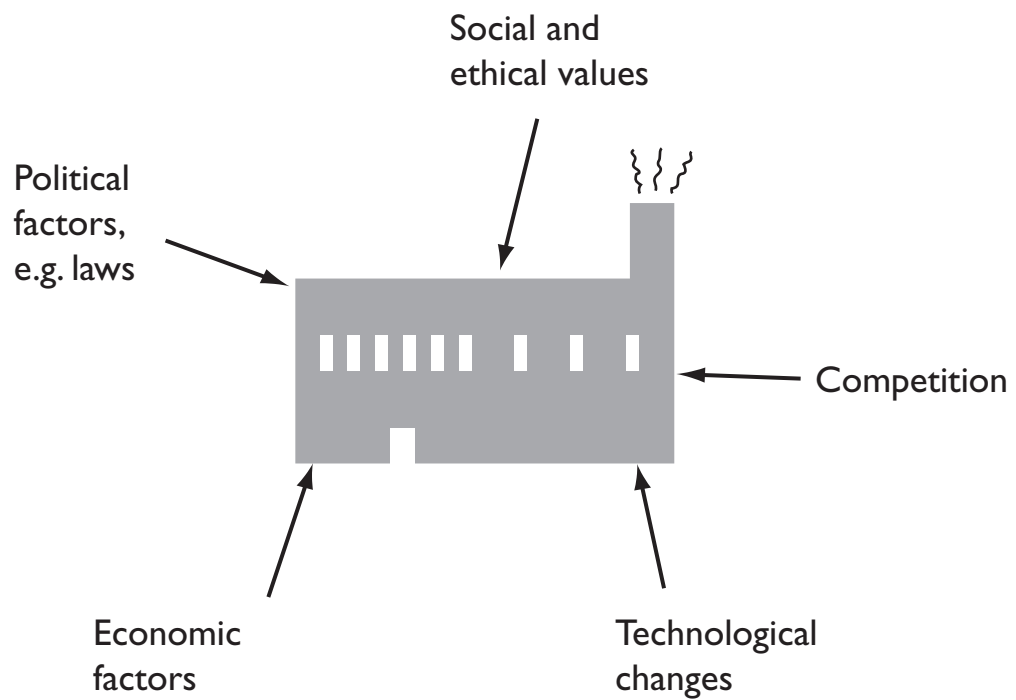
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External environment

External factors affecting business



External environment

Data for analysing external factors

UK gross household income

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total weekly household income (£)	369.30	380.90	396.90	420.80	457.00	479.90	502.50	546.50	552.30

Source: Office for National Statistics

UK unemployment

Year	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total unemployed (000s)	2,750	2,470	2,344	2,045	1,783	1,759	1,638	1,431	1,542	1,489	1,438

Source: Office for National Statistics

Supermarket market shares

Supermarket	% share
Tesco	30.3
ASDA	16.4
Sainsbury's	15.9
Morrisons/Safeway	11.7
Independent grocers	3.3
Others	22.4

Source: *Birmingham Post*, 30 June 2005

You can find more up-to-date information by using internet sources and the *Annual Abstract of Statistics*.

External environment

PEST factors

Unit 1 Investigating business
PPT 1.1

External environment: PEST factors

Unit 1 Investigating business
External environment: PEST factors

Political factors

- Laws passed by Parliament, for example:
 - Health and Safety at Work Act
 - Food Safety Act
 - Minimum Wage Act
- Planning permission by local councils
- Government grants to attract businesses to regions and provide more jobs
- Membership of the European Union

Unit 1 Investigating business
External environment: PEST factors

Political factors: impact on Tesco

- **Lower profits** due to increased costs, e.g. training to comply with legislation.
- **Restriction of growth objectives:** difficult to gain planning permission in certain towns.
- **Increase in sales:** government grants that reduce unemployment lead to more people having jobs and being able to spend more.
- **Support of growth objectives:** EU membership allows Tesco to set up easily in France, Germany and other member states.

Unit 1 Investigating business
External environment: PEST factors

Economic factors

- Unemployment levels
- Taxation, e.g. income tax, VAT
- Interest rates
- Economic growth
- Inflation

Unit 1 Investigating business
External environment: PEST factors

Economic factors: impact on Tesco

- **Lower unemployment** means more people can spend money at Tesco on luxury goods, e.g. DVDs and flat-screen televisions.
- **High income tax** means people have less money to spend on luxury goods at Tesco.
- **High interest rates** mean people pay more on their mortgages, so they have less to spend at Tesco.
- **High inflation** could mean Tesco staff demand high wages due to average price levels rising in the UK.

Unit 1 Investigating business
External environment: PEST factors

Social factors

- Trends towards organic/GM-free foods.
- Trends towards fair-trade products.
- People want lower-fat and healthier foods.
- People want the 'one-stop shop' where everything can be bought under one roof.
- People demand convenience foods due to lack of time for cooking.

