



# So What?

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A young entrepreneur named Sonny had a great idea for a new product. He wanted to create a fun, humorous study guide for the SAT—something that would keep students' attention. After spending a lot of time and money creating the study guide and publishing it on CDs, he was surprised to find his product was selling poorly. After doing some marketing, he realized that students interested in the product were more likely to download it than purchase it.

Sonny failed to scan the environment, but he failed to scan the environment to recognize issues and trends that would affect his business. He didn't realize that the customers in his target market value convenience and love the newest forms of technology. They wanted to purchase his product from the convenience of their homes and use it on their laptops, iPods, and phones. From now on, Sonny won't forget the importance of environmental scanning for business success.

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## Environmentally Conscious

You've heard it many times—businesses should be mindful of the environment. This means that organizations should avoid polluting, use recyclable materials, and conserve energy, right? Well, yes, but being mindful of the environment can have another important meaning as well. The term **environment** is often used to refer to the earth and its resources, but it also can simply refer to *surroundings*. Look at your surroundings. What environment are you currently in? A classroom? A library? Your bedroom? How does this environment affect your ability to concentrate on your work and perform successfully?



Businesses exist within environments just as individuals do. How a business responds to its surroundings is a critical factor for success. That's why it's so important for businesses to be "mindful of the environment." To do so, they undertake an important activity known as **environmental scanning**.

### Be on the lookout

Environmental scanning (sometimes called environmental monitoring or environmental analysis) is a three-step process in which businesses:

- 1) **gather information about their surroundings,**
- 2) **analyze that information, and**
- 3) **determine the future impact of that information.**

## Objectives

- A Explain the purpose of environmental scanning.
- B Demonstrate procedures for conducting an environmental scan.



**The economy.** The economy greatly affects businesses and the decisions they must make to satisfy customers and remain profitable. Economic factors that businesses should pay attention to during an environmental scan include:

- Stage of the business cycle (prosperity, recession, recovery, etc.)
- Interest rates
- Tax rates
- Inflation
- Unemployment rates
- Currency exchange rates
- Investor confidence
- Foreign economic conditions

During a recession, for instance, customers cut back on spending, especially for “unnecessary” purchases such as vacations or new cars. This drop in sales can significantly impact many different industries. But, if companies are paying attention to the environment, they can prepare sales and marketing strategies to help them weather such economic downturns.

**Competition.** A business should always be aware of what its competition is doing. Otherwise, how will it know what tactics to use to compete? An environmental scan may gather information on competition in a few different categories:

- Brand competition—competition between two similar products (Example: Nike basketball shoes vs. Adidas basketball shoes)
- Competition for substitute products—competition between two different products that satisfy the same need (Example: movie theaters vs. bowling alleys)
- General competition—competition among all businesses for scarce customer dollars

Businesses should keep tabs on all these types of competition and, in some cases, remember to check on foreign competition as well.



## The Gray Zone



Businesses can't control their external environments. That's why they conduct environmental scanning to gather information about their surroundings and use the strengths in their *internal* environments to meet opportunities and

Some businesses attempt to influence government. One way they might try to influence government for changes in their industries. They might donate to campaign funds for political candidates who are on “their side.” Although it might not be illegal, some people think it is unethical for businesses to involve themselves in government this way. What do you think?

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