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## Preface

Welcome to *Principles of Economics*, an OpenStax resource. This textbook has been created with several goals in mind: accessibility, customization, and student engagement—all while encouraging students toward high levels of academic scholarship. Instructors and students alike will find that this textbook offers a strong foundation in economics in an accessible format.

## About OpenStax

OpenStax is a non-profit organization committed to improving student access to quality learning materials. Our free textbooks go through a rigorous editorial publishing process. Our texts are developed and peer-reviewed by educators to ensure they are readable, accurate, and meet the scope and sequence requirements of today's college courses. Unlike traditional textbooks, OpenStax resources live online and are owned by the community of educators using them. Through our partnerships with companies and foundations committed to reducing costs for students, OpenStax is working to improve access to higher education for all. OpenStax is an initiative of Rice University and is made possible through the generous support of several philanthropic foundations.

## About OpenStax's Resources

OpenStax resources provide quality academic instruction. Three key features set our materials apart from others: they can be customized by instructors for each class, they are a "living" resource that grows online through contributions from science educators, and they are available free or for minimal cost.

### Customization

OpenStax learning resources are designed to be customized for each course. Our textbooks provide a solid foundation on which instructors can build, and our resources are conceived and written with flexibility in mind. Instructors can select the sections most relevant to their curricula and create a textbook that speaks directly to the needs of their classes and student body. Teachers are encouraged to expand on existing examples by adding unique context via geographically localized applications and topical connections.

*Principles of Economics* can be easily customized using our online platform (<http://cnx.org/content/col11613/>). Simply select the content most relevant to your current semester and create a textbook that speaks directly to the needs of your class. *Principles of Economics* is organized as a collection of sections that can be rearranged, modified, and enhanced through localized examples or to incorporate a specific theme of your course. This customization feature will ensure that your textbook truly reflects the goals of your course. *Principles of Economics* is also available in two volumes, one covering microeconomics and one covering macroeconomics principles.

### Curation

To broaden access and encourage community curation, *Principles of Economics* is "open source" licensed under a Creative Commons Attribution (CC-BY) license. The economics community is invited to submit examples, emerging research, and other feedback to enhance and strengthen the material and keep it current and relevant for today's students. Submit your suggestions to [info@openstaxcollege.org](mailto:info@openstaxcollege.org), and check in on edition status, alternate versions, errata, and news on the StaxDash at <http://openstaxcollege.org>.

### Cost

Our textbooks are available for free online, and in low-cost print and e-book editions.

## About *Principles of Economics*

*Principles of Economics* is designed for a two-semester principles of economics sequence. The text has been developed to meet the scope and sequence of most introductory courses. At the same time, the book includes

a number of innovative features designed to enhance student learning. Instructors can also customize the book, adapting it to the approach that works best in their classroom.

## Coverage and Scope

To develop *Principles of Economics*, we acquired the rights to Timothy Taylor's second edition of *Principles of Economics* and solicited ideas from economics instructors at all levels of higher education, from community colleges to Ph.D.-granting universities. They told us about their courses, students, challenges, resources, and how a textbook can best meet the needs of both instructors and students.

The result is a book that covers the breadth of economics topics and also provides the necessary depth to ensure the course is manageable for instructors and students alike. And to make it more applied, we have incorporated many current topics. We hope students will be interested to know just how far-reaching the recent recession was (and still is), for example, and why there is so much controversy even among economists over the Affordable Care Act (Obamacare). The Keystone Pipeline, Occupy Wall Street, minimum wage debates, and the appointment of the United States' first female Federal Reserve chair, Janet Yellen, are just a few of the other important topics covered.

The pedagogical choices, chapter arrangements, and learning objective fulfillment were developed and vetted with feedback from educators dedicated to the project. They thoroughly read the material and offered critical and detailed commentary. The outcome is a balanced approach to micro and macro economics, to both Keynesian and classical views, and to the theory and application of economics concepts. New 2015 data are incorporated for topics that range from average U.S. household consumption in Chapter 2 to the total value of all home equity in Chapter 17. Current events are treated in a politically-balanced way as well.

The book is organized into eight main parts:

- **What is Economics?** The first two chapters introduce students to the study of economics with a focus on making choices in a world of scarce resources.
- **Supply and Demand**, Chapters 3 and 4, introduces and explains the first analytical model in economics: supply, demand, and equilibrium, before showing applications in the markets for labor and finance.
- **The Fundamentals of Microeconomic Theory**, Chapters 5 through 10, begins the microeconomics portion of the text, presenting the theories of consumer behavior, production and costs, and the different models of market structure, including some simple game theory.
- **Microeconomic Policy Issues**, Chapters 11 through 18, cover the range of topics in applied micro, framed around the concepts of public goods and positive and negative externalities. Students explore competition and antitrust policies, environmental problems, poverty, income inequality, and other labor market issues. The text also covers information, risk and financial markets, as well as public economy.
- **The Macroeconomic Perspective and Goals**, Chapters 19 through 23, introduces a number of key concepts in macro: economic growth, unemployment and inflation, and international trade and capital flows.
- **A Framework for Macroeconomic Analysis**, Chapters 24 through 26, introduces the principal analytic model in macro, namely the Aggregate Demand/Aggregate Supply Model. The model is then applied to the Keynesian and Neoclassical perspectives. The Expenditure-Output model is fully explained in a stand-alone appendix.
- **Monetary and Fiscal Policy**, Chapters 27 through 31, explains the role of money and the banking system, as well as monetary policy and financial regulation. Then the discussion switches to government deficits and fiscal policy.
- **International Economics**, Chapters 32 through 34, the final part of the text, introduces the international dimensions of economics, including international trade and protectionism.

Chapter 1 Welcome to Economics!

Chapter 2 Choice in a World of Scarcity

Chapter 3 Demand and Supply

Chapter 4 Labor and Financial Markets

Chapter 5 Elasticity

Chapter 6 Consumer Choices

Chapter 7 Cost and Industry Structure

Chapter 8 Perfect Competition

Chapter 9 Monopoly

Chapter 10 Monopolistic Competition and Oligopoly

Chapter 11 Monopoly and Antitrust Policy

Chapter 12 Environmental Protection and Negative Externalities

Chapter 13 Positive Externalities and Public Goods

Chapter 14 Poverty and Economic Inequality

Chapter 15 Issues in Labor Markets: Unions, Discrimination, Immigration

Chapter 16 Information, Risk, and Insurance

Chapter 17 Financial Markets

Chapter 18 Public Economy

Chapter 19 The Macroeconomic Perspective

Chapter 20 Economic Growth

Chapter 21 Unemployment

Chapter 22 Inflation

Chapter 23 The International Trade and Capital Flows

Chapter 24 The Aggregate Demand/Aggregate Supply Model

Chapter 25 The Keynesian Perspective

Chapter 26 The Neoclassical Perspective

Chapter 27 Money and Banking

Chapter 28 Monetary Policy and Bank Regulation

Chapter 29 Exchange Rates and International Capital Flows

Chapter 30 Government Budgets and Fiscal Policy

Chapter 31 The Impacts of Government Borrowing

Chapter 32 Macroeconomic Policy Around the World

Chapter 33 International Trade

Chapter 34 Globalization and Protectionism

Appendix A The Use of Mathematics in Principles of Economics

Appendix B Indifference Curves

Appendix C Present Discounted Value

Appendix D The Expenditure-Output Model

Alternate Sequencing *Principles of Economics* was conceived and written to fit a particular topical sequence, but it can be used flexibly to accommodate other course structures. One such potential structure, which will fit reasonably well with the textbook content, is provided. Please consider, however, that the chapters were not written to be completely independent, and that the proposed alternate sequence should be carefully considered for student preparation and textual consistency.

Chapter 1 Welcome to Economics!

Chapter 2 Choice in a World of Scarcity

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Chapter 33 International Trade

Chapter 7 Cost and Industry Structure

Chapter 12 Environmental Protection and Negative Externalities

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Appendix A The Use of Mathematics in Principles of Economics

Appendix B Indifference Curves

Appendix C Present Discounted Value

Appendix D The Expenditure-Output Model

## Pedagogical Foundation

Throughout the OpenStax version of *Principles of Economics*, you will find new features that engage the students in economic inquiry by taking selected topics a step further. Our features include:

- **Bring It Home:** This added feature is a brief case study, specific to each chapter, which connects the chapter's main topic to the real world. It is broken up into two parts: the first at the beginning of the chapter (in the Intro module) and the second at chapter's end, when students have learned what's necessary to understand the case and "bring home" the chapter's core concepts.
- **Work It Out:** This added feature asks students to work through a generally analytical or computational problem, and guides them step-by-step to find out how its solution is derived.
- **Clear It Up:** This boxed feature, which includes pre-existing features from Taylor's text, addresses common student misconceptions about the content. Clear It Ups are usually deeper explanations of something in the main body of the text. Each CIU starts with a question. The rest of the feature explains the answer.
- **Link It Up:** This added feature is a very brief introduction to a website that is pertinent to students' understanding and enjoyment of the topic at hand.

