

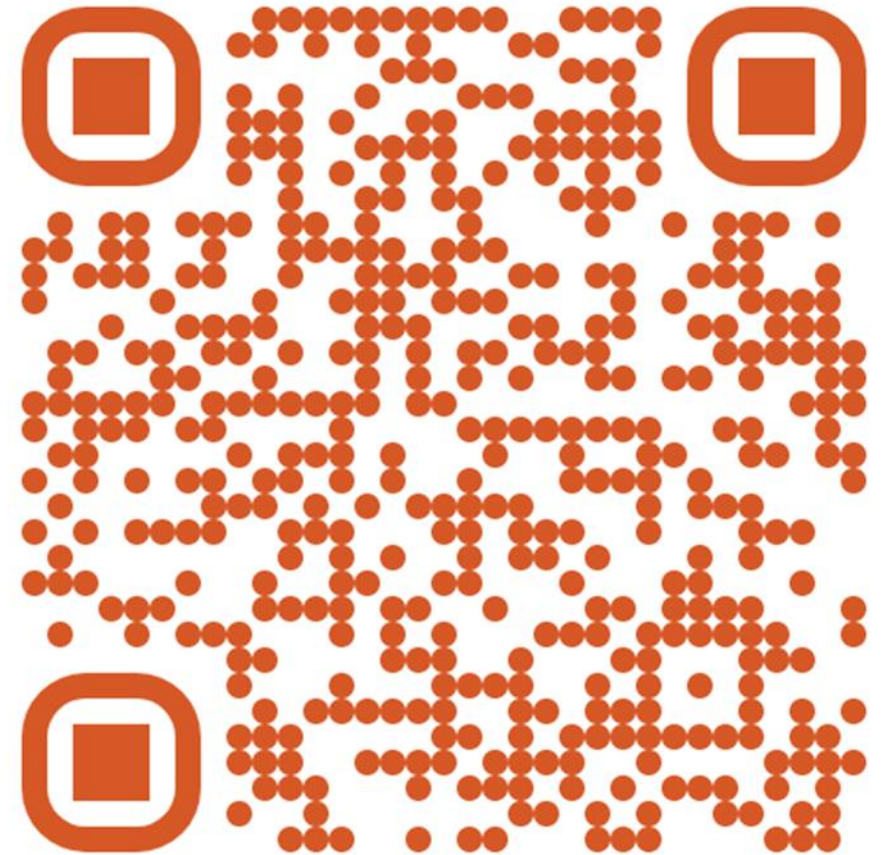
Global Business Environment and International Strategy MOD007191

