

1.1 What is a business?

Tool: SWOT/STEEPLE analysis

SWOT is a simple tool for a business to analyse its internal strengths and weaknesses, and external opportunities and threats. A SWOT analysis can help a business understand its current position and identify strategies to improve the business.

Managers should conduct a SWOT analysis frequently. Businesses must understand and respond to the constant changes in the conditions they face.

Concept

Change

Change is an act or process through which something becomes different. Businesses operate in a world with constant change.

Understanding change involves researching and responding to signals (feedback) in the external environment. Businesses need to adapt their goals and actions to respond successfully to internal and external changes.

Click on the hotspots in **Figure 1** to see an overview of things businesses should consider when conducting a SWOT analysis.

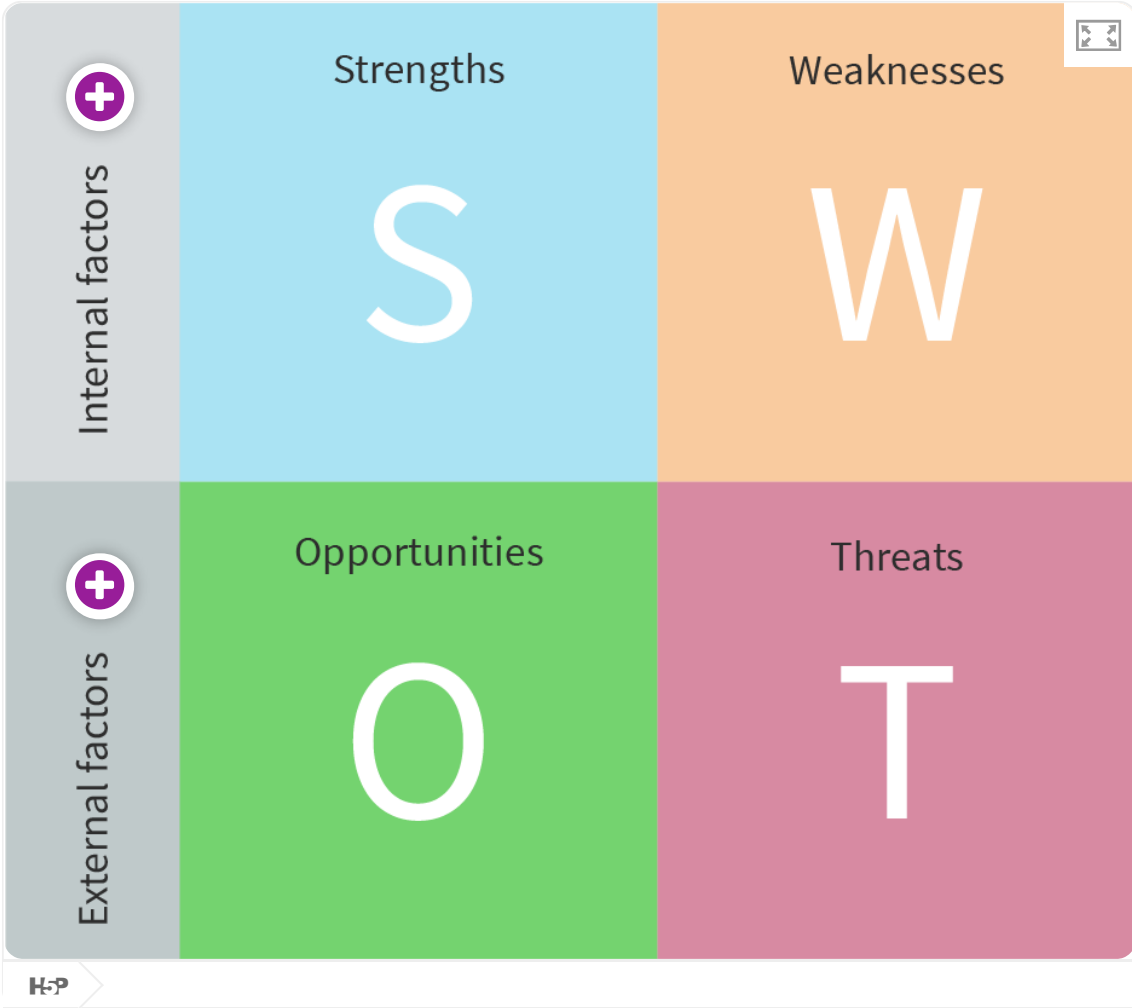


Figure 1. SWOT matrix.

