Business and its environment (A Level)

A-Level Business

External influences on business

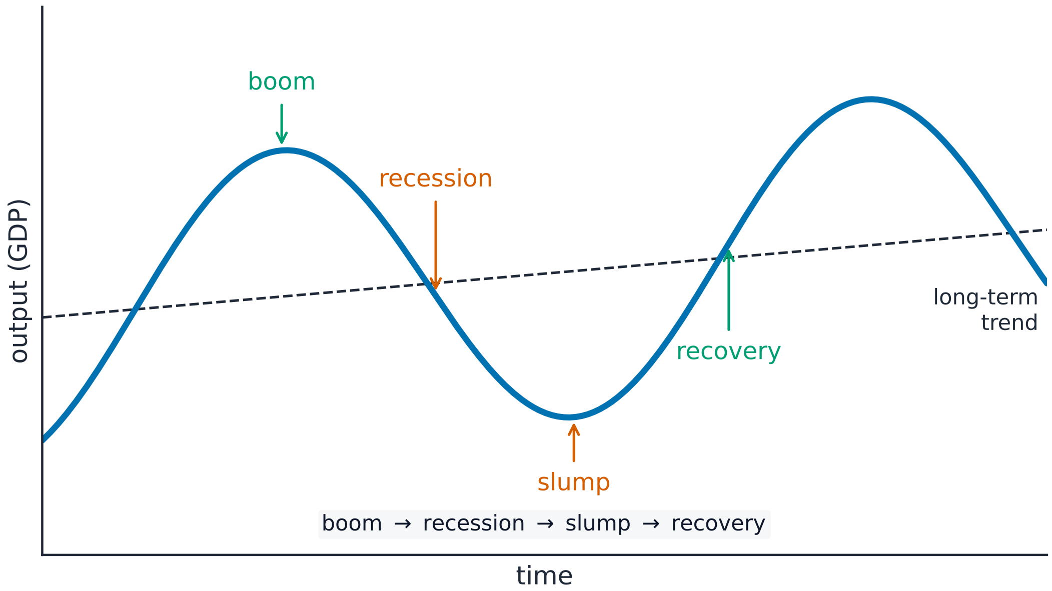
A business cannot control everything. **External influences** 外部影响 are forces outside the firm that affect how it works. The firm must watch them and adapt. We group them into economic factors and wider (political, legal, social and other) factors.

Stacked shipping containers: globalisation lets firms trade and produce worldwide.

The business cycle

The **business cycle** 经济周期 is the way the whole economy rises and falls over time. It has four stages:

- **boom** 繁荣 — fast growth; high demand, but rising costs and prices.
- **recession** 衰退 — falling demand and output; sales drop and some firms close.
- **slump** 萧条 — a deep, long recession with very low demand.
- **recovery** 复苏 — demand and output start to rise again.

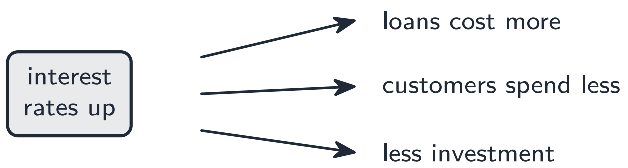


The business cycle moves through boom, recession, slump and recovery around the long-term trend

In a boom, firms expand; in a recession, they cut costs, hold less stock, and may aim only to survive.

Interest rates

The **interest rate** 利率 is the price of borrowing money, set as a percentage. When interest rates **rise**:



Higher interest rates raise borrowing costs and cut spending

- loans and mortgages cost more, so customers spend less.
- firms with loans pay more, which lowers their profit.
- new investment is less likely, because borrowing is dear.

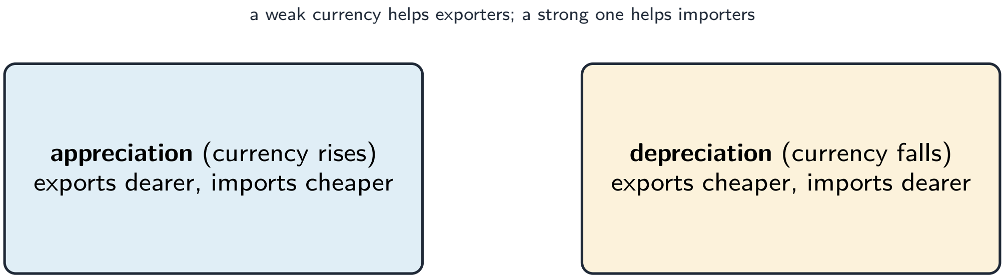
When interest rates fall, the opposite happens and spending usually rises.

