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THE CHANGING BUSINESS ENVIRONMENT (BMBM4010)

“DISCUSS THE CHALLENGES FACED BY AN EXPANDING BUSINESS IN THE CURRENT ECONOMIC ENVIRONMENT”

The components of the following essay will discuss the challenges faced by an expanding business in the current economic environment. It will approach this by looking at the current economic environment with the UK's current economic environment as a pillar to look at recession. It will look at some of the negative effects of recession as well as the positive effects, finishing with some specialist views on expanding during a recession. To continue, it will look at macroeconomics, which will include information and discussions upon inflation, foreign exchange rates and external foreign suppliers, with individual analysis if the pros and cons of each macro economical factor and considerations towards business expansion. It will also be extended to microeconomics, following the same pattern as before mentioned and including discussions about demand, supply, and competition. To finalize, it will briefly look at business change, some examples of distinct types of business change, positive and negative aspects of business change as well as the importance of adapting to change, especially for expanding businesses.

The concept of economic environment is extremely vast and there are an unbelievable number of perspectives that it could be approached from. However, in this essay it will be looked at from a business perspective. Thus said, in business terms the best way to describe economic environment would be as the buying customs of customers that are affected by external economic factors which inevitably influences businesses and their execution (BDC,2024).

Looking nationally, the current economic environment of the UK, is quite prosperous. At the end of 2023 it was announced the UK had entered a recession (Edser, 2024). A recession is described as the economy suffering a negative growth in GDP for two consecutive quarters (Rodeck, 2024). A recession is usually perceived as an extremely negative thing, and it tells the rest of the world that the nation that is suffering it, is in a bad economic position. The cause for a recession varies, but it is usually due to a decrease in demand from external individuals, such as consumers (Claessens, 2024).

Some of the effects of a recession include increase in unemployment as businesses need to cut down costs such as labour. It will also minimise the value of assets which means that the disposing of these assets will incur more losses than profits at the time. And the most fearful effect, is the future increase in taxes after the recession, which is caused by the government being pushed to borrow money as taxes will need to be reduced to tackle the recession (Mannix, 2023). However, Alan Beaulieu is one of the people that beg to differ, and they see opportunities in these harsh economic times. Beaulieu (2020), states how during a recession there are a variety of benefits to profit from such as the cut in costs within a company. As things are quiet, it is the perfect time to sit down and look at portions of the business that are not so beneficial, which might have not been so obvious before the recession. Study Smarter (2024) also contributes to the benefits of recession, stating how it actually aids to decrease the number in competition, as some businesses cannot withstand the effects of a recession, which will help stronger businesses solidify their position in the market greatly.

Back to the UK's current economic environment, it has actually managed to exit out of its last recession at an extremely fast pace. Not only was fast it, but the Resolution Foundation (2024), states how the UK's economy has regressed back with a much more stronger growth than ever.

Businesses trying to expand should consider the fact that during a recession revenue tends to decrease and budgets start to get tighter (McCorquodale 2023). Thus said, expansion should not be considered. However, Lesonsky (2023) argues that it might be a suitable time to expand as most businesses will try to cut down costs as much as

possible through advertising and marketing, which means that there will be less competition out there and more changes to gain solidification and market power.

After looking at the UK's current economic environment, it is important to emphasize how a recession was an “external factor” that affected the performance of businesses within the UK for a period of time. However, there is actually a much simpler way to categorize factors that affect the economy and business from external sources, and that is as macroeconomics.

Macroeconomics is just an unelaborate way of summing everything that relates to how the economy functions at a greater scale (Business Standard, 2024). Within Macroeconomics, there is a lot of analysing, especially regarding inflation, unemployment, and GDP (The Investopedia Team, 2023).

However, Macroeconomics are extremely volatile (Cariolle, 2012). For example, inflation, which is prices increasing (Bank of England, 2022), is subject to irresolution the most. Inflation can occur for a short-term period, in which they look at a closer period of time and their future expectations for inflation, or it can be for a longer period, in which they look at years in advance to come (Giller, 2021). In most cases, inflation tend to be most affected in the short-term period. Some causes of inflation fluctuating include when the economy is not able to keep up with production for the demand within it (Mckinsey & Company, 2022). Another factor that can affect inflation, is when the costs for production increases and demand stays the same, which causes inflation to be pushed higher (Reserve Bank of Australia, 2023).