## Questions for Each Level of Learning

The OpenStax version of *Principles of Economics* further expands on Taylor's original end of chapter materials by offering four types of end-of-module questions for students.

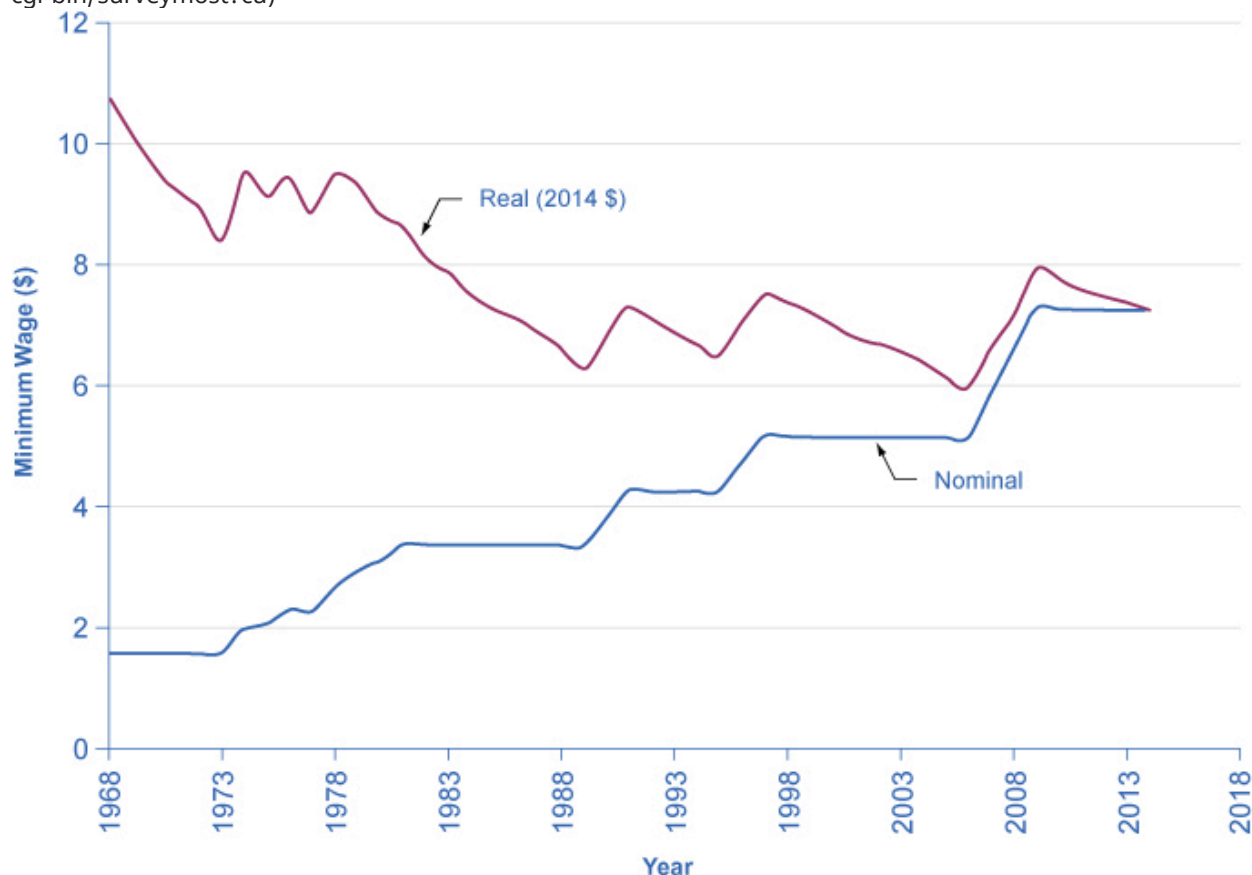
- **Self-Checks:** Are analytical self-assessment questions that appear at the end of each module. They “click-to-reveal” an answer in the web view so students can check their understanding before moving on to the next module. Self-Check questions are not simple look-up questions. They push the student to think a bit beyond what is said in the text. Self-Check questions are designed for formative (rather than summative) assessment. The questions and answers are explained so that students feel like they are being walked through the problem.
- **Review Questions:** Have been retained from Taylor’s version, and are simple recall questions from the chapter and are in open-response format (not multiple choice or true/false). The answers can be looked up in the text.
- **Critical Thinking Questions:** Are new higher-level, conceptual questions that ask students to *demonstrate their understanding by applying* what they have learned in different contexts. They ask for outside-the-box thinking, for *reasoning* about the concepts. They push the student to places they wouldn’t have thought of going themselves.
- **Problems:** Are exercises that give students additional practice working with the analytic and computational concepts in the module.

## Updated Art

*Principles of Economics* includes an updated art program to better inform today’s student, providing the latest data on covered topics.

### U.S. Minimum Wage and Inflation

After adjusting for inflation, the federal minimum wage dropped more than 30 percent from 1967 to 2010, even though the nominal figure climbed from \$1.40 to \$7.25 per hour. Increases in the minimum wage in 2007, 2008, and 2009 kept the decline from being worse—as it would have been if the wage had remained the same as it did from 1997 through 2006. (Sources: <http://www.dol.gov/whd/minwage/chart.htm>; <http://data.bls.gov/cgi-bin/surveymost?cu>)





## About Our Team

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Senior Author

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## Ancillaries

OpenStax projects offer an array of ancillaries for students and instructors. Please visit <http://openstaxcollege.org> and view the learning resources for this title.



## Learning Outcomes

After reading this chapter, you should be able to answer these questions:

1. What is strategic analysis and why do firms need to analyze their competitive environment?
2. What is a SWOT analysis and what can it reveal about a firm?
3. What makes up a firm's external environment, and what tools do strategists use to understand it?
4. How and why do managers conduct an internal analysis of their firms?
5. What does it mean to compete with other firms in a business environment, and what does it mean when a firm has a competitive advantage over its rivals?
6. What are generic competitive strategies, and how and why do firms use them?
7. What are the elements that go into determining a firm's strategic position?

## Exploring Business Careers

Lauri Goodman Lampson, Planning Design Research Corporation

Lauri Goodman Lampson is President and CEO of Planning Design Research Corporation <sup>1</sup>, a firm that analyzes work environments to understand how employees work and what kind of spaces and facilities they need to do their best, most productive work. Lampson was hired by Accenture to evaluate and improve their location in Houston. Accenture's Houston office was a 3-story, 66,000 square foot building that served 800 employees <sup>2</sup>. Accenture employees are consultants themselves; they typically spend up to two-thirds of their working time away from the office serving clients. Lampson worked with Accenture Director of Workplaces Dan Johnson, and Steelcase, an office furniture manufacturer, to study how the Houston space was used. Lampson's "focus is on gaining a deep understanding of the business and its strategy for success and then developing strategic workplace solutions that enable those goals". <sup>3</sup> To achieve this, Lampson and Steelcase performed an analysis of employee demographics and expectations, as well as studies of how employees actually interacted with each other and performed tasks in the workplace. Accenture wanted to have a workspace that fostered their strengths: worker innovation, collaboration, and flexibility <sup>4</sup>. Understanding a firm's strengths is an important step in strategic analysis, and Lampson's focus on supporting those strengths in the workplace environment led to Workplace 2.0, Accenture's reimagined facility. Not only does the new workspace provide better physical and technological support for collaboration among Accenture employees,

but Lampson and Steelcase were able to identify opportunities for Accenture to significantly reduce the size of their offices. Accenture saves money by using less space (they were able to downsize to a single floor of 25,000 square feet to serve the same number of workers) and supports worker interaction and engagement by providing a more effective workspace <sup>5</sup>. You can watch a video of this transformation [here](#).

