

Pearson BTEC Level 4 Higher Nationals in Business (RQF)

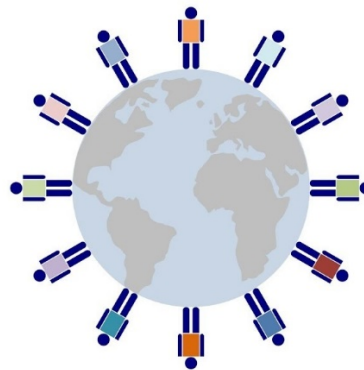
Unit: 1

**Assignment 2:
Information Pack**

Learning Outcomes 1 to 4

The Business Environment

**BUSINESS
ENVIRONMENT**



INTRODUCTION

The aim of this unit is to provide students with background knowledge and understanding of business, the functions of an organisation and the wider business environments in which organisations operate. Students will examine the different types of organisations (including for profit and not for profit), their size and scope (for instance, micro, SME, transnational and global) and how they operate.

Students will explore the relationships that organisations have with their various stakeholders and how the wider external environments influence and shape business decision-making.

The knowledge, understanding and skill sets gained in this unit will help students to choose their own preferred areas of specialism in future studies and in their professional career.

This information pack is designed to give you the information and guidance that you will need to complete your assignments for this unit. In particular this information pack will look at the first 2 learning outcomes which make up assignment 1, these being;

1. *Explain the different types, size and scope of organisations.*
2. *Demonstrate the interrelationship of various functions within an organisation and how they link to organisational structure.*

3.

GUIDANCE

This document is prepared to break the unit material down into bite size chunks. You will see the learning outcomes above treated in their own sections. Therein you will encounter the following structures;

Purpose

Explains *why* you need to study the current section of material. Quite often learners are put off by material which does not initially seem to be relevant to a topic or profession. Once you understand the importance of new learning or theory you will embrace the concepts more readily.

Theory

Conveys new material to you in a straightforward fashion. To support the treatments in this section you are strongly advised to follow the given hyperlinks, which may be useful documents or applications on the web.

Example

The examples/worked examples are presented in a knowledge-building order. Make sure you follow them all through. If you are feeling confident then you might like to treat an example as a question, in which case cover it up and have a go yourself. Many of the examples given resemble assignment questions which will come your way, so follow them through diligently.

Question

Questions should not be avoided if you are determined to learn. Please do take the time to tackle each of the given questions, in the order in which they are presented. The order is important, as further knowledge and confidence is built upon previous knowledge and confidence. As an Online Learner it is important that the answers to questions are immediately available to you. Contact your Unit Tutor if you need help.

Challenge

You can really cement your new knowledge by undertaking the challenges. A challenge could be to download software and perform an exercise. An alternative challenge might involve a practical activity or other form of research.

Video

Videos on the web can be very useful supplements to your distance learning efforts. Wherever an online video(s) will help you then it will be hyperlinked at the appropriate point.

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Sample

When each department shares how it does its work, you have the opportunity to look at the way you do work through your colleagues' "fresh set of eyes." What questions do they ask about your department? What is confusing to them about the way you do your work, and how might that help you in discovering ways to work better?

Instil a spirit of camaraderie

When you work across departments and learn each one's motivations and how it relates to the whole organization, you may gain a feeling of "we're in this together" among you and your co-workers (and perhaps ideas for communicating that message to your audience). You also can gain a greater sense of empathy for your colleagues' work and challenges.

LO3

Use contemporary examples to demonstrate both the positive and negative influence/impact the macro environment has on business operations

There are many influences which impact on a company's decision-making process. Many of these factors are external and relate to the macro environment that a business in most cases has no control over but must be wary of and consider. But firstly, what is the Macro-environment?

Macro-Environment

A macro environment is the condition that exists in the economy as a whole, rather than in a particular sector or region. In general, the macro environment includes trends in gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy. The macro environment is closely linked to the general business cycle as opposed to the performance of an individual business sector.

The macro environment refers to how the macroeconomic conditions in which a company or sector operates influences its performance. Macroeconomics deals with the aggregate production, spending, and the price level in an economy as opposed to individual industries and markets.

