



Edexcel A2 Business

3.1.4 Impact of external influences

Revisionstation

Worksheet

The image displays a set of worksheets for Porter's Five Forces analysis. The central element is a diagram of the Five Forces model, with 'New Entrants' at the top, 'Suppliers' on the left, 'Rivalry' in the center, 'Customers' on the right, and 'Substitutes' at the bottom. Surrounding this diagram are several pages for notes and questions:

- Top Left:** A page titled 'Business Model' with a section for 'Business Model Canvas' and a table for 'Business Model Canvas'.
- Top Middle-Left:** A page titled 'Business Model' with a section for 'Business Model Canvas' and a table for 'Business Model Canvas'.
- Top Middle-Right:** A page titled 'Business Model' with a section for 'Business Model Canvas' and a table for 'Business Model Canvas'.
- Top Right:** A page titled 'Business Model' with a section for 'Business Model Canvas' and a table for 'Business Model Canvas'.
- Bottom Center:** A page titled 'Business Model' with a section for 'Business Model Canvas' and a table for 'Business Model Canvas'.

From Edexcel

- a) PESTLE (political, economic, social, technological, legal and environmental)
- b) The changing competitive environment
- c) Porter's Five Forces

Starter

- You buy a can of coke every morning. You go to your usual shop and they have run out of coke. What do you have instead?



External influence defined

- An external influence is any factor outside of the business that has an impact on normal trading



PESTLE analysis

PESTLE analysis

- This is a business analysis tool that aims to look at external factors and how they may have an impact on the business
- This aids strategic and tactical decision making, objective setting and helps a business to reach its goals.
- Political, Economic, Social, Technological, legal and environmental
- Starbucks example PESTLE analysis [here](#)



Political



- A business may be affected by politics in the UK or even politics across the world, here are a few of the largest impacts;
 - A change in government, BBC article [here](#)
 - Government laws; minimum wage
 - Brexit and new trading blocs post-Brexit
 - Tax rates (e.g. increase in VAT [here](#))
 - Tariffs (when importing into the UK)

Economic



- A business should analyse how they may be affected by
 - An increase in interest rates [here](#)
 - An increase in inflation
 - Unemployment rates video [here](#)
 - Recession
 - The business cycle

Social

S



- A business should analyse how they may be affected by changes in social factors
 - A change in demographics and its impact on products produced and markets, [here](#)
 - Culture mix changes in the UK, [here](#)
 - Social trends e.g. Vaping [here](#)

Technological

T



- A business could examine the impact of new technologies on their operations, for example;
 - Automation, new robotics and how it can improve productivity
 - Innovations in the industry
 - Research and development in the industry
 - New computer systems
 - Trading online

Legal



- A business should assess how they may be impacted by changes in legislation for example;
 - Health and safety at work act in terms of PPE and regulations, Guardian article [here](#)
 - Data protection Act, article [here](#)
 - Sale of Goods Act
 - Sex Discrimination Act

Environmental

E



- A business could analyse their environmental challenges that may face the business;
 - Climate change, caused by farming, see article [here](#)
 - Weather (e.g. in farming and tourism)
 - Sustainable production and CSR
 - Disappearance of wildlife, article [here](#)



PESTLE and Porters 5 forces

Porter's 5 forces

- In 1985 Porter argued that there were 5 forces (or factors) which determine the profitability of an industry.
 1. Bargaining power of suppliers
 2. Bargaining power of customers
 3. Threat of new entrants
 4. Threat of substitutes
 5. Rivalry among existing businesses

Porter's 5 Forces

Bargaining power of suppliers



Threat of new entrants to the market



Threat of substitute products or services



Bargaining power of customers

Bargaining power of suppliers and customers

- **Bargaining power of suppliers;**
 - Limit power of suppliers by looking for new suppliers
 - Backward vertical integration and merge or takeover the supplier
- **Bargaining power of customers;**
 - Make it too expensive for a customer to switch
 - Forward vertically integrate



Suppliers



Customers

Threat of new entrants and substitutes

- **Threat of new entrants;**
 - Create barriers to entry to prevent new entrants
 - Heavily advertise to build strong brands
- **Threat of substitutes;**
 - Continuously invest in R&D and develop patents
 - Buy up patents of rivals and shelve to prevent product production



New Entrants



Substitutes

Rivalry amongst existing firms in the industry

In a very competitive market place there may be a great deal of rivalry, example might be UK supermarkets, retail clothing companies.

