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BUSINESS ENVIRONMENT ANALYSIS

REPORT

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TABLE OF CONTENTS

- Introduction
- Business introduction
- Developing country
- Application of business environment theories
- Evaluation of opportunities and challenges
- Recommendations for overcoming those challenges
- Conclusion
- References

INTRODUCTION

The purpose of this report is to explain and analyse the opportunities and challenges of opening ZARA in a developing country such as Indonesia. The analysis will be supported with several business theories such as PESTLE and HOFSTEDE. I will discuss the different barriers of opening foreign business in a developing country and how to overcome the challenges with relevant recommendations.

BUSINESS INTRODUCTION - ZARA

ZARA is a Spanish company based in Galicia, Spain and is founded by Amancio Ortega in 1975. ZARA has over 2220 stores in about 88 different countries. As a retail company, ZARA's customers are on first place. They are the heart of the business which makes them for Zara its business model. They are trying to make more innovative products so they can attract more customers. (*Business of Fashion, 2022*). Due to its unique operating methodology compared to other fashion businesses, Zara is able to win over Indonesian customers. In addition to hosting fashion shows to generate demand, ZARA also studies and tracks consumer demand at various ZARA retail locations. The outcome of the observation was converted into a design or fashion plan, which was quickly produced. Around 200 designers are based in La Coruna, Spain, the hub of ZARA's fashion product design, and they frequently travel to other nations to observe the evolution of local fashion trends. This attempt is made to both quicken the pace of manufacturing and to meet changing consumer demands. (*Boxme, 2020*).

DEVELOPING COUNTRY - INDONESIA

Indonesia has a population of 276.4 million and is the first and largest economic power in Southeast Asia after overcoming the Asians financial crisis of the late 1990s. Due to that, in 2005 the government set a developing plan for 20 years aiming to improve humans' capital which plan will end in 2025. As a result of the pandemic's effects on its economy, Indonesia's classification as an upper-middle income country changed to lower-middle income category as of July 2021. A record-low 9.2 percent rate of poverty in September 2019 was partially overturned by the pandemic, rising to 9.7 percent in September 2021. Indonesia's GDP is expected to expand by 5.1 percent in 2022 as the nation's economy is currently in recovery and is backed by rising commodity exports and a flexible fiscal strategy to deal with the pandemic. However, the recovery could be hampered by more difficult global conditions and COVID-19's lasting impacts. (*World Bank, 2022*). The Human Development Index for Indonesia, which is compiled by the UN, includes factors including income level, life expectancy, and educational achievement. It tries to evaluate both incomes and the quality of life. Based on the population, the human development index is 0.718 which means that is the average number of people who are developed on three basics

achievements such as knowledge, health and standard of living. (*The Global Economy, 2022*).

APPLICATION OF BUSINESS ENVIRONMENT THEORIES

One application of theory which is very useful for a foreign business to be open in Indonesia is the PESTLE analysis as it is gathered of all information needed for ZARA, as Indonesia has the potential to become the next big market for investment after China and India. The following analysis is stated by (*Business Management & Marketing, 2022*).

Political Factors

- **Government and administration**
The democratic, constitutional system of governance is used in Indonesia. The president possesses full authority as the head of state, the head of the federal government, and the supreme commander of the armed forces. Political parties are numerous in Indonesian politics.
- **Foreign relations**
Instead of having tense relations, Indonesia has built up good connections with its neighbours. She participates in trade associations like the World Trade Organization (WTO), the Organization of Islamic Cooperation (OIC), the East Asia Summit, the Association of Southeast Asian Nations (ASEAN), the Non-Aligned Movement, and the G20.
- **Corruption**
Corruption is a serious problem in Indonesia. Every commercial, political, and governmental organisation in the nation now has it. It's important to note that many Indonesian provinces desire independence currently. The nation is being led toward political instability by it.

Economic Factors

- **GDP**
Indonesia's nominal capita GDP was estimated to be 1.089 trillion US dollars in 2020, ranking it as the 15th-highest in the world. Her per capita income, which ranks as the 108th highest in the world, was 4038 dollars. Although the covid-19 pandemic has caused a little decline in the nation's revenue, her performance is still strong in comparison.
- **Indonesia economy**
Many companies in the nation are owned by the Indonesian government. But her economy is still dominated by private businesses and foreign investors. Ones of Indonesia's top industries are agricultural, oil & gas, mining, oil & gas, automobile, and hydrocarbons. The country imports many of her goods from Thailand, Malaysia, Japan, Singapore, and China. She also sells her goods to Singapore, India, Japan, the USA, and China.

- Taxes

The personal income tax in Indonesia ranges from 5% to 30% depending on the individual's income level, while the corporate tax rate is 25%. The tax rate for non-Indonesian residents is 20% of their income. In 2020, Indonesia's unemployment rate was 4.84%, and for the previous ten years, it has been stable at less than 5%.

