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Self-Study Guide

EXTERNAL ENVIRONMENT ANALYSIS

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INFORMATION PAGE



Topic:

External Analysis



Skill:

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Self-study guide, Reference

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EXTERNAL ENVIRONMENT ANALYSIS

SELF-STUDY GUIDE



DEFINITION

- External environment analysis or external analysis is the process of **analyzing external factors** of an organization **to understand uncertainty and achieve competitiveness.**
- The main objective of analyzing external environment factors is to be aware of **likely opportunities and threats.**

https://tyonote.com/external_environment_analysis/

OPPORTUNITIES AND THREADS

- An OPPORTUNITY is a condition in the general environment that if exploited effectively, helps a company achieve strategic competitiveness.
- EXAMPLE: Procter & Gamble (P&G) is reorienting beauty products to better serve both men and women

- A THREAT is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness.
- EXAMPLE: Microsoft is experiencing a severe external threat as smartphones are expected to surpass personal computer (PC) sales in the near future

3 COMPONENTS OF A COMPANY'S EXTERNAL ENVIRONMENT

General Environment

- Dimensions in the broader society that influence an industry and the firms within it

Industry Environment

- Set of factors that directly influences a firm and its competitive actions and response

Competitor Environment

- Focuses on each company against which a firm directly competes

UNDERSTANDING THE GENERAL EXTERNAL ENVIRONMENT



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Demographic

+

Global

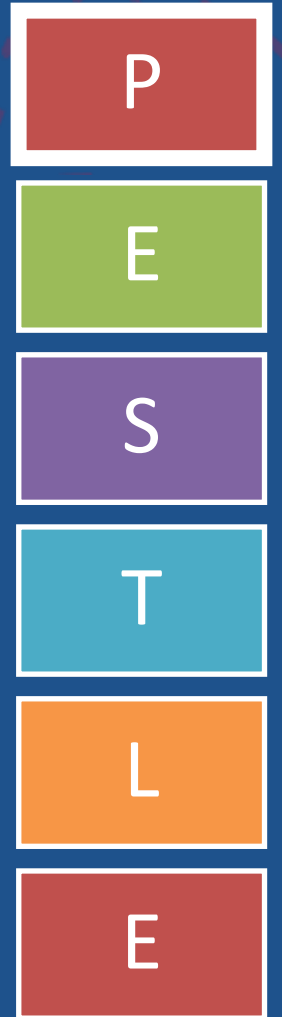
POLITICAL ENVIRONMENT

DEFINITION

- These factors are all about how and to what degree a government intervenes in the economy or a certain industry.
- All the influences that a government has on your business could be classified here.

FACTORS TO ANALYZE

- Government policy
- Political stability or instability
- Corruption
- Foreign trade policy
- Labour law
- Environmental law
- Trade restrictions



POLITICAL ENVIRONMENT OF UK RETAIL INDUSTRY 2023

External factors to consider	Factors affected within my industry	Importance to organisation
Political Government policy Political stability Tax Industry regulations Global trade agreements and or restrictions .	<p>The decision by the UK to leave the EU has left the pound weaker and an uncertainty with future trade restrictions in Europe. Profit margins are bound to be affected by this move.</p> <p>Many stores are in City centre locations; past and potential terrorist threats have affected tourism and footfall in shopping malls.</p> <p>Consumer protection rights</p>	<p>Medium</p> <p>Low</p> <p>Low</p>

<https://www.cipd.org/en/knowledge/factsheets/pestle-analysis-factsheet/>

ECONOMIC ENVIRONMENT

DEFINITION

- Analyzes the nature and direction of the economy in which a firm competes or may compete
- Assess stability of economies and growth potential
- Globalization necessitates a global assessment

FACTORS TO ANALYZE

- Inflation rates
- Interest rates
- Trade deficits or surpluses
- Budget deficits or surpluses
- Personal savings rate
- Business savings rates
- Gross domestic product



ECONOMIC ENVIRONMENT OF UK RETAIL INDUSTRY 2023

External factors to consider	Factors affected within my industry	Importance to organisation
<p>Exchange rates Globalisation Economic growth/decline Inflation Interest rates Cost of living Labour costs Consumer spending habits</p>	<p>Exchange rate conversions remain volatile, affecting negotiations with suppliers.</p> <p>Supply and demand of various products and consumer spending habits means sourcing and cost has increased significantly.</p> <p>Interest rate increases - impact on cost to run shops</p> <p>Cost of living crisis - consumers are cautious when spending and we are having to increase prices to keep up with supply issues</p> <p>Uncertainty continues in the UK business markets and investors due to the UK leaving the EU</p> <p>Profits - still recovering from COVID-19 pandemic.</p>	<p>Medium</p> <p>Medium - keep monitoring</p> <p>High</p> <p>High</p> <p>High</p> <p>High.</p>