Internal factors: strengths and weaknesses

Every organisation is unique. There are many strengths and weaknesses that could be included in a SWOT analysis. One way to organise your thinking is to consider the internal strengths and weaknesses of a business in the categories of the main business functions or processes that you learned about in [Section 1.1.1 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-nature-and-role-of-business-id-36829\)](#). These functions or processes are listed in **Table 1**. They are a framework for you to think through case studies.

Table 1. Some examples of internal strengths and weaknesses organised by business function/process.

Business function	Example strengths	Example weaknesses
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Business function	Example strengths	Example weaknesses
Human resources	Highly trained, skilled and educated staff; loyal, collaborative employees.	Poor management; unskilled, unqualified or unmotivated employees; conflict between employees.
Finance	Enough money for running and expanding the business; good relations with banks; strong growth of sales and profits.	Lack of money for running and expanding the business; declining revenues and profitability.
Marketing	Strong brands; loyal customers; unique products or services.	Low brand awareness and brand loyalty; products similar to those of competitors.
Operations	Modern facilities; efficient, low-cost production; high-quality products.	Outdated facilities; inefficient, high-cost production; poor quality products.

External factors: opportunities and threats

External opportunities and threats refer to factors that are outside the organisation that it cannot control. Usually, external factors will be the same for a business and its competitors in the same industry and location.

An opportunity is any favourable external condition or trend that is beneficial for the business. For example, an opportunity for a business could be cultural changes that increase demand for a business's product.

A threat is any unfavourable external condition or trend that harms the business. For example, international climate agreements that require countries to reduce CO₂ emissions are a threat to oil companies who cannot change their business quickly.

Exam tip

The word 'opportunities' in SWOT is used differently than you may be used to.

Here you are not discussing strategies for the business like 'the business has an opportunity to develop a new product.' In the SWOT analysis, an opportunity refers to an external condition or situation that is favourable for the business.

As with the internal factors in the SWOT framework, it is helpful to have a framework to consider the external factors that can affect a business. The STEEPLE framework provides a useful way to remember factors to consider in your analysis. It stands for the following factors, which will be explained in more detail below:

- Sociocultural
- Technological
- Economic
- Environmental
- Political
- Legal
- Ethical

These factors can affect markets for particular goods. They can reveal opportunities for businesses to provide for human needs. The factors can also be threats to a business if they negatively affect the demand for the products the business makes.

Click on the hotspots in **Figure 2** to see an overview of each of the STEEPLE factors.