## 1.1 Gaining Advantages by Understanding the Competitive Environment

### Global Economic Systems

- **What is strategic analysis and why do firms need to analyze their competitive environment?**

*Strategic analysis* is the process that firms use to study and understand their competitive environment. That environment includes many different layers and aspects. Why do firms spend time and money trying to understand what is going on around them? Firms do not operate in a vacuum. They are impacted by forces and factors both inside their organizations and outside in the world at large. Understanding these forces and factors is crucial to achieving success as a business. For example, the growth in the Spanish speaking population in the United States has led many firms to change the signage in their stores and labels on their products to include Spanish, in order to make their stores easier to shop in and their products easier to identify for this growing market. The external environment is continually changing, and the most successful firms are able to prepare for and adapt to environmental changes because they have done their homework and understand how external forces impact their operations.

Managers and consultants engage in environmental scanning—the systematic and intentional analysis of both a firm’s internal state and its external environment. Understanding the competitive environment prepares firms to react to change more easily and develop products consumers want. Firms of all sizes benefit from strategic analysis, from a local coffee shop to an international corporation. Let’s take a look at what sort of things a manager analyzing the external environment might be interested in.

### The Competitive Environment

A firm’s competitive environment includes components inside the firm and outside the firm. External factors are things in the world environment that may impact a firm’s operations or success. These things are often

outside the firm's control, but are still important to understand in order for the firm to be as successful as possible. For example, the unemployment rate will affect a firm's ability to hire qualified employees at a reasonable rate of pay. If unemployment is high, meaning that a lot of people are looking for jobs, then a firm will probably have a lot of applicants for any positions they need to fill. They will be able to choose more highly qualified applicants to hire, and may be able to hire them at a lower pay rate, since the employee would rather work for a lower pay rate than not have a job at all. On the other hand, when unemployment is low, meaning that not many people are looking for jobs, firms may have to offer higher pay or settle for lower qualifications to even find someone to fill a position.

Internal factors are characteristics of the firm itself. A firm needs to understand what resources it has, what it is good at, and how it is organized in order to be able to plan to compete against other firms. For example, Walmart has a sophisticated IT system that tracks inventory and automatically orders products before they run out, calculating how long it will take for the new product to arrive and comparing that to the rate at which the product on the shelves is selling. The system orders new product so that it will arrive just as the product on the shelves is running out, so that Walmart stores do not need to have storage space for inventory. All Walmart inventory is on the store shelves, ready to be sold to customers. How does this system benefit Walmart? They do not have to spend money on storing or keeping track of inventory, all products in the store can generate revenue because they are available for customers to buy, and when the system is working optimally, they never run out of items customers want.

Competition is good for both businesses and consumers in a capitalist system. It leads to better and more diverse products, keeps prices stable, and increases the efficiency of producers. Companies try to produce their goods and services at the lowest possible cost and sell them at the highest possible price. But when profits are high, more firms enter the market to seek those profits. The resulting competition among firms tends to lower prices. Producers must then find new ways of operating more efficiently if they are to keep making a profit—and stay in business.

## Concept Check

1. Why do managers use strategic analysis?
2. How are internal factors different from external factors in a firm's competitive environment?

## Catching the Entrepreneurial Spirit

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## SWOT Analysis

You may already have heard of one very common tool firms use to analyze their situations. SWOT, which is an acronym for Strengths, Weaknesses, Opportunities, and Threats, is used by firms to get a general understanding of what they are good or bad at, and what factors outside their doors might present chances for success or difficulty. Let's take a look piece by piece.

### Strengths

A firm's strengths are, to put it simply, what they are good at. Nike is good at marketing sports products, McDonald's is good at making food quickly and inexpensively, and Ferrari is good at making beautiful fast cars. When a firm analyzes its strengths, it is compiling a list of its capabilities and assets. Does the firm have a lot of cash available? That is a strength. Does the firm have highly skilled employees? Another strength. Knowing exactly what it is good at allows a firm to make plans exploiting those strengths. Nike can plan to expand its business by making products for a sport they don't currently serve. Their sports marketing expertise will help them successfully launch that new product line.

### Weaknesses

A firm's weaknesses are things that they do not have good capabilities to perform. Weaknesses are not necessarily faults—remember that not all firms can be great at all things. When a firm understands its weaknesses, it will avoid trying to do things it does not have the skills or assets to succeed in, or it will find ways to improve their weaknesses to prepare to do something new. Firm weaknesses are simply gaps in capabilities, and those gaps do not always have to be filled within the firm. SWOT analysis alerts firms to the gaps so they can work around them, find help in those areas, or develop capabilities to fill the gaps. For example, Paychex is a firm that handles payroll for over 600,000 firms. Paychex processes hours, pay rates, tax and benefits deductions, and direct deposit for firms that would rather not have to perform those tasks themselves. A large firm would need to have a team of employees dedicated to fulfilling that task, and equip them with software systems to do the job efficiently and accurately. For Paychex, these capabilities are a company strength—that's what they do. Other companies may not have the resources or interest to develop this capability, and so they can hire Paychex to do the job for them.

### Opportunities

While strengths and weaknesses are generally found inside the firm, opportunities and threats usually refer to situations in a firm's external environment. An opportunity is a situation that a firm is equipped to take advantage of. Think of opportunities in terms of things that happen in the market. For example, as cities become more populated, parking is becoming scarcer. Younger consumers who live in cities are starting to question whether it makes sense to own a car at all, when public transportation is available and parking is not. Sometimes, however, a person might need a car to travel outside the city or transport a special purchase. Daimler, the manufacturer of Mercedes-Benz and Smart cars started a car-sharing service called Car2Go to offer cars to this new market of part-time drivers. They have found a way to sell the use of their products to people who would not buy them outright.

## Threats

When a manager assesses the external competitive environment, she labels anything that would make it harder for her firm to be successful as a threat. A wide variety of situations and scenarios can threaten a firm's chances of success, from a downturn in the economy to a competitor launching a better version of a product you also offer. A good threat assessment looks thoroughly at the external environment so the firm can be prepared to meet challenges that are identified. Opportunities and threats can also be a matter of perspective or interpretation: the Car2Go service that Daimler developed to serve young urban customers who don't own cars could also be cast as a defensive response to the trend away from car ownership in this customer group. Daimler could have identified decreasing sales among young urban professionals as a threat and developed Car2Go as an alternative way to gain revenue from these otherwise lost customers.

## The Limitations of SWOT Analysis

Although a SWOT analysis can identify important factors and situations impacting firms, it only works as well as the person doing the analysis. SWOT can generate a good evaluation of the firm's internal and external environments, but it is more likely to overlook key issues because it is difficult to identify or imagine everything that could, for example, be a threat to the firm. That's why the remainder of this chapter will present tools for developing a strategic analysis that are more thorough and systematic in examining both the internal and external environments that firms operate in.

## Concept Check

1. Explain the elements of a SWOT analysis.
2. What information does a SWOT analysis provide managers?
3. What information might it miss?

## Expanding Around the Globe

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## 1.2 The External Environment: The World of Competition

- **What makes up a firm's external environment, and what tools do strategists use to understand it?**

The world at large forms the external environment for businesses. A firm must confront, adapt to, take advantage of, and defend itself against what is happening in the world around them in order to succeed. To make gathering and interpreting information about the external environment easier, strategic analysts have defined several general categories of activities and groups that managers should examine and understand. Exhibit 8-2 illustrates layers and categories found in a firm's environment.

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### The Macro Environment

A firm's macro environment contains elements that can impact a business but are generally beyond the firm's direct control. These elements are characteristics of the world at large, and are factors that all businesses must contend with, regardless of the industry they are in or type of business they are. In the Exhibit 8-2, the macro environment is indicated in blue. Note that the terms contained in the blue ring are all "big-picture" items that exist independently of business activities. That is not to say that they do not impact firms, or that firm activities cannot affect macro environmental elements; both can and do happen, but firms are largely unable to directly change things in the macro environment.

Strategists study the macro environment to learn about facts and trends that may present opportunities or threats to their firms. However, they do not usually just think in terms of SWOT. Strategists have developed more discerning tools to examine the external environment.

### Managing Change

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## PESTEL

PESTEL is a tool that reminds managers to look at several distinct categories in the macro environment. Like SWOT, PESTEL is an acronym. In this case, the letters represent the categories to examine. When using PESTEL to analyze a specific firm's situation, overlap can sometimes happen just as it can with SWOT.

