

# EBU6402 Enterprise Management

Lecture 2 - External Environment and  
PESTEL analysis

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## Agenda

- ▶ Business Environment
- ▶ External Environment
- ▶ PESTEL Analysis

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“

The best architects always design a thing by considering it in its larger context - a chair in a room, a room in a house, a house in an environment, an environment in a city plan.

”

*Eliel Saarinen, Finnish architect*



## Quick questions to think about...

- ▶ How would you describe ‘**Business Environment**’?
- ▶ What do you understand by the term ‘**external environment**’ when applied to an organisation?
- ▶ What do you understand by the term ‘**internal environment**’ when applied to an organisation?



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## Business environment

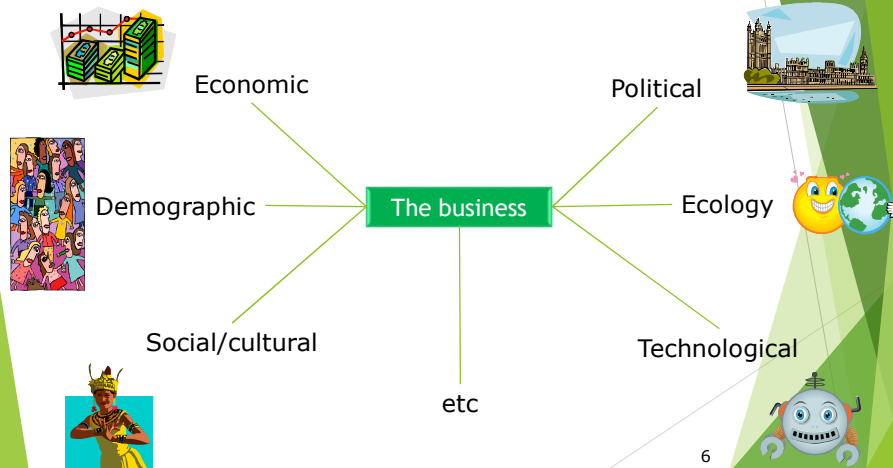
- ▶ The business environment - the environment in which the organisation is **located** which contains the **phenomena** which can influence its **behaviour** and **performance**
- ▶ “A business organisation can be seen as a system whose performance is influenced by a whole range of phenomena in its environment” [1]
- ▶ External influences can be broken into two areas
  - ▶ ‘**Macro**’ (Palmer), also known as ‘general’ (Worthington) and
  - ▶ ‘**Micro**’ (Palmer) also known as ‘immediate’ (Worthington)
- ▶ The internal environment of a business must also be considered



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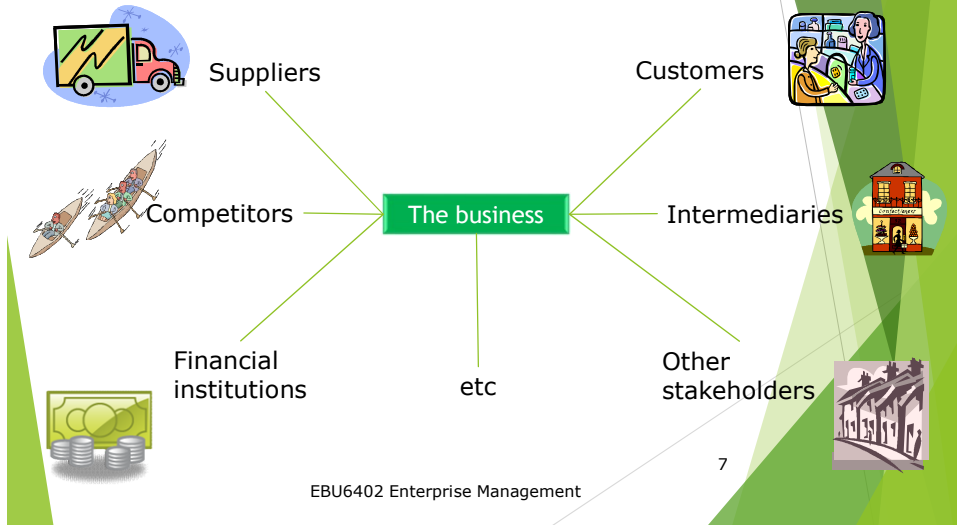
## External environment - macro



