

Business Environment

Module1-IntroductiontoBusinessEnvironment

Business decisions and their strategies are moulded by the business environment. Business environment refers to all internal and external forces, elements and factors which influence the development, performance and outcome of a business. A thorough understanding of the business environment is very important for making any decision.

Meaning of Business:

The word business comes from the word busy which means “doing things”. (A business is an organisation where people work together for a common goal.)

Business is an economic activity what involves the exchange, purchase, sale or production of goods and services with a motive to earn profits and satisfy the need of customer.

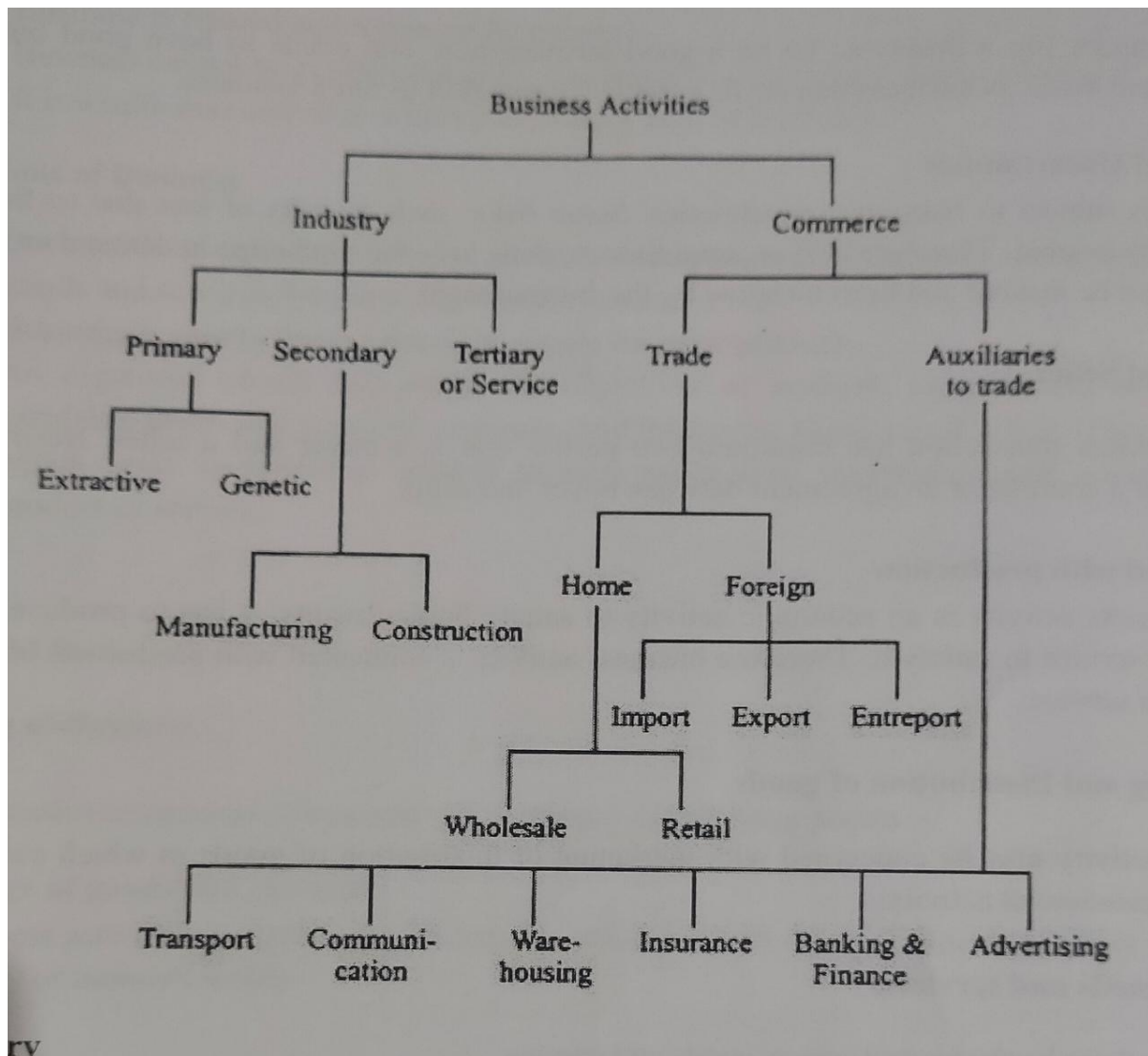
Scope of Business:

There are various types of business activities that usually take place in an economy. Some of them are:

- Extraction of oil, natural gas or minerals
- Manufacturing of commodities
- Buying of goods from one place/country and selling it at different place/country
- Construction of building, roads and bridges etc...
- Providing services like ticketing, warehousing, transportation, banking, insurance etc...

When we analyse the above business activities, we find that most business activities are concerned with production/processing of goods and services or distribution of goods and services.