Remember the earlier example: when urban millennials decide that car ownership is no longer attractive, car manufacturers' sales are threatened. However, those same manufacturers might be able to adapt their sales methods to offer millennials car-sharing services, taking advantage of the opportunity to earn revenue from millennials who want access to cars for vacations or big shopping trips. PESTEL can also reveal multiple impacts from a single element in the external environment. Decreasing interest in car ownership among urban millennials would be a sociocultural trend. However, the technological connectedness of those same urban millennials is exactly what makes it possible for ride sharing services like Uber and Lyft to thrive: their services are app based and provide convenience both by connecting drivers and passengers quickly and by making transactions cashless.

Exhibit 8-3 illustrates the components of PESTEL, which will be discussed individually below.

### Political Factors

Political factors in the macro environment include taxation, tariffs, trade agreements, labor regulations, and environmental regulations. Note that in PESTEL, factors are not characterized as opportunities or threats. They are simply things that firms can take advantage of or treat as problems, depending on their own interpretation or abilities. American Electric Power, a large company that generates and distributes electricity, may be negatively impacted by environmental regulations that restrict its ability to use coal to generate electricity because of pollution caused by burning coal. However, another energy firm has taken advantage of the government's interest in reducing coal emissions by developing a way to capture the emissions while producing power. The Petra Nova plant, near Houston, was developed by NRG and JX Nippon, who received Energy Department grants to help fund the project. Although firms do not directly make government policy decisions, many industries and firms invest in lobbying efforts to try to influence government policy development to create opportunities or reduce threats.

### Economic Factors

All firms are impacted by the state of the national and global economies. The increased interdependence of individual country economies has made economic factors more complex. Firms analyze economic indicators in order to make decisions about entering or exiting geographic markets, investing in expansion, and hiring or laying off employees. As discussed earlier in this chapter, employment rates impact the quantity, quality, and cost of employees available to firms. Interest rates impact sales of big-ticket items that consumers normally finance, such as appliances, cars, and homes. Interest rates also impact the cost of capital for firms that want

to invest in expansion. Exchange rates present risks and opportunities to all firms that operate across national borders, and the price of oil impacts many industries, from airlines and transportation companies to solar panel producers and plastic recycling companies. Once again, any scenario can be a threat to one firm and an opportunity to another, so economic forces should not be assumed to be intrinsically good or bad.

## **Sociocultural Factors**

Quite possibly the largest category of macro environmental factors an analyst might examine are sociocultural factors. This broad category encompasses everything from changing national demographics to fashion trends, and many things in between. Demographics, a subset of this category, includes facts about income, education levels, age groups and the ethnic and racial composition of a population. All of these facts present market challenges and possibilities. Firms can target products to specific market segments by studying the needs and preferences of demographic groups, such as working women (they might need daycare services, but not watch daytime television), college students (who would be interested in affordable textbooks, but couldn't afford to buy new cars), or the elderly (who would be willing to pay for lawn mowing services, but might not be interested in adventure tourism).

Changes in people's values and interests are also included in this category. Environmental awareness has spurred demand for electric and hybrid cars. A general interest in health and fitness has created industries in gyms, home gym equipment, and organic food. The popularity of social media has created an enormous demand for instant access to information and services, not to mention smart phones. Values and interests are constantly changing, and vary from country to country, creating new market opportunities as well as communication challenges for companies trying to enter unfamiliar new markets.

## **Technological factors**

The internet may be the most disruptive technological change of the last century. The globe has become more interconnected and interdependent because of the fast, low cost communications the internet provides. Customer service agents in India can serve customers in Kansas because technology has advanced to the point that the customer's account information can be instantly accessed by the service provider in India. Entrepreneurs around the world can reach customers anywhere through companies like eBay, Alibaba, and Etsy, and they can get paid, regardless of their customers' currency, through PayPal. The internet has enabled Jeff Bezos, who started an online bookselling company called Amazon in 1994, to transform how consumers shop for goods.

How else have technological factors impacted business? The internet is not the only technological advance that has transformed how businesses operate. Automation has increased efficiency for manufacturers. MRP systems have changed how companies and their suppliers work together, and global positioning technology has helped construction engineers manage large projects more accurately. Consumers and firms both have nearly unlimited access to information, and this has empowered consumers to make more informed buying decisions and challenged firms to develop ways to analyze the large amounts of data their businesses generate.

## **Environmental factors**

The environment has always been a key part of human business activity, providing natural resources for manufacturing and energy production. As resources become scarcer and more expensive, environmental factors impact businesses more every day. Firms are developing technology to operate using fewer resources and more cleanly. Political pressure has increased on business globally to reduce their impacts on the natural environment. In 2017, several cities announced their plans to ban cars with internal combustion engines over the next few decades, in order to combat air quality issues.

This external environment category often overlaps with others in PESTEL because concern for the environment is also a sociocultural trend, with consumers looking for recycled products and buying electric and hybrid cars. Firms are facing increased regulation around the world on their carbon emissions and natural resource use, turning environmental factors into political and legal ones too. Although SWOT would characterize these factors as either opportunities or threats, PESTEL simply identifies them as aspects of the external

environment that firms must consider when planning for their futures.

## Legal Factors

Legal factors in the external environment often coincide with political factors because laws are enacted by government entities. This does not mean that the categories identify the same issues, however. Although labor laws and environmental regulations have deep political connections, other legal factors can impact business success. For example, in the streaming video industry, licensing fees are a significant cost for firms. Netflix spends billions of dollars every year to movie and television studios for the right to broadcast content. In addition to the legal requirement to pay the studios, Netflix must consider that consumers may find illegal ways to view the movies they want to see, making them less willing to pay to subscribe to Netflix. Intellectual property rights and patents are major issues in the legal realm.

## Concept Check

1. Describe a firm's macro environment.
2. What does PESTEL stand for?
3. How do managers use PESTEL to understand their firm's macro environment?

## Ethics in Practice

### Sustainability and Responsible Management: Can LEGO Give up Plastic?

"In 2012, the LEGO Group first shared its ambition to find and implement sustainable alternatives to the current raw materials used to manufacture LEGO products by 2030. The ambition is part of the LEGO Group's work to reduce its environmental footprint and leave a positive impact on the planet our children will inherit."

Danish toy company LEGO announced in 2015 that it would invest almost \$160 million dollars into its efforts to meet the goal announced in 2012. You know LEGO—they are the colored plastic bricks that snap together to make toys ranging from Harry Potter castles to Star Wars fighter craft. The family-owned company was founded in 1932 by Ole Kirk Kristiansen, and has since grown to be the world's number one toy brand.

Given that LEGO and plastic seem to go hand in hand, why would the company want to give up on the material that makes their toys so successful? LEGO's manufacturing process relies on plastic to make highly precise plastic bricks that always fit together securely and easily. Replacing the plastic with another material that is durable, can be brightly colored, and can be molded as precisely is a difficult task. LEGO's leadership has decided that a strategic position based on fossil fuels is not sustainable and is making plans now to transition to a more environmentally friendly material to manufacture its products.

Switching from oil-based ABS plastic might make economic sense as well. Manufacturers who rely on petroleum-based products must weather volatile oil prices. LEGO's raw materials costs could skyrocket overnight if the price of oil climbs again like it did in 2011. That price spike was due to conflict in Libya and other parts of the Arab world, something entirely beyond the control of any business.

Technological innovations in bio-based plastics may be the answer for LEGO, which is working with university researchers around the globe to find a solution to their carbon-footprint problem.

#### Critical Thinking Questions

1. How would you approach this issue if you were the manager in charge of sourcing raw materials for LEGO? How would PESTEL analysis inform your actions?
2. What PESTEL challenges is LEGO trying to address by changing the raw materials used in their products?
3. Explain what favorable PESTEL factors support LEGO's efforts.

## The Micro Environment

A firm's micro environment is illustrated in the green circle in Exhibit 8-2. These entities are all directly connected to the firm in some way, and firms must understand the micro environment in order to successfully compete in an industry. All firms are part of an industry—a group of firms all making similar products or offering similar services, for example automobile manufacturers or airlines. Firms in an industry may or may not compete directly against one another, as we'll discuss shortly, but they all face similar situations in terms of customer interests, supplier relations, and industry growth or decline.

An analysis tool strategists use to evaluate the micro environment was developed by Harvard Strategy Professor Michael Porter, and is named for him. Porter's Five Forces is a tool used to examine different micro environmental groups to understand the impact each has on a firm in an industry. Illustrated in Exhibit 8-4, the forces each represent an aspect of competition that impacts a firm's potential to be successful in an industry.