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## External environment - micro



## Internal environment

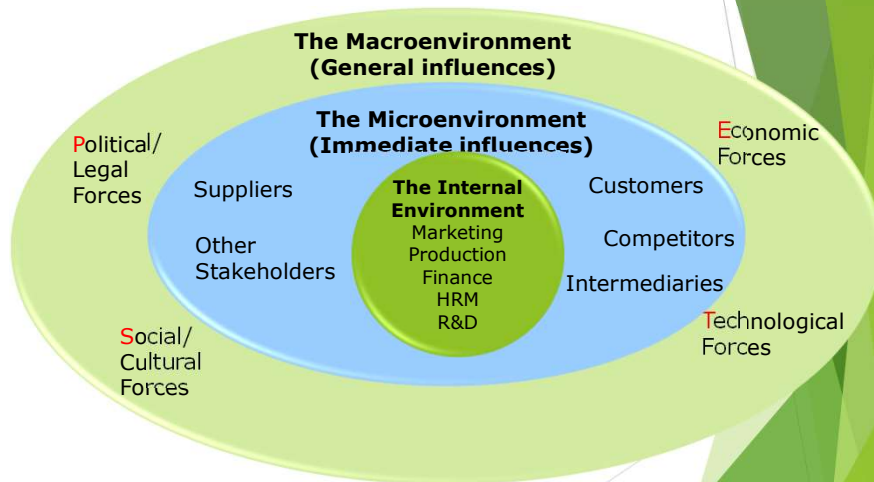
- ▶ Functions that are found **within** the organisation itself
  - ▶ Marketing department
  - ▶ Production
  - ▶ Finance
  - ▶ Human Resource Management (HRM)
  - ▶ Research and Development (R&D)
  - ▶ Etc.



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## The business environment



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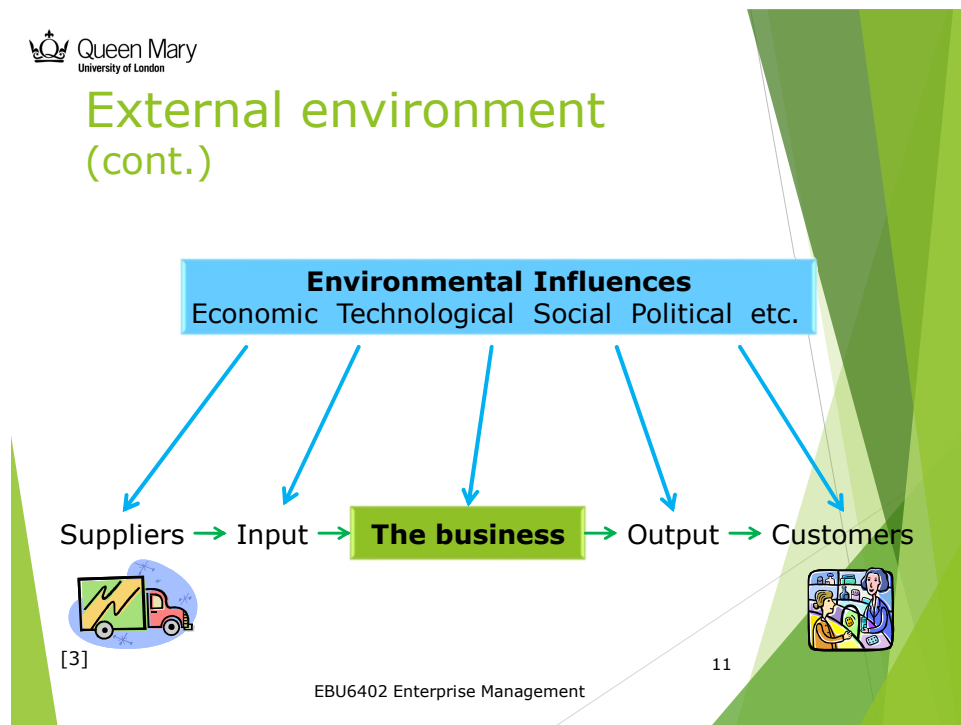
## External environment - the business role