<https://www.cipd.org/en/knowledge/factsheets/pestle-analysis-factsheet/>

SOCIOCULTURAL ENVIRONMENT

DEFINITION

- Focus on society's attitudes and cultural values.
- Attitudes and values often drive demographic, economic, political/legal, and technological conditions and changes

FACTORS TO ANALYZE

- Women in the workforce
- Workforce
- Diversity attitudes about the quality of work life
- Shifts in work and career preferences
- Shifts in product and service preference characteristics



SOCIOCULTURAL ENVIRONMENT OF UK RETAIL INDUSTRY 2023

External factors to consider	Factors affected within my industry	Importance to organisation
<p>Consumer trends/tastes Fashion Consumer buying habits Lifestyle factors Career attitudes Work-life balance Population demographics</p>	<p>Cultural diversity and preferences by region or country.</p> <p>Our clothing range does not cater to all ages and sizes of people. The demographic with the most disposable income sits within the 40-65-year-olds.</p> <p>Investment is required in market research to determine a move towards a more inclusive approach.</p> <p>In some regions local demographic labour markets do not want to work in retail for minimum/living wage.</p>	<p>Medium, ongoing.</p> <p>High; more research required.</p> <p>High; more research required.</p> <p>High; stores are not sustainable if understaffed.</p>

<https://www.cipd.org/en/knowledge/factsheets/pestle-analysis-factsheet/>

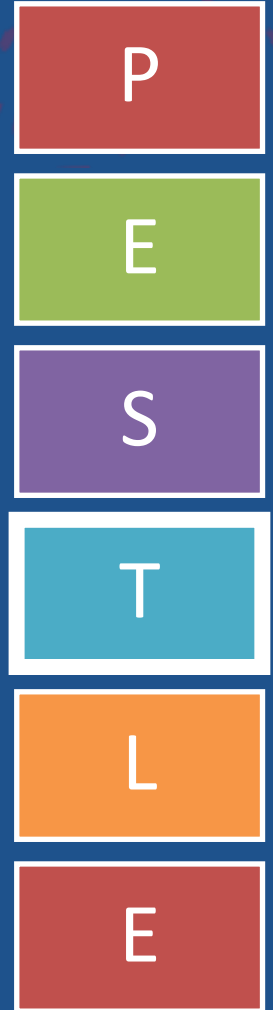
TECHNOLOGICAL ENVIRONMENT

DEFINITION

- Track all types of technological innovation e.g, production, information, infrastructure, etc.
- Given the rapid pace of technological change and risk of disruption, it is vital for firms to study this segment

FACTORS TO ANALYZE

- Product innovations
- New communication technologies
- Applications of knowledge
- Focus of private and government-supported R&D expenditures



TECHNOLOGICAL ENVIRONMENT OF UK RETAIL INDUSTRY 2023

External factors to consider	Factors affected within my industry	Importance to organisation
<p>Automation Innovation Disruptive technologies Social networking Upgrades Robotics Artificial Intelligence Security</p>	<p>Is our technology fit for purpose now and for the future? How appealing is our online presence?</p> <p>Website ease of use for customers. Consider smartphone apps for ordering goods.</p> <p>Data storage confidentiality and consumer rights.</p> <p>Need to improve technology for analytics and buying intelligence.</p> <p>Need greater employee expertise in online design, marketing and analysis.</p> <p>Rise in cybercrime risk to data protection and operational stability.</p>	<p>High; trend for customers to compare online before they buy in person. Medium; longer-term Strategy; more research needed.</p> <p>Low; compliance with GDPR regulations in place since May 2018. High; explore internal capability.</p> <p>High - consider roles needed to improve online shop, presence and sales. High; this could render our software inoperable.</p>

