1. To what extent is the economy likely to be the key external factor determining the success of businesses?

*Answer may include:*

The external environment of business includes the macro environment and the competitive environment. The macro environment includes: Political, Economic, Social, Technological, Environmental and Legal factors. The competitive environment involves suppliers, distributors, buyers, competitors and substitutes.

The economy can affect both the supply conditions and the demand conditions of a business. For example, higher interest rates can lead to higher costs of borrowing and also reduce the likelihood of customers borrowing money and therefore reduce demand. Both of these may squeeze a firm’s profits and therefore reduce the rewards to its owners and the funds for investment.

By comparison a lower exchange rate may make the price of firm’s products cheaper abroad in terms of foreign currency but at the same time it may increase the price of imported goods and services which might reduce profit margins.

At any moment there may be many different economic changes affecting demand and costs in different ways. Managers will try to predict economic change and also react to change as it happens by adjusting their marketing, HR, operations decisions. However there are also all the other factors in the external environment to consider. The relative importance of the economy may depend on the specific moment and business being considered. For example, recently the euro crisis has increased the significance of economic factors for many organisations; however in the world of banking concerns over greater regulation mean that the legal environment is also very significant at the moment.

2. Discuss the possible value to managers of undertaking PESTEL analysis.

*Answer may include:*

PESTEL analysis involves a study of the macro external environment. This can be compared with the strengths and weaknesses of the business to help determine its strategy. The growth of emerging markets, for example, may lead a business to switch resources into targeting economies such as China and Russia.

When undertaking PESTEL analysis managers will review the position of the business and debate possible future changes; this discussion in itself is useful because it gets managers talking and evaluating opportunities and threats. However the value of PESTEL analysis depends on how accurate the information is (and this can be difficult when estimating economic change, for example), how well managers identify the relevant factors and what actions is taken as a result. Managers will need to develop an appropriate plan and then implement it effectively.
3. What two changes in your economy in recent years do you think are likely to be most important for businesses? Justify your choices.

Answer may include:

This will depend on the students’ own views and how well they argue the case. Possibilities include further problems in the Eurozone and continued slow economic growth. However the response may depend on which country and which business the student is focusing on.