- Ultimately, the role of an organisation is to take the **inputs** from the external environment (both macro and micro) to add **value** to them (this applies to both products and services); often through a **change** process; so that **customers** will be willing to purchase them

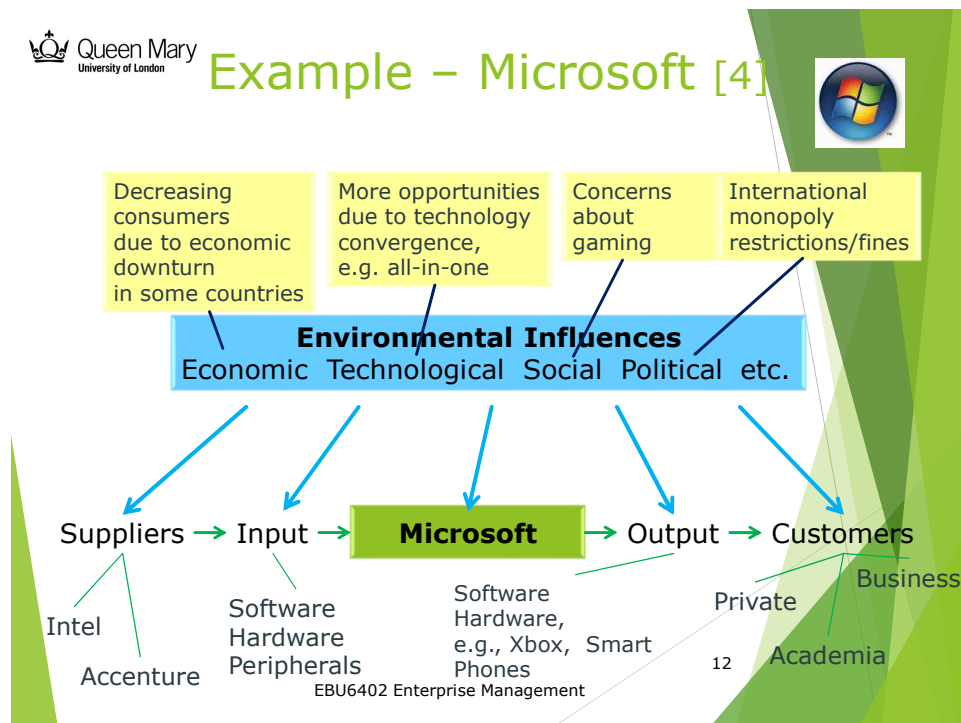
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## External environment (cont.)



## Example – Microsoft [4]



## External environment – macro - political

- ▶ “Politicians are instrumental in shaping the **general** nature of the external environment as well as being responsible for passing legislation that affects **specific** types of organisation” (Palmer)
- ▶ Areas included are
  - ▶ Government involvement in the working of the **economy**
  - ▶ Governments attempt to influence **market** structure and behaviour
  - ▶ **Stability** of the political system can affect whether a country is **attractive** in terms of investment
  - ▶ New **legislation** can impact on the production and sales of products and services e.g. law against using a hand-held mobile phone whilst driving in the UK



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## External environment – macro - social and cultural

- ▶ “Culture is concerned with a set of **shared values** which are passed down between generations” (Palmer)
- ▶ With increasing **globalisation** and international business, it is vital that organisations consider the social and cultural values of the countries they do business in, especially if they are not their own
- ▶ Issues include
  - ▶ Social values regarding **work/leisure balance** which is changing rapidly in many countries
  - ▶ Cultural values regarding **religion, food, equality, capitalism** etc.
  - ▶ Increasing concern regarding the **planet** - environmental issues



## External environment – macro - demographic

- ▶ Prediction regarding the **age** and **size** of a population is very important for an organisation so that it can prepare for the demand in terms of its **products** and the availability of **personnel**
- ▶ A major issue internationally is the increase in **life expectancy** worldwide and reduction in the number of young people
  - ▶ This will affect the number of new **graduates** available for certain **positions**
  - ▶ Organisations will have to consider employing **older people**
  - ▶ Demand for certain **products** e.g. those aimed at a 'younger' market will reduce, where as those aimed at the 'older' market, often referred to as the 'grey' market will increase
- ▶ **Plans** need to reflect these demographic changes