Scope of Business



- I. **Industry:** Industry primarily refers to all such business activities concerned with production/raising or processing of goods and services.
 1. **Primary:** Primary industries refer to the activities of extraction of natural resources like coal, oil, minerals etc... and reproduction and development of living organisms like plants, animals etc...
 - a. **Extractive:** extractive industries are those, which are engaged in extracting something from beneath the surface of earth and water. Example:
 - Extracting oil and gas from earth
 - Extracting minerals from earth
 - Collecting honey, timber
 - Extracting seafood like fish, crab, prawn etc...

- b. **Genetic:** Genetic industries are engaged in the reproduction or multiplication of certain species of plants and animals. Example:
 - Horticulture (growing fruits and vegetables)
 - Floriculture (growing flowers)
 - Pisciculture (breeding fish)
 - Dairy farming, poultry farming etc...
2. **Secondary:** The products are normally used as raw materials to produce a variety of finished goods. And it is this secondary industry that uses the products of primary industry as raw materials.
 - a. **Manufacturing:** These industries are engaged in converting raw materials into finished goods.
Ex: cotton converted into textile. Timber into furniture
 - i. **Analytical:** Analytical industry manufactures different types of products by analysing and separating elements from the same product.
Ex: petrol, diesel, kerosene, lubricating oil etc... from crude oil.
 - ii. **Synthetic:** Synthetic industries put together various ingredients and manufacture a new product.
Ex: Soap is produced by combining potassium carbonate and vegetable oil.
Cement by combining limestone, coal and other chemicals.
 - iii. **Processing:** Processing Industries are those in which raw materials are processed through successive stages to get the final product.
Ex: Cotton is prepared through the spinning, weaving, dyeing, bleaching and printing process to convert into cloth.
 - iv. **Assembling:** Assembling industries put together various manufactured products and make a new product. Ex: car, bicycle etc...
 - b. **Construction:** construction industries are engaged in creation of buildings, dams, bridges, railways etc... They make use of the products of other industries and construct different types of structures as per the requirement of the customers.
3. **Tertiary:** Tertiary or service industries are those industries which provide service to help business to move/work smoothly. Ex: transport, banking, communication, insurance, advertisement etc...
 - II. **Commerce:** All goods and services produced are to be made available by those who need them. This involves, buying and selling of goods and services and uninterrupted flow of goods and services from the point of production to the point of consumption.
 1. **Trade:** Trade involves actual buying and selling of goods. It refers to procuring goods from one place/person to sell to another person or at another place. Trading helps in equalising demand and supply.
Ex: The state of Punjab may be producing plenty of rice without much demand for it in its own state. Traders buy rice from Punjab and make it

available to states like Orissa and West Bengal where there is a great demand for rice. Thus, the demand and supply is maintained.

- a. **Home/Internal Trade:** When trade takes place within the boundaries of a country, it is called home/internal trade. It means both the buying and selling takes place within the country.
 - i. **Wholesale:** Buying from one manufacturer and selling to retailers in bulk is known as wholesale trade. Ex: A trader can buy woollen garments from manufacturers at Ludhiana and sell it to the retailer in Delhi.
 - ii. **Retail:** Buying from manufacturers and selling it to consumers is known as retail trade. Ex: A trader/retailer of a village can buy goods from the wholesale market of a city for sale in the village.
- b. **Foreign/External Trade:** Trade that takes place between different countries is known as external trade. In other words, external trade refers to buying and/or selling of goods/services across national boundaries.
 - i. **Import:** Importing refers to buying goods and services from foreign country. Ex: many countries import oil as they cannot manufacture locally or cannot manufacture in sufficient amounts to meet the demand.
 - ii. **Export:** Exporting is the sale of products and services in foreign countries that are sourced and made in the home country. Ex: iron and steel, coffee, tea etc...
 - iii. **Entrepot:** Entrepot refers to importing goods and services from one country so that they can further be exported to another country. Ex: If India imports rubber from Thailand, process it and re-exports it to another country like Japan.
2. **Auxiliaries to trade:** Auxiliaries to trade means those services which smoothen the flow of exchange between the trader and the consumer, by removing hindrances of place, contact, time, risk, finance and information.

Objectives/Goals of Business



1. **Profit:** Making profit is the primary goal for any business enterprise. Profit is the excess of income over expense. Profit is the main incentive, motivator, strong sustainer of productivity and a solid basis for growth, expansion and survival.

Note: profit should not be the end in itself. Profit should not be the beginning-acting seed money for more products, more plants, more dividends, more tax payments, more jobs and more opportunities.

“Promoting only products with high margins (to earn profits), ignoring research and failing to provide working conditions satisfactory to employees may in the ultimate bring about the demise of an enterprise”.

-George R. Terry

2. **Growth:** Growth is another primary objective of business. Business should grow in all directions over a period of time. The growth should be in terms of increasing in profit, revenue, capacity, number of employees and employee prosperity.

