# How to Assess your Business Environment

### What is the business environment?

The business environment simply refers to the internal and external factors that influence the growth, performance, and outcomes of a business. Internal environmental factors exist within the business and can be controlled, while external environmental factors exist outside of the business and are more difficult to predict and control.

### Framework to assess your business environment

As the business environment changes continuously, it is important to identify those factors within the environment of your business that have an impact on your ability to operate, assess the impact, and develop a strategy to mitigate and/or capitalize on these factors. We will discuss three key frameworks for assessing your business environment.

#### Framework for Internal Assessment

**SWOT Analysis:** this is a framework used to evaluate a company's competitive position and to develop its strategic plans. The SWOT analysis helps organizations identify their strengths, weaknesses, opportunities, and threats to develop strategies to minimize weaknesses and threats while maximizing strengths and opportunities. The SWOT analysis is versatile as it supports both internal and external assessments.

### Strengths (internal, positive factors)

These are the attributes and resources of your business that distinguishes it from its competitors

#### Weaknesses (internal, negative factors)

Weaknesses are aspects of your business that put you at a competitive disadvantage and must be improved in order for you to stay relevant in the market

## Opportunities (external, positive factors)

These are favorable external factors that your business can leverage for increased benefits

### Threats (external, negative factors)

These are elements in the external environment that can affect your business negatively and puts the business at risk

### 1. Porter's Five Forces:

This framework is used to assess the competitiveness of the business industry and to determine the business strategy. You can use this framework to assss the competitiveness of your business industry and discover how changes to any of the factors in each force could affect business strategy and operations. As an SME, this is a vital tool for evaluating the strength of your business in relation to the industry and offers the opportunity to identify opportuities that could increse the competitiveness of your business.

Rivalry among existing

competitors

This examines the intensity of competition in the marketplace. When industry rivalry is high,

there is usually slow growth in the market and more substitute

products for customers

### **Bargaining Power of Buyers**

This analyses the level of business sensitivity to consumer's wants. This is high when there are fewer customers and when there are many product/service substitutes available to the customer

#### Threat of Substitute Products

This assesses the tendency of a customer to switch to alternative products or services i.e. every product that meets a similar need of the customer

### Threat of New Entrants

This evaluates the capacity of the industry and the proportion of market share. If the threat of new entrants is low, this means that there are high barriers of entry, making it difficult for new player to penetrate the market

#### **Bargaining power of Suppliers**

This analyses the ability of your suppliers to affect the price or quality of the goods and services you purchase. The fewer suppliers there are, the higher their ability to influence the supply of your goods/services

### 2. PESTLE Analysis:

This framework is used to evaluate the key external environment of a business by categorizing the opportunities and risks into Political, Economic, Social, Technological, Environmental, and Legal factors. Based on the current and future state of these factors, businesses can decide if the business environment will be favorable for business operation.

**Political** 

This examines the extent to which government policies and actions may influence the economy or your industry, and how these factors may affect your business e.g. tarrifs, tax policy and trade restrictions

Economic

This examines the economic environment and how various aspects can impact your business e.g. economic growth/decline, unemployment and inflation rate

Social

This considers social elements such as norms, trends, culture and demographic attributes that may influence customer behavior and the industry e.g. age distribution, career attitudes and health

**Technological** 

This examines technological trends and advancements that may affect the industry and the overall economy e.g. robotics and Artificial Intelligence (AI)

Environmental

This relates to the effect of the environment and the infleunce of ecological elements on the business e.g. polution, climate change and the weather

Legal

This concerns the laws and regulations that your businesses is expected to adhere to, within the economy it operates in e.g. industry regulations, licences and permits, and quotas