Lecture 5

The Macro Environment

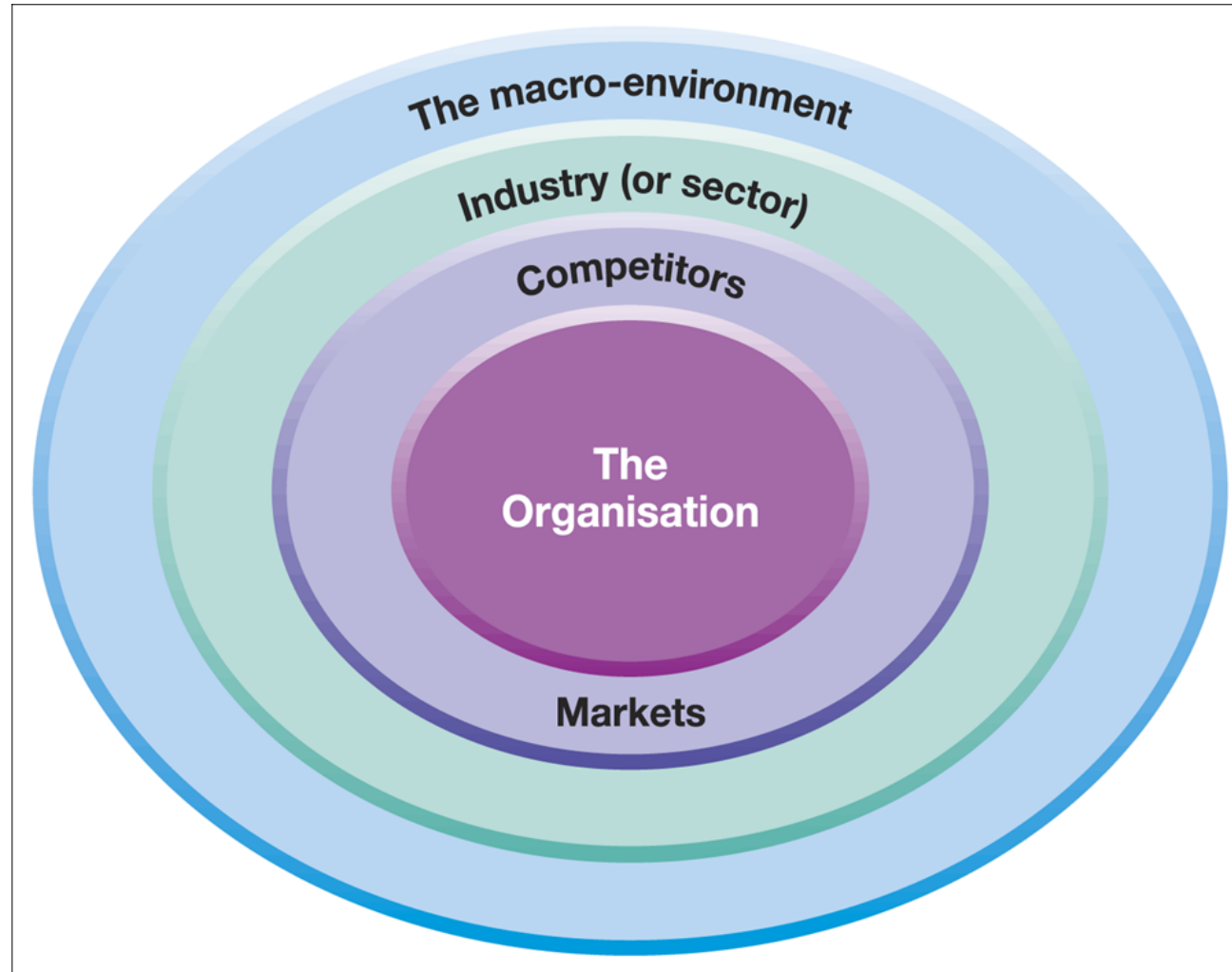
