

What is business environment?

A business organization cannot exist in a vacuum. It needs living persons, natural resources and places and things to exist. The sum of all these factors and forces is called the business environment.

Business environment is of two types-

- (i) Micro environment or the internal environment*
- (ii) Macro environment or the external environment*

(i) Micro environment / Internal Environment of Business

Micro environment comprises of the factors in the immediate environment of the company that affect the performance of the company. It includes the suppliers, competitors, Marketing intermediaries, customers, pressure groups and the general public. Suppliers form an important factor of the micro environment of business as the importance of reliable sources of supply is obvious. Suppliers include the financial labor input. Stock holders, banks and other similar organizations that supply money to the organization are also termed as suppliers. Managers always strive to ensure a steady flow of inputs at the lowest price. Customers are also an important factor in the internal environment of business. The customers or the clients absorb the output of an organization and a business exists to meet the demands of the customers. Customers could be individuals, industries, government and other institutions. Labor force is also an important part of the internal environment of business. Other than these the business associates, competitors, regulatory agencies and the marketing intermediaries are also a part of the micro business environment.

Macro environment / External environment of Business:

The forces and institutions outside of the organization that can potentially affect the performance of the organization come under the external environment of Business. The macro environment of business consists of the economic, demographic, natural, cultural

and political forces. The external environment of business is often categorized into the economic environment, political and government environment, socio-cultural environment and the international environment.

What is environmental analysis ?

Environmental Analysis Defined :

Environmental analysis is the study of the organizational environment to pinpoint environmental factors that can significantly influence organizational operations

An environmental analysis evaluates internal and external factors affecting an organization's performance, especially its marketing effort. Internal factors are referred to as the strengths and weaknesses of the organization. External factors are opportunities and threats presented by forces outside of the company. In general, this information is used by strategic planners in forecasting trends a year or more in advance. This method is distinct from surveillance, which focuses on a specific area or time.

A common synonym for environmental analysis is SWOT analysis, an acronym for strengths, weaknesses, opportunities, and threats. Another equivalent term is environmental scanning, referring to the ongoing nature of evaluating trends.

In this type of analysis, internal strengths may include a stable workforce, proprietary systems and methods, and other factors. Internal weaknesses may include labor-union problems, obsolete equipment, or aging facilities. External opportunities can include new-market creation, beneficial alliances, and positive trade agreements. External threats may be comprised in part of negative governmental regulations, international conflict, or natural disasters.

Using environmental analysis, strategic planners evaluate the operating environment and establish organizational goals. They determine whether or not the goals are obtainable with existing strategies. If they are not, new strategies must be developed or old ones must be adjusted. Several sources of information guide their strategic decisions

Purpose of Environmental Analysis

Successful businesses adapt their internal environment -- including human and financial resources, policies, technologies and operations -- to the external environment. The company performs an environmental analysis to identify the potential influence of particular aspects of the general and operating environments on business operations. This analysis identifies the opportunities and threats in a business environment in terms of a company's strengths and weaknesses. For example, a company may consider the impact of operating in a communist country and the threats posed by government-controlled resources. A company might also consider the opportunities of a government-controlled market in terms of competing products, the implications of well-educated and well-paid consumers to product development and sales and the impact of the location of its primary suppliers in a country in economic crises.

Environmental Analysis Process

An organization relies on strengths to capture opportunities and recognize weaknesses to avoid becoming a victim of environmental threats. A company performs an environmental analysis to gain an understanding of these strengths, weaknesses, opportunities and threats. The environmental analysis then influences corporate planning and policy decisions. This environmental analysis is a three-step process in which a company first identifies environmental factors that affect its business. For example, the company might consider if a market is "difficult"

because of its remote geographic location or the area's unfavorable economic conditions. The company then gathers information about the selected set of environmental factors that are most likely to impact business operations. For example, the company might review International Trade Center surveys that relay information about trade barriers that companies face in particular countries. This information serves as input to a forecast of the impact of each environmental factor on the business. For instance, a company might project the volume of products likely to be sold in a country in light of existing poor economic conditions and significant trade barriers.

Limitations of Environmental Analysis

An environmental analysis reviews current environmental conditions to forecast a future business environment. The static nature of the analysis ensures that unexpected environmental changes are not considered in a company's business projections. In addition, the environmental analysis is but one source of information that's evaluated as a company develops a strategic plan. As a result, the analysis does not guarantee business success. The benefit of the analysis is also limited by the reliability and timeliness of data used in the analysis.

Environmental analysis models :

- SWOT analysis
- PEST analysis

What is PEST analysis ?

PEST(Political, Economic, Social and Technological) focuses on the external, macro-environment in which your business operates. This provides the “big picture” framework, which helps business

owners to build a vision of the future and to decide on appropriate actions that take into account, both the positives and negatives of the macro business context e.g. your product, or service may suit the global market (positive), but your company has little experience or knowledge of the cultural context of the business world beyond Europe (negative).

Why is PEST Analysis important to your business?

- It helps you consider the context your business is operating in, to ensure changes you make to your business align with the positive, powerful changes impacting on the market and on global markets overall.
- On the other hand it helps you avoid taking actions that are likely to fail, because of factors beyond your control.
- It is a useful tool to use when considering expansion into new countries or regions, because it challenges your assumptions and helps you to consider how to tackle issues such as cultural differences in the way business is conducted.
- In a group setting, brainstorm the relevant factors that apply to your business.
- For each relevant bullet point you can pose a question for those in the group to analyze e.g. What grants are available to help to promote our business in a new country or region?
- Consider what information you have already about each bullet point. It is important to test your assumptions at this stage to ensure you have up-to-date and correct knowledge and information. If you don't it may require group members

to research the gaps in knowledge, in order to progress your analysis.

- Over time, with accurate and sufficient information, the PEST Analysis will change and additional factors may need to be included. But as a “living” document, the PEST Analysis can guide you and your company to make the most appropriate decisions about the future direction of your business.

What is SWOT Analysis?

Because the PEST model looks at external macro factors, it is useful to use before a SWOT Analysis. A SWOT (Strengths, Weaknesses, Opportunities, Threats) Analysis is more micro-environment, providing a good framework for reviewing the strategy and position of an organization, or considering a new proposition for the company and it is used most effectively when deciding whether a particular proposition is beneficial or not for a company

Why is a SWOT Analysis important to your business?

- It can be used for a number of decision making requirements and enables proactive thinking rather than relying on habitual or instinctive reactions.
- It is versatile in that it can be used for both personal and business issues.
- It enables a team leader to define and develop goal-oriented actions, together with specific and agreed objectives.

- By getting collective agreement to the Analysis, the commitment of those responsible for any implementation to the proposition will be encouraged.
- It can uncover opportunities that the company is well placed to take advantage of and by understanding the weaknesses of your business, you can manage or eliminate threats that otherwise could have come as a surprise to you.