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## External environment – macro - technological

- ▶ Organisations must be aware of the **technological** changes that could impact on their business
- ▶ Palmer identifies **four areas** which can be impacted
  - ▶ New technology can allow products and services to be **delivered** in new ways, e.g. via the Internet - e-Business/e-Commerce
  - ▶ New ways of **distributing** goods and services, e.g. Dell - direct selling and delivery to the consumer
  - ▶ The internet has allowed many products to be sold much **more cheaply**, e.g. budget airlines, as the intermediaries are removed and therefore the overheads reduced
  - ▶ New **marketing opportunities** have arisen with the increase in the use of the Internet - 'pop-ups', banners etc.





## External environment – macro - ecological/environmental

- ▶ Growing public concern over the state of the **environment** and the **implications** of this
- ▶ **Global warming** and the use of fossil fuels
- ▶ Increase in the demand for **environmentally friendly** products that do not overuse fossil-fuels in their production or impact on the environment
- ▶ **Genetically modified** foods not sold in the UK
- ▶ **Organic** goods market continually growing in the UK
- ▶ Demand for **locally sourced** products to reduce distribution impact - i.e. reduces the use of oil, petrol etc.



New European Union laws regarding the **reuse** and **disposal** of electrical equipment and components – WEEE 2007

## External environment – macro – economic

- ▶ “Businesses need to keep an eye on indications of a nation’s prosperity e.g. on Gross Domestic Product (GDP) and household disposable income” (*Palmer*)
  - ▶ **GDP** - “a measure of the value of goods and services produced in an economy during a specified period” (*Palmer*)
  - ▶ **Household disposable income** - “It consists of **earnings** from work, **property income** such as interest and dividends, and **pensions** and other social security benefits; income taxes and social security contributions paid by households are **deducted**” [4]



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## External environment – micro level

- ▶ The Micro external environment is made up of groups that are more **immediate** to the organisation
- ▶ These are often called **Stakeholders**
  - ▶ Can be defined as:
    - ▶ “any person with an interest in the activities of an organisation (e.g. customers, employees, government agencies and local communities)” (*Palmer*)
    - ▶ “anyone with an interest in an organisation and who is affected by and can affect performance” (*Worthington*)
  - ▶ These groups can **influence** and **impact** the plans of an organisation
  - ▶ Consideration of these groups is key to **success**

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## External environment – micro - customers

- ▶ Business must be aware of the changing **demands** and **needs** of customers
  - ▶ (*further explained in the Marketing lecture*)
- ▶ No customers = no business



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## External environment – micro - suppliers

- ▶ “Suppliers provide an organisation with goods and services that are **transformed** by the organisation into value-added products for customers” (*Palmer*)
- ▶ “Often suppliers are **crucial** to an organisation’s marketing success” (*Palmer*)
- ▶ More about suppliers in Topic 7 - Operations management



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## External environment – micro - intermediaries

- ▶ “Individuals or organisations who are involved in **transferring** goods and services from the producer to the final consumer” (*Palmer*)
- ▶ Examples include **supermarkets** who are the intermediaries between food producers and end consumers
- ▶ Traditionally, more intermediaries involved in the channel of **distribution**

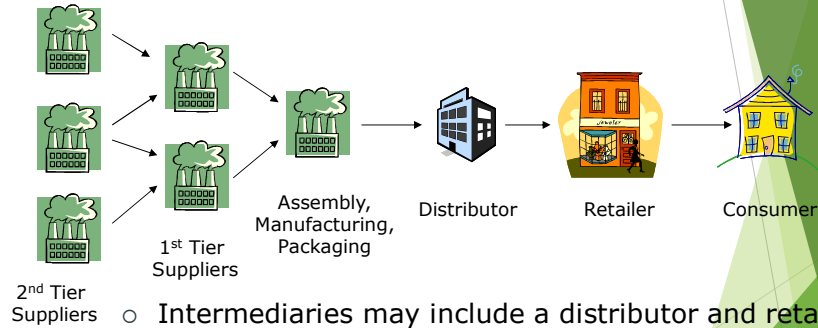


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## Traditional distribution

### ► Traditional distribution:



- Intermediaries may include a distributor and retailer
- Organisations that use this structure e.g. Microsoft, Nokia, Apple

