

Economic external factors - Jessops



Jessops has been a leader in the photographic business for over 75 years. Today, the company is the UK's premier photographic retailer. The modern photographic industry has changed radically. As a result, traditional film printing in the UK is declining by around 30% year on year. To sustain and grow the business, they must develop ideas and plans to combat the changing market and stimulate new

demand. External factors have had an impact on Jessops' operations and **strategy**. Managers study the company's external environment through a PEST analysis. This involves identifying the political, economic, social and technological factors in the external environment that could impact on the business. This information is then used to assess the company's current position within the market. The findings of the PEST analysis can be used to reassess business strategy and **tactics** and decide what changes should be made to business operations to respond to external **environmental changes**. In this way, Jessops has been able to develop new business opportunities.

Economic factors - Changes in the wider economy impact on businesses. In 2008–09, the UK economy went into **recession**. This had a negative impact on the retail industry. During this period unemployment was rising. Even people in work felt the effects of the recession. Many employers were forced to cut wages or to keep pay rises very low. As a result, consumers had less **disposable income**. This means they are less likely to purchase luxury goods. This had a direct impact on Jessops as camera sales declined. This was just one of the factors that forced Jessops to restructure its operations. The company was required to obtain funds from the bank to finance this restructure. In business, the term margin relates to the amount of profit that a business makes on sales. During the recession, Jessops' sales margins on hardware were falling year on year. Fortunately, the margins on services such as photo and imaging remained stable. To improve the overall company margin, Jessops decided to focus its attention on making its imaging business the market leader.

	2008	2009
UK consumer spending	Falling	Falling
Jessops' margin on sales of photographic equipment	Falling	Falling
Jessops' margin on sales of photos and imaging	Constant	Constant

Another important economic influence on a business is the level of competition in its markets. In the photographic and imaging market Jessops is facing increased competition. Online competitors include Amazon and online photo printing companies. Jessops also faces competition from supermarkets. Although supermarkets do not have Jessops' reputation and expertise, they are able to offer low prices. Jessops response to this difficult economic and competitive environment is a multi-channel strategy. This involves offering customers more options in how they access Jessops' products and services. Customers can now order images and gifts in various ways. In addition to visiting the stores, customers can make purchases and orders online. The online service is supported by a responsive call centre and draws on Jessops' longstanding expertise in the industry. The company has also increased its product portfolio. This approach is leading the market, and it has enabled Jessops to obtain a competitive advantage.

Questions

1. What does PEST stand for?

2. What is meant by the 'external environment'?

3. Explain how the recession of 2008-2009 affected Jessops.

4. Using Jessops as an example, analyse how organisations are affected by competition.

Task

Not all businesses have suffered during the recession. In fact, some firms have even been able to benefit from the recession. Carry out some research then write a brief report which outlines the types of businesses that are likely to suffer during a recession and the types of businesses that may be able to exploit one. For example...shoe shops might suffer but shoe repairers may do better. In each case, explain why.

What have you learned?

Create a summary circle of your learning from today's session.