

05 External environment

This chapter covers syllabus section 1.5

On completing this chapter you should be able to:

- prepare a PEST analysis for a given situation
- use PEST analysis to examine the impact of the external environment on a firm
- evaluate the impact on a firm's objectives and strategy of a change in any of the PEST factors
- analyse the impact that external opportunities and threats may have on business objectives and strategy
- explain how external opportunities and threats can impact on business decision-making.

SETTING THE SCENE

Nokia sets good example – but BP is fined

Nokia, the world's leading mobile phone maker, has announced the closure of its Bochum factory in Germany with the loss of 2300 jobs. The company reached an agreement with the workers' trade union leaders. Nokia will pay US\$314 million in redundancy pay and will set up a social plan for employees to help them look for other jobs. This sum is much greater than that demanded by German employment law. Nokia is trying to set a good example and is attempting to limit the bad publicity in Germany from the factory closure. Sales of mobile phones in some countries were badly hit by the 2009–10 global economic downturn and Apple's technologically advanced iPhone has taken sales away from Nokia.

BP, the giant oil company, has been fined US\$373 million by the US Department of Justice for environment crimes and committing fraud. These huge fines include a penalty for the 2005 Texas refinery fire in which 15 people were killed. The accident also led to environmental damage and resulted from infringements of health and safety laws. BP has denied claims that it gave cost reductions at the refinery a higher priority than safety. The fraud committed by four of BP's employees was an attempt to fix high prices in the gas propane market illegally. This was against consumer protection laws.

Source: www.bbc.co.uk and www.news.yahoo.com (adapted)



Points to think about:

- What external factors have influenced Nokia's sales in recent years?
- In what ways did government laws have an impact on both of these companies?
- Do you think companies such as BP and Nokia might increase their profits if they meet all legal requirements in the countries they operate in?

Introduction

This chapter assesses the importance of external influences on business performance and decision-making. Businesses depend for their survival on understanding and responding to external factors that are beyond their control. Many of the factors are ‘constraints’ because they may limit the nature of decisions that business managers can take. The legal requirements imposed by governments, on environmental pollution for example, are one of the most obvious constraining influences on business activity. However, external influences can also create opportunities and enable a business to become even more successful – introducing new technology in advance of rival firms is one example.

PEST analysis

KEY TERM

PEST analysis – an acronym standing for political, economic, social, technological that refers to an analytical framework for external environmental factors affecting business objectives and strategies. PEST is sometimes rearranged as STEP and has also been extended to STEEPLE (social, technological, economic, environmental, political, legal and ethical) and PESTLE (same categories as STEEPLE but without ethical considerations)

Managers undertake PEST analysis to assess the importance of the major external influences on their organisation’s future activities. This form of analysis will be referred to in later chapters of this book when major strategic decisions are being considered, such as entering new markets or developing new products.

PEST analysis may be conducted regularly to allow a business to review its objectives and strategies in the light of external changes. Some businesses may only do this form of analysis as a one-off when a major decision needs to be taken. This is likely to be less effective than regular PEST reviews which monitor changes to the external environment. It is the responsibility of managers to decide which of the key PEST factors are relevant to their business. The analysis itself can be undertaken by managers alone or with the participation of other staff. Much will depend on the leadership style and the corporate culture of the business.

USING PEST ANALYSIS

Table 5.1 shows a simplified PEST analysis for McDonald’s restaurants which the company would carry out when planning to enter a national market for the first time. Other business scenarios may lead to different factors being considered important.