The intensity of this rivalry will have an impact on the business that is trying to trade, it may mean:

- Larger businesses trying to buy up rivals through horizontal integration
- Businesses continuously introducing new products to the market
- Businesses in the market having to heavily advertise to maintain market share



Revision video 1



PESTLE

Political
Economic
Social
Technological
Legal
Environmental

external environment for business

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The diagram is a vertical list of six factors: Political, Economic, Social, Technological, Legal, and Environmental. Each factor is a different color. The entire list is set against a light green background. Below the list, the text 'external environment for business' is written in a smaller font. At the bottom of the slide, there is a footer area containing the LearnLoads logo, the name 'LearnLoads', a 'Subscribed' button with a checkmark, and a subscriber count of '1,361'.

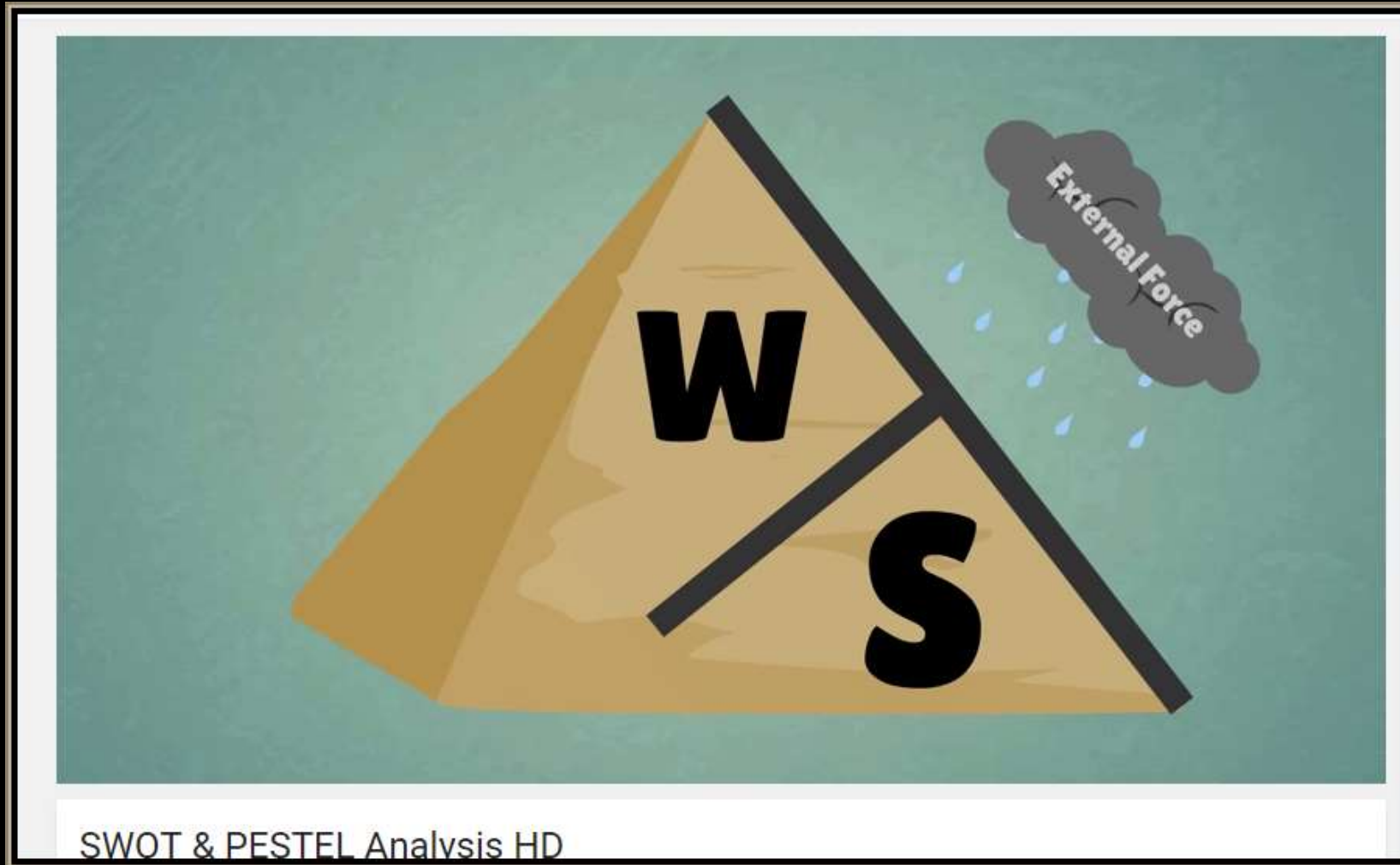
Revision video 2



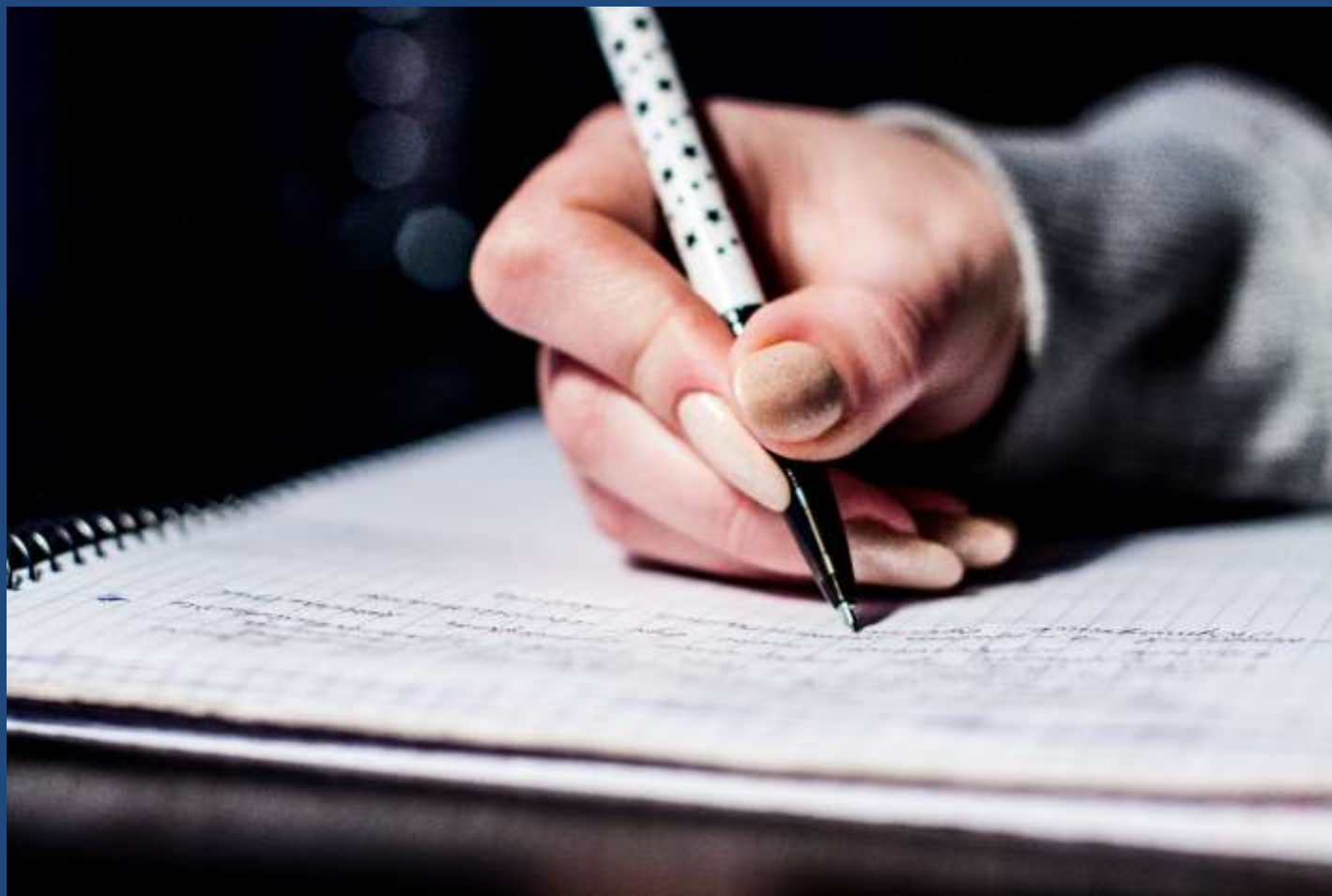
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Revision video 3



Sample Edexcel A2 questions



Case study for question 1

Extract H

Grimsby Fish has created more than 100 jobs with a new factory as part of a £12m development. They are opening a 6 000 square metre factory in Grimsby to meet the demands of a new contract with Marks & Spencer.