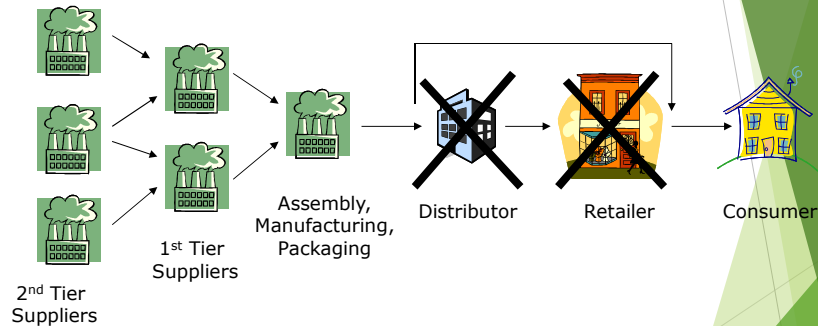
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## Disintermediated distribution

### ► Disintermediated distribution



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- Intermediaries have been removed from the distribution channel, e.g. Dell

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## External environment – micro - competitors

- ▶ All organisations need to be aware of their competitors
- ▶ Particularly important in **highly competitive** industries,
  - ▶ e.g. mobile phone manufacturers, digital music providers etc.
- ▶ Organisations need to be aware of what their competitors **next move** may be so that it doesn't impact on their own business
- ▶ Many organisations want to be the **first** to launch **new products** to the market place

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## External environment – micro - financial community

- ▶ The **majority** of organisations are funded by the financial community
- ▶ Can be **banks** who provide loans, banking services, guidance or overdraft facilities to small or privately owned businesses
- ▶ May be **shareholders** (private or institutional) who provide investment in PLCs etc
- ▶ Investors need to be considered when making organisational **plans**
  - ▶ If investors do not agree with the plans they may remove their financial support



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## External environment – micro – local community

- ▶ This is an external group that is often **overlooked**
- ▶ Local communities can have an impact on organisations plans
  - ▶ for example many local communities in the UK have stopped mobile phone antennas/**masts** being located near their homes and schools
- ▶ More recently plans for '**wind farms**' to provide renewable energy have been blocked by local communities

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## External environment – micro – pressure groups

- ▶ Another group often overlooked by organisations
- ▶ Can have a huge amount of influence over **image** and ultimately success of an organisation
- ▶ Can **you** think of any examples of when pressure groups have impacted on an organisation?
- ▶ Can you think of any in **technology** based industries?

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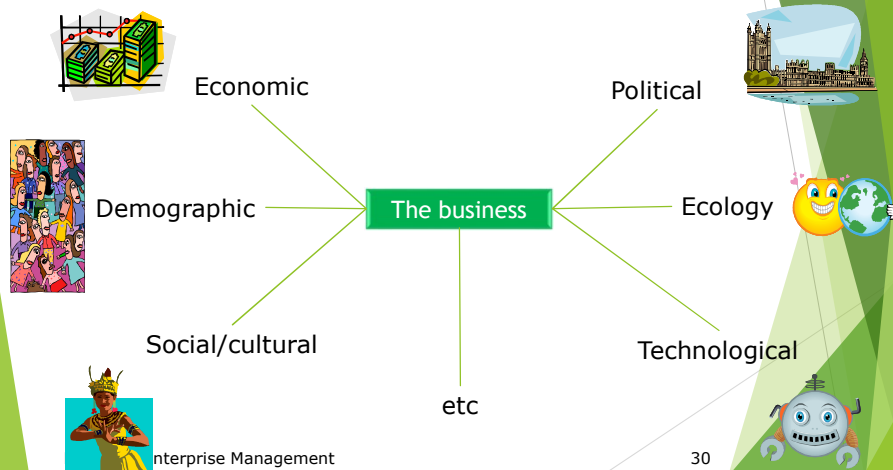
## In-class Exercise

- ▶ Groups of 5
- ▶ Team Formation
- ▶ Allocation of roles:
  - ▶ Team leader, spokesperson, idea-generators, note-taker etc.
- ▶ Time Management (20 min)
- ▶ Group presentations in front of the class.

