

1.6: External Forces that Influence Business Activities

Apple and other businesses don't operate in a vacuum; they're influenced by a number of external factors. These include the economy, government, consumer trends, technological developments, public pressure to act as good corporate citizens, and other factors. Collectively, these forces constitute what is known as the “**macro environment**” – essentially the big picture world external to a company over which the business exerts very little if any control. Figure 2.3 “Business and Its Environment” sums up the relationship between a business and the outside forces that influence its activities. One industry that's clearly affected by all these factors is the fast-food industry. Companies such as Taco Bell, McDonald's, Cook-Out and others all compete in this industry. A strong **economy** means people have more money to eat out. Food standards are monitored by a **government** agency, the Food and Drug Administration. Preferences for certain types of foods are influenced by **consumer trends** (fast food companies are being pressured to make their menus healthier). Finally, a number of decisions made by the industry result from its desire to be a good corporate citizen. For example, several fast-food chains have responded to **environmental** concerns by eliminating Styrofoam containers.⁹

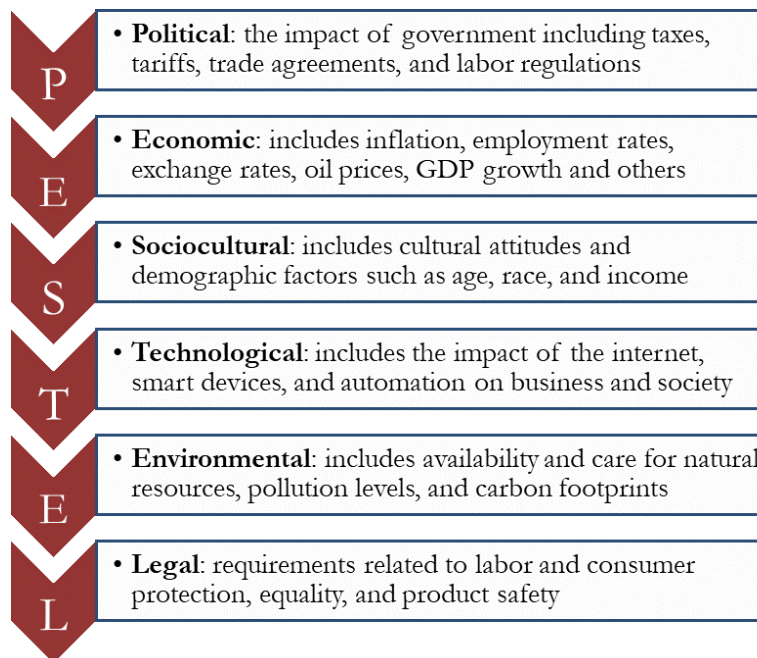


Figure 2.3: Business and its Environment – PESTEL

Of course, all industries are impacted by external factors, not just the food industry. As people have become more conscious of the environment, they have begun to choose new **technologies**, like all-electric cars to replace those that burn fossil fuels. Both established companies, like Nissan with its Nissan Leaf, and brand new companies like Tesla have entered the market for all-electric vehicles. While the market is still small, it is expected to grow at a compound annual growth rate of 19.2% between 2013 and 2019.¹⁰

PESTEL Analysis

One useful tool for analyzing the external environment in which an industry or company operates is the *PESTEL* model. PESTEL is an acronym, with each of the letters representing an aspect of the macro-environment that a business needs to consider in its planning. Let's briefly run through the meaning of each letter.

P stands for the political environment. Governments influence the environment in which businesses operate in many ways, including taxation, tariffs, trade agreements, labor regulations, and environmental regulations.

E represents the economic environment. As we will see in detail in a later chapter, whether the economy is growing or not is a major concern to business. Numerous economic indicators have been created for the specific purpose of measuring the health of the economy.

S indicates the sociocultural environment, which is a category that captures societal attitudes, trends in national demographics, and even fashion trends. The term *demographics* applies to any attribute that can be used to describe people,

such as age, income level, gender, race, and so on. As a society's attitudes or its demographics change, the market for goods and services can shift right along with it.

T is for technological factors. In the last several decades, perhaps no force has impacted business more than the emergence of the internet. Nearly instantaneous access to information, e-commerce, social media, and even the ability to control physical devices from remote locations have all come about due to technological forces.

The second E stands for environmental forces, which in this case means natural resources, pollution levels, recycling, etc. While the attitudes of a society towards the natural environment would be considered a sociocultural force, the level of pollution, the supply of oil, etc. would be grouped under this second E for environment.

Finally the L represents legal factors. These forces often coincide with the political factors already discussed, because it is politicians (i.e., government) that enacts laws. However, there are other legal factors that can impact businesses as well, such as decisions made by courts that may have broad implications beyond the case being decided.

When conducting PESTEL analysis, it is important to remember that there can be considerable overlap from category to category. It's more important that businesses use the model to thoroughly assess its external environment, and much less important that they get all the forces covered under the "right" category. It is also important to remember that an individual force, in itself, is not inherently positive or negative but rather presents either an opportunity or a threat to different businesses. For example, societal attitudes moving in favor of green energy are an opportunity for those with capabilities in wind, solar, and other renewables, while presenting a threat, or at least a need to change, to companies whose business models depend exclusively on fossil fuels.



Video 1.6.1: This video covers the six macro environmental forces that make up the PESTEL model. Alyssa Duong, "The PESTEL Model" (VTech Works). February 16th, 2019. Retrieved from: <https://vtechworks.lib.vt.edu/handle/10919/88014>

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