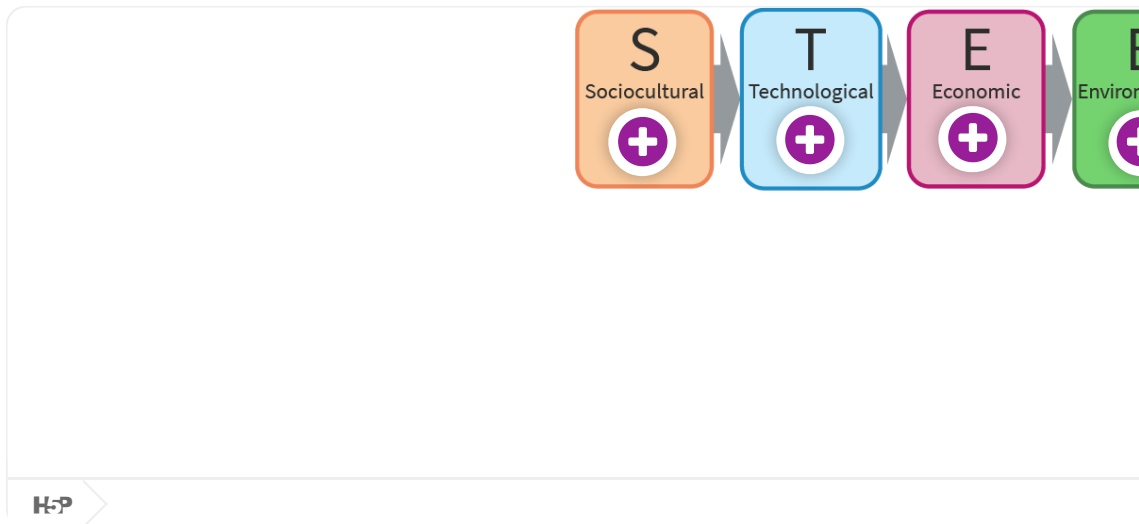


Figure 2. Steeple factors.

Sociocultural factors

Sociocultural factors are all the social and cultural characteristics of a region or country. These can include factors like the age structure (demographics) of the population. They can also include the way people live, like the health status and education of the population. Beliefs and values are also part of sociocultural factors. These factors will affect what people choose to buy and how they spend their time.

Businesses need to be aware of current and changing sociocultural conditions, so they can create products and solutions needed by people. Businesses also need to recognise when changing sociocultural factors threaten their business.

Activity

Learner profile: Inquirer

Approaches to learning: Research skills (information literacy); Thinking skills (transfer)

Examine the choropleth map below which shows the median age by country. The age structure of a country can affect the demand for the products of a business.

The year for the map is set at 2025, but you can change the year to see past data or future estimates.

Hover over individual countries to see the median age in the year 2025.

