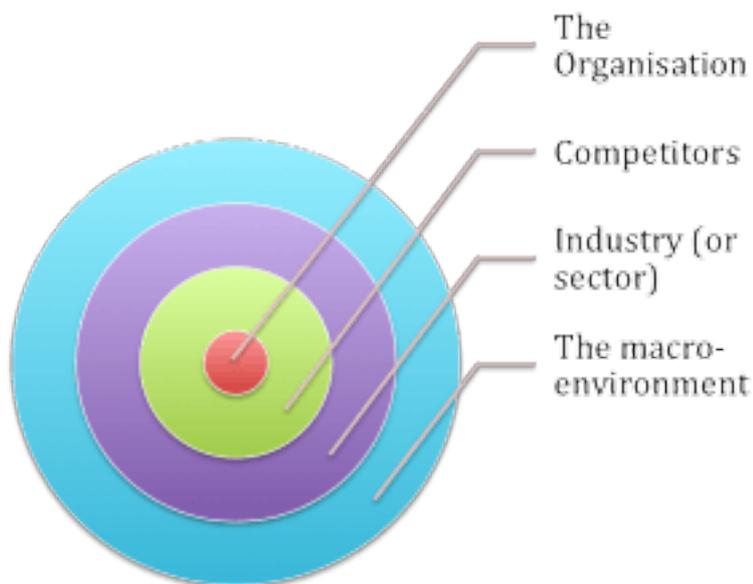


Strategy and the Business Environment

Understanding the business environment is an important concept for managers. It encapsulates many different influences and the difficulty is making sense of this complexity, which arises because many of the separate issues are interconnected. For example, think of a technological development such as IT, which changes the nature of work. This in turn, changes lifestyles which then alters consumer behaviour and purchasing patterns for many goods and services. The different layers of the business environment are shown below.



The macro-environment consists of broad environmental factors that impact to a greater or lesser degree on organisations. Having identified the key drivers of change from the broad data, possible scenarios can be drawn which will help the organisation to draw up its strategy.

The next layer is called an industry or sector. This is a group of organisations producing the same products or services. A useful framework for analysing an industry is Porter's [Five Forces Framework](#).

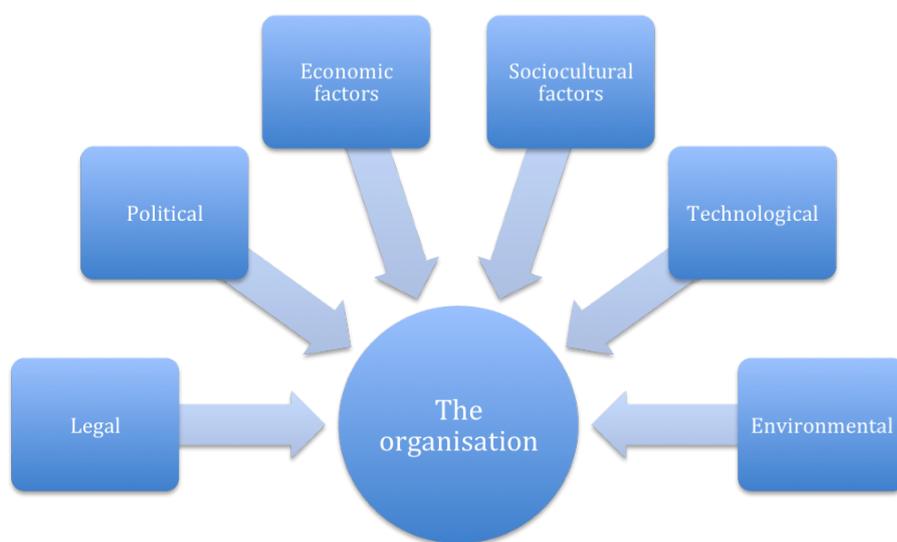
The layer adjacent to the organisation itself is its competitors and markets. Within most industries or sectors, there will be many different organisations with different characteristics and competing on different bases. The concept of [strategic groups](#) can help with the



identification of both direct and indirect competitors. Competitor analysis allows companies to identify and understand its **competitors**. Furthermore, customers' expectations are not all the same. They have a range of different requirements, which can be understood through the use of **market segments** and critical success factors.

PESTEL Analysis

The PESTEL framework is a useful tool to identify how future trends in the political, economic, social, technological, environmental and legal environments might affect organisations. Examples of such influences are shown below.



Legal:

- Competition law
- Employment law
- Health and safety



- Product safety

Political:

- Government stability
- Taxation policy
- Foreign trade regulations
- Social welfare policies

Economic factors:

- Business cycles
- GNP trends
- Interest rates
- Money supply
- Inflation
- Unemployment
- Disposable income

Sociocultural factors:

- Population demographics
- Income distribution
- Social mobility
- Lifestyle changes
- Attitudes to work and leisure
- Consumerism
- Levels of education

Technological:

- Government spending on research
- Government and industry focus on technological effort



- New discoveries/developments
- Speed of technology transfer
- Rates of obsolescence

Environmental:

- Environmental protection laws
- Waste disposal
- Energy consumption

Understanding how such factors might impact on and drive change in general is only the starting point. Managers need to understand the key drivers of change and also the differential impact of these external influences and drivers on particular industries, markets and individual organisations. It is worthwhile assessing which factors are the most important at the present time and which will be over the coming years. It is particularly important that the future impact is assessed and fully understood.