### Porter's Five Forces: Industry Rivalry

The first of Porter's forces is in the center of the diagram: industry rivalry. Note that the arrows in the diagram show two-way relationships between rivalry and all of the other forces. This is because each force can affect how hard firms in an industry must compete against each other for customers, favorable supplier relationships, or to defend themselves against new firms entering the industry.

When using Porter's model, an analyst will determine if each force is strongly present in an industry or is weaker in its impact on industry firms. In the case of rivalry, the question is whether or not firms must fight hard against rivals (competitors) in their industry to gain customers and market share. Strong rivalry in an industry reduces the profit potential for all firms because consumers have many firms to purchase products or services from and can make at least part of their purchasing decisions based on prices. An industry with weak rivalry will either not have many firms, meaning that there are enough customers for everyone, or will have firms who have each staked out a unique position in the industry, meaning that customers will be more loyal to the firm that best meets their particular needs.

### The Threat of New Entrants

In an industry, there are incumbent (existing) firms who compete against each other as rivals. However, if an industry has a growing market or is very profitable, it may attract new entrants. These are firms that either start up in the industry as new companies or are firms that expand their capabilities or target market to be able to compete in an industry that is new to them. Different industries may be easier or harder to enter depending on barriers to entry—factors that prevent new firms from successfully competing in the industry. Common barriers to entry include cost, brand loyalty, and industry growth. For example, the airline industry rarely faces threats from new entrants because it is very expensive to obtain the equipment, airport landing rights, and expertise to start up a new airline. Brand loyalty can also keep new firms from entering an industry, because customers who are familiar with a strong brand name may be unwilling to try a new unknown brand. Industry growth can increase or decrease the chances a new entrant will succeed. In an industry with low growth, new customers are scarce and a firm can only gain market share by attracting customers of other firms—remember the last cell phone provider advertisement you saw? Cell phone companies are facing lower industry growth and must offer consumers incentives to switch from another provider. On the other hand, high growth industries have more and more customers, and new firms can successfully appeal to new customers by offering them something existing firms do not offer.

### Threat of Substitutes

Substitutes, in the context of Porter's model, are any other product or service that can satisfy the same need for a customer as an industry's offerings. Be careful not to confuse substitutes with rivals! Rivals are offering similar products or services and directly compete with one another. Substitutes are completely different products or services that consumers would be willing to use instead. For example, the fast food industry offers quickly prepared, convenient, low cost meals. Customers can go to McDonald's, Wendy's, Burger King, or Taco Bell—all of these firms compete against each other for business. However, their customers are really just hungry people. What else could you do if you were hungry? You could go to the grocery store and buy food to

prepare at home. McDonald's does not directly compete against Kroger for customers because they are in different industries, but McDonald's does face a threat from grocery stores because they both sell food. How does McDonald's defend itself from the threat of Kroger as a substitute? By making sure their food is already prepared and convenient to purchase—your burger or salad is ready to eat and available without even getting out of your car.

## Supplier Power

Virtually all firms have suppliers who sell them parts, materials, or products. Supplier power refers to the balance of power in the relationship between firms and their suppliers in an industry. Suppliers can have the upper hand in a relationship if they offer specialized products or control rare resources. For example, when Sony develops a new PlayStation model, they often work with a single supplier to develop the most advanced processor chip they can for their game console. That means their supplier will be able to command a fairly high price for the processors, an indication that they have power. On the other hand, a firm that needs commodity resources in their operations will have many suppliers to choose from and can easily switch suppliers if price or quality are better from a new partner. Commodity suppliers usually have low power.

## Buyer Power

The last of Porter's forces is buyer power. This, like supplier power, refers to the balance of power in the relationship between a firm and its customers. If a firm provides a unique good or service, they will have the power to charge their customers premium prices, because those customers have no choice but to buy from the firm if they need that product. In contrast, when customers have many potential sources for a product, firms will need to attract customers with better prices or better value for the money if they want to sell their products. One protection firms have against buyer power is switching costs—the penalty a consumer faces in switching to a different company for a particular product. Switching costs can be financial (the extra price paid to choose a different product) or practical (the time or hassle required to switch to a different product). For example, think about your smart phone. If you have an iPhone now, what would be the penalty for you to switch to a non-Apple smart phone? Would it just be the cost of the new phone? Smart phones are not inexpensive, but even when cell phone service providers offer free phones to new customers, many people still don't switch. The loss of compatibility with other Apple products, the need to transfer apps and phone settings to another system, and the loss of favorite iPhone features, like iMessage, are enough to keep many people loyal to their iPhones.

## Customer Satisfaction and Quality

### Customer Satisfaction and Quality

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## Concept Check

1. Describe each of Porter's Five Forces.
2. What information does each provide a manager trying to understand her firm's macro environment?

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Table 1.1

3. links to figures [Exhibit 1.3](#) and examples [Example 1.1](#)

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**Table 1.3**

- links to figures [Exhibit 1.3](#), and examples [Example 1.1](#)
- Cite reference in a bulleted list<sup>8</sup>





**Exhibit 1.3** A caption for this fancy figure.

## Example 1.1

Test Example

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Table 1.4

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## Link to Learning



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# H1

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Exhibit 1.4

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## Exercise 1

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Quisque cursus feugiat lectus ut volutpat. Vestibulum et erat ac velit interdum cursus ac nec urna. Morbi fringilla risus nec dolor euismod, in iaculis odio viverra. Quisque rutrum scelerisque eleifend. Nullam sagittis at lorem at facilisis. Suspendisse eget volutpat lacus. Proin ac nisi non nibh rutrum egestas. Cras non molestie mauris. Proin sollicitudin non ligula sed feugiat.

#### Exercise 2

Fusce sollicitudin sodales purus eu porttitor. In tempus, neque in posuere imperdiet, ex risus auctor ex, ac ullamcorper magna odio eu metus. Aliquam vel efficitur elit. Vivamus quis magna at arcu vestibulum pulvinar suscipit vitae sapien. Etiam posuere pulvinar nunc, id imperdiet sapien sollicitudin non. Sed semper est quis urna accumsan auctor?

#### Exercise 3

Fusce sollicitudin sodales purus eu porttitor. In tempus, neque in posuere imperdiet, ex risus auctor ex, ac ullamcorper magna odio eu metus. Aliquam vel efficitur elit. Vivamus quis magna at arcu vestibulum pulvinar suscipit vitae sapien. Etiam posuere pulvinar nunc, id imperdiet sapien sollicitudin non. Sed semper est quis urna accumsan auctor?

#### Exercise 4

Curabitur gravida consequat velit vel maximus?

Nullam eu urna id sapien eleifend pellentesque eu eget augue.

#### Exercise 5

In tempus, neque in posuere imperdiet, ex risus auctor ex, ac ullamcorper magna odio eu metus.

Aliquam vel efficitur elit. Vivamus quis magna at arcu vestibulum pulvinar suscipit vitae sapien.

#### Exercise 6

Nulla efficitur pretium nisl, vel semper justo sodales ac.

- a. Quisque rutrum scelerisque eleifend.
- b. Nullam sagittis at lorem at facilisis.
- c. Suspendisse eget volutpat lacus.

- a. cras
- b. magna
- c. eros

#### Exercise 7

Nullam id lorem sed dolor dapibus rhoncus. Pellentesque scelerisque, neque laoreet laoreet porttitor, risus mauris tempus sem, vitae molestie neque ipsum id ex.

- a. Quisque cursus feugiat lectus ut 1 volutpat odio 1 viverra.
- b. Proin sollicitudin non ligula sed 8 feugiat d/we<sup>3</sup>.
- c. Fusce sollicitudin sodales purus 15 eu porttitor.
- d. Proin ac nisi non nibh rutrum egestas.

- a. lorem
- b. ipsum
- c. lorem, ipsum
- d. leo, lorem

## Exercise 8

Fusce sollicitudin sodales purus eu porttitor. In tempus, neque in posuere imperdiet, ex risus auctor ex, ac ullamcorper magna odio eu metus.

- Quisque cursus feugiat lectus ut 1 volutpat odio 1 viverra.
- Proin sollicitudin non ligula sed 8 feugiat d/we<sup>3</sup>.
- Fusce sollicitudin sodales purus 15 eu porttitor.
- Proin ac nisi non nibh rutrum egestas.

