



Unit 2

The economic environment of the business

Subject: Business I

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- The environment of the business** 1
- General environment 2
- Specific environment 3
- External and internal analysis: SWOT 4

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1 The environment of the business




The Evolution of the Environment is unstoppable.

1 The environment of the business




What is the environment of the business?



Environment
Group of factors that influence in a business.




<p>General Environment</p> <p>For all companies who work in the same social, economic, political and technological field.</p>	<p>Competitive or Specific Environment</p> <p>Shared by all firms operating in the same business sector.</p>
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2 General environment

What environmental factors influence the business?

Economic factors		Sociocultural factors	
	<ul style="list-style-type: none"> ■ Economic growth (GDP) ■ Availability and distribution of resources (workforce, €) ■ Evolution of prices (inflation) ■ Fiscal and economic policies 		<ul style="list-style-type: none"> ■ Cultural behaviors ■ Education level ■ Demographic variables ■ Income distribution
			<ul style="list-style-type: none"> ■ Political system ■ Government regulations (eg laws) ■ Promotion of business activity (eg subsidies)
Political and legal factors		Technological factors	

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2 General environment

a. Economic factors

Economics?	Economics is the social science that studies the use of resources (limited) to meet people's needs (unlimited) .
Microeconomics?	Deals with the specific markets (wheat, steel, oil, housing, jobs...) and how they behave (supply, demand, flexibility, etc.).
Macroeconomics?	High-level Economic Figures

¿GDP?

Inflation Rate?

CPI?

Unemployment Rate?

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2 General environment

a. Economic factors: **Microeconomics**

R+D SECTOR

BUSINESSES EXPENSE * (2013)	BUSINESSES EMPLOYMENT ** (2012)
- 0,03 %	-0,03 %

** Source: INE, Avance de la Estadística sobre Actividades en I+D*
*** Source: INE, Estadística sobre Actividades en I+D*

2 General environment

b. Economic factors: **Macroeconomics**

Gross domestic product (GDP)?

It is used to gauge the health of a country's economy.


Why is this important? → Current News

Who measures it? → National Institute of Statistics

IMF Managing Director, Christine Lagarde

INE Instituto Nacional de Estadística


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2 General environment

b. Economic factors: **Macroeconomics**

Present times...



Who is he?

Rodrigo de Rato Figaredo

- Spanish. He was Director of the IMF from 2004-2007.

[Spanish economy to grow 2 percent in 2015, predicts IMF](#)
EL PAÍS -21/01/2015


International Monetary Fund (IMF)

- The world's most important International Financial Institution.
- Its decisions affects the policy of all countries.

Functions:

- Money loan
- Control of exchange rate policies
- Proposal of economic measures
- Studies of the economic situation of each country.


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2 General environment


b. Economic factors: **Macroeconomics**

Gross domestic product (GDP)?




The **monetary value** of all the **finished goods and services** produced within a country's borders in a specific time period. It measures of national income and output for a given country's economy.

Final goods and services = are those that are not further used in the manufacture of other goods, but are devoted to consumer use.




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2 General environment

b. Economic factors: Macroeconomics

Gross domestic product (GDP)?




Year	GDP (Billions of U.S. dollars)
2006	1130.8
2007	1236.4
2008	1441.4
2009	1593.4
2010	1454.34
2011	1384.84
2012	1454.53
2013	1322.48
2014	1358.26

SOURCE: WWW.TRADINGECONOMICS.COM | WORLD BANK GROUP

The Gross Domestic Product (GDP) in Spain was worth 1358.26 billion US dollars in 2013. The GDP value of Spain represents 2.19 percent of the world economy. GDP in Spain averaged 474.46 USD Billion from 1960 until 2013.

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2 General environment


b. Economic factors: Macroeconomics

Gross domestic product (GDP)?

Calculating GDP: Who consumes in our society?