External environment

Unit 1 Investigating business
External environment: PEST factors

Social factors: impact on Tesco

- Depends how well Tesco adapts:
 - By providing a wide choice of organic and fair trade products, it will appeal to consumers and can increase sales.
 - By providing low-fat and convenience foods, it can benefit from high sales.
- However, if Tesco does not adapt as well as its rivals, lower sales and lower profits will result.

Unit 1 Investigating business
External environment: PEST factors

Technological factors

- Internet selling (e-commerce)
- Electronic point of sale (EPOS) — barcode scanners linked to computers to monitor stock
- Products becoming technologically advanced, e.g. high-definition televisions
- CCTV and security systems
- Self-service tills

Unit 1 Investigating business
External environment: PEST factors

Technological factors: impact on Tesco

- EPOS allows more efficient stockholding — saves costs in storage and wasted stock.
- Internet selling allows increased sales.
- By selling the latest technologically advanced DVD recorders and high-definition televisions, Tesco can capture market share from rival firms.

External environment

Economic activity and ethics

Unit 1 Investigating business
PPT 1.2

External environment: Economic activity and ethics

Unit 1 Investigating business
External environment: economic activity and ethics

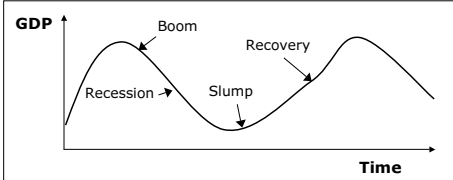
Economic activity

- Total economic output of all goods and services is called **gross domestic product (GDP)**. Changes in GDP show economic activity.
- If GDP is rising, average incomes, and therefore spending in the economy, tend to rise.

Unit 1 Investigating business
External environment: economic activity and ethics

The business cycle

The business cycle shows how economic activity changes over time.



Unit 1 Investigating business
External environment: economic activity and ethics

Effect on firms

- In a boom or recovery, spending tends to be higher on non-essential goods such as DVDs, CDs and homeware goods such as furniture.
- Demand for essential goods, e.g. bread and milk, is often not affected greatly by the business cycle and income changes.

Unit 1 Investigating business
External environment: economic activity and ethics

Social and ethical factors

Trends in social habits have affected spending. Consider the following:

- fair-trade tea and coffee
- organic bread
- The Body Shop



Unit 1 Investigating business
External environment: economic activity and ethics

Definitions

- **Ethical** – morally acceptable to society, e.g. it is ethical to use recycled paper.
- **Unethical** – morally wrong, e.g. it is unethical to tip poisonous waste in a river.

External environment

Unit 1 Investigating business
External environment: economic activity and ethics

Questions

- 1 Explain three ways in which changes in the business cycle might affect a supermarket.
- 2 Give three examples of how social and ethical trends have affected businesses.

Unit 1 Investigating business
External environment: economic activity and ethics

Activity

Using a computer, produce a newsletter called *The Social and Ethical Times*. Use examples from the websites of McDonald's, Starbucks, Café Direct and others to show how firms are reacting to social and ethical values.

Unit 1 Investigating business

External environment

Section A

Task 2

Provide a **detailed explanation** of the key external factors that may affect the ability of your chosen business to meet its objectives. You should make reference to the following:

Economic activity

- ◆ Income levels — effect on spending.
- ◆ Trade cycle — boom/recession and effect on spending.
- ◆ Interest rates — cost of borrowing.
- ◆ Unemployment levels — effect on demand.

Social and ethical values of consumers

- ◆ Changing eating habits, e.g. low fat, lower sugar content, organic produce.
- ◆ Consumer views on the environment.
- ◆ Growth in organic/non-GM foods.
- ◆ Ethical considerations, e.g. fair trade.

Legal and other self-regulatory issues

- ◆ Consumer protection laws, e.g. Trade Description Act, Weights and Measures Act, Sale of Goods Act, Food Safety Act.
- ◆ Employment legislation, e.g. minimum wage, anti-discrimination laws.
- ◆ Self-regulatory bodies, e.g. Advertising Standards Authority controls advertising.

Degree of competition in the market

- ◆ Identify the main competitors and state their respective market shares.
- ◆ Outline the type of market structure and its main characteristics.

Technological

- ◆ Outline the main technological factors that can affect the business.

You should attempt to do some additional research for this task. For example, you could start by searching www.bbc.co.uk for 'rising incomes' or 'supermarkets and environment'. Keep print-outs and a list of all sources used.

It is essential that in your analysis you indicate clearly how the factors listed above may affect the ability of 'your' company to achieve its objectives. You should consider this from the point of view of how the factors might **help** or **prevent** the business from achieving certain objectives.