3. **Power:** Business houses have vast resources (in the form of money, material, men etc... at its command. These resources confer enormous economic and political power on owners and managers of business ventures. Several enlightened businessmen have used their power for the good of society.
4. **Employee satisfaction and development:** Employee satisfaction is how content or satisfied employees are with their job. Development refers to upgrading the existing skills and knowledge of an individual. For the satisfaction and development of the employees, the steps like labour welfare measures, constituting safety and security, providing training and development facilities should be implemented.
5. **Quality products and services:** Providing quality products and services is yet another objective of business. Those who insisted on and persist in quality survived competition and stayed ahead of others in the market. Persistent quality of products earns brand loyalty, a vital ingredient of success.
Ex: Hindustan Unilever is flourishing mainly because of the quality of the products. Its products like Vim, Lifeboy, Rin etc... have become household names throughout the country. It has an excellent Research and Development set-up and a high degree of professional management.
6. **Market leadership:** another objective of business is to gain market leadership. To gain and retain market leadership is extremely difficult in these days of severe competition. Factors such as quality, cost, innovation, supply and after sale services keep a firm ahead of others.
Ex: Asian paints, Hindustan Unilever, Airtel etc... are some of the companies that have market leadership.
7. **Joy of creation:** It is through business strategies new ideas and innovations are given a shape and are converted into useful products and services for the benefit of customers.
8. **Service to society:** Business is a part of society and has several obligations towards it. Service to society is the main objective of a non-profit making enterprise. Profit making enterprises cannot afford to have service as the primary objective. It will be a secondary objective. Some of the services are: providing safe and quality goods at reasonable prices, providing employment, maintaining and protecting ecology etc...
9. **Good corporate citizenship:** Good corporate citizenship implies that the business unit complies with the rules of the land, pays taxes to the government regularly, care for its employees and customers.

Meaning of environment: Environment means anything that surrounds us.

Meaning of Business Environment: “Business Environment refers to all external forces which have a bearing/relation on the functions of business”.

(or)

“Business environment refers to all the forces, elements and factors which influence the development, performance and outcome of a business”.

[Business Environment is the surrounding where business firm grows up]

Definition of Business Environment:

“the aggregate of all conditions, events and influences that surround and affect business.”

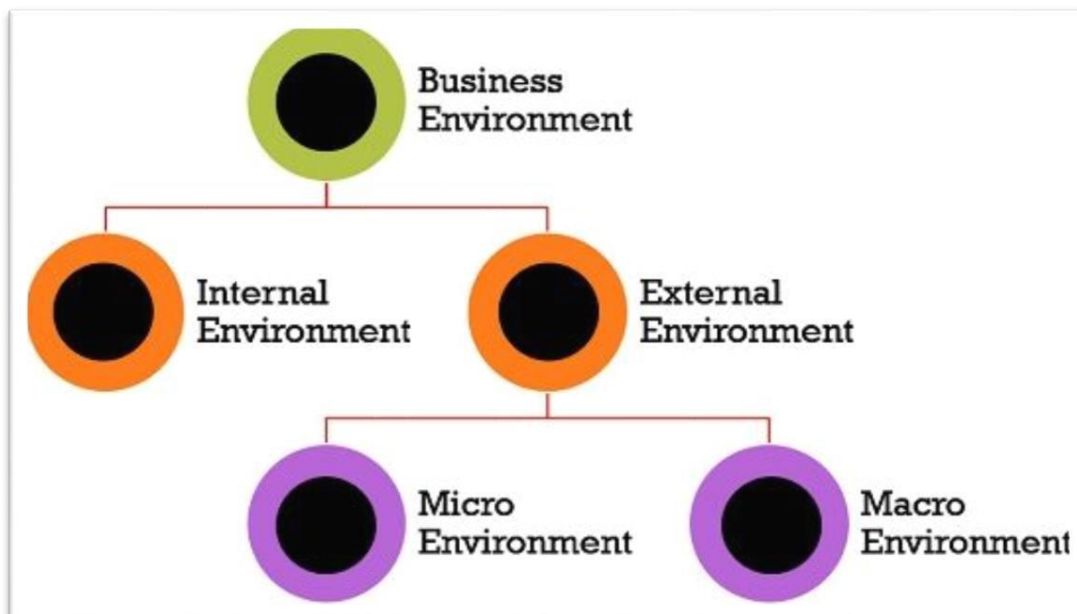
- **Keith Davis**

“ the total of all things external to firms and industries which affect their organisation and operation.”

- **Bayard O. Wheeler**

“business environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted.”

- **Arthur M. Weimer**



Internal Environment: The internal factors refer to anything within the company and under the control of the company, no matter whether they are tangible or intangible.

These factors after being figured out are grouped into the strengths and weaknesses of the company. If one element brings positive effect to the company, it is considered as strength. On the other hand, if a factor prevents the development of the company, it is a weakness. Within the company, there are numerous criteria need to be taken into consideration.

These are internal environment factors:

1. Plans & Policies
2. Value Proposition
3. Vision, mission and objectives
4. Human Resource
5. Financial and Marketing Resources
6. Corporate Image and brand equity
7. Plant/Machinery/Equipment (or you can say Physical assets)
8. Labour Management
9. Inter-personal Relationship with employees
10. Internal Technology Resources & Dependencies
11. Organizational structure
12. Quality and size of infrastructure
13. Task Executions or Operations
14. Financial Forecast
15. The founders relationship and their decision making power.

