
Impact of external influences

2017-18

PESTLE ANALYSIS

EXTERNAL FACTORS THAT AFFECT BUSINESSES

- ▶ **Political:** political volatility and pressure groups
 - ▶ members joining or leaving EU (i.e., BREXIT)
 - ▶ national security (i.e., added controls at borders)
 - ▶ pressure groups (i.e., anti-smoking pressure groups)
 - ▶ changes in governments
- ▶ **Economic:**
 - ▶ falling unemployment → increases demand for businesses
 - ▶ stable prices → more certainty → increases investment
 - ▶ strong exchange rate → export prices ↑ and import prices ↓
 - ▶ low interest rates → borrowing is cheaper
 - ▶ recession
- ▶ **Social:**
 - ▶ more university graduates → human resources quality ↑
 - ▶ ageing population → new opportunities for businesses
 - ▶ large migration → more labour supply
 - ▶ people are more health conscious → new opportunities for businesses (i.e., healthy food, fitness)

PESTLE ANALYSIS

EXTERNAL FACTORS THAT AFFECT BUSINESSES

- ▶ **Technological:** improves efficiency
 - ▶ shortens life cycles
 - ▶ replace labour with capital
 - ▶ improves communication between customers and businesses (i.e., social media)
- ▶ **Legal:** protect consumers
 - ▶ tax laws
 - ▶ ban advertising (i.e., alcohol)
 - ▶ reduce amount of sugar and salt used in food industry
 - ▶ reduce excessive regulation (*red tape*)
- ▶ **Environmental:** consumers are more protective of environment
 - ▶ buy more green
 - ▶ use renewable energy
 - ▶ recycling

THE STRUCTURE OF MARKETS

▶ **competitive markets:**

- ▶ *large number* of buyers and sellers
- ▶ products sold by different businesses are close *substitutes*
- ▶ *low barriers* to entry into markets
- ▶ businesses are *price takers*
- ▶ free flow of *information*

▶ **uncompetitive markets:**

- ▶ *single producer* (or *a few large* businesses) → monopoly (or oligopoly)
- ▶ *price maker* (controls prices)
- ▶ *high barriers* of entry
- ▶ *interdependence* between producers in the case of an oligopoly

THE CHANGING COMPETITIVE ENVIRONMENT

- ▶ over time market structure may change:
 - ▶ monopoly → competitive market (i.e., UK buses)
 - ▶ competitive market → monopoly (i.e., supermarket industry, airline industry, mobile phone)

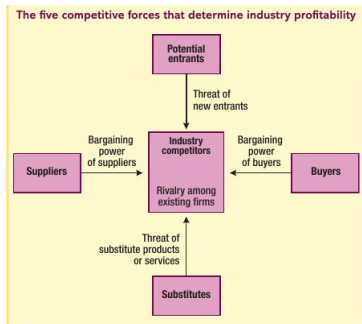
THE IMPACT OF BUSINESS OF A CHANGING COMPETITIVE ENVIRONMENT

- ▶ **New entrants:** new competitors → reconsider position (i.e., online shopping)
- ▶ **New products:** new products → adapt own products (i.e., P2P lending)
- ▶ **Consolidation:** competitors leave market → some businesses get bigger

PORTER'S FIVE FORCES

5 forces that determine the profitability of an industry:

- ▶ The bargaining power of suppliers:
- ▶ Bargaining power of buyers:
- ▶ Threat of new entrants:
- ▶ Substitutes:
- ▶ Rivalry among existing firms:



KEY TERMS

- ▶ **Monopoly:** a market dominated by a single business
- ▶ **Oligopoly:** a market dominated by a few large businesses
- ▶ **PESTLE analysis:** analysis of the external political, economic, social, technological, legal and environmental factors affecting a business

KEY TERMS

REVISION OF CHAPTER 7

- ▶ **Price elastic demand:** a change in price results in a greater change in demand
- ▶ **Price elasticity of demand:** the responsiveness of demand to a change in price
- ▶ **Price inelastic demand:** a change in price results in a proportionately smaller change in demand

KEY TERMS

REVISION OF CHAPTER 8

- ▶ **Discretionary expenditure:** non-essential spending or spending that is not automatic
- ▶ **Income elastic demand:** the percentage change in demand for a product is proportionately greater than the percentage change in income
- ▶ **Income elasticity of demand:** the responsiveness of demand to a change in income