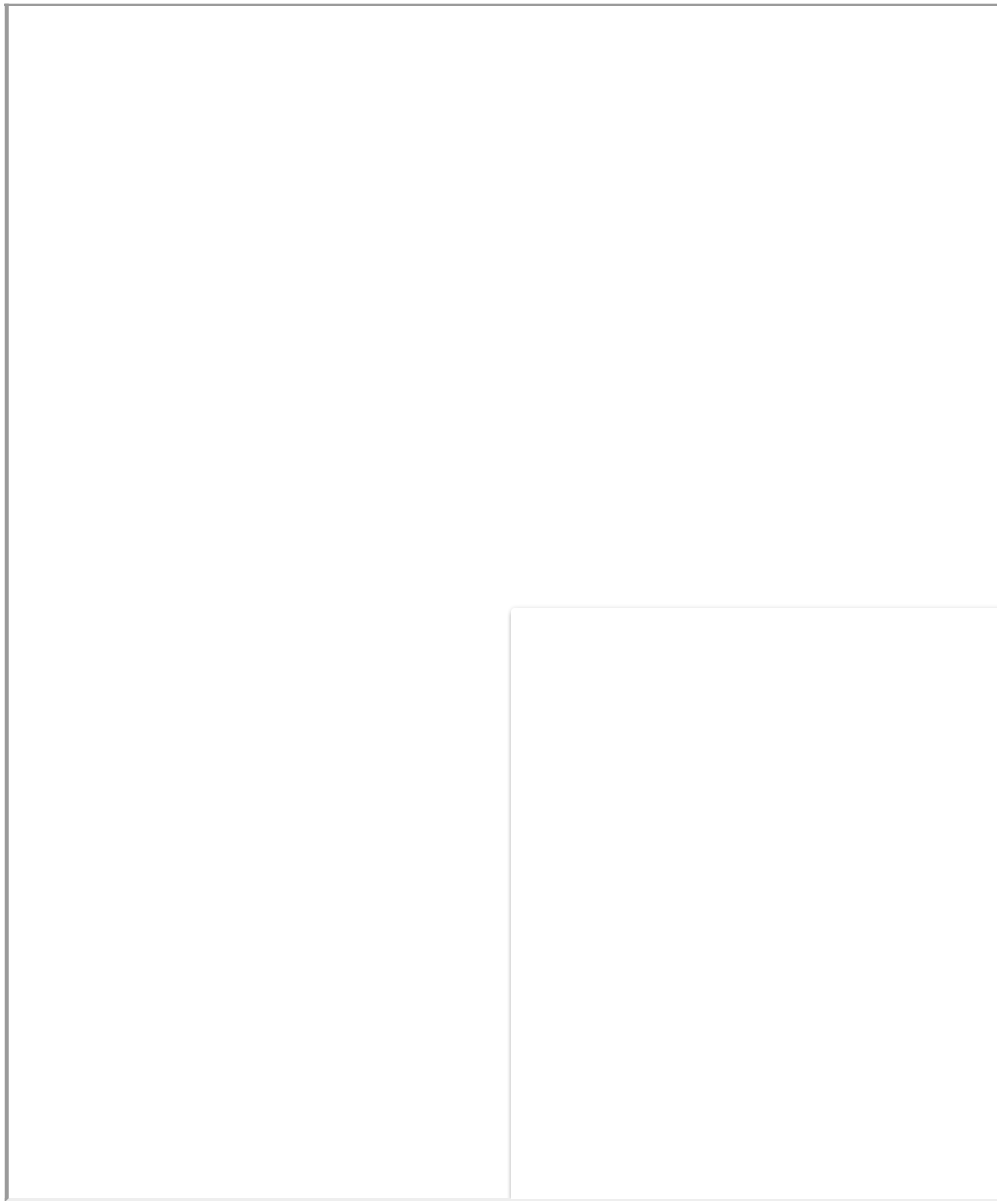


Figure 3. Median age by country, 2025.

Questions

1. Identify a country with a median age above 50 years in 2025. State the country and its median age. [2 marks]
2. Explain why a business might consider the demographics of the country you identified in Question 1 as an external threat. [2 marks]
3. Identify a country with a median age between 14 and 20. State the country and its median age. [2 marks]
4. Explain why a business might consider the demographics of the country you identified in Question 3 as an external opportunity. [2 marks]

Technological factors

The state of current technology will affect what products a business offers its customers. Technology will also affect how a business operates. Businesses are constantly offering new products based on new technologies. Some of these products improve human wellbeing, like the development of COVID-19 vaccines using new mRNA technologies. Other products based on new or updated technologies may be less useful. These new technologies may be put into products by businesses to increase the chances that a customer buys a new product, even if they already own a product that is useful. For example, many new smartphones add new technology that adds little new value to the previous version. This is just to get customers to spend money again on a personal need that is already filled.

Businesses can also improve their production methods by using new technologies. For example, 3D printing is a technological change that makes producing some goods faster and easier. We will examine technological changes for business in **Subtopic 5.9**.