- image without figure ID



- Ipssum, leo
- table

(1,1)	(1,2)	(1,3)
(2,1)	(2,2)	(2,3)
(3,1)	(3,2)	(3,3)

**Table 1.6**

- Image without caption



e. Table

(1,1)	(1,2)	(1,3)
(2,1)	(2,2)	(2,3)
(3,1)	(3,2)	(3,3)

**Table 1.7**

#### Exercise 9

Donec lobortis, neque in fermentum accumsan, orci leo maximus tortor, cursus pretium quam ipsum vel ipsum. Vivamus ligula lectus, consectetur a vestibulum sed, condimentum at ante?

Quisque vitae libero leo. Suspendisse leo dolor, condimentum quis justo ut, cursus mattis felis.

#### Exercise 10

Praesent viverra pulvinar tortor, eget pulvinar leo. Vestibulum ante ipsum primis in faucibus orci luctus et ultrices posuere cubilia Curae; Vestibulum eu nunc felis? Pellentesque interdum ligula vel lacus maximus luctus.

Quisque vitae libero leo. Suspendisse leo dolor, condimentum quis justo ut, cursus mattis felis.

#### Exercise 11

Sed semper est \_\_\_\_\_ quis urna accumsan auctor. (this is an alpha list)

a. Lorem

- b. Ipsum
- c. Dolor
- d. Sit
  
- a. here
- b. is
- c. another
- d. list

#### Exercise 12

Lorem ipsum dolor sit amet, consectetur adipiscing elit?

Here is an image.



#### Exercise 13

Ut dapibus dapibus eros vel tincidunt?

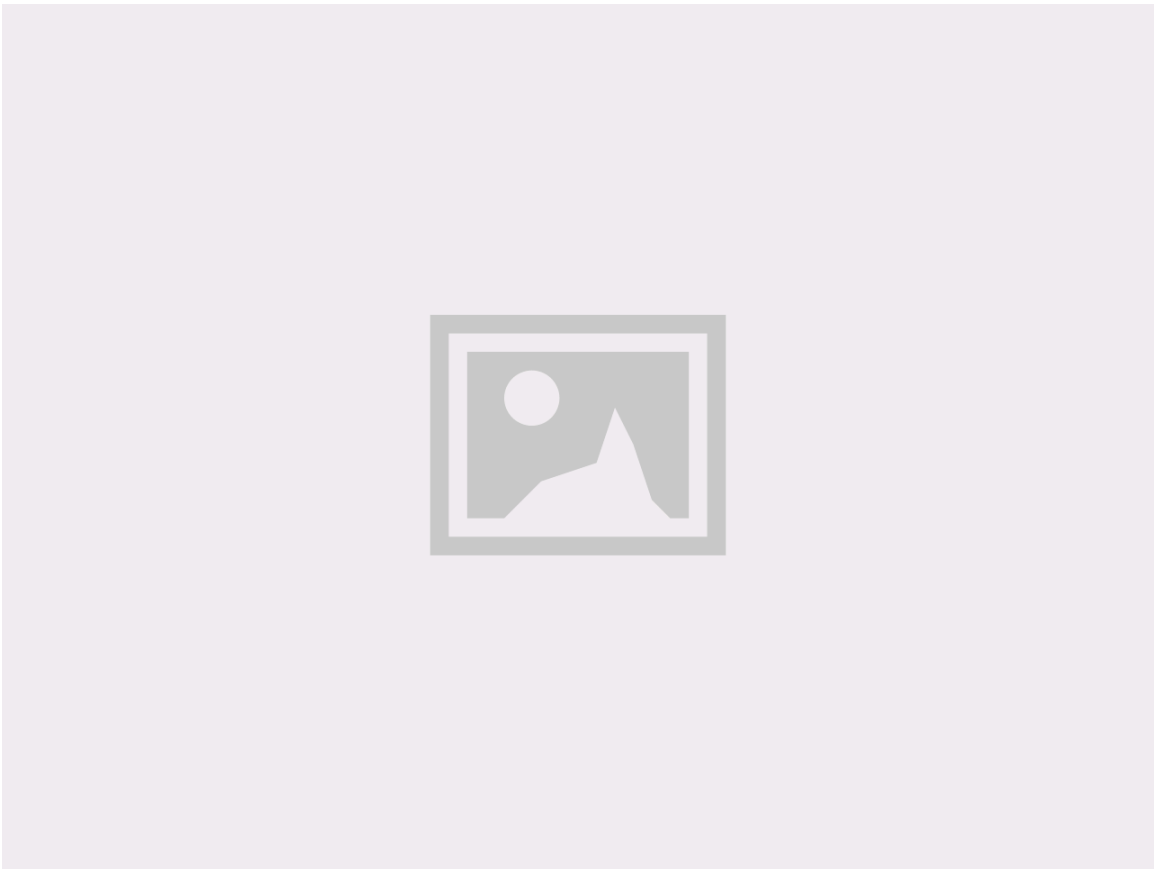
(1,1)	(1,2)	(1,3)
(2,1)	(2,2)	(2,3)



		(3,2)	(3,3)
Table 1.8 Exhibit 1.5 Quisque Vitae Libero caption.			

Exercise 14

This problem is about math. Inline math, to be precise.



**Exhibit 1.6** *Quisque Vitae Libero* caption.  
Exercise 15

This problem is about math. Display math, to be precise.

Here is some display mathml.

- this one is a bulleted list
- see

Footnotes

- [1](#) footnote
- [2](#) This footnote has at least one italic *word* in it.

1.4

'top-titled' class table testing

Version 1

Stock Exchange Rates of Return Set in the Default Table Style

S&P 500				
(SNPINDEX: ^GSPC)	500	8.2%	7.4%	81.4%

**Table 1.9** Caption caption caption.

<b>NASDAQ</b> (NASDAQINDEX: ^IXIC)	3,176	6.5%	12.5%	108%
<b>Vanguard FTSE Social Index Fund</b>	407	7.7%	5.7%	96.7%
<b>TIAA-CREF Social Choice Eq Retail</b> (NASDAQMUTFUND: TICRX)	793	12.1%	0.1%	66.8%
<b>iShares MSCI KLD 400 Social</b> (NYSEMKT: DSI)	403	8.1%	6.5%	78.8%

Version 2

Stock Exchange Rates of Return Set in the Default Table Style

Index or Fund	Number of Holdings	Year-to-Date Return	2-Year Return	5-Year Return
<b>S&amp;P 500</b> (SNPINDEX: ^GSPC)	500	8.2%	7.4%	81.4%
<b>NASDAQ</b> (NASDAQINDEX: ^IXIC)	3,176	6.5%	12.5%	108%
<b>Vanguard FTSE Social Index Fund</b>	407	7.7%	5.7%	96.7%
<b>TIAA-CREF Social Choice Eq Retail</b> (NASDAQMUTFUND: TICRX)	793	12.1%	0.1%	66.8%
<b>iShares MSCI KLD 400 Social</b> (NYSEMKT: DSI)	403	8.1%	6.5%	78.8%

Table 1.10   Caption caption caption.

Version 3

More Stock Exchange Rate Information Set as Default Table Style with Double Header Row

Table 1.11   Caption caption caption.

Name		Holdings and Returns		
Index or Fund	Number of Holdings	Year-to-Date Return	2-Year Return	5-Year Return
<b>S&amp;P 500</b> (SNPINDEX: ^GSPC)	500	8.2%	7.4%	81.4%
<b>NASDAQ</b> (NASDAQINDEX: ^IXIC)	3,176	6.5%	12.5%	108%
<b>Vanguard FTSE Social Index Fund</b>	407	7.7%	5.7%	96.7%
<b>TIAA-CREF Social Choice Eq Retail</b> (NASDAQMUTFUND: TICRX)	793	12.1%	0.1%	66.8%
<b>iShares MSCI KLD 400 Social</b> (NYSEMKT: DSI)	403	8.1%	6.5%	78.8%

Version 4

Index or Fund	Number of Holdings	Year-to-Date Return	2-Year Return	5-Year Return
<b>S&amp;P 500</b> (SNPINDEX: ^GSPC)	500	8.2%	7.4%	81.4%
<b>NASDAQ</b> (NASDAQINDEX: ^IXIC)	3,176	6.5%	12.5%	108%
<b>Vanguard FTSE Social Index Fund</b>	407	7.7%	5.7%	96.7%
<b>TIAA-CREF Social Choice Eq Retail</b> (NASDAQMUTFUND: TICRX)	793	12.1%	0.1%	66.8%
<b>iShares MSCI KLD 400 Social</b> (NYSEMKT: DSI)	403	8.1%	6.5%	78.8%

**Table 1.12** Stock Exchange Rates of Return Set in the Default Table StyleCaption caption caption.

Version 5

Name		Holdings and Returns		
Index or Fund	Number of Holdings	Year-to-Date Return	2-Year Return	5-Year Return
<b>S&amp;P 500</b> (SNPINDEX: ^GSPC)	500	8.2%	7.4%	81.4%
<b>NASDAQ</b> (NASDAQINDEX: ^IXIC)	3,176	6.5%	12.5%	108%
<b>Vanguard FTSE Social Index Fund</b>	407	7.7%	5.7%	96.7%
<b>TIAA-CREF Social Choice Eq Retail</b> (NASDAQMUTFUND: TICRX)	793	12.1%	0.1%	66.8%
<b>iShares MSCI KLD 400 Social</b> (NYSEMKT: DSI)	403	8.1%	6.5%	78.8%

**Table 1.13** More Stock Exchange Rate Information Set as Default Table Style with Double Header RowCaption caption caption.