Political (and legal) issues	Economic issues
- Political stability of the country – is civil unrest likely? - Employee and consumer protection laws – how restrictive are these, e.g. health and safety laws? - Trade restrictions or membership of free trade bloc – can food be imported without tariffs? - Environmental regulations – what forms of packaging of fast food are allowed? - Health concerns about fast food – could the government pass new laws about the contents of fast-food products?	- Economic growth – is this slowing or even negative (recession)? - Unemployment – is this rising and reducing consumer incomes? - Interest rates – are these high or low? - Exchange rate – is this likely to appreciate or depreciate? - Is the government’s fiscal policy likely to lead to increases or reductions in consumer incomes?
Social issues	Technological issues
- Dietary trends are changing and may be different between different countries (cultural and religious factors). - More married couples both work – less time to prepare meals. - Growing health consciousness – demand for healthy foods might be increasing. - Is the population ageing? Do the elderly buy more or fewer fast-food meals than the young? - Is the population growing?	- Can the food production process be automated? Is technical support available? - Online selling – is full internet coverage available? Will customers order online? - Environment – is environmentally friendly packaging technically possible and available in this country?

Table 5.1 Example of possible PEST analysis for McDonald’s

ACTIVITY 5.1**10 marks, 18 minutes (plus research time)**

Prepare a PEST analysis for a foreign fashion retailer planning to set up a chain of shops for the first time in your country. [10]

External opportunities and threats**POLITICAL AND LEGAL CONSTRAINTS**

In most countries, political and legal constraints on a business fall into the following main categories:

- employment laws
- consumer protection laws
- business competition laws
- political changes resulting from a new government, e.g. policies towards foreign direct investment by multinationals
- major policy changes such as nationalising some UK banks after the 2008–9 crisis.

Table 5.2 shows the possible impact of some political and legal factors on business objectives and strategies.

ACTIVITY 5.2

Read the case study below and then answer the questions that follow.

Employment rights in your country

In China, current employment rights are governed by the PRC Employment Law of 1995. There are 13 sections to this law which cover almost all aspects of employment relationships. These include working hours, holidays, health and safety, training, social welfare, disputes and discrimination on the grounds of race, sex, disability or age.

24 marks, 45 minutes (plus research time)

- 1 Why do you think the Chinese government introduced such a wide-ranging law as this, covering all aspects of employer–employee relationships? [4]
- 2 Do these laws help or damage business interests? Explain your answer. [10]
- 3 **Research task:** Find out about the main employment laws in your country and the main rights they offer to workers. Do you think that these laws need changing in any way? If so, how and why? [10]

Examples of political/legal factors	Impact on business objectives and strategies
Improved employee legal protection, e.g. better health and safety at work, redundancy pay, protection from discrimination, minimum pay levels, maternity pay	● Increases cost of employing staff – may be reluctant to expand in this country by taking on extra staff. ● Encourages business to increase labour productivity to pay for the cost of these legal improvements. For example, Germany has some of the most rigorous laws protecting workers rights, but labour productivity is one of the highest in the world. ● If employers are seen to be positive about these legal changes and accept them fully, they will appear to be a caring business that will encourage well-motivated staff to work for them. Some businesses offer benefits above the legal minimum for this reason (see ‘Setting the scene’ case study on page 45).
Consumer protection laws that constrain businesses from advertising inaccurately or inappropriately, selling faulty goods or those described incorrectly, high-pressure selling tactics, not allowing consumers to change their minds after signing credit agreements	● Sales staff will need training in the legal rights of consumers – breaking consumer laws will lead to expensive legal claims. ● Design and production of new products will have to put customers’ safety and product quality as priorities. ● Full disclosure of any safety problems to minimise risks to customers. ● All of these strategies will add to costs. However, if a business is seen to put customers and customer service first, it may benefit from good publicity, word-of-mouth promotion and customer loyalty.
Competition laws can restrict unfair competition or restrictive practices by businesses, monopoly exploitation of consumers, mergers and takeovers (external growth) that could lead to a monopoly	● No collusive agreements with competitors. ● Internal growth is less likely to lead to reports and action by the competition regulators. ● Expand into other countries rather than growing in existing country which can lead to monopoly market share.

Table 5.2 Political and legal factors and their impact on business

ACTIVITY 5.3

Read the case study below and then answer the questions that follow.