External Environment:

The external environment of an organisation is those factors outside the company that affect the company's ability to function. Some external elements can be manipulated by company marketing, while others require the organisation to make adjustments.

(Or)

An external environment is composed of all the outside factors or influences that impact the operation of business. The business must act or react to keep up its flow of operations.

The external environment can be broken down into two types. They are:

- I. Micro Environment
- II. Macro Environment

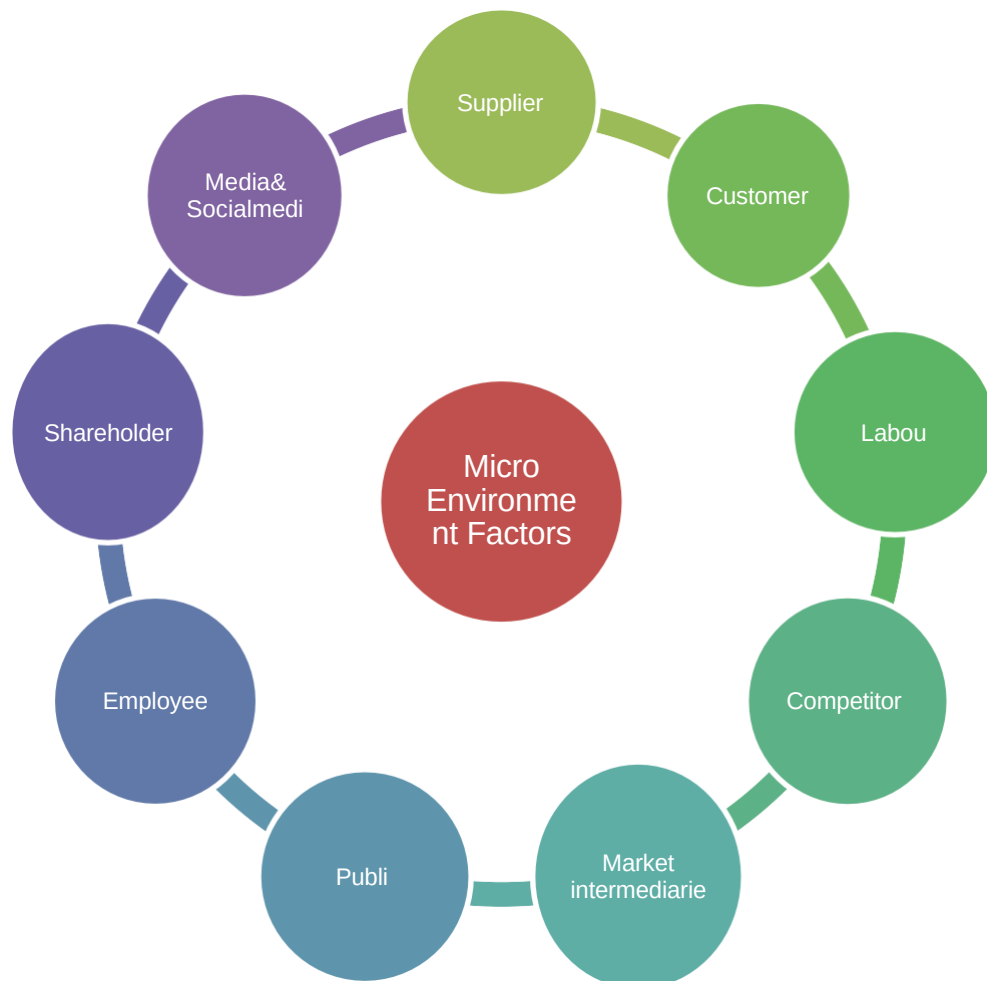
I. Microenvironment

‘The microenvironment includes all those micro factors that affect business strategy, decision making and performance.

The micro environment consists of the actors in the company's immediate environment that affects the performance of the company. These includes the suppliers, marketing intermediaries, competitors, customers, and the public. The macro environment consist larger societal forces that affect all the actors in the company's micro environment.

It is quite obvious that the micro environmental factors are more intimately linked with the company than the macro factors. The micro factors may be particular to a firm. **For example**, a firm which depends on a supplier may have a supplier environment which is entirely different from that of a firm whose supply source is different.

Factors of Microenvironment are as follows:



1. **Suppliers:** suppliers are the important force in the task environment of a business. Suppliers are the persons who supply the inputs like raw materials and components to the business.

Importance:

- For the smooth functioning of the business it is very important to have a reliable source to supply.
- Uncertain regarding the supply or the other supply problems will compel the companies to maintain high inventories which will cause increase in costs.

Why Multiple sources of supply?

- It is very risky to depend on a single supplier because a strike, lock out or any other production problem with that suppliers may seriously affect the company.
- A change in the attitude or behaviour of the suppliers may also affect the company.