Version 6

**This Is a Table with Lots of Information Written in Text**

Header One	Header Two	Header Three	Header Four
Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.

**Table 1.14** Caption caption caption.

Header One	Header Two	Header Three	Header Four
Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy.

Version 7

Header One	Header Two	Header Three	Header Four
Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.
Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy. Let's add a lot of text to make this text heavy.	Let's add a lot of text to make this text heavy.

**Table 1.15** This Is a Table with Lots of Information Written in TextCaption caption caption.

## 1.5 H1 - Testing Headers I'm a MODULE TITLE

### H2 - I'm a TITLE for the 1ST LAYER SECTION

Hi I'm a TITLE FOR A PARAGRAPH and hardly used Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Remember, a Jedi can feel the Force flowing through him. What!? Remember, a Jedi can feel the Force flowing through him. But with the blast shield down, I can't even see! How am I supposed to fight? Remember, a Jedi can feel the Force flowing through him. I'm surprised you had the courage to take the responsibility yourself. Alderaan? I'm not going to Alderaan. I've got to go home. It's late, I'm in for it as it is. I have traced the Rebel spies to her. Now she is my only link to finding their secret base. Kid, I've flown from one side of this galaxy to the other. I've seen a lot of strange stuff, but I've never seen anything to make me believe there's one all-powerful Force controlling everything. There's no mystical energy field that controls my destiny. It's all a lot of simple tricks and nonsense. Don't underestimate the Force. I'm surprised you had the courage to take the responsibility yourself. The Force is strong with this one. I have you now. But with the blast shield down, I can't even see! How am I supposed to fight? The Force is strong with this one. I have you now. In my experience, there is no such thing as luck. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I find your lack of faith disturbing. I can't get involved! I've got work to do! It's not that I like the Empire, I hate it, but there's nothing I can do about it right now. It's such a long way from here. I suggest you try it again, Luke. This time, let go your conscious self and act on instinct. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. What good is a reward if you ain't around to use it? Besides, attacking that battle station ain't my idea of courage. It's more like...suicide. Red Five standing by. You don't believe in the Force, do you? All right. Well, take care of yourself, Han. I guess that's what you're best at, ain't it? She must have hidden the plans in the escape pod. Send a detachment down to retrieve them, and see to it personally, Commander. There'll be no one to stop us this time! You are a part of the Rebel Alliance and a traitor! Take her away! Hey, Luke! May the Force be with you. You are a part of the Rebel Alliance and a traitor! Take her away! The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I want to come with you to Alderaan. There's nothing for me here now. I want to learn the ways of the Force and be a Jedi, like my father before me. I call it luck. Don't underestimate the Force. A tremor in the Force. The last time I felt it was in the presence of my old master. Your eyes can deceive you. Don't trust them. Partially, but it also obeys your commands. You don't believe in the Force, do you? Ye-ha!

### H3 - I'm a TITLE for a 2nd nested section

EStar GuarS - TeSty Test for Para TiTle Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Remember, a Jedi can feel the Force flowing through him. What!? Remember, a Jedi can feel the Force flowing through him. But with the blast shield down, I can't even see! How am I supposed to fight? Remember, a Jedi can feel the Force flowing through him. I'm surprised you had the courage to take the responsibility yourself. Alderaan? I'm not going to Alderaan. I've got to go home. It's late, I'm in for it as it is. I have traced the Rebel spies to her. Now she is my only link to finding their secret base. Kid, I've flown from one side of this galaxy to the other. I've seen a lot of strange stuff, but I've never seen anything to make me believe there's one all-powerful Force controlling everything. There's no mystical energy field that controls my destiny. It's all a lot of simple tricks and nonsense. Don't underestimate the Force. I'm surprised you had the courage to take the responsibility yourself. The Force is strong with this one. I have you now. But with the blast shield down, I can't even see! How am I supposed to fight? The Force is strong with this one. I have you now. In my experience, there is no such thing as luck. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I find your lack of faith disturbing. I can't get involved! I've got work to do! It's not that I like the Empire, I hate it, but there's nothing I can do about it right now. It's such a long way from here. I suggest you try it again, Luke. This time, let go your conscious self and act on instinct. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. What good is a reward if you ain't around to use it? Besides, attacking that battle station ain't my idea of courage. It's more like...suicide. Red Five standing by. You don't believe in the Force, do you? All right. Well, take care of yourself, Han. I guess that's what you're best at, ain't it? She must have hidden the plans in the escape pod. Send a detachment down to retrieve them, and see to it personally, Commander. There'll be no one to stop us this time! You are a part of the Rebel Alliance and a traitor! Take her away! Hey,

Luke! May the Force be with you. You are a part of the Rebel Alliance and a traitor! Take her away! The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I want to come with you to Alderaan. There's nothing for me here now. I want to learn the ways of the Force and be a Jedi, like my father before me. I call it luck. Don't underestimate the Force. A tremor in the Force. The last time I felt it was in the presence of my old master. Your eyes can deceive you. Don't trust them. Partially, but it also obeys your commands. You don't believe in the Force, do you? Ye-ha!

#### **H4 - I'm a title for 3rd nested section**

Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Remember, a Jedi can feel the Force flowing through him. What!? Remember, a Jedi can feel the Force flowing through him. But with the blast shield down, I can't even see! How am I supposed to fight? Remember, a Jedi can feel the Force flowing through him. I'm surprised you had the courage to take the responsibility yourself. Alderaan? I'm not going to Alderaan. I've got to go home. It's late, I'm in for it as it is. I have traced the Rebel spies to her. Now she is my only link to finding their secret base. Kid, I've flown from one side of this galaxy to the other. I've seen a lot of strange stuff, but I've never seen anything to make me believe there's one all-powerful Force controlling everything. There's no mystical energy field that controls my destiny. It's all a lot of simple tricks and nonsense. Don't underestimate the Force. I'm surprised you had the courage to take the responsibility yourself. The Force is strong with this one. I have you now. But with the blast shield down, I can't even see! How am I supposed to fight? The Force is strong with this one. I have you now. In my experience, there is no such thing as luck. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I find your lack of faith disturbing. I can't get involved! I've got work to do! It's not that I like the Empire, I hate it, but there's nothing I can do about it right now. It's such a long way from here. I suggest you try it again, Luke. This time, let go your conscious self and act on instinct. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. What good is a reward if you ain't around to use it? Besides, attacking that battle station ain't my idea of courage. It's more like...suicide. Red Five standing by. You don't believe in the Force, do you? All right. Well, take care of yourself, Han. I guess that's what you're best at, ain't it? She must have hidden the plans in the escape pod. Send a detachment down to retrieve them, and see to it personally, Commander. There'll be no one to stop us this time! You are a part of the Rebel Alliance and a traitor! Take her away! Hey, Luke! May the Force be with you. You are a part of the Rebel Alliance and a traitor! Take her away! The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I want to come with you to Alderaan. There's nothing for me here now. I want to learn the ways of the Force and be a Jedi, like my father before me. I call it luck. Don't underestimate the Force. A tremor in the Force. The last time I felt it was in the presence of my old master. Your eyes can deceive you. Don't trust them. Partially, but it also obeys your commands. You don't believe in the Force, do you? Ye-ha!