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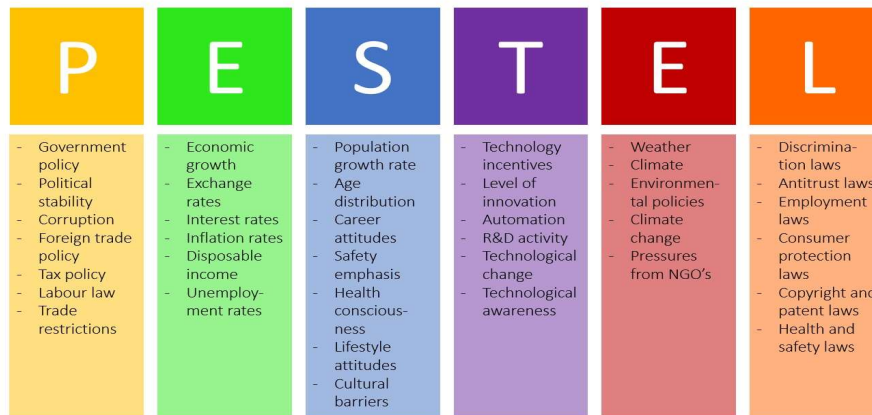
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## External environment - PESTEL



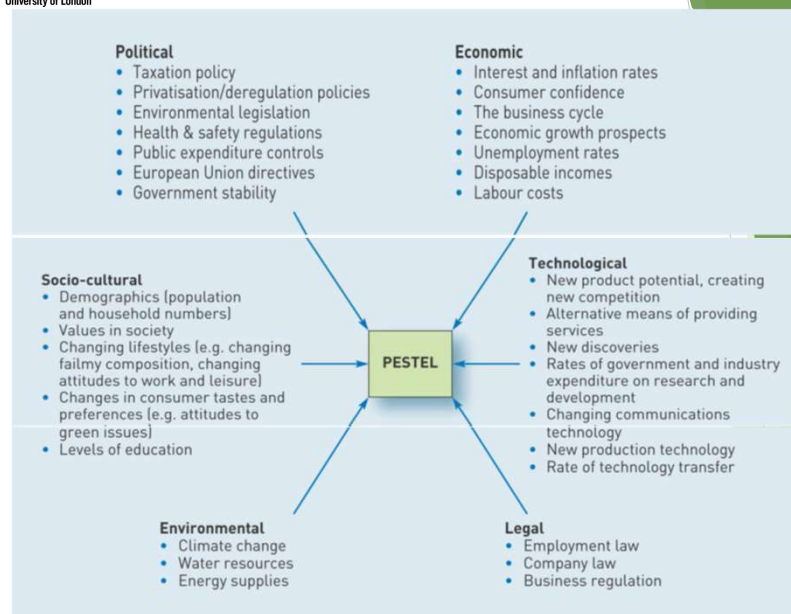
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## PESTEL analysis - example 1



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## Example 3

P	• Political instability in coffee bean producing countries
E	• Exposure to fluctuations in coffee commodity prices
S	• Differences in preferences in the international market
T	• Constant need to adapt to changing industry trends
E	• Single-cup brewing materials are not biodegradable
L	• Patents, anti-trust laws involving home brewing

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## Summary

- ▶ External Environment
  - ▶ Macro
  - ▶ Micro
- ▶ PESTEL Analysis

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## References

1. Adapted from *The Business Environment*, A. Palmer, (2009) 6<sup>th</sup> Edition, McGraw-Hill, pg.4
2. Adapted from *The Business Environment*, A. Palmer, (2009) 6<sup>th</sup> Edition, McGraw-Hill, pg.5
3. Diagram taken from Palmer, pg.4
4. <http://miranda.sourceoecd.org/vl=312866/cl=35/nw=1/rpsv/factbook/10-03-02.htm>
5. Adapted from e-Business Technologies, Craig Van Slyke, France Belanger, 2003, Wiley, pg. 25
6. .. Pg. 24