Social factors

- Demographic diversity

Ethnically and linguistically, Indonesia is one of the most varied nations in the world. There are around 600 different ethnic groups represented there, and over 700 different languages are spoken there. With a total population of 274.5 million, Indonesia has the fourth-highest population in the world in 2022. She is, in fact, the largest Muslim nation in the world. The population is made up of roughly 86.70% Muslims who practise Islam, 10.72% Christians, and 1.7% Hindus.

- Social trends

People's attitudes are changing as the middle class grows throughout the nation. The Indonesian population exhibits enthusiasm in western cuisine, healthy eating, frozen processed food, ready meals, and tech products. The worst human rights violations, extreme poverty, starvation, a high smoking rate, nepotism, and corruption are all found in Indonesia.

Technological factors

- Online platforms

Indonesians are thought to be the most frequent users of Twitter. Other well-known social media networks include YouTube (Google), Instagram, Pinterest, Facebook, WhatsApp, and YouTube. However, television continues to be the main form of public communication.

- Accepting technology

The Indonesian government is also engaged in research and development for internet, robots, 3D printing, artificial intelligence, and sensor technology. Indonesia might dominate the world if it excels in both industrial and digital technology.

Legal Factors

- Regulations

Employee rights are protected by legislation in Indonesia. For instance, enterprises and companies must offer their employees social security, paid time off for religious holidays, set working hours, payment for overtime, and paid vacation. It is difficult for international businesses to successfully enter Indonesia, nevertheless.

Environmental factors

- Nature impacts

Indonesia is rich on some of the worst natural disaster like Tsunamis and earthquakes. Based on Indonesian records, in 2004 Tsunami killed thousands of people and destroyed mass country's infrastructure which led to loss for the economic capita.

- Tourism

Indonesia has lots of islands rich on natural resources between Australia and Asia which attracts foreign investors, that's why in 2021 the government sets an online system for monitoring business licences and imports.

Another useful application of theories for ZARA is comparing Spain with Indonesia with HOFSTEDE analysis.

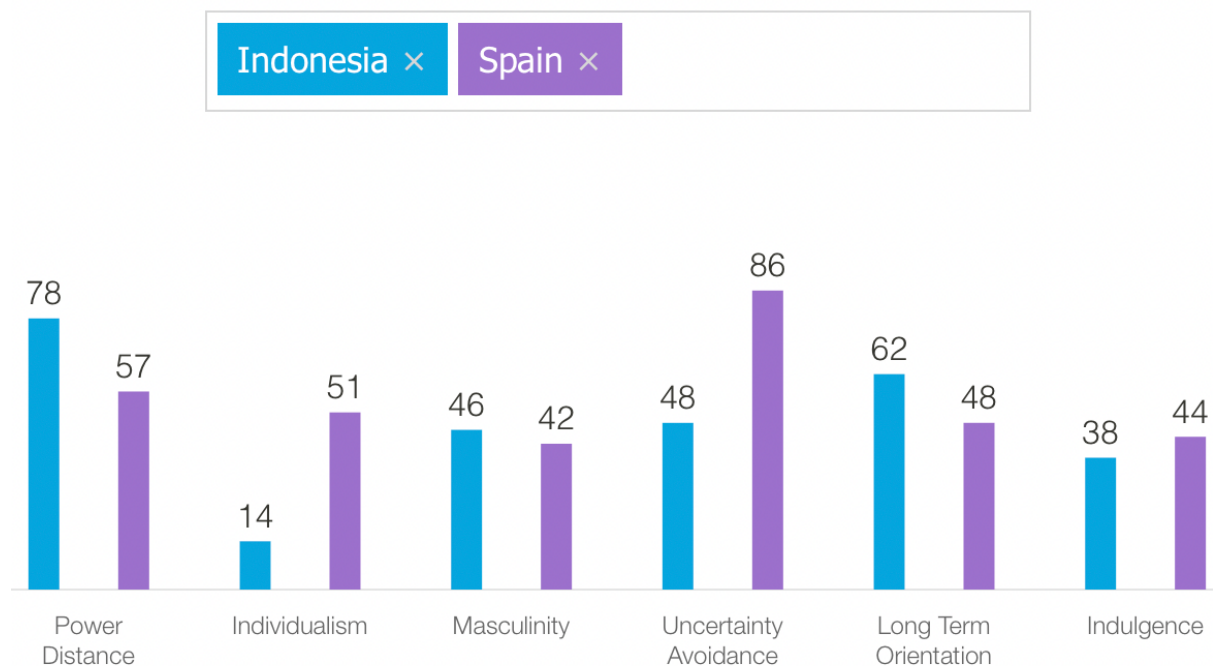


FIGURE 1

As we can see the diagram in Figure 1 stated by (Hofstede, 2022) shows a good overview of Indonesian cultural compared to Spain. The power distance is stating all individuals in the society that are unequally. Indonesia is scoring dimension of 78 where compared to Spain 57, which is based on some characteristic for the country such as being dependent on hierarchy, management controls, delegates etc. High power distance also means for Indonesian co-workers to be led by boss or manager. As we can see, Spain is scoring individualism of 51 rather than Indonesia where is only 14. People in individualist society are