<https://www.cipd.org/en/knowledge/factsheets/pestle-analysis-factsheet/>

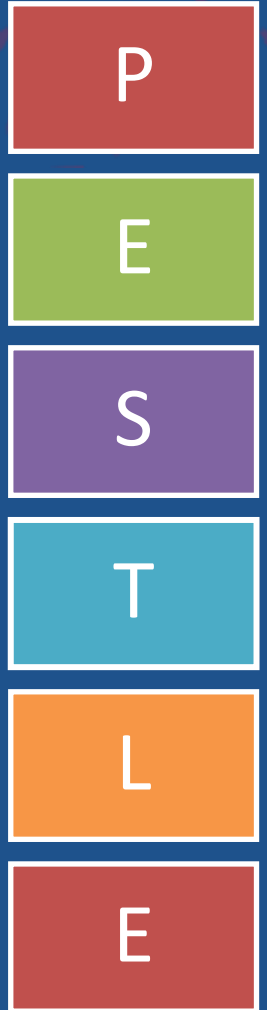
LEGAL ENVIRONMENT

DEFINITION

- Keep up to date with all the legal requirements that regulates the way we do business in a country and globally.

FACTORS TO ANALYZE

- Antitrust laws
- Taxation laws
- Deregulation philosophies
- Labor training laws
- Educational philosophies and policies



LEGAL ENVIRONMENT OF UK RETAIL INDUSTRY

2023

External factors to consider	Factors affected within my industry	Importance to organisation
Employment law Common law Local labour law Health and safety regulations	Wage rates and National Minimum Wage increases yearly.	Medium
	Concerns over family-friendly implications as most of these were brought in by the EU.	Medium
	Peak trading periods require contractual flexibility.	High
	Compliance with the Modern Slavery Act particularly important for retail.	High

<https://www.cipd.org/en/knowledge/factsheets/pestle-analysis-factsheet/>

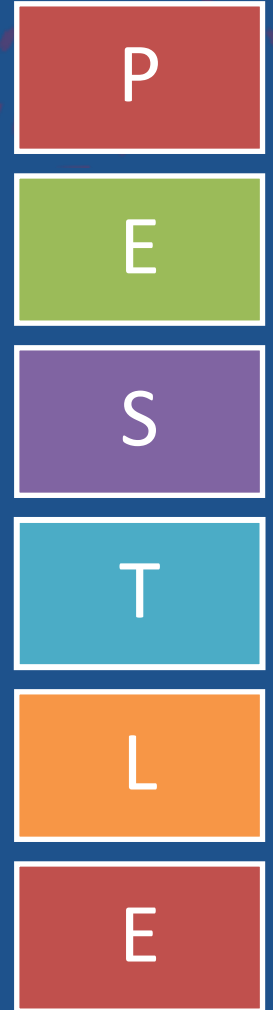
PHYSICAL ENVIRONMENT

DEFINITION

- Concerned with trends oriented to sustaining the world's physical environment
- Refers to potential and actual changes in the physical environment and business practices that are intended to positively respond to and deal with those changes.

FACTORS TO ANALYZE

- Energy consumption
- Practices used to develop energy sources
- Renewable energy efforts
- Minimizing a firm's environmental footprint
- Availability of water as a resource
- Producing environmentally friendly products
- Reacting to natural or man-made disasters



PHYSICAL ENVIRONMENT OF UK RETAIL INDUSTRY 2023

External factors to consider	Factors affected within my industry	Importance to organisation
<p>Environmental restrictions imposed by in-country governments</p> <p>Sustainable resources</p> <p>ESG (Environmental, Social and Governance)</p> <p>Ethical sourcing</p> <p>Transportation</p> <p>Procurement</p> <p>Supply chain management</p> <p>Future pandemics</p>	<p>The rise in ethically and environmentally conscious shoppers.</p> <p>Ethical sourcing has pushed the price up of our goods however,</p> <p>Customer relationships have improved since we introduced and publicised our ethical sourcing policy and ESG intentions. But two of our competitors still out-rank us in producing environmentally friendly products.</p>	<p>Medium</p> <p>Medium, but keep an eye on customer loyalty.</p> <p>High - more research required.</p>

<https://www.cipd.org/en/knowledge/factsheets/pestle-analysis-factsheet/>

DEMOGRAPHIC VARIABLES

DEFINITION

- Factors relating to population structure and characteristics
- Due to globalization, analysis should span across borders to assess the potential impact of global trends

FACTORS TO ANALYZE

- Population size
- Age structure
- Geographic distribution
- Ethnic mix
- Income distribution
- Migration patterns

GLOBAL VARIABLES

DEFINITION

- Relevant new global markets, existing markets that are changing, important international political events, and critical cultural and institutional characteristics of global markets

FACTORS TO ANALYZE

- Important political events
- Critical global markets
- Newly industrialized countries
- Different cultural and institutional attributes

LEVELS OF FACTORS



- The levels of the factors you need to consider in your analysis will depend on the distribution of your key markets.
- As the complexity of your business increases, you will need to broaden your scanning to ensure that all factors are considered.
- Due to the interconnectedness of the world today, global trends that impact your business will need to be monitored continuously.