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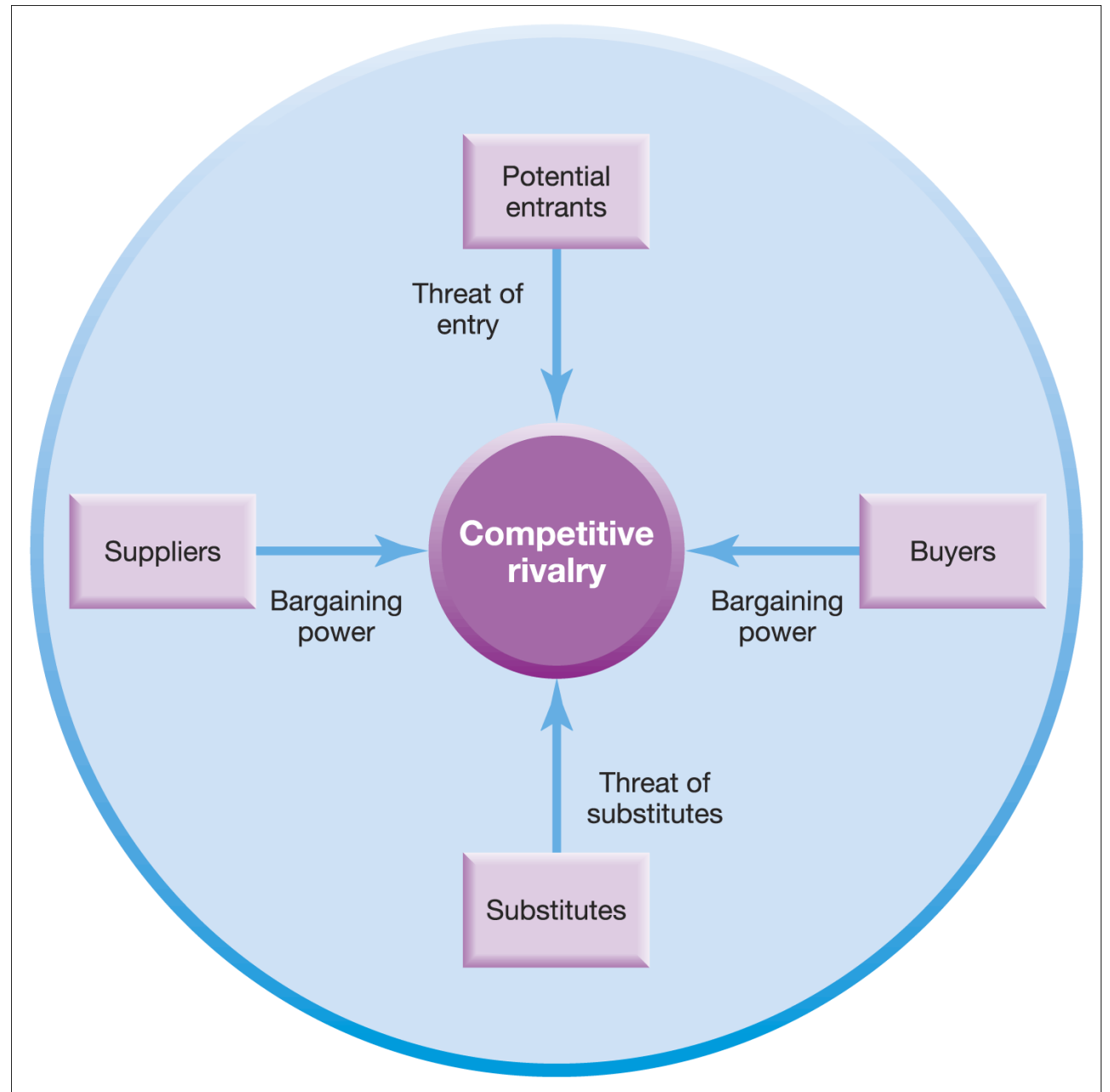