2. Customers: On the micro environment of business, customers have direct impact.

A company may have different categories of customers viz.

- Industrial customers
- Retailers customers
- Wholesalers customers
- Government bodies customers
- Foreign customers etc.

To succeed in capturing customers, a business must try its best to know what people want and will buy. The customer acceptance, impose a constant challenge because non-economic factors in the environment such as attitudes, desires and expectations of people also influence consumer behaviour.

- 3. Labour:** In big organizations where hundreds of workers are employed, the labour force is organized in the form of trade unions. The trade unions interact with the management of higher wages of bonus, better working conditions etc. They pressurize the management for the fulfilment of their demands and even resort to go slow tactics strikes.
- 4. Competitors:** Competitors play a vital role in the running business enterprise. Business has to adjust its various business activities according to the behaviour of the competitor.

There are various types of competitions:

Desire competition: Such competition is generally found in the countries characterized by limited disposable income and many unsatisfied desires of the customers.

Generic competition: The competition among alternatives which satisfy a particular category of desire is called generic competition.

Product form competition: in this type competition, the consumer has to choose between different forms of the product.

Brand competition: Finally the consumer encounters the brand competition i.e. the competition between different brands of the same product.

5. **Market Intermediaries:** The immediate environment of a company may consist of number of marketing intermediaries, which are the firms that help the company in promoting, selling and distributing its goods to final buyers.

The marketing intermediaries, includes middlemen such as agents and merchants who help the company find customers or close sales with them. Physical distribution firm which assist the company in stocking and moving goods from their origin to their destination, such as warehouse and transportation firms, marketing services agencies which assist the company in targeting and promoting its products to the right markets such as advertising agencies, marketing research firms, media firms and consulting firms; and financial intermediaries which finance marketing activities and insure business risk.

Marketing intermediaries are vital links between the company and the final customers. A dislocation or disturbance of link or a wrong choice of the link may cost the company very heavily.

6. **Public:**

A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interest. **Example:** Media publics, citizen, action publics and local publics. Some companies are seriously affected by such publics.

Forexample: One of the leading companies in India was frequently under attack by the media public, particularly by a leading daily which was allegedly bent on bringing down the share price of the company by tarnishing the image.

Such exposure or campaigns by the media might even influence the government decisions affecting the company. Many companies are also affected by local publics. Environmental pollution is an issue often taken up by a number of local publics. Actions by the local publics on this issue have caused some companies to suspend operations and/or take pollution abatement measures.

Some of the actions of the publics may cause problems for companies but some publics are an opportunity for the business.

7. **Employees:**

Skilled employees can help an organization to achieve organizational goals and objectives. As skilled and experienced employees have expertise to support organization to get success. This begins with the hiring process and continues through regular and timely training and development sessions. The training and development process helps the employees to work effectively and

efficiently in order to achieve the organizational goals, specifically in service sector.

Example: To some extent employees affect business environment. If there is low motivation and low skilled employees, business would suffer as the employees would be least motivated towards sales.

8. Shareholders

Shareholders of an organization have an influence, as the company want investors to increase for this they might make a decision to increase money by buoyant on stock market, i.e. shifting to public from private ownership. This change will pressure the company as the public shareholders seek returns on their investment.

Example: The shareholders' demand for raise in profit can influence the business success in longer-run. Therefore, it is important for top management to keep strong and better relations with shareholders to have a successful business on long-term basis.

9. Media and Social Media

The way media acts can make or break an organization. Organization should manage to keep a good relationship with media, as whatever it shows will directly influence the organization business. If media will show positive aspect, this will increase the business of organization and vice-versa. In order to maintain good relations with media some organization do maintain a public relation department who manage events and deal with media on behalf of company

Organizations must understand the ways which they can reach their customers, can have positive company and brand image in their mind. For this, some organization approaches newspapers to let people know about their business and some approach consumer television program to have the attention of a large number of direct audience. These days, social media applications are a good idea to reach customers in a more appropriate way i.e. Facebook, YouTube, Twitter and Instagram etc.

II. Macroenvironment

This consists the major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies. These factors include the economic factors, demographic, legal, political and social conditions; technological changes and natural.

The macro forces are generally, more uncontrollable than the micro forces. When the macro environment is uncontrollable, the success of the company depends on its adaptability to the environment. **For example,** if the cost of the imported components increases substantially because of the

depreciation of the domestic currency, a solution may be their domestic manufacture. The company is not alone in doing business. It is surrounded by and operates in a larger context. This context is called the Macro Environment. It consists of all the forces that shape opportunities, but also pose threats to the company.

The Macro Environment consists of 6 different forces or factors. This can easily be remembered as the **DESTEP** model, also called DEPEST model, helps to consider the different factors of the Macro Environment.



