

Fort Monmouth Small Business Day

MARKET CHANGES - Presented by Ed Kurocka

Market changes are driven by forces in the Global Environment.

I. THE GLOBAL ENVIRONMENT

- The **(global) environment** is a set of forces and conditions outside of the company's boundaries that affects the way it operates and shapes its behavior. These forces change over time and thus present businesses with opportunities and threats.
- To identify opportunities or threats caused by forces in the environment, it is helpful for business owners to distinguish between the **task environment** and the more encompassing **general environment**.
 1. The **task environment** is the set of forces and conditions that affect an organization's ability to obtain inputs and dispose of its outputs. It consists of the organization's **suppliers, customers, distributors, and competitors**, and has the most immediate and direct effect on businesses.
 2. The **general environment** includes the wide-ranging **economic, technological, socio-cultural, demographic, political and legal**, forces that affect the organization and its task environment.

II. THE TASK ENVIRONMENT

Suppliers

- **Suppliers** are the individuals and organizations that provide the input resources needed by an organization in order to produce its goods and services. Inputs may include raw materials, component parts, or employees.
- Changes in the nature, numbers or types of any supplier may result in opportunities and threats to which businesses must respond. Depending upon these factors, a supplier's bargaining position may be either strong or weak.

Distributors

- **Distributors** are organizations that help other organizations sell their goods or services to customers. Changes among distributors and distribution methods can create opportunities or threats for business.
- The changing nature of distributors and distribution methods can also bring

opportunities and threats. The power of a distributor may be strengthened or weakened depending upon its size and the number of distribution options available.

Customers

- **Customers** are individuals and groups that buy goods and services that an organization produces. An organization's success depends on its ability to respond to the needs of its customers. Changes in the number and types of customers or in customers' tastes and needs can result in opportunities or threats.
- The most obvious opportunity associated with expanding is the prospect of selling goods and services to new customers.

Competitors

- **Competitors** are organizations that produce goods and services that are similar to a particular organization's goods and services. In other words, competitors are vying for the same customers.
- Rivalry between competitors is usually the most threatening and problematic force businesses must deal with.
- **Potential competitors** are the organizations that are not presently in a task environment but could enter if they so chose.

III. THE GENERAL ENVIRONMENT

An organization's general environment can have profound effects upon its task environment, which may not be evident to business owners. Therefore, leaders must constantly analyze forces in the general environment because these forces affect ongoing planning and decision-making.

Economic Forces

- **Economic forces**, such as interest rates, inflation, unemployment, and economic growth, affect the general health and well being of a nation or region of the world. Economic forces produce many opportunities and threats for businesses.
- Strong macroeconomic conditions, such as low levels of unemployment and falling interest rates, often create opportunities for organizations.
- Worsening macroeconomic conditions, such as recession or rising inflation rates, often pose a threat to organizations because they limit ability to gain access to needed resources.

Technological Forces

- **Technology** is the combination of skills and equipment that organizations use in the design, production, and distribution of goods and services. **Technological forces** are the outcomes of changes in the technology that organizations use to design, produce, or distribute goods and services and can have profound implications for organizations.
- **Technological change** can create a threat to organizations by making established products obsolete. It can also create a host of opportunities for the development of new products or processes. Businesses must often move quickly to respond to such technological change if they are to survive and prosper.

Sociocultural Forces

- **Sociocultural forces** are pressures emanating from the social structure of a country or from its national culture. *Social structure* is the arrangement of relationships between individuals and groups within a society. *Culture* is the set of values that a society considers important and the norms of behavior that are approved or sanctioned in that society.
- Organizations must be responsive to changes in and differences within the social structure and culture of each country/market in which they operate. Effective organizations are sensitive to differences between societies and adjust their behaviors accordingly.

Demographic Forces

- **Demographic forces** are outcomes of changes in, or changing attitudes toward the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class.
- Demographic forces present businesses with opportunities and threats and can have major implications. For example, most industrialized nations are experiencing the aging of their populations as a consequence of falling birth and death rates and the aging of the baby boom population. This demographic change has led to increasing opportunities for organizations that cater to older people.

Political and Legal Forces

- **Political and legal forces** are outcomes of changes in laws and regulations resulting from political and legal developments within a region, nation, or across the world.
- A nation's political processes shape laws that constrain the operations of organizations and managers, thereby creating both opportunities and threats.

The movement toward deregulation and privatization of organizations formerly owned or controlled by the state is an example of this.

IV. Business Strategy Considerations:

- Low-Cost
- Differentiation
- Integration
- Diversification

Low-Cost Strategy:

-A company might achieve competitive edge/advantage by driving its costs down below the costs of its rivals.

Differentiation Strategy:

- A company might achieve competitive edge/advantage by distinguishing itself from its competitors on dimensions such as product design, quality, after-sales service/support.

Integration Strategy:

- A company might achieve competitive edge/advantage by expanding its operation backward (into an industry that produces inputs) or forward (into an industry that uses, distributes or sells its products).

Diversification Strategy:

- A company might achieve competitive edge/advantage by expanding its operations into a new industry in order to produce new kinds of goods and services.

End Note:

- In the 21st century, the idea that the world is comprised of a set of distinct markets that are physically, culturally, and economically separated from each other has vanished.

- Organizations must recognize that they exist and compete in a global, open and dynamic environment.

Sources:

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