Consumer rights in your country

In Malaysia, the 1999 Consumer Protection Act is an important law protecting the interests of consumers. It has 14 main sections which include outlawing all misleading and deceptive conduct by firms, false advertising claims, guarantees in respect of supply of goods and strict liability for defective and potentially dangerous products.

In India, the 1986 Consumer Protection Act provides for the regulation of all trade and competitive practices, creates national- and state-level consumer protection councils and lists unfair and uncompetitive trade practices.

24 marks, 45 minutes (plus research time)

- 1 Why do you think governments, as in Malaysia and India, pass laws to protect consumer rights? [4]
- 2 Do you think that such laws help or damage business interests? [10]
- 3 **Research task:** Find out the main consumer protection laws in your country (Malaysia and India have others). Give examples of how firms try to break these laws. Are the laws strict enough? If not, why not? [10]

ACTIVITY 5.4

Read the case study below and then answer the questions that follow.

Ryanair – adverts are ‘misleading’

Ryanair is one of Europe’s most successful low-cost airlines. It risks prosecution and a substantial fine for repeatedly misleading customers about the availability of its cheapest fares. Some customers claim that they are not told when the fares include taxes and charges and when they do not. Also, the cheapest fares have many restrictions placed on them and these are not clear, it is suggested, when a booking is being made. The airline has broken the Advertising Code seven times in recent years. It has failed to heed warnings by the Advertising Standards Authority (ASA). The company is being referred to the Office of Fair Trading, which has the power to prosecute advertisers who make misleading claims about products or prices. Ryanair could face substantial fines. In January 2010, Ryanair refused to withdraw an advert of a woman

dressed as a young schoolgirl, despite the ASA’s ruling that it breached advertising rules on social responsibility and ethics. Ryanair accused the ASA of censorship, saying it was run by ‘unelected, self-appointed dimwits’.

Source: www.timesonline.co.uk (adapted)

18 marks, 28 minutes

- 1 In what ways might Ryanair gain from ‘misleading’ customers in the ways described? [6]
- 2 Do you think that advertisers should be controlled over the claims they make and the way they promote their products? Explain your answer. [6]
- 3 If you were the chief executive officer of Ryanair, how would you respond to this bad publicity and the threat of legal action? Justify your answer. [6]

EXAM TIP

You will not be asked to give details on laws in any specific country, but you may be asked how a business is affected by laws in general.

ECONOMIC INFLUENCES

Changes in the economic environment can have a very significant impact on business objectives and strategies. The global downturn of 2009–10 forced many

international businesses to revise their growth and profit targets and adapt their product and marketing strategies to a world in which credit was in short supply and consumers became much less willing to spend, especially on luxury goods. Other economic factors present businesses with opportunities rather than constraints such as the opening up of China’s consumer market following its membership of the World Trade Organization in 2001.

Other changes in the economic environment result from changes in government economic policies. These

policies – mainly fiscal and monetary – aim to help governments achieve four main macro-economic objectives:

- economic growth and rising living standards
- low levels of inflation
- low levels of unemployment
- balance of payments equilibrium, over time, between the value of imports and exports.

The important economic factors that businesses should monitor and respond to are explained in [Table 5.3](#).

KEY TERMS

fiscal policy changes in government spending levels and tax rates

monetary policy changes in the level of interest rates which make loan capital more or less expensive

economic growth increases in the level of a country's Gross Domestic Product (total value of output)

inflation the rate of change in the average level of prices

unemployment the numbers of people in an economy willing and able to work who cannot find employment

SOCIAL AND CULTURAL INFLUENCES

The structure of society is constantly evolving. The changes occurring in many countries include:

- an ageing population with reduced birth rates and longer life expectancy, although in some nations the average age is falling due to high birth rates
- changing role of women – increasingly seeking employment and posts of responsibility in industry
- improved education facilities – resulting in increasing literacy and more skilled and adaptable workforces
- early retirement in many high-income countries – leading to more leisure time for a growing number of relatively wealthy pensioners
- in some countries, rising divorce rates – creating increasing numbers of single-person households
- job insecurity, often created by the forces of globalisation – forcing more employees to accept temporary and part-time employment (some workers prefer this option)
- increased levels of immigration – resulting in changing and widening consumer tastes.

