Exercise walk-through

1.3
The external environment

University Business

1 The method

Method — Close-in and wide; checklist, not theory

The **external environment** splits into the close-in (competitors, suppliers, customers, regulation – the firm's daily weather) and the wide (economic cycles, technology, social change, law – the climate). PESTEL and friends organise the scan; they explain nothing by themselves. Their value is preventing you from forgetting a factor – never predicting it.

Method — Evidence discipline: period, source, definition

A claim about the environment earns belief only with three attachments:

- A **period** – "falling" over which dates?
- A **source** – who measured it, and how?
- A **definition** – sales value or volume? Which market, which geography?

Worked example. "Bread demand is falling" is a hypothesis until it reads: "UK in-store bakery sales by volume fell 4.2% between 2021 and 2024 (industry body's annual census, GB supermarkets)". Now it can be checked, and – note – it may coexist with artisan sales rising: "demand" was doing quiet work that the definition has now been made to confess.

Exercises 2.1·2.2

2.1 Name the three attachments every environmental claim must carry, and apply them to: “young customers prefer ordering by app”. [3]

2.2 Sort these drivers for Nimbus into influence vs adapt: minimum-wage rise; walk-in customer numbers; the bakery’s own prices; a sugar-tax announcement. [4]

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2.1

- Period, source, definition.
- Applied: which dates (“prefers” since when?); who measured (survey? till data? how many respondents?); defined how – “ordering by app” for what share of purchases, in which area?

2.2 Sort these drivers for Nimbus into influence vs adapt: minimum-wage rise; walk-in customer numbers; the bakery’s own prices; a sugar-tax announcement. [4]

2.2

- Minimum-wage rise: adapt.
- Walk-in customer numbers: influence (product, service, marketing shift them).
- Own prices: influence – a decision variable, not an environment.
- Sugar-tax announcement: adapt (the tax is set externally; product mix is the response).

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2.3

- Can: organise a scan so no factor category is forgotten, and force each factor to be stated with evidence.
- Cannot: explain or predict anything by itself – a list has no mechanism, and two firms in one environment can live or die by execution.
- The discipline: frameworks serve the evidence, never substitute for it.

Exercise 3.1

3.1 Two claims reach Nimbus' owner: (a) "local bread demand is booming – three new cafés opened this year"; (b) "supermarket in-store bakery volumes have fallen for three years running".

For each claim: state what evidence you would demand (period, source, definition), what each currently-supplied datum actually shows, and whether it supports opening a third shop. Conclude with one additional piece of evidence that would most change the decision, and why. [7]

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- (a) Evidence demanded: are café openings a measure of bread demand (definition)? Over what period, counted by whom? What it shows: three permits or launches – supply of cafés, not demand for bread; cafés may substitute for bakery visits.
- (b) Evidence demanded: source of the three-year series, GB-wide vs local, volume vs value. What it shows: supermarket volumes falling nationally says nothing directly about one high street – it may even indicate share moving to independents.
- Supports a third shop? Neither claim, as supplied, does: (a) measures supply, (b) measures a different channel at a different scale.
- Most decision-changing evidence: local footfall and spend for the exact catchment (e.g. counted footfall plus till data from comparable sites) – demand where the shop would be, not elsewhere.

Exercise 3.2

3.2 The government announces a sugary-drinks-and-snacks levy taking effect in 12 months, covering some bakery items.

Classify this driver (close-in or wide; influence or adapt), and state how the classification should and should not change Nimbus' planning. Then set out a three-step evidence-based response plan, each step with the information it seeks. [6]

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- Classification: wide (set by government, economy-level) and adapt (the tax's existence is not influenceable in 12 months).
- Should change: product and pricing plans – recipes, item mix, pass-through decisions, re-formulation scope.
- Should NOT change: the core model or the growth decision – the levy is a cost and mix question, not an existential one; treating it as weather to panic about is the category error.
- Response plan: (1) obtain the statutory list of covered items – which products fall in (definition); (2) measure own sales mix and margins on those items – the exposure in money (period + source: own tills); (3) test responses on the two most-exposed items (re-formulation, price) with a defined success metric before the levy lands.