expected to take care of themselves and their immediate family. People in collective societies are members of "in groups" that look out for them in return for allegiance. This is based on the independence of Spain where Indonesia is not. With the score of 14 for Indonesia they are deifying as Collectivistic society. This indicates a strong preference for a social structure in which people are required to adhere to the standards of the society and the in-groups they are a part of. Following another big discrepancy between the two countries is the uncertainty avoidance of the culture's populations who feel threatened by unknown situations and created believes that is trying to avoid. Indonesia has a low willingness for avoiding ambiguity, scoring (48) on this dimension. This indicates that the Javanese culture of separating the internal self from the external self is strongly preferred in Indonesia. It is customary for Indonesians to suppress their negative emotions or rage when they are offended. No matter how irate they are within, they will continue to smile and act politely. This also implies that upholding harmony in the workplace and interpersonal relationships is crucial in Indonesia and that nobody wants to be the source of unfavourable information or criticism. Conflict resolution is a further manifestation of this level.

CHALLENGES AND OPPORTUNITIES

One challenge for a foreign business to develop in Indonesia is the dealing with cheap labour issues such as safety protection, severance pay, minimum wage etc. Other challenge for the country is the job losses, unemployment and underemployment. As (*Dr Stephen Sherlock, 1998*) states that the employment has been severely impacted by the devaluation of Indonesia's currency and the ensuing vulnerability of the private sector to enormous amounts of unpayable foreign debt, particularly in urban regions. It is impossible to determine the precise number of jobs lost, although most estimates place the number at about two million. (15) Because so much short-term foreign borrowing was used for infrastructure and city building projects, the construction industry (where an estimated one million workers were laid off) was the one that suffered the immediate effects the greatest. On the other hand, an opportunity can be the e-commerce because is one of the most profitable opportunities for the country as 87.1% of the Indonesian people between the age of 16 to 64 are making online transactions with average revenue of 219\$ per user. Another opportunity is the manufacturing industry as the government has issued policies that are applying for the business' licence and investment. Indonesia has enough of sunlight all year round because it is a tropical nation. The ability of Indonesia to create solar thermal and photovoltaic energy is advantageous. These energy sources can support transportation, heating, and cooling applications when it comes to power generation. Great commercial prospects are presented by each of these potentials in Indonesia. (*Ministry of investment, 2017*).

STRATEGIES AND RECCOMENDATIONS OVERCOMING THOSE CHALLENGES

For getting position in the market, ZARA is choosing to use the marketing strategy. Data analysing is the first step of using the strategy as with the information gathered, ZARA can get through her customers' differences comparing to Spain and getting them know better. Store locations is another step of the analysis as its very important to be based near good

transport links such as underground, buses, car park etc. The reasonable prices on high quality products is very important for the Indonesian community as half of the population is below the age of 30 which is increasing the purchasing powers as they are living in such urban areas. Because the vast majority of the Indonesian Muslim is observing a moderate form of Islam with advocating stricter observance for example wearing hijab, that's why ZARA needs to come up with e new innovative products moderated for Islamic population. (Avada, 2022). The recommendation of overcoming challenges and getting opportunities is consist of four steps. Firstly, ZARA has been utilising technology to improve customer communication and supply chain coordination, the government is establishing a system for tracking inventory efficiently and improve customer experience. Secondly, having a management team in different continents can overcome cultural difference as they can do research on different cultures and produce the latest product. Moreover, setting a production centre on high efficiency with local employees to save cost. ZARA produces its clothing in a low-cost zone, therefore the fluctuating global exchange rates that result have an adverse effect on cost control. Finally, creating a marketing campaign for overcoming the lack of advertisement will be very useful as having a successful website and social media platform allows ZARA to tell clients about new products. This will lower their costs and enhance their brand image. (Writing Bros, 2021).

CONCLUSION

In conclusion I could say that Indonesia has a lot to offer potential investors and business owners. The nation still has a lot of unrealized growth potential while being a rising economic power. Additionally, Indonesia is fortunate to have a sizable domestic consumer class and abundant natural resources. Operating in a foreign country can be difficult because regulations are continuously changing, and the business environment is always changing. Businesses risk tax fines and even the possibility of civil or criminal prosecution if they don't have a firm knowledge of the relevant problems. Investing in Indonesia is the ideal choice due to the abundance of excellent business prospects there as well as the new government regulations that make it simpler to obtain company and investment licences. Taking the recommendations stated by the provided analysis, the foreign business can overcome easier the challenges in the developing country or can take them with much less risk of bankrupting.

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