This list is by no means complete. You could add to it from your knowledge of the changes occurring in your own society. How do these changes impact on business objectives and strategy? We will look at two of these changes – an ageing population and patterns of employment – but the analysis used can be adapted when considering the impact of the many other social changes.

An ageing population

The main effects associated with an ageing population are:

- a larger proportion of the population over the age of retirement
- a smaller proportion of the population in lower age ranges, e.g. 0–16 years old
- a smaller number of workers in the economy but a larger number of dependants, that is below working age or retired – this puts a higher tax burden on the working population.

Business objectives and strategy will need to adapt to:

- changing patterns of demand. There will be more 'grey' consumers than teenagers and they buy different products. Therefore, a construction company might switch from building large apartments for families to smaller units with special facilities for the elderly. Market research will be important for a business that believes the demand for its portfolio of products could change as the population ages.
- a change in the age structure of the workforce. There may be reduced numbers of youthful employees available, and businesses may need to adapt their workforce planning to enable the employment of older workers, or to keep existing workers beyond retirement age. Although younger employees are said to be more adaptable and easier to train in new technologies, older workers may show more loyalty to a business and will have years of experience that could improve customer service.

Changing patterns of employment

The main features of changing patterns of employment include:

- an increase in the number of women in employment and in the range of occupations in which they are employed
- an increase in student employment on a part-time basis – some industries are substantially staffed by students and part-timers, e.g. McDonald's; most other fast-food shops and supermarkets are largely staffed in this way
- an increase in temporary, part-time and flexible employment contracts – these are introduced by employers to reduce the fixed costs of full-time and salaried posts and to allow for flexibility when faced with seasonal demand or uncertainties caused by increasing globalisation
- more women taking maternity leave and then returning to work.

05 External environment

Main economic influences and government economic policies	Impact on business objectives and strategies
Economic growth	During a period of economic growth, demand for most goods and services will increase as consumers have higher incomes – businesses may plan to expand. However, inferior goods may be rejected by consumers who now have higher incomes.
Recession	- A recession will have the reverse impact – it can lead to business retrenchment, closures and redundancies. - Business flexibility will be important for survival and profitability in both cases, e.g. aiming to have a product portfolio with a wide range of products to appeal to market segments with different income levels.
Interest rates through the use of monetary policy	- An increase in interest rates will reduce consumer demand for many products bought on credit, e.g. houses and cars. Businesses may offer their own credit deals to customers. - Increased loan capital costs will reduce profits for a business with high debt. Selling assets or new shares to reduce debt may be considered. - Business expansion plans may be delayed or cancelled – the expected profit may be below the interest cost on the loans required. - The country's currency is likely to appreciate as more investment finance from abroad is attracted to the country – see effects below.
Exchange rates – increases (appreciation) and decreases (depreciation) in the value of a currency value against other currencies	- A depreciation of currency (e.g. when 1 euro: \$1 changes to 1 euro: \$0.80 is a depreciation of the euro) will make imported goods more expensive. It also offers the opportunity for domestic firms to charge less for exports, leading to a possible increase in demand, especially if demand for them is price elastic – i.e. responsive to price changes. - More expensive imports can raise business costs if it has to buy materials or components from other countries – they might try to buy more supplies from domestic suppliers. - Businesses might target foreign markets more and change their strategies towards exporting rather than selling in the domestic market. - Foreign businesses may decide to locate in the country with the depreciating currency – it will avoid the risk of its goods becoming too expensive to import into the country. - The opposite would occur in the event of a appreciation.
Tax changes through the use of fiscal policy	- Higher rates of income tax reduce consumers' disposable incomes – demand for luxury and income elastic products will fall so businesses selling such products may offer lower priced alternatives or be forced to enter other markets. - Higher rates of tax on profits (corporation tax) will reduce the profits after tax of companies. A decision to relocate to a country with lower rates of tax might be made. Poland has recently experienced an increase in foreign investment after reducing its corporation tax rate to 10%.
Unemployment	- Higher numbers of workers without employment will give businesses more choice in staff recruitment. As there are many workers applying for each vacancy, a decision may be taken to reduce wage rates, which will reduce business costs. - Average consumer incomes are likely to fall with extensive unemployment – the demand for budget ranges of cheaper goods, e.g. supermarket own brands, could increase and production of these will have to rise to meet demand.
Inflation (cost-push and demand-pull)	- Higher wage demands from workers to maintain real incomes during inflation and higher costs of materials and components will lead to cost-push inflation. If businesses cannot increase prices for fear of demand falling, profit margins will fall. Businesses might seek cheaper sources of supply or more efficient production methods to help in lowering costs per unit. - Demand-pull inflation will encourage firms to raise prices to increase profit margins. - Substantial increases in inflation will lead to action being taken by the government or country's central bank to increase interest rates – see the effects of these above.