1. Demographic Forces: _

Demographic forces relate to people. The name refers to the term Demography. It refers to the study of human populations. This includes size, income distribution, age, gender, family size and family life cycle. **For example** young, single, just married, no children, young married with children, education religion, race nationality, social class, occupation and other statistics. Why are people important? Because, on whole, their needs are the reasons, for businesses to exist. In other words, people are the driving force for the development of markets. The large and diverse demographics both offer opportunities but also challenges for businesses. Especially in times of rapid world population growth,

and overall demographic changes, the study of people is crucial for marketers. The reason is that changing demographics mean changing markets. Further, changing markets mean a need for adjusted marketing strategies.

Therefore, marketers should keep a close eye on demographics. This may include all kinds of characteristics of the population, such as size, growth, density, age- and gender structure, and so on.

2. **Economic forces in the Macro Environment**

The Economic forces relate to factors that affect consumer purchasing power and spending patterns. For instance, a company should never start exporting to a country before having examined how much people will be able to spend. Important criteria are: GDP, GDP real growth rate, GNI, Import Duty rate and sales tax/VAT/GST, Unemployment, Inflation, Disposable personal income, and spending patterns.

3. **Socio-Cultural forces in the Macro Environment**

The Socio-Cultural forces link to factors that affect society's basic values, preferences and behaviour. The basis for these factors is formed by the fact that people are part of a society and cultural group that shape their beliefs and values. Many cultural blunders occur due to the failure of businesses in understanding foreign cultures. For instance, symbols may carry a negative meaning in another culture.

4. **Technological forces in the Macro Environment**

Technological forces form a crucial influence in the Macro Environment. They relate to factors that create new technologies and thereby create new product and market opportunities. A technological force everybody can think of nowadays is the development of wireless communication techniques, smart phones, tablets and so further. This may mean the emerge of opportunities for a business, but watch out: every new technology replaces an older one. Thus, marketers must watch the technological environment closely and adapt in order to keep up. Otherwise, the products will soon be out-dated, and the company will miss new product and market opportunities.

5. **Ecological forces in the Macro Environment**

Ecological or natural forces in the Macro Environment are important since they are about the natural resources which are needed as inputs by business activities. Also, environmental concerns have grown strongly in recent years, which made the ecological force a crucial factor to consider. For instance, world, air and water pollution are headlines every business should be aware of. In other words, you should keep track of the trends in the ecological environment.

Important trends in the ecological environment are the growing shortage of raw materials and the care for renewable resources. In addition, increased pollution, but also increased intervention of government in natural resource management is an issue.

Because of all these concerns and the increased involvement of society in ecological issues, companies more than ever before need to consider and implement environmental sustainability. This means that they should contribute to supporting the environment, for instance by using renewable energy sources. Thereby, businesses do not only support the maintenance of a green planet, but also respond to consumer demands for environmentally friendly and responsible products.

6. Political forces in the Macro Environment

Every business is limited by the political environment. This involves laws, government agencies and pressure groups. These influence and restrict organizations and individuals in a society. Therefore, marketing decisions are strongly influenced and affected by developments in the political environment.

Before entering a new market in a foreign country, the company should know everything about the legal and political environment. How will the legislation affect the business? What rules does it need to obey? What laws may limit the company's ability to be successful? **For example**, laws covering issues such as environmental protection, product safety regulations, competition, pricing etc. might require the firm to adapt certain aspects and strategies to the new market.

As we have seen, the company is surrounded by a complex environment. The Macro Environment consists of a large variety of different forces. All of these may shape opportunities for the company, but could also pose threats. Therefore, it is of critical importance that marketers understand and have an eye on development in the Macro Environment, to make their business grow in the long term.

Impact of Macro Environment on Business

1. Political and Legal

- Government can increase or decrease taxes for some companies and lower it for others. The decision will have a direct effect on your business. So, organisations should always stay up-to date with such political factor.
- Lack of political instability in a country affects business operations.
- The government controls almost everything right from tax policies to prices of the products.

- Implementing complicated tax policies can affect the business expansion for many industries.
- Some products are regulated by both state and federal laws. There are even restrictions for some products as to who the target market may be. Ex: Cigarettes should not be marketed to younger children

2. Economic

- The increase in VAT/GST makes goods or products costly, therefore less affordable for the ordinary person.
- Inflation can create difficulties for small business owners. It can get more expensive to run the business. Business may need to pay higher sums for raw materials and could face rising employee cost
- Unemployment leads to decline in the purchasing power of buyer/customer.

3. Socio-cultural

- Changing preferences in the society demands for new products. A clothing company must constantly be aware of changing preferences when creating new products or else it will quickly become out-dated.
- The younger generation prefer to use digital technology to shop online. Whereas, older people will perhaps stick to their traditional methods. By this the payment methods may get affected.
- Social and cultural change challenges companies to find more effective ways to adopt to stay ahead of their competitors.
- Culture influences the taste of products and services that business must offer.

4. Technological

- Technology can be used to protect financial data, confidential executive decisions and other proprietary information that leads to competitive advantages.
- Technology facilitates proper communication. When customers use technology to interact with a business, the business benefits because better communication creates a strong public image.
- It can make your product better, bring down costs, edge out the competition, increase production capacity etc... but at the same time, such changes if not adopted by the business can make them obsolete and out of fashion very quickly.
- Thousands of workers find the jobs they have engaged till now become irrelevant. They have to cope with new skills and new jobs.
- Technology discontinuity- old replaced by new is another dimension the business needs to keep in mind.

