

Business Environment Analysis

Task 1

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Introduction

Businesses operate in an environment that is constantly changing and is affected by factors both within and outside of the organisation, this environment is known as the business environment. The business environment can be divided into two main categories: the macro environment and the micro environment. The macro environment consists of factors that affect all businesses, such as economic conditions, political factors, social trends, and technological advancement. The micro environment consists of factors that affect only a specific business, such as the business's suppliers, customers, competitors, and employees. Organisations need to undertake environmental analysis in order to understand the business environment they are operating in and to make strategic decisions about how to best operate in that environment. Organisations need to develop a business strategy that takes into account the results of their environmental analysis. The business strategy should be aligned with the organisation's overall mission and goals. It should also be responsive to the current and future state of the business environment.

China's economic reform has resulted in an average annual growth rate of more than 10 percent. This has lifted more than 850 million people out of poverty (Goodman, 2021). China is a prosperous and powerful upper-middle-income country. Despite having a higher per capita income than many high-income countries, China's income is still only about a quarter of the income of those in the same income group in the United States. Additionally, "about 373 million Chinese are living below the upper-middle-income poverty line in the US\$5.50 a day" (Goodman, 2021). Several factors play a role in these findings. Inequality is rising faster in China than in any other major economy, and income distribution has become increasingly unequal. A majority of Chinese citizens hold the view that they do not have political rights and freedoms. The Chinese central government has been trying to defend its authoritarian practices, but it is also trying to listen to the voice of the people. But like most democratic countries, such as the United States, there are concerns with what China will choose to do regarding political issues since it does not feel obligated by international agreement on human rights (Goodman, 2021). But even so, the government has made many economic and political changes. China has increased wages and improved material consumption, which led to greater happiness. China has tried to make its economy more efficient by updating its laws on intellectual property rights. It is still trying to define the exact role of foreign firms in its domestic market which makes it a good market to enter at this point.

Application of theories of business environment of China

PESTLE

Factors	Influences
Political	The Chinese government has been supportive of the retail industry and has undertaken various initiatives to promote the sector. The government has also been supportive of e-commerce and has been investing in infrastructure to promote the growth of the sector. Online shopping has gained momentum in China over the past few years and it is expected that this trend is likely to continue for the foreseeable future (Cao <i>et al.</i>, 2020). Since the Chinese government is directly responsible for more than three-fourths of the total employment in China, it has been critical in shaping the future of China's retail industry. The government has been investing in physical infrastructure such as roads, highways and mass transit systems to promote the growth of different industries. The retail sector has also been a beneficiary of these initiatives, with the 'Golden Trilateral' being one example (Situmorang, 2021).
Economic	The retail industry in China has been growing rapidly in recent years, driven by rising incomes and urbanisation. The industry is expected to continue to grow in the coming years, supported by continued economic growth and the government's continued support for the sector (Chen <i>et al.</i>, 2020)
Social	The Chinese population is becoming increasingly urbanised, with more people moving to cities in search of better job opportunities and a higher standard of living (Jiang <i>et al.</i>, 2020). This is leading to a change in consumer habits, with more people shopping online and in modern retail formats such as supermarkets and malls.
Technological	The retail industry in China is benefiting from the country's strong e-commerce infrastructure. More and more people are shopping online, and the industry is benefiting from the government's investment in e-

	commerce infrastructure (Shi <i>et al.</i> , 2022). This is also likely to continue as the government provides further support to the sector.
Legal	The retail industry in China is subject to a number of laws and regulations, including the country's antitrust laws. The industry is also subject to a number of regulations regarding food safety and labelling (Anglès, 2019). Sainsbury's, if expanded to China, must adhere to the legal aspects.
Environmental	The retail industry in China is subject to a number of environmental regulations, including those relating to air pollution and waste disposal. The industry is also working to reduce its environmental impact by investing in green technologies (Shi <i>et al.</i> , 2021). Thus, if Sainsbury wishes to enter this market, they must make sure to align with environmental regulations of China.

Table 1: PESTLE Analysis

(Source: Created by the learner)

Porter's Five forces

Bargain power of suppliers: Low to medium. Most suppliers are contracted directly with the company.

Bargain power of customers: High. Most retail buyers are price sensitive and try to negotiate for the best deals, especially resellers and individual consumers.

Competitive Rivalry: High - since there is a lot of competition between different types of retail (supermarkets vs. convenience stores vs. hypermarkets) and also in the different regions themselves as there are many regional chains that compete against each other for mark. There are a lot of competitors in the retail industries such as supermarkets, marts, department stores and online shops which offer a variety of goods.

Threat of substitutes: Medium to high. Retailers have to deal with competition from online sales and street vendors as both of these are becoming more popular in China due to lower costs.

Threat of new entrance: Low to medium, due to capital requirements of retailing which are high in China. Also, it is very difficult for a foreign retailer or franchise operator to get entry into the market due to government regulations on investments by foreign investors (especially in retail) and also because Chinese consumers prefer shopping in their own country rather than

shopping abroad.

Critical evaluation of opportunities and challenges that are present in China.

The opportunities that are present when doing business in China are vast. The country is home to over 1.3 billion people, and its economy is rapidly growing (Anglès, 2019). This provides a large market for businesses to sell their products and services. Additionally, China's infrastructure is improving, which makes it easier for businesses to operate there. The Chinese market is rife with opportunity but can be risky to enter if not executed correctly (Anglès, 2019). In order to do business effectively, businesses must get a cultural understanding of the country and its people. They must establish relationships in order to build trust and mutually beneficial relationships with the people there. On top of this, businesses need to understand how the government runs, as well as its role in China's commercial activity. All of this knowledge is key for successful business transactions in China. Sainsbury, a British company, has good opportunities to expand to China. While they have been in the nation for over 25 years, they are in need of new ideas. The government has recently passed a new law that will allow any company to do business with both local and foreign companies alike. This opens up huge possibilities for growth and expansion opportunities in the Chinese market. The key to success when doing business abroad is having a cultural awareness of the country. It is vital for businesses to understand what makes each country unique in order to take full advantage of its resources to grow its business. In order for Sainsbury's to be successful, it must understand that China's "people make the policy" is no longer true.