Table 5.3 Economic factors and their influence on business

KEY TERMS

recession six months (two quarters) of falling GDP (negative growth)

exchange rate the value of one currency in terms of another currency

cost-push inflation caused by rising costs forcing businesses to increase prices

demand-pull inflation caused by excess demand in an economy, e.g. an economic boom, allowing businesses to raise prices

Many countries are increasingly multicultural and this also has an effect on the pattern of women at work. In the UK, three out of ten women of Pakistani origin and two out of ten women of Bangladeshi origin seek full-time employment. In the UK as a whole, 75% of women seek full-time employment.

Firms can make these changes work to their benefit, while accepting some of the cost implications. Part-time workers can offer a firm much greater flexibility by being available at peak times and this will help to keep down overheads. Yet part-time and temporary staff can be difficult to mould into a team and may not contribute as much as a result.

By employing more females and removing barriers to their progress and promotion, firms can benefit from a wider choice of staff and improved motivation among women workers. However, there will be the increased costs of maternity leave and of providing staff cover for this. As with all other external influences on business behaviour, the most successful firms will be those that adapt to changes the most quickly and attempt to turn them to their own competitive advantage.



Many businesses employ mainly part-time staff – this can be beneficial for both the employer and the workers

ACTIVITY 5.5

Consider Table 5.4 and then answer the questions that follow.

	2000		2010		2020 (estimated)	
	(000s)	%	(000s)	%	(000s)	%
Total labour force	7042.0		9572.0		12 939.6	
Age distribution		100.0		100.0		100.0
15–24	2014.0	28.6	2498.3	26.1	3112.2	24.1
25–34	2204.1	31.3	2,979.2	31.1	4118.9	31.8
35–54	2436.5	34.6	3,611.3	37.7	4995.5	38.6
55–64	387.4	5.5	483.7	5.1	713.1	5.5
Educational structure		100.0		100.0		100.0
Primary only	2380.2	33.8	2604.3	27.2	1643.3	12.7
Lower and middle secondary	4042.1	57.4	5624.5	58.8	6,767.4	52.3
Tertiary (university)	619.7	8.8	1343.7	14.0	4528.9	35.0
Labour force participation rate		65.3		65.5		68.1
Male		85.6		85.4		86.4
Female		44.1		44.5		49.0

Table 5.4 Profile of a country's labour force, 2000–2020 (in 000s)

22 marks, 42 minutes

- 1 Calculate the forecasted percentage increase in the labour force between 2000 and 2020. [2]
- 2 Identify **two** changes to the structure of the labour workforce forecast over this period. Explain how these changes might have an impact on the human resources strategy of a business. [10]
- 3 Evaluate whether a business should provide more than the basic legal minimum in terms of conditions of employment and health and safety at work. [10]

Impact of technology

In its simplest form, technology means the use of tools, machines and science in industry. This section assesses the impact on businesses of the relatively recent introduction of high-technology machines and processes that are based on information technology (IT).