5. Natural

- As raw materials become increasingly scarce, the ability to create a company's product gets much harder.
- Pollution can go as far as negatively affecting a company's reputation if they are known for damaging the environment.
- Business must meet certain standards that help to reduce any adverse effects if a company's activities have on the environment.
- Demand pattern differs based on the places too. Ex: jeeps in hilly areas, woollen in cool areas.

Environment Analysis

Environmental analysis is a process of clear identification of the relevant variables and a detailed analysis of them to understand their impact on organization. It is vital for business success to conduct macro environment and micro environment analysis before decision-making process'.

Environmental analysis is a strategic tool. It is a process to identify all the external and internal elements, which can affect the organization's performance. The analysis entails assessing the level of threat or opportunity the factors might present. These evaluations are later translated into the decision-making process. The analysis helps align strategies with the firm's environment.

Our market is facing changes every day. Many new things develop over time and the whole scenario can alter in only a few seconds. There are some factors that are beyond your control. But, you can control a lot of these things.

Businesses are greatly influenced by their environment. All the situational factors which determine day to day circumstances impact firms. So, businesses must constantly analyse the trade environment and the market.

Process of Environmental Analysis

Environment analysis involves four processes i.e. scanning, monitoring forecasting and assessment.

- **Scanning:** This is the first step in the process of environmental analysis. It involves general observance of all environmental factors and their interactions with a view to identifying early signals of likely environment changes and detecting environmental changes already under way. Scanning is not a well-structured step in the process of environmental analysis. It is an ambiguous and vague activity. The potentially relevant data required and used for scanning are not only unlimited but are also scattered, vague and unconnected. Therefore, it would be very difficult for

the analyst to make sense out of vague, ambiguous and unconnected and imprecise data.

- **Monitoring**: Monitoring involves ascertaining the trends in the environment, sequences of events or streams of activities taking place therein. The object of monitoring is to collect the adequate information so as to perceive clearly whether the trends and patterns expected are emerging.

There will be three outcomes of the monitoring. One is the specific description of environment trends and patterns to be forecast. The second one is the identification of trends for further monitoring. The third one is the identification of areas for further scanning and monitoring.

- **Forecasting**: scanning and monitoring will reveal what has already taken place in the recent past, what is happening at present. Important decisions can be made only by forecasting the future. Therefore forecasting because an essential element in the environmental analysis. Forecasting means trying to know the future taking place in the environment, say, after one week, one month, three months, six months, or year. It is an art of predicting the future on the basis of known facts and figures. Business technique of probing the future trends in business environment by scientific analysis of facts and figures i.e. the available data.

Unlike scanning and monitoring, forecasting is well focused but at the same time, it is much more deductive and complex, than scanning and monitoring. This is so because the focus, scope and goals of forecasting are more specific and more clearly defined than scanning and monitoring.

- **Assessment**: Scanning, monitoring and forecasting are the first three stages in the environmental analysis. The process of analysis will be completed only by the final stage of assessment of the outputs of the earlier stages. Since the earlier stages, simply provides information for information sake, its assessment will help in determining implications for the firm's current and potential strategies.

It may be noted that four stages i.e. scanning, monitoring, forecasting and assessment are not independent activities but they are interdependent and intertwined with each other in the process.

Techniques of environmental analysis

1. SWOT Analysis
2. PESTEL Analysis

1. SWOT Analysis:

SWOT is acronym for strengths, weaknesses, opportunities and threats. While strengths and weaknesses can be identified by analysing the internal environment (corporate appraisal), opportunities and threats can be identified by analysing the external environment. SWOT analysis can also be modified into TOWS (Threats, Opportunities, Weaknesses and Strengths).

Strengths

Strengths describe what an organization excels at and what separates it from competition - a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on. For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors.

Weaknesses

Weaknesses stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

Opportunities

Opportunities refer to favourable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and market

Threats

Threats refer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for materials, increasing competition, tight labor supply. and so on.

SWOT analysis is helpful in the formulation of an effective strategy that can capitalize on the opportunities and neutralize the threats faced by an organization.

S STRENGTHS	W WEAKNESSES	O OPPORTUNITIES	T THREATS
• Things your company does well • Qualities that separate you from your competitors • Internal resources such as skilled, knowledgeable staff • Tangible assets such as intellectual property, capital, proprietary technologies etc.	• Things your company lacks • Things your competitors do better than you • Resource limitations • Unclear unique selling proposition	• Underserved markets for specific products • Few competitors in your area • Emerging need for your products or services • Press/media coverage of your company	• Emerging competitors • Changing regulatory environment • Negative press/ media coverage • Changing customer attitudes toward your company

2. PESTLE Analysis:

PESTLE analysis consists of various factors that affect the business environment. Each letter in the acronym signifies a set of factors. These factors can affect every industry directly or indirectly.