The factory will produce a range of handcrafted fish cakes, pasties, quiches and pies.



What technology might be involved in making fish products?



Why is technological change important? Consider productivity...



Sample question 1

Assess the importance of technological change to a business such as Grimsby Fish.

(10)

Knowledge
2

Application
2

Analysis
3

Evaluation
3

Answer sample question 1

- New factory is likely to include new machinery/ packaging techniques.
- Increases competitiveness by reducing the costs of production.
- Unit costs may fall as productivity increases through the use of new technology.

Possible counterbalance

- Increased short-term investment cost, e.g. £12m spent on new factory and machinery.
- New technology can often unsettle or lead to a reduction in employee motivation.
- Other factors might be more important than technological change, e.g. the quality of its fish products, the skills of workers in the labour intensive aspects of fishing and fish production.
- Capacity of the factory and the productivity of the workers might be more important.

How to level sample question 1

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-7	Accurate and thorough knowledge and understanding, Supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	8-10	Accurate and thorough knowledge and understanding, Supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Case study for question 2

Extract D

Morrisons' improved performance

Morrisons' revenue and share price have increased for the first time in almost four years, as new boss David Potts shared his vision for turning around the struggling supermarket. Since his appointment, he has replaced several of Morrisons' directors and sold off 140 of its convenience stores.

5

Morrisons suffered from declining sales as a fall in consumer incomes meant that shoppers moved their spending to the discounters, such as Aldi and Lidl. David Potts responded to this by cutting prices with the 'I'm cheaper' campaign.

Consumer research reveals that whilst cheap prices have an influence on supermarket choice, the overall customer experience, such as range and quality of products, store layout and service, all play a part.

10

Changes in society, such as an ageing population and more single person households, have resulted in customers making more frequent grocery trips. Furthermore, consumer confidence has improved recently due to continued low interest rates and falling energy prices.

15

(Sources: adapted from <http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11708744/Morrisons-grows-market-share-for-first-time-since-2011.html> and <http://www.morrisons-corporate.com/ar2015>)

Sample question 2

Assess the likely effects on a business, such as Morrisons, of a more competitive environment.

(10)

Knowledge
2

Application
2

Analysis
3

Evaluation
3

Answer sample question 2

Indicative content

- Where there is rivalry between similar companies within the same market
- Morrisons is competing with Tesco and Sainsbury's, as well as rapidly growing smaller supermarkets like Aldi and Lidl

Negative effects:

- Consumers are more price sensitive and may choose supermarkets, such as Aldi and Lidl, that offer lower prices or better value for money
- Consumers are less loyal and will shop around for the best prices, which has created an opportunity for Aldi and Lidl to expand
- It will be difficult to maintain market share as shown in 2015 when Lidl's market share grew by 17.9%, whilst Aldi's market share grew by 17.6%, whereas Morrisons market share fell by 1%
- Declining market share may have a negative effect upon profitability. This will mean that shareholders could receive lower dividends and there will be less profit retained for future investment

Possible counterbalance:

- However Morrisons customers may be loyal for reasons such as location, range/quality of groceries, this means that they still have a strong customer base
- Morrisons still has a market share of 11% compared to 5.6% for Aldi and 4.3% for Lidl, consequently they still have greater market power
- The 'I'm cheaper' campaign shows that Morrisons have the resources to combat the threat from Aldi and Lidl

Potential judgement

- In the short run the likely effects will be negative as Morrisons may struggle to compete on price with the discount supermarkets and could lose market share
- In the long run the threats from the discounters could be reduced as Morrisons still has a greater market share and more resources such as more stores and greater funds available for promotional campaigns

How to level sample question 2

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
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Glossary

- **PESTLE**; Political, Economic, social, technological, legal and environmental external analysis of a business
- **SWOT** analysis; Strengths, weaknesses, opportunities and threats of a business
- **Porter's 5 Forces**; Analysis tool for examining ways for a business to gain competitive advantage
- **Barrier to entry**; factors which make it difficult for new businesses to enter a market



Revisionstation