Forces of the external business environment business essay

Businesses are bound to encounter several forces whenever they are in operation. In some cases, these forces are over and above their control. In spite of this reality, there is no single business which can exist without going through the external environmental forces. It is therefore imperative for a business establishment to put into consideration all the possible external forces which may affect its operations either positively or negatively. In this regard, opportunities and threats are worth noting because they account for the external factors which would often affect a business environment. When the external factors are considered and concurrently compared with the internal factors, it will be possible for a business management to formulate the right policies of dealing with the inevitable external forces. This paper explores some of the most important forces in the external environment which may create uncertainty for organizations today.

Important forces of the external business environment

Some of the factors which may cause uncertainty in the external business environment are inadequate needs of customers, technological changes, regulations and elimination of foreign barriers which may hinder trade. These factors fall under opportunities which a business can equally devise ways and means of benefiting from them. In addition, some of the external factors which act as threats and also create uncertainty in business include shifts in the tastes and preferences of consumers, introduction of products which are substitutes of the current ones, new trade policies and also multiple barriers to trade (Samson & Daft, 2009). These uncertainty factors are discussed in detail below.

Customer needs

Each customer has a unique need when buying goods and services. In order to retain customers, a business ought to fulfil their needs which may keep changing from time to time. These changing customer needs are not certain and may not be easy for a business management to predict accurately. Nevertheless, some customer needs are obvious and can be catered for right away. For example, friendliness is a universal need of customers. They will always appreciate warm welcome and also to be acknowledged (Campbell & Craig, 2005). Customers need to be embraced and made comfortable the moment they step into business premises to make their purchases. In addition, most customers will appreciate if they are understood in the entire process of buying goods and services. Simple and soft language is necessary when communicating to customers. This goes along way with how the same customers are treated, whether fairly or unfairly. Fairness should dominate at all times if customers are to be retained. This can be very tricky for a business organisation bearing in mind that the needs of customers are not the same and may equally change with time. In a nutshell, when the needs of customers are not met, it may create a serious business risk and uncertainty in future owing to the fact they form the most important backbone in a business as they complete the channel of distribution (Jackson, Joshi & Erhardt, 2003).

Technological Changes

A business organisation cannot exactly specify when the current technological applications will become obsolete and new ones introduced. This is indeed one type of business uncertainty. There are several factors which may speed up changes in technology. For instance, when business performance is hampered to an extent that it cannot reach its peak, new forms of technology may be introduced into the market domain. This goes hand in hand with competition which often requires better and well enhanced technological applications. In the event the capacity of production is below the required capacity which can meet market demand, technology can equally be changed to meet the deficit. Moreover, dynamics in the economy which may cause a change in the needs of buyers can also necessitate the need for advancing the current technological platform (Jackson, Joshi & Erhardt, 2003).

All these factors are very instrumental in the transformation of technology. Consequently, it is almost impossible for business organisations to merge and analyse all these factors in developing a high level of certainty either in the near or distant future. Nevertheless, new technology may not necessarily guarantee optimum performance and hence, it can be considered to be a subsidiary external business environment factor in the determination of uncertainty level.

Trade Barriers

Factors which hinder trade on an international scale are also considered to be external and they may act as impetus or promoters of business on a local level (Pahl & Richter, 2007). Specifically, barriers to international trade may come at a time when a business organisation has the least expectation. These barriers can be put in place either by the host country or the international treaties on policies governing trade. Businesses may not be in a position to tell when bilateral or multilateral trade agreements will come into force and as a result, uncertainty on the part of a business organisation is brought on board. Some of the trade barriers which may cause uncertainty are discussed below:

Non-tariff Barriers

In this form of trade barrier, the quantity of goods being imported to the host country is controlled. The volume of the imported commodity in the local market is usually minimal and this translates to high market price of the same.

Tariff barriers

Tariff barriers include all those restrictions on imported goods which entail imposition of tax and duties. The quota system is also made use of in tariff barriers. The rate of taxation may go up or down at any given time hence accounting to one of the uncertainties which business organisations face (Mercer, 1998). High taxation on imports will imply that the price of the goods imported will be exceptionally high. However, if these duties and taxes are lowered, the domestic market will be flooded with imports hence affecting the consumption of similar products produced locally.

Intentional Constraint

A country may opt to deliberately stop the importation of certain goods. This measure may be taken to protect the local industries from facing unhealthy competition. It is a protectionist policy which may be enforced or withdrawn at any time. Hence, it creates uncertainty to businesses as an external force.

Changes in tastes and preferences of consumers

This is one of the most uncertain factors emanating from the external business environment. Consumers' tastes and preferences are complex in nature. Business organisations handle thousands of consumers each year whose tastes and preferences vary from time to time. One reason behind this change is believed to be the acquisition of pertinent information regarding the availability and features of certain products in the market (Mercer, 1998). Once comparisons are drawn, some consumers are highly likely to shift their preferences, a phenomenon which cannot be predicted by business organisations. Nevertheless, there are those consumers who may resort to change to other product merely because of adventure. When and why such changes may happen is not within the domain and control of business organisations. This can also be a potential threat to the growth of a business.

Substitute products

Products which are substitute of each other can be introduced into the market and heighten competition. It is an external threat and its eventuality cannot be foretold. Products which are substitutes of each other for instance TV sets of different brands can only secure a bigger share of the market if they appeal more to consumers. Factors such as price and preference may determine which substitute product will carry the day. Business organisations can beat this threat by developing a strategic market plan for their products.

Not all substitutes introduced into the market may be threats to a business organisation. There are factors which determine whether such substitutes are threats or not. For example, the threat to the industry can be high if the consumer considers the cost of shifting to the substitute product to be negligible and at the same time achieve the desired taste. Moreover, if the cost of the substitute is lower compared to the industry one, it implies that the threat of that particular substitute will be higher to the existing business organisation (Jackson, Joshi & Erhardt, 2003). On the same note, if both the substitute and the firm product are the same in terms of quality, the threat will equally be high driving some consumers into consuming the new substitute product. Finally, a substitute product can be a threat if all the other important product attributes of the substitute is higher that the firm product. These conditions will definitely create a high risk to the industry and are equally uncertain.

Significance of customers

It is indeed factual that customers in a business organisation play cardinal role owing to the fact they complete the channel of distribution without which the aim of production will not be met. The main reason why production takes place is to satisfy human wants. If customers are not incorporated in the process of production, the latter will be an exercise in futility. Besides, customers can also be classified under opportunities and threats which businesses face. when they change their tastes and preferences or their needs are not sufficiently catered for, they can directly affect the performance of an industry. Businesses can make use of this element as an opportunity to gain access to wider market. Similarly, customers can be a great threat to business organisation when they decide to switch their preference to a substitute product especially when the latter has a higher merit than that of the industry (Campbell & Craig, 2005). Therefore, I consider customers to be the most significant factor as far as the external business environment is concerned.

Nevertheless, this statement may not apply in a situation whereby a company has the monopoly of a market in which the price of commodities is determined by the sole supplier while consumers have no choice to make. Such a company situation will also breed an imperfectly competitively market whereby market forces of demand and supply are not controlled by consumers. The single producer regulates elasticity of supply and demand and as a result, customers merely bridge the distribution gap.

Conclusion

To recap this paper, it is imperative to underscore that the external environment of a business organisation encompasses threats an opportunities which are usually beyond the control of an industry. These external factors also cause uncertainty in the operation of business because they cannot be predicted.

Over and above the elements of an external environment of a firm, customers are very fundamental owing to the fact that complete production channel.