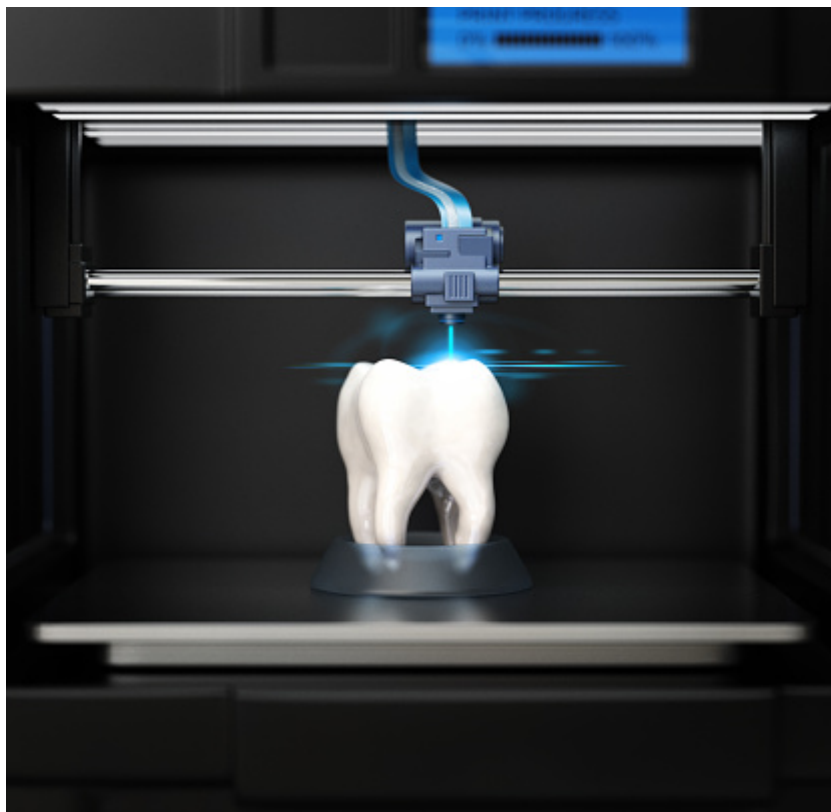


Figure 4. The impact of 3D printing on business is just beginning.

Credit: Maciej Frolow, Getty Images

The technological factor in STEEPLE also includes a country's infrastructure. Infrastructure includes all the large-scale goods in an economy that make business possible. Infrastructure includes things like ports, road and railway networks, drinking water, communication and electricity systems. When these systems are well developed,

they are opportunities for businesses. However, poor infrastructure can be a threat to businesses because they will not be able to produce and distribute their products very efficiently.

Economic factors

Countries and regions have different economic conditions that will affect the demand for goods and services. For example, as incomes increase, demand for goods and services will increase. This is an opportunity for businesses. However, rising incomes also cause consumers to demand different kinds of products. These changing economic conditions will be an opportunity for some businesses and a threat to others.

There are cycles of gross domestic product (GDP) growth and decline. When GDP is growing, there is an expansion in the economy. A recession is when the GDP declines for a period of time, usually six months or more.

These cycles of expansion and recession are called the business cycle. The business cycle can have an impact on demand and business activity. During periods when the gross domestic product is growing, incomes will probably rise in the population and people will have more jobs. As a result, businesses may see increased demand for their products.

During recessions, when the overall value of everything that is produced declines, businesses may see weaker demand because of falling incomes and higher unemployment. Businesses need to be aware of these income changes to respond to the changing needs and wants of consumers.

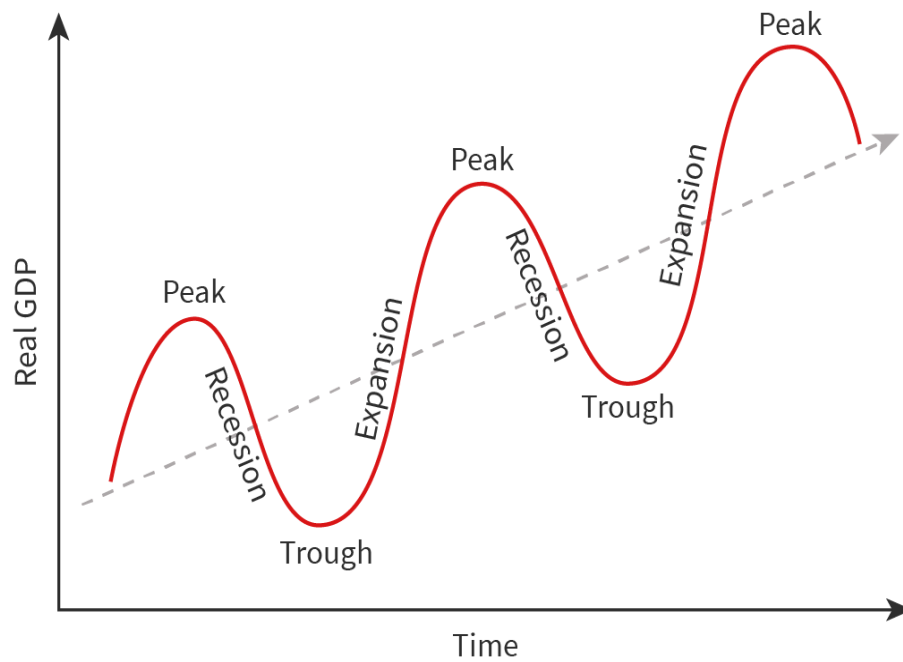


Figure 5. The business cycle involves times of expansion and recession that can affect demand for the products of a business.