Inflation brings along many disadvantages along, such as pathing the way to lower incomes as it can interrupt wage growth (Pettinger, 2017). According to EPG Wealth (2023), inflation contributes to the decrease in currency power as during the time where inflation is high, the value goes down, in which case scenario can evolve to deflation. However, Bucherer (2023) sees some light into inflation, such as the adjustment in

pricing for products from businesses, which means that consumers can benefit of better deals. Windsor (2024), states how a stable raise in inflation might lead to better living conditions, as positive productivity will make it simpler to enhance wages.

During high rates of inflation, business trying to expand have a challenging time, as decisions regarding investment and planning are much harder to make due to the uncertainty of the length term the situation is going to last for (Palmer, 2022). So, in this case scenario, expanding should be left aside after inflation has reached a profitable level. However, by keeping track of the conditions of the market, it will aid businesses to adapt to this challenge (Sodexo, 2023).

Speaking globally, there is a factor that can greatly affect the economy of more than one country at once, and that is foreign exchange rates. Exchange rates are described as a currency being converted to another and at which rate this is happening (IRS,2019). Some countries suffer of low exchange rates, this meaning that their currencies value is lower in comparison to other countries' currencies (Khan Academy, 2024). There are many components that may affect countries exchange rate, for example, inflation contributes to it. When inflation increases, this leads to their exchange rate decreasing as their currency goes down in value (Twin, 2024). A country may boast of a strong exchange rate due to its economic performance history, which seems to be a factor well considered by individuals at the time of investing, which eventually leads to a stronger exchange rate power and currency (Team, 2019). Another thing that investors look at when deciding where to invest is at the stability of that countries' government, as a stable government eludes a feeling of safety for investors (MarksandSpencer, 2024). Currently the strongest currency globally belongs to Kuwait, and their exchange rate is astonishing (Wise, 2024). Obviously, having a high exchange rate is a sign of prosperity and strong currency power, thus when exchange rates decrease is a sign of irregular economic health, and this is why exchange rates are considered alternate, as they change according to the country's economic performance.

For businesses operating with foreign suppliers, they suffer of constant shifts in exchange rates which inevitably will shift their costs (Money Corp, 2024). Thus, for an

expanding business that is thinking of trading internationally or thinking of getting international suppliers, they should consider that most of their costs will depend upon exchange rates, so they might need to hire a specialist to keep track of the rates movement to be able to make the best decisions, which will be an extra cost.

Not all challenges that affect business through macroeconomics needs to be monetary. Take for example the recent years and what the biggest global shock has been, that has affected everyone's lives, also known as COVID-19. At this point is already well known by everyone what Covi-d is, and they have experienced it first-hand how it affected the world. But from businesses perspective, it was absolutely abolishing. Businesses suffered immense falls in sales (Mizen, 2022), some to the point that had to close down due to the pandemic. For example, in 2022 around 345.000 businesses have suffered to the point of closing during Covid-19 (Dowdeswell, 2023).

After looking at macroeconomics, it can be concluded that expanding businesses have a lot of external challenges to consider that might intervene with their expansion or that might delay it. However, they shall fret not, as good preparation in case of any of these events will leads to smooth operating. But to do so, they must look at their internal challenges first or also known as microeconomics.

Microeconomics looks at the behaviour of good and services withing individual markets interact with supply and demand (Rodrigo, 2022)

Looking at demand, which is the consumers desire to purchase services and goods (Harsh, 2022), is an extremely crucial factor that can affect a business's performance. The law of demand states how the desire for purchasing from consumers will decrease as prices increase (The Economic times, 2024). There are a few external factors that may affect the consumers purchase activity. The most renowned would be a change in income. A change in income can occur to several factors as well, and these are most external and from a macroeconomically point of view (BBC, 2024).