#### **H5 - 4th nested section TITLE**

Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Remember, a Jedi can feel the Force flowing through him. What!? Remember, a Jedi can feel the Force flowing through him. But with the blast shield down, I can't even see! How am I supposed to fight? Remember, a Jedi can feel the Force flowing through him. I'm surprised you had the courage to take the responsibility yourself. Alderaan? I'm not going to Alderaan. I've got to go home. It's late, I'm in for it as it is. I have traced the Rebel spies to her. Now she is my only link to finding their secret base. Kid, I've flown from one side of this galaxy to the other. I've seen a lot of strange stuff, but I've never seen anything to make me believe there's one all-powerful Force controlling everything. There's no mystical energy field that controls my destiny. It's all a lot of simple tricks and nonsense. Don't underestimate the Force. I'm surprised you had the courage to take the responsibility yourself. The Force is strong with this one. I have you now. But with the blast shield down, I can't even see! How am I supposed to fight? The Force is strong with this one. I have you now. In my experience, there is no such thing as luck. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I find your lack of faith disturbing. I can't get involved! I've got work to do! It's not that I like the Empire, I hate it, but there's nothing I can do about it right now. It's such a long way from here. I suggest you try it again, Luke. This time, let go your conscious self and act on instinct. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. What good is a reward if you ain't around to use it? Besides, attacking that battle station ain't my idea of courage. It's more like...suicide.



Red Five standing by. You don't believe in the Force, do you? All right. Well, take care of yourself, Han. I guess that's what you're best at, ain't it? She must have hidden the plans in the escape pod. Send a detachment down to retrieve them, and see to it personally, Commander. There'll be no one to stop us this time! You are a part of the Rebel Alliance and a traitor! Take her away! Hey, Luke! May the Force be with you. You are a part of the Rebel Alliance and a traitor! Take her away! The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I want to come with you to Alderaan. There's nothing for me here now. I want to learn the ways of the Force and be a Jedi, like my father before me. I call it luck. Don't underestimate the Force. A tremor in the Force. The last time I felt it was in the presence of my old master. Your eyes can deceive you. Don't trust them. Partially, but it also obeys your commands. You don't believe in the Force, do you? Ye-ha!

## H2 - OTHER 1st layer section

Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Remember, a Jedi can feel the Force flowing through him. What!? Remember, a Jedi can feel the Force flowing through him. But with the blast shield down, I can't even see! How am I supposed to fight? Remember, a Jedi can feel the Force flowing through him. I'm surprised you had the courage to take the responsibility yourself. Alderaan? I'm not going to Alderaan. I've got to go home. It's late, I'm in for it as it is. I have traced the Rebel spies to her. Now she is my only link to finding their secret base. Kid, I've flown from one side of this galaxy to the other. I've seen a lot of strange stuff, but I've never seen anything to make me believe there's one all-powerful Force controlling everything. There's no mystical energy field that controls my destiny. It's all a lot of simple tricks and nonsense. Don't underestimate the Force. I'm surprised you had the courage to take the responsibility yourself. The Force is strong with this one. I have you now. But with the blast shield down, I can't even see! How am I supposed to fight? The Force is strong with this one. I have you now. In my experience, there is no such thing as luck. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I find your lack of faith disturbing. I can't get involved! I've got work to do! It's not that I like the Empire, I hate it, but there's nothing I can do about it right now. It's such a long way from here. I suggest you try it again, Luke. This time, let go your conscious self and act on instinct. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. What good is a reward if you ain't around to use it? Besides, attacking that battle station ain't my idea of courage. It's more like...suicide. Red Five standing by. You don't believe in the Force, do you? All right. Well, take care of yourself, Han. I guess that's what you're best at, ain't it? She must have hidden the plans in the escape pod. Send a detachment down to retrieve them, and see to it personally, Commander. There'll be no one to stop us this time! You are a part of the Rebel Alliance and a traitor! Take her away! Hey, Luke! May the Force be with you. You are a part of the Rebel Alliance and a traitor! Take her away! The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I want to come with you to Alderaan. There's nothing for me here now. I want to learn the ways of the Force and be a Jedi, like my father before me. I call it luck. Don't underestimate the Force. A tremor in the Force. The last time I felt it was in the presence of my old master. Your eyes can deceive you. Don't trust them. Partially, but it also obeys your commands. You don't believe in the Force, do you? Ye-ha!

## Key Terms

### **environmental scanning**

the systematic and intentional analysis of both a firm's internal state and its external environment

### **glossary term**

the definition of this term has an italic *word* in it.

### **opportunity**

a situation that a firm is equipped to take advantage of

### **PESTEL**

tool that reminds managers to look at several distinct categories in the macro environment

### **Political factors**

in the macro environment include taxation, tariffs, trade agreements, labor regulations, and environmental regulations

### **threat**

anything that would make it harder to be successful

## Summary of Learning Outcomes

Strategic analysis is a systematic evaluation of a firm's situation, both internally and with respect to what is happening in the outside world. This analysis examines what the firm itself is good or bad at, how rivals in their industry are competing against them for customers, and what factors in the world environment, such as economic indicators or demographic changes might impact the firm's ability to be successful.

Firms need to conduct this analysis in order to be aware of and prepared for changes in their competitive environment, and to maximize their chance of successfully competing against rivals and sustaining their profitability and market share in their industry.

The external environment of a firm is composed of two primary layers: the Macro environment, which includes facts and situations that a firm must be aware of, but cannot always influence. The macro environment includes political and legal aspects, economic indicators, sociocultural trends, demographic facts, technological changes, and environmental aspects. The macro environment is analyzed using PESTEL.

The second layer is a firm's micro environment, which includes the components of a firm's industry. This includes competitors, suppliers, and customers. Porter's Five Forces of industry competition capture the dynamic relationships between these components.

## Preparing for Tomorrow's Workplace Skills

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## Critical Thinking Case

### TESTING SUBSECTION TITLE

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## A | Appendix Headers Test - H1

### H2 - I'm a TITLE for the 1ST LAYER SECTION

#### Hi I'm a TITLE FOR A PARAGRAPH and hardly used

Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Look, I can take you as far as Anchorhead. You can get a transport there to Mos Eisley or wherever you're going. Remember, a Jedi can feel the Force flowing through him. What!? Remember, a Jedi can feel the Force flowing through him. But with the blast shield down, I can't even see! How am I supposed to fight? Remember, a Jedi can feel the Force flowing through him. I'm surprised you had the courage to take the responsibility yourself. Alderaan? I'm not going to Alderaan. I've got to go home. It's late, I'm in for it as it is. I have traced the Rebel spies to her. Now she is my only link to finding their secret base. Kid, I've flown from one side of this galaxy to the other. I've seen a lot of strange stuff, but I've never seen anything to make me believe there's one all-powerful Force controlling everything. There's no mystical energy field that controls my destiny. It's all a lot of simple tricks and nonsense. Don't underestimate the Force. I'm surprised you had the courage to take the responsibility yourself. The Force is strong with this one. I have you now. But with the blast shield down, I can't even see! How am I supposed to fight? The Force is strong with this one. I have you now. In my experience, there is no such thing as luck. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I find your lack of faith disturbing. I can't get involved! I've got work to do! It's not that I like the Empire, I hate it, but there's nothing I can do about it right now. It's such a long way from here. I suggest you try it again, Luke. This time, let go your conscious self and act on instinct. The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. What good is a reward if you ain't around to use it? Besides, attacking that battle station ain't my idea of courage. It's more like...suicide. Red Five standing by. You don't believe in the Force, do you? All right. Well, take care of yourself, Han. I guess that's what you're best at, ain't it? She must have hidden the plans in the escape pod. Send a detachment down to retrieve them, and see to it personally, Commander. There'll be no one to stop us this time! You are a part of the Rebel Alliance and a traitor! Take her away! Hey, Luke! May the Force be with you. You are a part of the Rebel Alliance and a traitor! Take her away! The more you tighten your grip, Tarkin, the more star systems will slip through your fingers. I want to come with you to Alderaan. There's nothing for me here now. I want to learn the ways of the Force and be a Jedi, like my father before me. I call it luck. Don't underestimate the Force. A tremor in the Force. The last time I felt it was in the presence of my old master. Your eyes can deceive you. Don't trust them. Partially, but it also obeys your commands. You don't believe in the Force, do you? Ye-ha!

### H3 - I'm a TITLE for a 2nd nested section

#### EStar GuarS - TeSty Test for Para Title

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#### **H4 - I'm a title for 3rd nested section**

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#### **H5 - 4th nested section TITLE**

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## H2 - OTHER 1st layer section

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## Starting a Business

1Reference data here.

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5Rob Fahey, "Sony's Entire Future Now Rests on PlayStation," <http://www.gamesindustry.biz>, July 1, 2016.

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