Exchange rates

The **exchange rate** 汇率 is the price of one currency in terms of another. It changes all the time.

- if the local currency rises in value (**appreciation** 升值), exports become dearer abroad and imports become cheaper.
- if the local currency falls in value (**depreciation** 贬值), exports become cheaper abroad and imports become dearer.

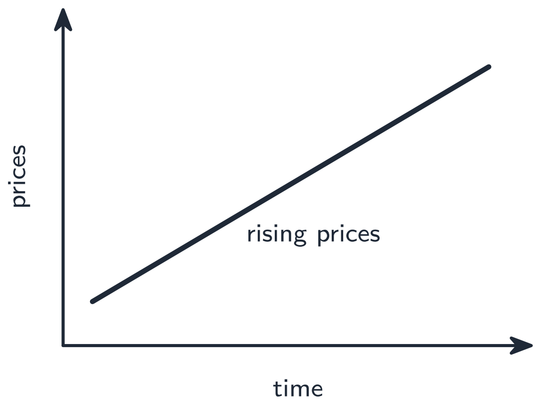
So an **exporter** 出口商 often gains from a weaker currency, while an **importer** 进口商 often gains from a stronger one.



A stronger currency makes exports dearer and imports cheaper; a weaker one does the opposite — so the same change helps one side and hurts the other

Inflation

Inflation 通货膨胀 is a general rise in prices over time. High inflation raises a firm's costs (materials and wages), makes planning harder, and can cut what customers can afford to buy. Low, steady inflation is usually best for business.



Inflation is a sustained rise in prices over time

Taxation and unemployment

Taxation 税收 is money the government takes from people and firms.

- a **direct tax** 直接税 is taken from income or profit (e.g. income tax, corporation tax).
- an **indirect tax** 间接税 is added to spending (e.g. sales tax on goods).

Higher taxes leave people and firms with less money to spend, so demand falls.

Unemployment 失业 is the number of people who want work but cannot find it. High unemployment lowers demand, but it also makes workers easier and cheaper to hire.

Worked example. A house-builder has £8m of variable-rate loans. The central bank raises interest rates from 2% to 5%. Explain the effect on this business. Answer on **both** sides. On **costs**: annual interest rises from 8m $\times$ 0.02 = £160,000 to 8m $\times$ 0.05 = **£400,000**, so £240,000 comes straight off profit. On **demand**: mortgages become dearer, so fewer buyers can afford a house - and because houses are bought on **credit** and are a **postponable** purchase, demand falls sharply. Both effects strike this firm at once, which is why a highly **geared** house-builder is unusually sensitive to interest rates. Always give the cost of borrowing **and** the demand effect, and tie the size of the demand effect to whether the product is bought on credit - the same rate rise barely touches a firm selling cheap everyday goods with no debt.

Political, legal and social influences

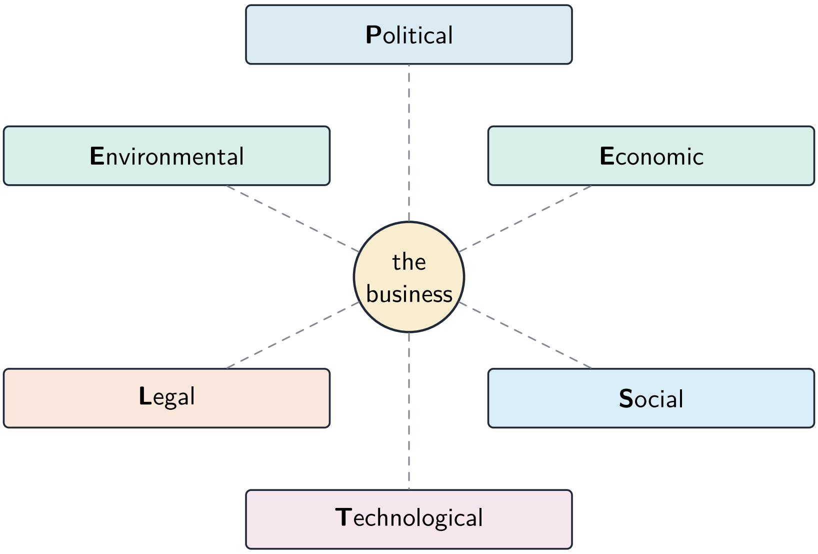
A multinational's outlets look the same worldwide — a global brand operating across many legal and social settings.