Watch the video below to understand more about the business cycle.



Video 1. Defining the business cycle, its phases and the factors that affect it.

Exam tip

You are not expected to define macroeconomic terminology in this course. However, you may see the terms below in case studies, so you need to know what they mean.

Gross domestic product (GDP) – the total monetary value of all final goods and services produced in an economy in a given period of time; represents the size of the economy

GDP per capita – divides total GDP by the population of a country

Expansion – when the total value of all goods and services produced within the borders of a country (GDP) is increasing

Recession – when the total value of all goods and services produced within the borders of a country is decreasing, usually for six or more months

Inflation – an increase in the general price level, usually expressed as percentage change

Deflation – a decrease in the general price level, usually expressed as percentage change

Interest rate – the cost of borrowing money; important for businesses because they may need to borrow money for business investments

Unemployment rate – the percentage of the labour force that is out of work but actively seeking employment at a given time

Import – goods brought into a country

Export – goods manufactured in a country and sold abroad

Exchange rate – the price of one country's currency in terms of another country's currency

Subsidy – government payment to businesses

Tax – payment from individuals or businesses to government

Environmental factors

Environment in the STEEPLE analysis refers to the natural environment. Many businesses rely on natural resources as inputs and changes in the natural environment can have a large impact on businesses. For example, a drought or severe storms may affect a farmer's ability to grow crops. Other industries that use water to produce their goods will also be affected like producers of paper, food processors, power producers, and clothing manufacturers.

Climate change is impacting businesses worldwide. Changing weather patterns, increased frequency of storms, floods, forest fires and droughts can all affect businesses. International climate change agreements like the Paris Agreement in 2015 will force businesses to reduce CO₂ emissions. These changes will create opportunities for some businesses, like renewable energy firms. However, these changes are a threat to other businesses, like those producing oil and mining coal.

Many countries are trying to protect biodiversity and respect planetary boundaries. These efforts may make it harder for businesses to get the resources they need to produce their products and may be a threat. Other businesses, like those in the cosmetics and pharmaceutical industries, see biodiversity as a potential source of resources for medical advances. The efforts to protect biodiversity and respect nature can be opportunities for those businesses.

Businesses also need to consider their waste production and air pollution. Many industries use plastics to package their goods but plastic waste dumped into the environment is a growing problem. All businesses are now exploring new forms and materials for packaging and ways to reduce plastic to address this problem.

Circular business models, which will be explored in [Section 1.3.7 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-circular-business-models-id-36853\)](https://study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/tool-circular-business-models-id-36853), are one way to reduce the use of resources and waste. Countries are also forcing businesses to reduce air pollution because of its negative impact on human health. Businesses that pollute their natural environment will need to reduce pollution or face fines or closure.



Figure 6. Air pollution is a major problem in many Indian cities due to emissions from coal-powered energy sources. Businesses need to reduce their air pollution.

Credit: Bloomberg Creative Photos, Getty Images

Political factors

Politics has a huge impact on business decisions. Political parties have different ideas about how much government regulation there should be of businesses. They may also change laws at short notice, affecting business operations. When new political parties come to power, this can change the expectations of business. If the government is unstable, this can increase the risk for businesses too.

The increasing popularity of Green parties that favour greater protection of the natural environment can either be opportunities or threats for businesses, depending on what products are being produced and how they produce them. Businesses that focus on sociocultural and environmental sustainability will see that change as an opportunity. Businesses that exploit the environment or produce harmful products will see that change as a threat.



Figure 7. Annalena Baerbock of Germany's Green Party; the Green Party signed a government coalition agreement in December 2021.