Recap

Layers of the business environment



The five forces framework



by Michael E. Porter. Copyright © 1980, 1998

Summary of Five Forces- Carbonated Soft Drink

⇒ Competitive Forces

Key Takeaways

Manufacturers compete based on several factors including price levels, range of products offered, product innovation and marketing. The expansion of private label brands has also intensified price-based competition among manufacturers.

Competition with producers of other ready-to-drink (RTD) beverages has intensified in recent years. Products manufactured by juice producers, like sparkling fruit drinks, have seen growth recently.

Concentration

Low

Competition

High Increasing

Barriers to Entry

Moderate Increasing

Substitutes

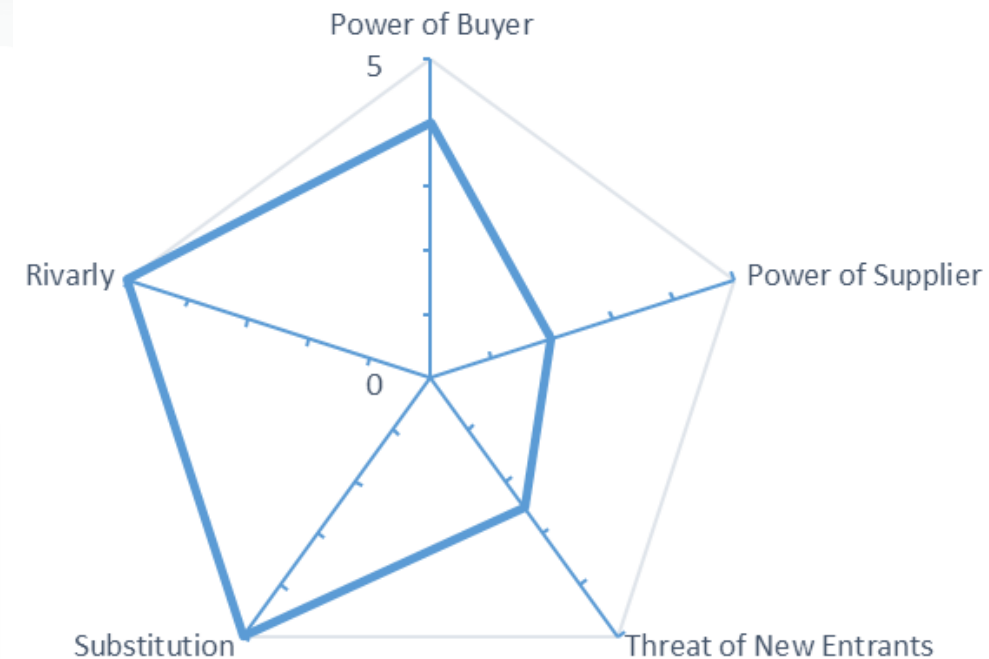
High Increasing

Buyer Power

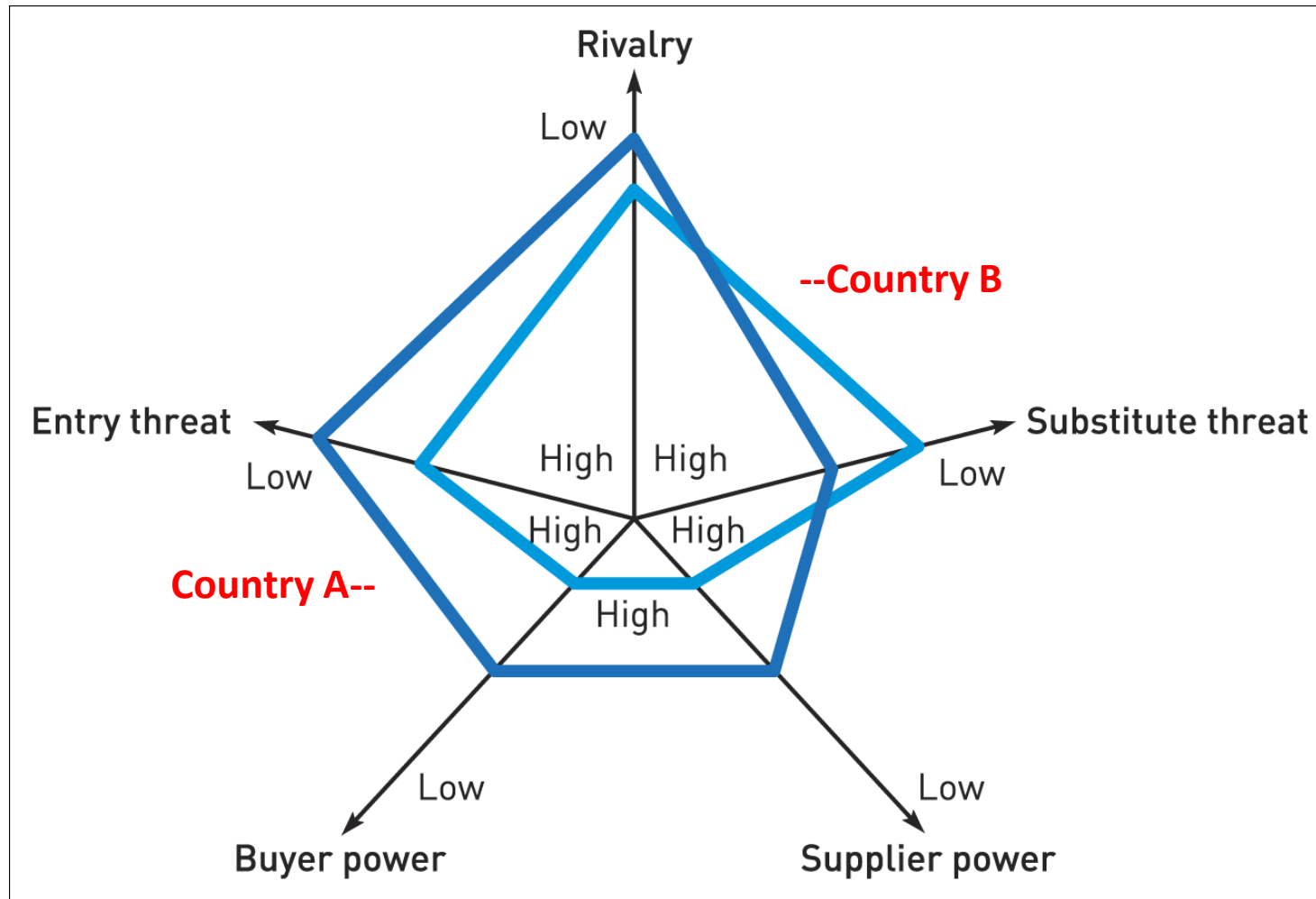
High Steady

Supplier Power

Low Steady



Five Forces- Country Comparative

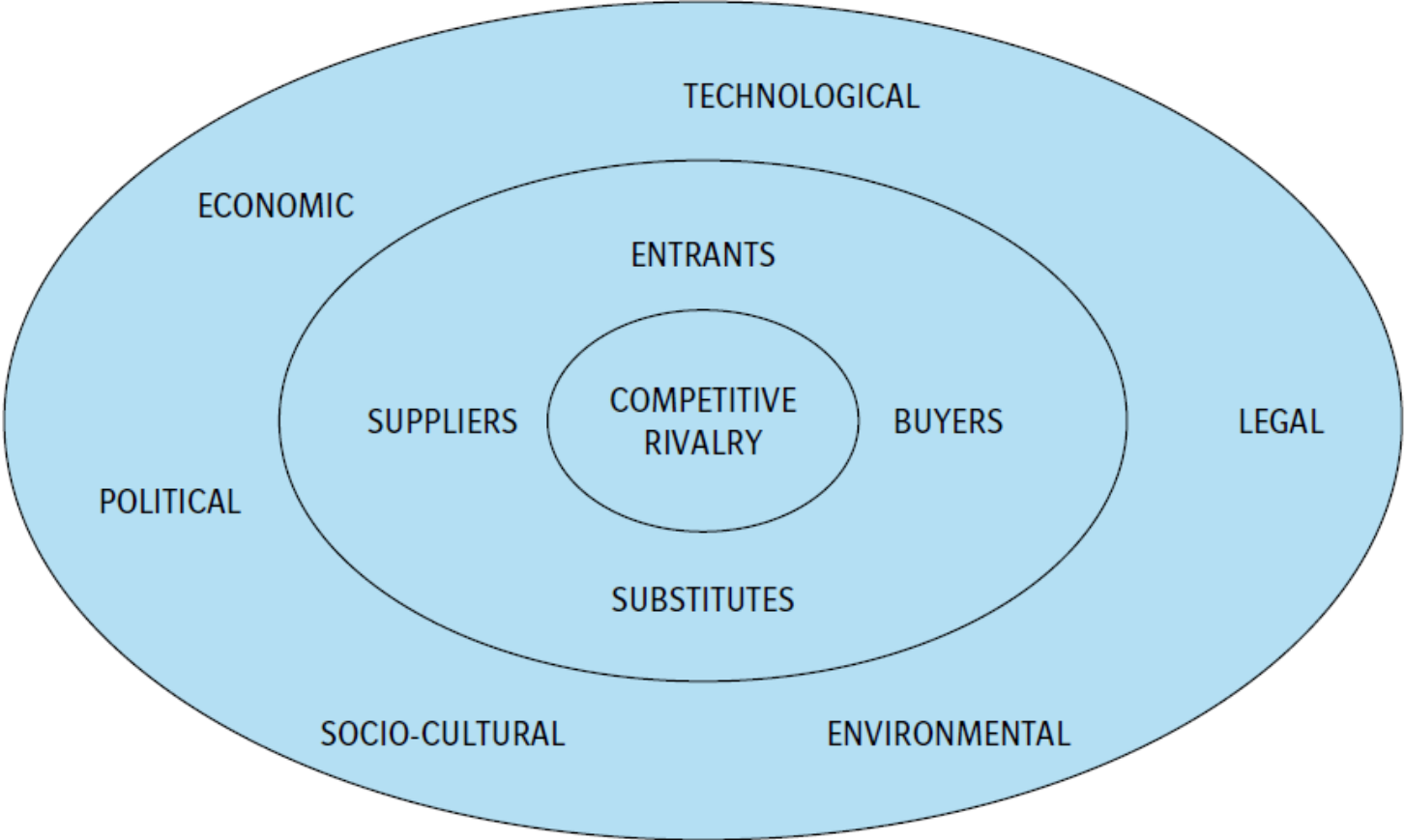


Essential Reading to Date

- 1. Hamilton and Webster, *The International Business Environment*, Fourth Edition
 - Chapter 1-4

- 2. David Needle and Jane Burns, *Business in Context*, Seventh Edition
 - Chapter 1-3

The Macro-environment



Why analyse the Macro Environment?

- **A turbulent environment** is one where there is rapid, unexpected change
- Turbulence has increased with the rapid widening and deepening of the political, economic, socio-cultural, and technological interconnections
- brought about by globalization and facilitated by advances in telecommunications.

