



## ■ External Environment

The external environment refers to the factors existing outside the business firm. The external factors are beyond the control of a company, hence its success depends to the adaptability of the environment.

Again external environment is divided in two parts:

- 1)Micro Environment
- 2)Macro Environment

## ■ Micro Environment

The factors which are close to the company and affects its ability to work constitutes micro environment. It is known as the operating environment of business.

When competing form in the industry have the same micro elements, the success of the firm depends on their relative effectiveness in dealing with these elements.

### ■ **Suppliers:**

Suppliers are those who supply the inputs like raw material and components to the company. Uncertainties regarding the supply constraints the company to maintain high inventories causing cost increase.

### ■ **Customers:**

Success of any business depends upon identifying customers, their needs, likes etc., and enhancing the level of customer satisfaction. The major task of a business is to create and sustain customers.



- **Competitors:**

Competitors means other business units which are marketing or producing similar products or a very close substitute of our product. Business has to adjust its various activities according to the action and reactions of competitors.

- **Marketing Intermediaries:**

These are the firms that aid the company in promoting, selling and distributing its goods to final buyers. They are the vital links between the company and the final consumers.

Public:

A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interest. Some companies are seriously affected by such public.

E.g. Media

# Macro Environment

Macro environment means general environment of business. Macro forces are uncontrollable in comparison to the micro forces of environment. The growth and survival of business depends upon its adaptability to macro environmental factors.

The important macro environment are:

- 1) Economic Environment
- 2) Non Economic Environment

## ■ **Economic Environment:**

To know the economic environment of a country or a business one has to understand the economic policies of the nation. These policies put direct impact on the working and success of the business. Economic conditions, economic policies (Industrial policies, monetary and fiscal policy etc) and the economic system are the important factors that constitute economic environment of the business.



## ■ **Non Economic Environment**

### ■ **Socio cultural Environment:**

The socio-cultural environmental factors consist of human relationship and the development. Some of the important factors in the social environment are the buying and consumption habit of people, their languages, beliefs and values, custom and traditions, etc that effects the business.

### ■ **Legal Environment:**

Every country follows its own system of law. The companies operating in the global market have to take into account the provisions with respect to the legal environment prevalent in the countries which they do business. These law and regulations affect the day-to-day operations of business.

### ■ **International Environment:**

The international environment is particularly important for industries directly depending on imports or exports.

E.g. Import export policies of various countries.



- **Political Environment:**

The political environment consists of factors related to the management of public affairs that have a considerable impact on the business of an organization. It impacts the legislations and government rules and regulations under which business organizations operate in a country.

- **Technological Environment:**

Technological environment comprises both machines (hard technology) and scientific thinking (soft technology) used to solve problems and promote progress. It also represents the degree of advancement of goods and services that are prevalent in a country or a region.

- **Natural Environment:**

Geographical factors such as natural resources endowments, weather and climatic conditions, location aspects in the global context, port facilities etc., are all relevant to business.

# ■ Significance of Business Environment

## ■ **First Mover Advantage:**

Awareness of environment helps an enterprise to take advantage of early opportunities instead of losing them to competitors.

E.g. Maruti Udyog became leader in small car

## ■ **Early Warning Signal:**

Environmental awareness serves as an early warning signal. It makes a firm aware of the future threats or crisis so that the firm can take timely action to minimize the adverse effects.

## ■ **Customer Focus:**

Environmental understanding makes the management sensitive to the changing needs and expectations of the consumers.

E.g. Apps in mobile



- **Strategy Formulation:**

Environmental monitoring provides relevant information about the business opportunities on the basis of which firms make their strategies.

e.g. ITC in travel and tourism sector

- **Public Image:**

A business firm can improve its image by showing that it is sensitive to its environment and responsive as per the need of customers.

- **Continuous Learning:**

Environmental analysis serves as broad and ongoing education for business executives so that they can react in an appropriate manner to the changing scenario and thereby increase the success of their organization.