Source: Stefan Kaminski

([https://commons.wikimedia.org/wiki/File:Annalena_Baerbock_\(square\).jpg](https://commons.wikimedia.org/wiki/File:Annalena_Baerbock_(square).jpg)),

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Legal factors

Businesses must follow all laws and regulations. These laws may be made at a national, regional, or local level. Multinational companies must obey the law in their home country as well as other countries in which they operate. Businesses must be aware of changing laws so they can adapt their products and operations as needed. Some businesses try to influence the laws to their favour. This is called lobbying, and this practice has ethical impacts.

Businesses need to be aware of the laws that are relevant to their activities. Complying with laws is an ethical responsibility as well as a legal one. In addition, businesses can be sued in court by private individuals or groups, or prosecuted by governments, if they have harmed stakeholders or violated laws. Breaking the law can mean the end of the business itself.

Ethical factors

Business activity should serve human needs and respect the health of the planet. Many businesses, however, have conflicts between the goals of business growth and profit and their social and/or environmental responsibilities. Ethics is a key concept of the course, and these ethical conflicts will be explored often in your class.

Concept

Ethics

Ethics refers to moral principles that govern the behaviour of a person or groups. Businesses are often engaged in the question of 'what is the right thing to do?'. Ethical responsibilities in business come from the relationships and networks that are formed when business organisations are started.

The pressure from shareholders or owners to increase profits can cause businesses to make unethical decisions. This pressure may even lead businesses to develop and promote products that harm people.

Shortly before it developed one of the lifesaving COVID-19 vaccines, US company Johnson & Johnson was found to be a leading supplier of opioids that contributed to painkiller addiction and death in the United States. The company has been ordered to pay hundreds of millions of dollars for its role in that crisis (<https://www.theguardian.com/us-news/2021/jul/21/us-opioid-settlement-state-attorneys-general-johnson-and-johnson>).

Some companies that make harmful products, from cigarettes, sugary cereals, addictive social media apps and financial advice that allows companies to avoid paying their fair share of taxes, have ethical problems at the core of their business models.



Figure 8. Social media addiction has become an ethical issue for companies that run the platforms.

Credit: KARRASTOCK, Getty Images

Even when their core business is not a problem, businesses can have ethical conflicts related to their impact on the environment or treatment of employees. These issues include poor working conditions, below-living wages and discrimination.

Multinational companies, in particular, face ethical conflicts issues. These companies have complex networks of suppliers and they are often not fully aware of labour practices in firms that supply their products. Some other companies avoid fully employing workers. Instead, they treat employees as freelance employees in the ‘gig’ economy. This allows them to avoid following some labour laws. They can also avoid paying social security taxes to governments. Uber is an example of a company that has engaged its workers this way. The company has faced several unfavourable court decisions (<https://www.reuters.com/world/europe/dutch-court-rules-uber-drivers-are-employees-not-contractors-newspaper-2021-09-13/>) about its labour practices in the past.

Exam tip

When using the SWOT/STEEPLE tool, it is important to remember to clearly distinguish between internal factors and external factors.

The strengths and weaknesses part of the SWOT only refer to internal factors. The opportunities and threats part of the SWOT only refer to external factors.

It is a common mistake for students to confuse strengths and opportunities, as well as weaknesses and threats, so you need to be aware of this.

If you are interested in extending your understanding of SWOT, for example in the internal assessment, you may want to look at the TOWS matrix (https://www.mindtools.com/pages/article/newSTR_89.htm). This is not an official tool in the IB Business Management course, but it can be helpful.

Activity

Imagine that you have set up a small farm near a large city. Multiple stakeholders are part-owners of the farm. Customers pay a membership fee to own a share of the harvest and they also pay for a weekly basket of fresh products from the farm and its partner farms in the region. A basket usually consists of seasonal vegetables and fruits, eggs and bread.

Link the following external factors that affect the farm with the appropriate areas of a SWOT matrix. There may be more than one possibility depending on your reasoning. Be ready to explain and discuss, perhaps with a partner.