Within microeconomics, along with demand, comes the concept of supply. Supply refers to the amount of goods and services that production is capable of dispensing while considering costs and time length (Lumen, 2024). According to the law of supply, it is said that as price is set to increase so is expected production, as it shows that demand is high (Luther, 2022). There are a variety of factors that may affect supply, such as cost for production, the set price by the market for the product, the demand for the good or service as well as the need to implement different development methods for the product (Abivin, 2024). It is important that businesses have a good grasp upon supply and how it functions, as supply is able to influence various aspects of the business such as expected profits. To be able to have a good grasp on supply, they must manage it effectively to aid them to not overproduce as well as to cut down costs (IONOS, 2023). Just as some macroeconomic factors, supply aids in the economic research, as it is made use of as a tool to investigate issues such as economic growth, unemployment, and inflation (Eastin and Arbogast, 2021).

Competition is another factor from microeconomics that has a substantial impact upon businesses (Golubovic, 2023). The arena in which business compete, uses superior services and goods at distinguished prices with the goal to attract customers the most. A business can be put under immense pressure by their competitors, who might have a stronger market position and that will influence other businesses' operations, such as being pushed to constantly innovate (Boushey and Knudsen, 2021), all with the outcome of customers being able to enjoy greater quality products at less costs. Alasadi (2022) states how fierce competition can be to the point of results such as lower profit margins. For smaller businesses, competition is an even bigger issue than for bigger firms, as they find it extremely hard to keep up with these larger and more solidified businesses, some even can reach the point of closing down due to this (Beyond, 2022). Therefore, considering competition for expanding business should be vital, as it can easily influence a businesses' strategies as well as contributing to economic growth or decline.

The business world is kind of like all the before mentioned challenges that they need to be aware of, meaning constantly changing, and if they do not keep up with these changes and adapt to them, they will fall behind, and at some point it will be too hard to catch up to its fast pace, leading to very bad consequences.

Change refers to the internal adjustment of an organization through systems, procedures and tactics with the view of increasing productivity and to be able to adapt to the constantly changing market (Stobierski, 2020). It is important for businesses to embrace change to be able to evolve and to always be ready for customers' trends to suddenly shift, as well as to not lose to competition. Most businesses that have not or do not adapt to change are at the risk of losing market share or at worst case scenario, closing down (Contributor, 2020).

There are many different types of change when looking at it from a business perspective, however they are usually structural, which mainly consist in changes in hierarchy, management procedures, or organizational positions. These changes have shown to increase efficiency and productivity (Changing Point, 2023). However, some changes come from external sources as well. Such as technological change, which could entail the implementation of things such as automation technology, with the purpose to improve productivity (UNSW, 2023). Going back to internal change, strategical change, in which current strategies, goals and market focus is adjusted with the purpose of entering new markets and level up with other competition in the market (Whatfix, 2022). Cultural change is one of the most increasing types of change lately as it looks at creating a more inclusive atmosphere through changes in procedures and principles (Perucci, 2024).

As everything that has been talked about so far, change is not an exception to positive and negative impacts upon a business. The implementation of change can actually enhance production, ambiance with employees and create stronger bonds with customers. Looking economically for a business, good management of change can help reduce cost and create new economic resources (Lee, 2021). However, if change is not implemented carefully and managed accordingly it could lead to the opposite such as a

decrease in employees morale, misunderstandings and operational problems. Another negative point that businesses might face when implementing change, is resistance and if the change is not properly communicated to the community withing the business it might lead to much more disadvantages than benefits (Abbas, 2022).

Expanding businesses need to consider that adapting to change is crucial, especially when their purpose is to grow. This is due to the fact that growth will not happen with the same organizational structures that they currently might have, bigger and larger operations will require them to implement new structures and therefore change and adaptability.

In conclusion, businesses that are planning to expand need to take into consideration a lot of factors that may intervene with the process or that might actually force them into reversing to their prior position if they are too careless. Not only do they need to look at what they could do better internally but also about how their environment is doing economically, and such make the best choice. Businesses work and effort into expanding will be reflected upon their successfulness.

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