4 PILLARS OF AN EXTERNAL ENVIRONMENT ANALYSIS

SCANNING

- Identifying early signals of environmental changes and trends.

MONITORING

- Detecting meaning through ongoing observations of environmental changes and trends.

FORECASTING

- Developing projections of anticipated outcomes based on monitored changes and trends.

ASSESSING

- Determining the timing and importance of environmental changes and trends for firms' strategies and management.

INDUSTRY AND COMPETITIVE ANALYSIS

- The industry environment is considered to be made up of Porter's five forces – threats of new entrants & product substitutes, bargaining power of suppliers & buyers, and competitive rivalry.
- As compared to the PESTLE + D + G analysis, the industry environment has a more direct impact on the firm's performance.

PORTER'S FIVE FORCES

Threats of New Entrants

- This concerns the ability of new firms to enter the industry. If the entry cost is very high there is little threat of new competitors entering the industry and vice versa.

Threats of Substitutes

- Products – This concerns when there are more substitute products in the market, the competition will be intense, the product price will fall down, and customers easily switch vendors. If such happens it poses a strong threat to a firm.

Bargaining Power of Suppliers

- Suppliers exert pressure over firms on prices and quality of the products. Suppliers have more power when there is a large & monopoly supplier, few substitutes, powerful brand, etc.

Bargaining Power of Buyers

- Buyers always wish to have products of high quality but at low prices. Buyers have more power when there are a large number of buyers, a large number of suppliers, low switching costs, etc.

Competitive Rivalry

- It concerns the competitors to increase market share over your firm. When there is a high competition you should opt for quality, low price, differentiation, or search for a new market.

RIVALRY AMONG EXISTING COMPETITORS:

- Number of competitors
- Diversity of competitors
- Industry concentration
- Industry growth
- Quality differences
- Brand loyalty
- Barriers to exit
- Switching costs

THREAT OF NEW ENTRANTS

THREAT OF NEW ENTRANTS:

- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
- Cumulative experience
- Government policies
- Access to distribution channels
- Switching costs

BARGAINING POWER OF SUPPLIERS

RIVALRY AMONG EXISTING COMPETITORS

BARGAINING POWER OF BUYERS

BARGAINING POWER OF SUPPLIERS:

- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

BARGAINING POWER OF BUYERS:

- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity
- Buyer's ability to substitute
- Buyer's information availability
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS:

- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- Perceived level of product differentiation
- Switching costs

THREAT OF SUBSTITUTE PRODUCTS

COMPANY SWOT ANALYSIS

- The data collected through an external environment analysis can be presented in a company SWOT analysis.
- External factors are usually used to identify Opportunities and Threats, while internal factors, identified through an internal analysis (e.g. Value Chain Analysis), will identify Strengths and Weaknesses.
- The SWOT should be updated regularly to ensure that management has a holistic view of how the business functions in relation to its external environment.

Internal Analysis

Strengths (S)

Internal capabilities that the company do well

e.g. experienced employees, financial resources, effective processes, advanced technology, customer relationships, etc.

Contributing to the organization's success or competitive advantage.

Weaknesses (W)

Internal functions or activities that the organization does poorly or not at all.

e.g. legacy processes, outdated systems, unreliable or unskilled employees, poor customer service, etc.

Factors that impedes future growth and development.

Opportunities (O)

External factors that the organization may be able to use to increase competitive advantage, future growth, or development.

e.g. emerging markets, technology breakthroughs, competitors exiting the marketplace, etc.

Threats (T):

External factors that can negatively impact the organization's ability to grow and develop.

e.g. new competitors in the market, economic downturns, reduced market demand, etc.

S

W

O

T

External Analysis

ADDITIONAL RESOURCES

- <https://www.mindtools.com/at7k8my/porter-s-five-forces>
- https://tyonote.com/external_environment_analysis
- <https://pressbooks.bccampus.ca/fundamentalsbusiness/chapter/chapter-5-the-external-environments-influence/>
- <https://www.investopedia.com/terms/p/porter.asp>
- <https://www.cipd.org/en/knowledge/factsheets/swot-analysis-factsheet/>

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FOR MORE INFORMATION CONTACT:

STEFAN.LOTZ@BUSINESSJAMVN.COM

WWW.BUSINESSJAMVN.COM

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