GDP =	Private Consumption (C)	+ Investment (I)	+ Government outlays (G)	+ Exports – Imports (X-M)
	<p>People:</p> <ul style="list-style-type: none"> ▪ Food ▪ Housing ▪ Entertainment,... 	<p>Businesses</p> <ul style="list-style-type: none"> ▪ Inventories in warehouses (raw materials, products, ...) ▪ Capital assets (machinery, premises, vehicles, ..) 	<p>Public Sector</p> <ul style="list-style-type: none"> ▪ Infrastructure ▪ Health ▪ Education 	<p>External</p> <ul style="list-style-type: none"> ■ Exports: products sold abroad ■ Imports: products purchased from abroad <p><i>This difference is known as: Balance of trade.</i></p>

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2 General environment

b. Economic factors: Macroeconomics

Consumer Price Index (CPI)?


Why is it important?

“How much does it cost *to go shopping*?
Indicator of purchasing power.




“How much will they raise our *salary*?”
“How much will they raise the *pensions*?”
Benchmark

What is it?




Instituto Nacional de Estadística

CPI definition: is a statistical measure of the evolution of the prices of goods and services consumed by the population that reside in family dwellings in Spain.



2 General environment

b. Economic factors: Macroeconomics



How to calculate CPI?

Weighted average of the prices of a “shopping basket”

Joined up in 12 groups	IPC, base 2001 Ponderaciones año 2006
01. Food and non-alcoholic drinks	22,28
02. Alcoholic drinks and tobacco	3,07
03. Clothing and footwear	9,25
04. Housing	10,71
05. Menage	6,17
06. Medicine	2,72
07. Transport	14,91
08. Communications	3,28
09. Leisure and culture	6,78
10. Education	1,68
11. Hotels, cafes and restaurants	11,45
12. Other goods and services	7,72
TOTAL	100,00

How many items does it contain?

491 items!!

Are there few or many?

Which ones are not included?

- Lottery and gaming
- Home ownership

2 General environment


b. Economic factors: Macroeconomics

$$\text{Inflation rate} = \frac{\text{CPI}_{t+1} - \text{CPI}_t}{\text{CPI}_t} \times 100$$

Inflation?	+	Price Level Increase
Deflation?	-	Price Level Decrease

Why do prices oscillate?

There are **several theories** to explain it: excess of demand against supply, increase in production costs (eg: oil prices), and others.



Consequences?

Inflation	<ul style="list-style-type: none"> ▪ Loss of purchasing power if the incomes of workpower and pensioners are not readjusted and balanced. ▪ Loss of competitiveness in relation to other countries, due to an increase in production costs.
Deflation	<ul style="list-style-type: none"> ▪ Reduces demand, because purchasers expect prices will continue to fall.

2 General environment


b. Economic factors: Macroeconomics



Unemployment rate?

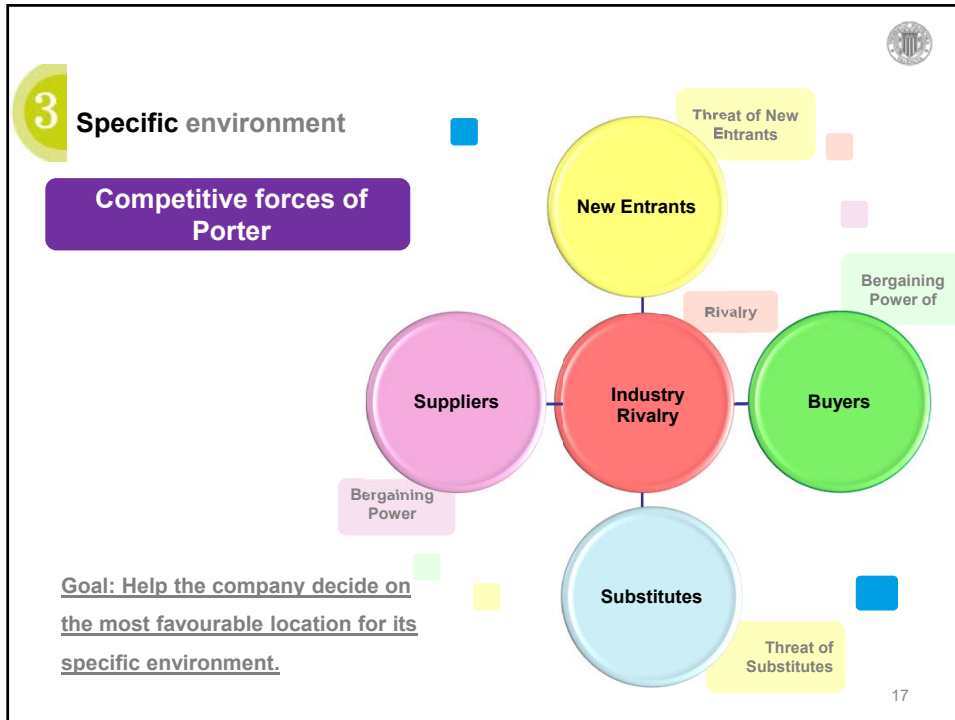
What is it? { % of the total labor force that is **unemployed** but actively seeking employment and willing to work.