KEY TERM

information technology the use of electronic technology to gather, store, process and communicate information

Technological change is affecting all businesses and all departments within business. Table 5.5 explains some of the most common business applications of IT, the departments likely to benefit most from them and the potential advantages to be gained.

KEY TERMS

computer-aided design using computers and IT when designing products

computer-aided manufacturing the use of computers and computer-controlled machinery to speed up the production process and make it more flexible

internet the worldwide web of communication links between computers

In addition to these uses of technology, advances in technical knowledge are opening up new product markets, such as hydrogen-powered cars and 'flexible' mobile phones. The use of technology to develop new products is part of the research and development function of businesses (see Chapter 35, page 365).

EXAM TIP

It is wrong to assume that a business must always use the latest technology in all circumstances. There are substantial costs to be paid and some businesses thrive on using old-fashioned

methods. For example, hand-made designer furniture will sell because each piece is unique and computer-controlled robots might be completely impractical.



The use of computer-controlled robots has increased productivity in this Mini factory

IMPACT ON OBJECTIVES AND STRATEGIES

Costs

Capital costs can be substantial, labour training costs will be necessary and will recur regularly with further technological development. Redundancy costs will be incurred – existing staff may be replaced by the technology. However, the use of technology may achieve higher profits in the future.

Labour relations

These can be damaged if technological change is not explained and presented to workers in a positive way with the reasons for it fully justified. If many jobs are being lost during the process of change, then remaining workers may suffer from reduced job security, and this

Information technology application	Common business applications	Impact on business
Spreadsheet programs	- Financial and management accounting records can be updated and amended. - Cash-flow forecasts and budgets can be updated in the light of new information. - Changes in expected performance can be inputted to the spreadsheet and changes in total figures made automatically. - Income statements and balance sheets can be drawn up frequently.	- Flexibility and speed – changes to accounting records can be made quickly and the impact of these on total figures can be demonstrated instantly. 'What if' scenarios in budgeting and sales forecasting can be demonstrated, e.g. what would happen to forecasted profits if sales rose by 10% following a 5% cut in price?
Computer-aided design (CAD)	- Nearly all design and architectural firms now use these programs for making and displaying designs, e.g. cars, house plans, furniture, garden designs. - Designs can be shown in 3-D and 'turned around' to show effect from all angles.	- Saves on expensive designer salaries as work can be done more quickly. - More flexibility of design as each customer's special requirements can be easily added. Can be linked to other programs to obtain product costings and to prepare for ordering of required supplies.
Computer-aided manufacturing (CAM)	- Programs are used to operate robotic equipment that replaces many labour-intensive production systems. - Used in operations management in manufacturing businesses.	- Labour costs are reduced as machines replace many workers. - Productivity is increased and variable costs per unit are lower than in non-computerised processes. - Accuracy is improved – less scope for human error. - Flexibility of production is increased – modern computer-controlled machinery can usually be adapted to make a number of different variations of a standard product, and this helps to meet consumers' needs for some individual features. - All of these benefits can add to a firm's competitive advantage.
Internet/intranet	- Marketing department – for promoting to a large market and taking orders online (see Chapter 29, page 311, for discussion of e-commerce). - Operations management – business-to-business (B2B) communication via the internet is used to search the market for the cheapest suppliers. - Human resources uses these systems for communicating within the organisation. - Intranets allow all staff to be internally connected via computers.	- Cost savings from cheap internal and external communications. - Access to a much larger potential market than could be gained through non-IT methods. - Web pages project a worldwide image of the business. - Online ordering cheaper than paper-based systems. - B2B communications can obtain supplies at lower costs. - Internal communication is quicker than traditional methods.

Table 5.5 Impact of applications of technology on business

could damage their motivation levels. Trade unions can oppose technological change if it puts members' jobs at risk. However, if the issue is handled sensitively, including effective communication with and participation of staff, introducing technology in the right way can improve industrial relations.