The amount of the influence of the macro environment depends on how much of a company's business is dependent on the health of the overall economy. Cyclical industries, for example: new automobiles, are heavily influenced by the macro environment, while basic staple industries are less influenced. Industries that are highly dependent on credit to finance purchases and business investments are strongly influenced by changes in interest rates and global financial markets.

The macro environment can also directly affect consumers' ability and willingness to spend. Luxury goods industries and big-ticket consumer goods can be highly impacted by fluctuations in consumer spending. Consumers' reactions to the broad macro environment are closely monitored by businesses and economists

as a gauge for an economy's health. Some of the key factors composing the macro environment include the following:

Gross Domestic Product

GDP is a measure of a country's output and production of goods and services. The Bureau of Economic Analysis releases a quarterly report on GDP growth that provides a broad overview of the output of goods and services across all sectors. An especially influential aspect of GDP is corporate profits for the economy, which is another measure of an economy's comprehensive productivity.

Inflation

Inflation is a key factor watched by economists, investors, and consumers. It affects the purchasing power of the U.S. dollar and is closely watched by the Federal Reserve. The target rate for annual inflation from the Federal Reserve is 2%. Inflation higher than 2% significantly diminishes the purchasing power of the dollar, making each unit less valuable as inflation rises.

Employment

Employment levels in the United States are measured by the Bureau of Labor Statistics, which releases a monthly report on business payrolls and the status of the unemployment rate. The Federal Reserve also seeks to regulate employment levels through monetary policy stimulus and credit measures. These policies can ease borrowing rates for businesses to help improve capital spending and business growth, resulting in employment growth.

Consumer Spending

Consumer spending makes up around $\frac{2}{3}$ of GDP and is widely considered to be an important indicator of macroeconomic performance. Slow growth or decline in consumer spending suggests a decline in aggregate demand, which economists consider to be a symptom or even a cause of macroeconomic downturns and recessions.

Monetary Policy

The Federal Reserve's monetary policy initiatives are a key factor influencing the macro environment in the United States. Monetary policy measures are typically centered around interest rates and access to credit. Federal interest rate limits are one of the main levers of the Federal Reserve's monetary policy tools. The Federal Reserve sets a federal funds rate for which federal banks borrow from each other, and this rate is used as a base rate for all credit rates in the broader market. The tightening of monetary policy indicates rates are rising, making borrowing more difficult.

Fiscal Policy

Fiscal policy refers to government policy around taxing, borrowing, and spending. High tax rates can reduce individual and business incentives to work, invest, and save. The size of a government's annual deficits and total debt can influence market expectations regarding future tax rates, inflation, and overall macroeconomic stability. Government spending drives borrowing and taxation; it is also widely used as a policy tool to try to stimulate economic activity during slow times and make up for sluggish, consumer spending and business investment during recessions.

There exists a tool for a company or organisation to evaluate the environment in which they operate;

PESTLE/PESTEL Analysis

A PESTEL analysis is a framework or tool used by marketers to analyse and monitor the macro-environmental (external marketing environment) factors that have an impact on an organisation. The result of which is used to identify threats and weaknesses which is used in a **SWOT analysis**, which we will discuss later on in the information pack.

PESTEL stands for:

- **P – Political**
- **E – Economic**
- **S – Social**
- **T – Technological**
- **E – Environmental**
- **L – Legal**

Political Factors

These are all about how and to what degree a government intervenes in the economy. This can include – government policy, political stability or instability in overseas markets, foreign trade policy, tax policy, labour law, environmental law, trade restrictions and so on. It is clear from the list above that political factors often have an impact on organisations and how they do business. Organisations need to be able to respond to the current and anticipated future legislation and adjust their marketing policy accordingly.

Economic Factors

Economic factors have a significant impact on how an organisation does business and also how profitable they are. Factors include – economic growth, interest rates, exchange rates, inflation, disposable income of consumers and businesses and so on. These factors can be further broken down into macro-economic and micro-economic factors. Macro-economic factors deal with the management of demand in any given economy. Governments use interest rate control, taxation policy and government expenditure as their main mechanisms they use for this. Micro-economic factors are all about the way people spend their incomes. This has a large impact on B2C organisations in particular.

Social Factors

Also known as socio-cultural factors, are the areas that involve the shared belief and attitudes of the population. These factors include – population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how marketers understand customers and what drives them.