The challenges that are present when doing business in China are also significant. The country's legal system is not well developed, and enforcement of contracts can be difficult. Additionally, corruption is a significant problem in China (Anglès, 2019). Businesses need to be aware of these challenges and take steps to mitigate them. One way to do this is to develop a good relationship with the Chinese government. This can be done by hiring a local partner or by engaging in charitable work in China. Additionally, businesses need to be aware of cultural differences and take steps to ensure that they are respectful of these differences. Thus, this would affect the way they do business. Sainsbury could face several challenges when doing business in China. One of the biggest obstacles to overcome is that China does not have a uniform legal system (Anglès, 2019). As a result, it can be difficult to establish and enforce contracts. This could lead to problems for companies that need to enforce contracts against

Chinese partners or suppliers, because they may not have the same sense of obligation as they would in other countries. The major issue in doing business with China is overcoming cultural differences in the workplace and managing 'face'. Losing face, or losing respect, can be detrimental for businesses operating within China because employees will feel uncomfortable working under a leader who is not respected by his peers.

Different barriers experienced by foreign businesses in China

There are a number of barriers that foreign businesses face when doing business in China. One of the most significant barriers is the country's legal system. The system is not well developed, and enforcement of contracts can be difficult. Additionally, corruption is a significant problem in China (Ye *et al.*, 2018). Businesses need to be aware of these challenges and take steps to mitigate them. One way to do this is to develop a good relationship with the Chinese government. This can be done by hiring a local partner or by engaging in charitable work in China. Additionally, businesses need to be aware of cultural differences and take steps to ensure that they are respectful of these differences. Doing so will minimise the chance of negative interactions between the Chinese government and the general public. China's legal system is not well developed and does not adequately protect the rights of businesses or their foreign partners. Laws are frequently not clearly defined and are subject to change. Disputes can take years to resolve, and Chinese courts often favour local companies over those from other countries (Ye *et al.*, 2018). For instance, Contracts in China are often difficult to enforce, as they may be vague or contradictory. Furthermore, corruption is a growing problem in China and many local officials take bribes in exchange for providing business permits or other services. Businesses should try to mitigate these risks by first hiring a lawyer who specialises on China law before entering into any contract in the country. Second, businesses should carefully read the contract and make sure that it is clear and unambiguous. Third, businesses should be mindful of cultural differences and try to accommodate these differences (Mao and Mao, 2021).

China's legal system is based on socialist law. As a result, the system is not well developed, and there are significant gaps in the country's legal framework. Because China is changing so rapidly and its laws are changing with it, it presents unique challenges for foreign businesses operating in the country. China has gone from being one of the most difficult places in which to do business to one of the easiest (Tmfgroup, 2022). However, though China's economy continues to grow and mature, foreign businesses still face many legal obstacles despite these

changes. Courts in China are generally ill-equipped to handle disputes involving foreign companies because their enforcement powers are limited. Corruption is perceived as a significant problem by many international businesses doing business in China. Corruption has caused significant problems for multinationals doing business there, especially those that operate in manufacturing industries where close relationships between Chinese officials and companies are commonplace.

Strategies and other relevant recommendations to enable the company to succeed in the China

Sainsbury should focus on developing a strong online presence in the selected developing country. This will enable the company to reach a larger number of potential customers and generate more sales. Sainsbury's has a huge following on Facebook, Twitter and other social media websites. However, the company is yet to form an online presence in developing countries where many individuals are connected to the internet. This suggests that Sainsbury's is losing out on a large number of potential customers in individual markets where a significant population has access to internet connections (Wang *et al.*, 2018).

In order to tap into the growing demand for healthy and organic food products in China Sainsbury should consider expanding its range of such products. Currently, the number of supermarkets in the country is limited, with only around 500 stores compared to over 15,000 supermarkets in Western Europe and the USA. Sainsbury's needs to expand its store network in order to gain a greater market share and thus increase sales. Sainsbury's current strategy may be working well for it in the UK market, but its efforts are unlikely to maximise their profits when they try to expand across developing countries. The company needs to adopt a more global business strategy if it is to succeed in markets such as China.

Sainsbury should also focus on developing a strong customer loyalty program in the selected developing country. This will help the company to retain its existing customers and attract new ones. Sainsbury's is increasing its expenditure on marketing and advertising to support this. The campaign will help the company to tap into the growing number of middle-class consumers in China. This segment of the population is likely to grow rapidly for the foreseeable future (Wu *et al.*, 2019).

In order for Sainsbury's to compete in the market, it should consider offering more flexible working hours for its employees. Currently many companies in China are realising that a longer working day does not necessarily mean greater productivity as employees may be

becoming distracted and less focused as a result of exhaustion. As such there has been a growing trend in some companies to allow their employees to work shorter days and rest more at weekends, while still being able to complete their tasks (Wu *et al.*, 2019).

Conclusion

In summary, Sainsbury's should focus on developing a strong online presence in the selected developing country. This will enable the company to reach a larger number of potential customers and generate more sales. Sainsbury's has a huge following on Facebook, Twitter and other social media websites. However, the company is yet to form an online presence in developing countries where many individuals are connected to the internet. This suggests that Sainsbury's is losing out on a large number of potential customers in individual markets where a significant population has access to internet connections.

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