Management

Some managers fear change as much as their workforce, especially if they are not very computer literate themselves. In addition, recognising the need for change and managing the technological change process require a great deal of management skill. However, IT can improve

productivity greatly and lead to improved company efficiency: for example, the use of database programs to control stock ordering to achieve just-in-time advantages. Technology has other benefits too:

- Managers can obtain data frequently from all departments and regional divisions of the business.
- Computers can be used to analyse and process the data rapidly so that managers can interpret them and take decisions quickly on the basis of them.
- It accelerates the process of communicating decisions to other managers and staff.

Information gives managers the opportunity to review and control the operations of the business. IT-based management information systems provide substantial power to centralised managers. Although this could be used for improving the performance of a business, there are potential drawbacks:

- The ease of transferring data electronically can lead to so many messages and communications that ‘information overload’ occurs. This is when the sheer volume of information prevents decision-makers from identifying the most important information and decisions.
- The power which information brings to central managers could be abused and could lead to a reduc-

tion in the authority and empowerment extended to work teams and middle managers. Information used for central control in an oppressive way could reduce job enrichment and hence motivation levels.

Effective managers will apply the information provided by the modern IT systems to improve and speed up decision-making. They should not allow it to change their style of leadership to a centralised or authoritarian one, using data to control all aspects of the organisation.



THEORY OF KNOWLEDGE

‘The last two years have seen seismic shifts in the environment within which businesses have to trade. The growth of the internet, mobile communications, globalisation and social responsibility have confronted CEOs and shareholders with new challenges that have given rise to innovative, exciting corporations like Apple and Microsoft but have seen old giants like General Motors teeter on the edge of collapse. Organisations that don’t react to changes in their environment will eventually fail.’

Prepare a presentation with the title ‘Organisations that don’t react to changes in their environment will eventually fail’.

ACTIVITY 5.6

Read the following case study and then answer the questions that follow.

More chips please?

The major European supermarkets have been putting IT at the front of their drive for lower costs, improved customer service and more information about their customers. Bar codes, check-out scanners, automatic product re-ordering systems, automated stock control programs, robot-controlled transport systems in warehouses, chip and pin machines for payment, loyalty cards that record each individual shopper’s purchases and internet shopping for customers – the list of IT applications employed by the large supermarkets is almost endless.

Some of these systems have been controversial. For example, centralised ordering and delivery of products reduced the independence and control of individual store managers. The rapid growth of internet shopping left some companies with a shortage of stock and delivery vehicles, which led to poor service. Some smaller suppliers who have been unable to cope with the cost of introdu-

cing compatible IT systems to take orders from the huge retailers have been dropped.

The latest development is causing further controversy. RFID or radio frequency ID tagging involves putting a small chip and coiled antenna, at the initial point of production, into every item sold through the supermarkets. Unlike bar codes that are manually scanned, the RFID simply broadcasts its presence and data, such as sell-by date, to electronic receivers or readers. German supermarket chain Metro already uses RFID and claims that food can be easily traced back to the farm where it is produced, queues at tills no longer exist as customer’s bills are calculated instantly as they pass by a receiver and all products are tracked at each stage of the supply chain – ‘We know where everything is!’

Consumer groups are concerned that shoppers will be tracked and traceable too – not just the goods they have bought. Is this an invasion of privacy? Unions are opposed to it as it could lead to many redundancies due to its non-manual operation. Some supermarket managers fear yet another IT initiative that will mean even more central control over them and they fear breakdowns in the system and lack of training in dealing with problems.

24 marks, 45 minutes

- 1 What do you understand by the term 'information technology'? [2]
- 2 Outline how any **two** of the IT systems mentioned in the case study are likely to benefit customers. [6]
- 3 Analyse the likely benefits of supermarkets using RFID to trace and collect data from every product they sell. [6]
- 4 Discuss whether all supermarkets should have the adoption of RFID technology as a major strategy. [10]
- 5 **Research task:** Use the internet to research **one** of the following and write a report explaining the potential impact on objectives and strategy of any **one** well-known business in your country: CAD; CAM; RFID.