Opportunities

- Globalization **generates opportunities for business to:**
 - Enter new markets
 - Take advantage of differences in the costs and quality of labour and other resources
 - Gain economies of scale
 - Get access to raw materials

Threats

- Globalization is also accompanied by threats
- **Threats for international firms** tended to be seen as country-specific, arising from:
 - **Financial risks**—for example, currency crises, inflation
 - **Political risks** associated with events such as expropriation of assets by foreign governments
 - **Unwelcome regulations**
 - **Natural disasters** such as earthquakes and tsunamis.

Frameworks -- PEST, PESTEL AND LoNGPEST

PEST

- Political environment (P)
- Economic environment (E)
- Socio-cultural environment (S)
- Technological environment (T)

PESTEL

- PEST AND ADD.....
 - Ethical/Environmental (E)
 - Legal environment (L)

LoNGPEST

- PEST plus
 - Local (Lo)
 - National (N)
 - Global (G)

The PESTEL framework

The PESTEL framework categorises environmental influences into six main types:

political,

economic,

social,

technological,

environmental

legal

Thus PESTEL provides a comprehensive list of influences on the possible success or failure of particular strategies.

PESTEL Analysis | CIPD



<https://youtu.be/GFVKKTwkANY>

The PESTEL framework

- ***Political Factors:*** For example, Government policies, taxation changes, foreign trade regulations, political risk in foreign markets, changes in trade blocks (EU).
- ***Economic Factors:*** For example, business cycles, interest rates, personal disposable income, exchange rates, unemployment rates, GDP trends.
- ***Socio-cultural Factors:*** For example, population changes, income distribution, lifestyle changes, consumerism, changes in culture and fashion.

The PESTEL framework

- *Technological Factors:* For example, new discoveries and technology developments, ICT innovations, rates of obsolescence, increased spending on R&D.
- *Environmental ('Green') Factors:* For example, environmental protection regulations, energy consumption, global warming, waste disposal and re-cycling.
- *Legal Factors:* For example, competition laws, health and safety laws, employment laws, licensing laws, IPR laws.

Key drivers of change

Key drivers for change:

- The environmental factors likely to have a high impact on the success or failure of strategy.
- For example, the birth rate is a key driver for those planning nursery education provision in the public sector.
- Typically key drivers vary by industry or sector.

Using the PESTEL framework

- Apply *selectively* –identify specific factors which impact on the industry, market and organisation in question.
- Identify factors which are *important currently* but also consider which will become *more important in the next few years*.
- Use *data* to support the points and analyse trends using up to date information
- Identify *opportunities and threats* – the main point of the exercise!