Natural Unemployment Rate or Full Employment? { level at which there is **balance in the labor market** (depends on the country, common value is 6%)

¿Quién calcula?



 **Registered Unemployment**
<
 **Instituto Nacional de Estadística**
Labour Force Survey (EPA)




3 Specific environment

PORTER FIVE FORCES ANALYSIS

Sample questions we will answer in this analysis:

Potential Competitors	Are there barriers to entry (high investment, favorable location patents, possible reaction of competitors ..?)
Suppliers	Number of suppliers in the market, importance of the industrial sector, threats of integration, importance of suppliers in the final cost of the product?
Buyers	Number of customers, market concentration, importance of the product to customers, product profitability, information that they have?
Substitutes	Are there substitutes, degree of substitution and relative prices?
Competitors	Number of competitors, degree of differentiation, fixed costs, exit barriers?

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4 External and internal analysis: SWOT

With the study of the **general and specific environment** and with the help of the previous explained tools (**Factor analysis and Porter's competitive forces**) we will perform an external analysis of the business which will detect:


- **Threats** that the company will face.
- **Opportunities** that our environment offers to our business.

To complete this study, an internal analysis of our business is done in order to find out:

- **Weaknesses** that we have and that affects negatively to our company.
- **Strenghts** that positively help us to develop our business.

The matrix or analysis SWOT is the methodology used to study the situation of a business or a project by joining these two analysis(the internal and external one).

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4 External and internal analysis: SWOT

SWOT

<div style="font-size: 2em; color: red; margin-bottom: 10px;">+</div> <div style="font-size: 1.5em; color: blue;">-</div>	STRENGTHS Resources and skills acquired by the company	OPPORTUNITIES Possible markets, business niches
	WEAKNESSES Unfavorable factors we have compared to our competition	THREATS External factors that may threaten the organization.
	<div style="font-size: 1.5em; color: blue; margin-bottom: 5px;">↓</div> Internal Analysis	<div style="font-size: 1.5em; color: orange; margin-bottom: 5px;">↓</div> External Analysis

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Business Plan – 1st Delivery. Exercises Unit 1 and Unit 2

We continue our "fictitious business" plan.

2. EXTERNAL AND INTERNAL DIAGNOSTICS

The business entirely depends of its environment and its success mostly depends on how relates with its environment. At this point, an internal and external analysis will be design (Unit 2) in order to figure out our strategic profile: being aware of our strengths and weaknesses, as well as understanding the threats and opportunities currently present in our market.

2.1 External Analysis

2.1.1.General Environment Analysis

Fill up a table with the environmental factors that affect you.



2.1.2 Specific Environment Analysis

Analyze the specific environment with the analysis model based on Porter's Competitive Forces.

2. 2 Internal and External Analysis: SWOT

Develop a SWOT (Strengths-Weaknesses-Threats-Opportunities) with the goal commonly known as "KNOW YOURSELF".

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**Thank you very much
for your attention**

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