- **political** 政治 — government decisions, trade rules and stability affect how firms plan.
- **legal** 法律 — firms must obey **legislation** 法规 on employment, consumer safety, competition and the environment. Breaking the law brings fines and bad publicity.
- **social** 社会 — changes in society, such as ageing populations or new tastes, change what people buy.

Technological, environmental and ethical influences

- **technological** 技术 — new technology can create new products and cut costs, but firms must keep up or fall behind.
- **environmental** 环境 — firms face pressure and rules to cut pollution and waste, and to act in a sustainable way.
- **ethical** 道德 — acting in a morally right way (fair pay, honest selling) builds trust, even if it costs more.

Together these wider factors are often studied with a **PESTLE analysis** 宏观环境分析, which checks Political, Economic, Social, Technological, Legal and Environmental forces.



PESTLE groups the six wider external forces that act on a business

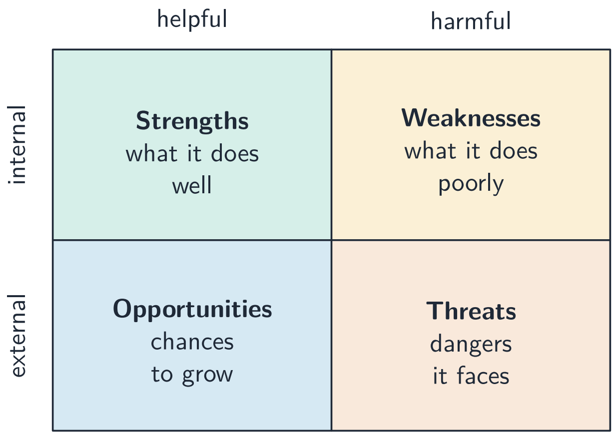
What strategy means

A **strategy** 战略 is a long-term plan to reach the firm's main objectives. **Strategic management** 战略管理 is the work of setting that plan, putting it into action, and checking it. Good strategy aims to build a **competitive advantage** 竞争优势 — a reason customers choose you over rivals, such as lower cost or a better product.

SWOT analysis

A **SWOT analysis** SWOT 分析 studies a firm's position under four headings:

Internal (inside the firm)	External (outside the firm)
strengths 优势 — what it does well **weaknesses** 劣势 — what it does poorly	**opportunities** 机会 — chances to grow **threats** 威胁 — dangers it faces

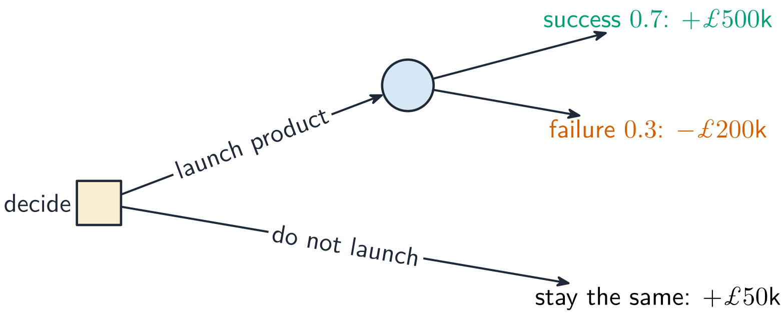


SWOT analysis: internal strengths and weaknesses, external opportunities and threats

A firm should use its strengths to take opportunities, and fix or protect against its weaknesses and threats.

Other planning tools

Firms use other tools to make decisions, such as decision trees (weighing choices by their likely results) and the matrices you meet later in marketing and operations. Every planning tool turns information about the business and its environment into a clearer choice.



A decision tree weighs each choice by the probability and payoff of its outcomes

Exam tips

- Explain how a change in **interest rates, the exchange rate or inflation** affects a firm on both the cost and the demand side.
- A **stronger exchange rate** makes exports dearer and imports cheaper (SPICED / WPIDEC).
- Use **SWOT** correctly: strengths and weaknesses are internal, opportunities and threats are external.
- Support a strategy with a **PEST/PESTLE** scan of the external environment.