The letters in PESTLE, also called PESTEL, denote the following things:

- a) Political factors
- b) Economic factors
- c) Social factors
- d) Technological factors
- e) Legal factors
- f) Ecological factor

Often, managers choose to learn about political, economic, social and technological factors only. In that case, they conduct the PEST analysis. **PEST is also an environmental analysis.** It is a shorter version of PESTLE analysis. STEP, STEEP, STEEPLE, STEEPLED, STEPJE and LEPEST: All of these are acronyms for the same set of factors. Some of them gauge additional factors like ethical and demographical factors.

a) P for Political factors

The political factor takes the country's current political situation. It also reads the global political condition's effect on the country and business. When conducting this step, ask questions like "What kind of government leadership is impacting decisions of the firm?"

Some political factors that you can study are:

- Government policies
- Taxes, laws and tariff
- Stability of government
- Entry mode regulations

b) E for Economic factors

Economic factors involve all the determinants of the economy and its state. These are factors that can conclude the direction in which the economy might move. So, businesses analyze this factor based on the environment. It helps to set up strategies in line with changes.

List of some determinants you can assess to know how economic factors are affecting your business below:

- The inflation rate
- The interest rate
- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- The monetary or fiscal policies

- The foreign exchange rate

c) S for Social factors

Countries vary from each other. Every country has a distinctive mindset. These attitudes have an impact on the businesses. The social factors might ultimately affect the sales of products and services.

Some of the social factors you should study are:

- The cultural implications
- The gender and connected demographics
- The social lifestyles
- The domestic structures
- Educational levels
- Distribution of Wealth

d) T for Technological factors

Technology is advancing continuously. The advancement is greatly influencing businesses. Performing environmental analysis on these factors will help you stay up to date with the changes. Technology alters every minute. This is why companies must stay connected all the time. Firms should integrate when needed. Technological factors will help you know how the consumers react to various trends.

Firms can use these factors for their benefit:

- New discoveries
- Rate of technological obsolescence
- Rate of technological advances
- Innovative technological platforms

e) L for Legal factors

Legislative changes take place from time to time. Many of these changes affect the business environment. If a regulatory body sets up a regulation for industries, for example, that law would impact industries and business in that economy. So, businesses should also analyze the legal developments in respective environments.

Some legal factors you need to be aware of:

- Product regulations
- Employment regulations
- Competitive regulations
- Patent infringements
- Health and safety regulations

f) EforEcologicalfactors

The location influences business trades. Changes in climatic changes can affect the trade. The consumer reactions to particular offering can also be an issue. This most often affects agri-businesses.

Some environmental factors you can study are:

- Geographical location
- The climate and weather
- Waste disposal laws
- Energy consumption regulation
- People's attitude towards the environment

There are many external factors other than the ones mentioned above. None of these factors are independent. They rely on each other.

If you are wondering how you can conduct environmental analysis, here are 5 simple steps you could follow:

1. Understand all the environmental factors before moving to the next step.
2. Collect all the relevant information.
3. Identify the opportunities for your organization.
4. Recognize the threats your company faces.
5. The final step is to take action.

Competitive structure analysis/Porter's Five Forces Model:



Porter regarded understanding both the competitive forces and the overall industry structure as crucial for effective strategic decision-making. In Porter's model, the five forces that shape industry competition are:

1. **Competitive rivalry**

This force examines how intense the competition currently is in the marketplace, which is determined by the number of existing competitors and what each is capable of doing. Rivalry competition is high when there are just a few businesses equally selling a product or service, when the industry is growing and when consumers can easily switch to a competitor's offering for little cost. When rivalry competition is high, advertising and price wars can ensue, which can hurt a business's bottom line.

2. **Bargaining power of suppliers**

This force analyses how much power a business's supplier has and how much control it has over the potential to raise its prices, which, in turn, would lower a business's profitability. In addition, it looks at the number of suppliers available: The fewer there are, the more power they have. Businesses are in a better position when there are a multitude of suppliers.

3. **Bargaining power of customers**

This force looks at the power of the consumer to affect pricing and quality. Consumers have power when there aren't many of them, but lots of sellers, as well as when it is easy to switch from one business's products or services to another. Buying power is low when consumers purchase products in small amounts and the seller's product is very different from any of its competitors.

4. **Threat of new entrants**

This force examines how easy or difficult it is for competitors to join the marketplace in the industry being examined. The easier it is for a competitor to join the marketplace, the greater the risk of a business's market share being depleted. Barriers to entry include absolute cost advantages, access to inputs, economies of scale and well-recognized brands.

5. **Threat of substitute products or services**

This force studies how easy it is for consumers to switch from a business's product or service to that of a competitor. It looks at how many competitors there are, how their prices and quality compare to the business being examined and how much of a profit those competitors are earning, which would determine if they can lower their costs even more. The threats of substitutes are informed by switching costs, both immediate and long-term, as well as a buyer's inclination to change.