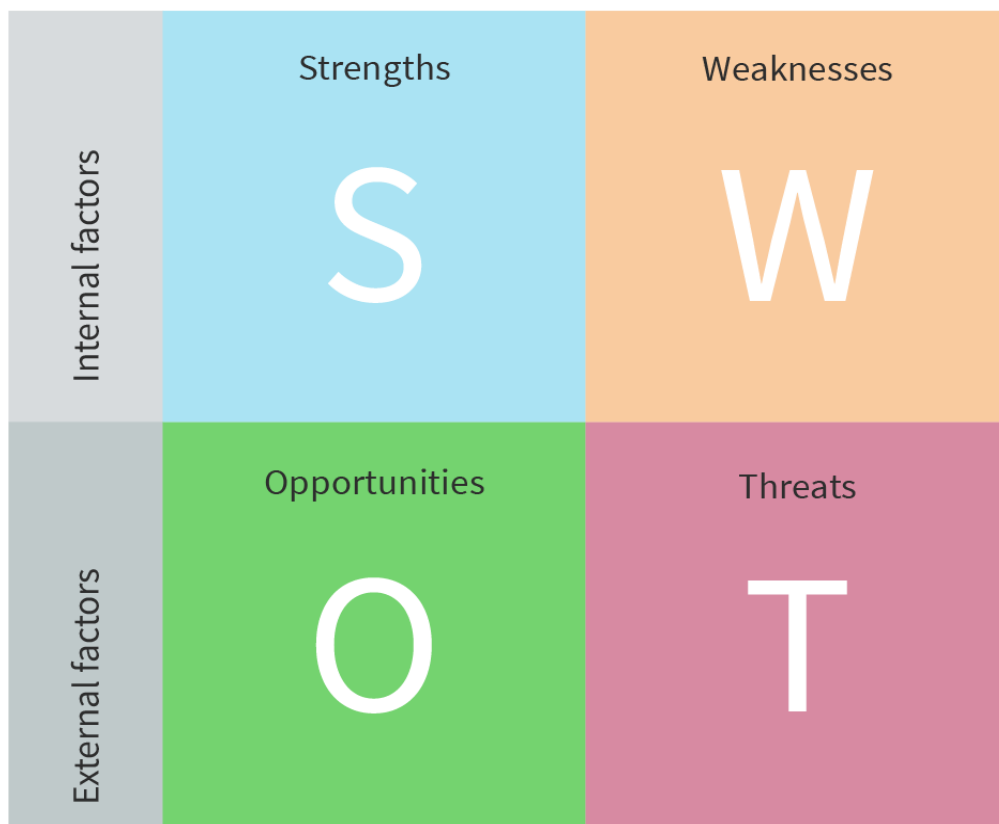


Figure 9. SWOT matrix.

Question

Are the following external factors strengths weaknesses, opportunities or threats?

1. The government has just agreed to provide financial support for farms in the region through subsidies.
2. A number of staff have complex family situations that can make them unreliable; you worry that some may quit.
3. There has been an outbreak of bird flu in the region.
4. There is an increasing number of restaurants in the city offering plant-based menus and who are looking for regional partners.
5. The climate in your region is experiencing more extremes. There is often flooding in winter and drought in summer.
6. You have very strong relationships with reliable suppliers of your inputs.
7. There are issues with getting customers to pay on time for their weekly basket deliveries.
8. You have two talented volunteer graphic designers on your team who can develop eye-catching advertising materials.

Suggest one more strength, weakness, opportunity and threat to demonstrate that you understand how to classify these factors.

Activity

Learner profile: Knowledgeable; Inquirers

Approaches to learning: Thinking skills (transfer), Research skills (information literacy)

Prepare a SWOT analysis for your school. This could either be:

- a quick exercise, where you organise information you know from personal experience or anecdotes, perhaps discussing with a partner or in small groups; or
- a longer investigation where evidence is gathered from a variety of primary and secondary sources to support the analysis, again perhaps done with a partner or in a small group.