Key Sources of Information for PESTLE

- [EBSCOhost Business Source Premier](#)
- [IBISWorld](#)
- [Statista](#)

- Log In Via Institution
- Use your ARU Credentials

Pestle Analysis Summary

	Country A	Country B	Country C
Political /Legal	- Key points from research		
Economic			
Social			
Technology			
Environmental			

IMF Country Classification

- The country classification in the World Economic Outlook divides the world into **two major groups**:
- Advanced economies
- Emerging and developing economies.



Assessing a Country's Potential

Gross domestic product (GDP)

- Total value of all goods and services in a year including exports less imports.

GDP per capita

- As above divided by the number of population.

Gross National Product (GNP)

- Total value of all goods and services in a year plus income from residents overseas minus income at home by non-residents.

Gross National Income (GNI)

- GDP plus or minus income received from or paid to other countries e.g. Interest on loans.

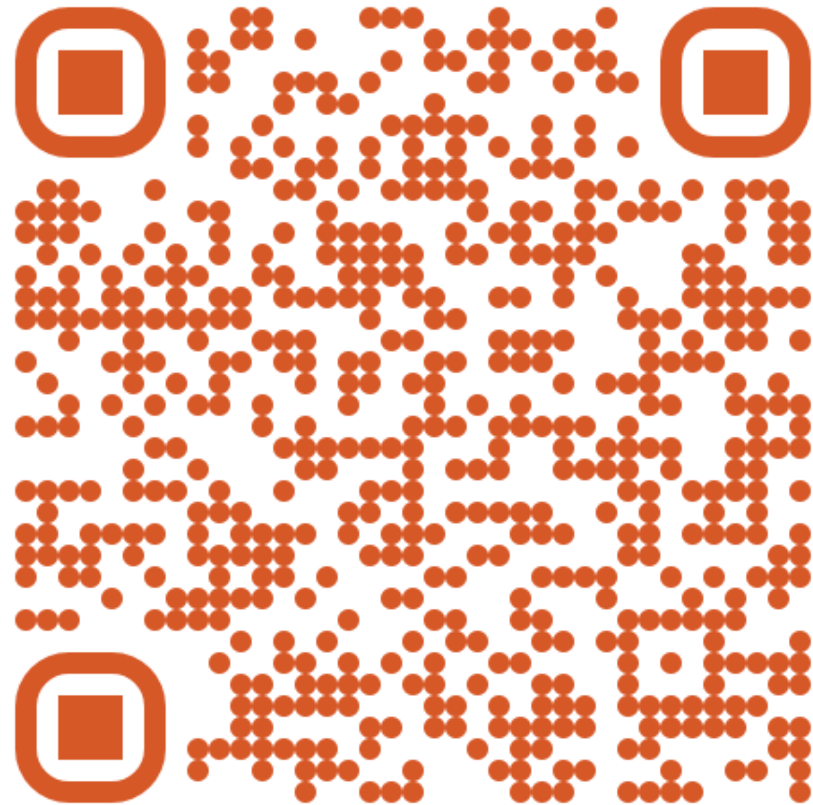
Purchasing power parity (PPP)

- Measure of the relative cost of living in different countries and an indicator of poverty.

International Institute for Management Development (IMD) Country Profile

- World Competitiveness Ranking divides the national environment into **four main factors**:
 - Economic Performance
 - Government Efficiency
 - Business Efficiency
 - Infrastructure

- Competitiveness Ranking



Process of entering (foreign) markets - Analysis

FACTOR	WEIGHT	COUNTRY A	COUNTRY B	COUNTRY C
MARKET POTENTIAL				
Size of market	0.4	4	3	3
Growth rate	0.3	2	2	1
Market share	0.3	3	2	2
TOTAL		9	7	6
EASE OF DOING BUSINESS				
Starting a Business	0.3	3	3	3
Getting Credit	0.1	3	1	2
TOTAL		6	4	5
RISKS				
Political risks	0.4	2	3	2
Foreign exchange	0.2	1	2	1
TOTAL		3	5	3
NET TOTAL		12	6	8



daru.