OVER TO YOU

REVISION CHECKLIST

- 1 Why is PEST important to a business planning a major change in strategy?
- 2 Give **one** example of how a business strategy might be affected by a consumer protection law.
- 3 Give **one** example of how a business strategy might be affected by an employment law.
- 4 Explain how an increase in interest rates might lead to a change of business strategy.
- 5 Explain how a depreciation of your country's currency might lead to a business in your country changing one of its strategies.
- 6 Do you think an economic recession in your country would lead to the soft drinks manufacturer Coca-Cola changing the strategies used to sell its products in your country?
- 7 Identify **two** recent social changes in your country that could have an impact on a business's objectives and strategy.
- 8 Give **one** example of how technology has changed production methods in an industry that you have studied.
- 9 Give **one** example of how technology has led to a recently introduced innovative product.

REVISION ACTIVITY

Read the case study below and then answer the questions that follow.

China to take action against inflation

The Chinese government is becoming increasingly concerned about higher rates of inflation. Rising oil and petrol prices have increased costs to industry and firms are being forced to raise their prices to cover these higher costs. In addition, rising demand for food from a wealthier population, together with

supply problems resulting in excess demand, have led to the price of pork rising by 63% and fresh vegetable prices by 46%.

The People's Bank of China has just increased interest rates by a further 0.27%. This is the third increase in less than a year. A spokesman from Goldman Sachs, the investment bank, reported that the increase shows that the central bank is now much more prepared to use interest rates to manage the economy and tighten monetary policy at the first signs of the booming economy overheating. China's GDP increased by 10.7% in 2007, and the prime minister has said that this rate of growth is becoming 'unsustainable'. Chinese leaders face conflicting pressures in balancing the top priority of maintaining high-speed economic growth to create millions of new jobs each year, with managing growing environmental problems and rising cost-push pressures causing higher inflation.

33 marks, 58 minutes

- 1 State **two** reasons for the increase in inflation in China. [2]
- 2 Are these causes of inflation cost-push or demand-pull pressures? Explain your answer. [4]
- 3 If the Chinese government increased interest rates again, explain what impact this could have on:
 - a consumer spending on luxury goods
 - b spending on new expansion projects by Chinese businesses
 - c the exchange rate of China's currency. [9]
- 4 Examine possible changes to the long-term objectives set by Chinese businesses if inflation is not brought under control. [8]
- 5 China has experienced rapid economic growth in recent years. Discuss the likely effects of this on the strategies adopted by Chinese car manufacturers. [10]

EXAM PRACTICE QUESTION

Read the case study below and then answer the questions that follow.

CARREFOUR EXPANDS IN CHINA

Carrefour, the French supermarket chain, is one of Europe's biggest public limited companies. In world terms, it is right up there with Walmart and Tesco as a major multinational retailer. The general manager of Central and Western China has announced that the supermarket will open two more stores in Chengdu this year and more in 2011.

A company statement said: 'Chengdu's sound administrative environment and huge market potential attract a large number of foreign-funded enterprises to settle in and Carrefour regards entering Chengdu as an important strategic development in China.'

Carrefour has developed close relations with over 400 suppliers locally and has spent a great deal of time researching the local market. It has also worked closely with local government agencies to ensure its entry into the region goes smoothly. Carrefour's directors believe that growing popularity and acceptance of western brand names are a genuine sales opportunity in China. Technological advances in their stores have given them the ability to monitor and manage their stores globally.

Rapid economic growth in China is bringing huge potential revenue to North American and European businesses and many are looking to China as a country in which to expand.

25 marks, 45 minutes

- 1 Explain the following terms from the text:
 - a public limited company
 - b multinational retailer
 - c technological advances. [6]
- 2 Explain how rapid economic growth in China might impact on one aspect of Carrefour's business strategy. [5]
- 3 Analyse the social changes that may be taking place in China which could influence Carrefour's activities in China. [6]
- 4 Produce a PEST analysis for Carrefour as it plans to open new stores in western China. [8]