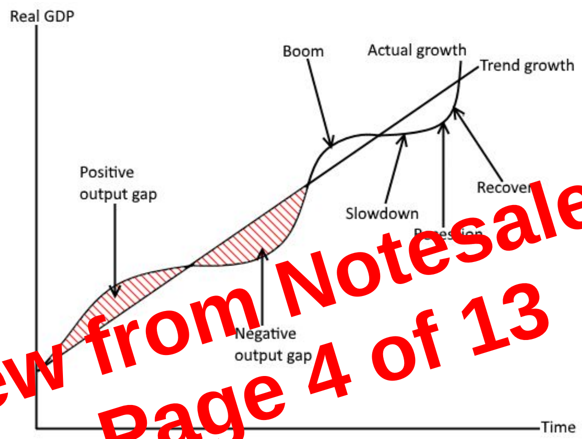
2. New technology can allow existing products to be made more **cheaply**, thereby widening their market through being able to charge lower prices.
3. Technological developments have allowed **new methods of distributing** goods and services
4. New opportunities for companies to **communicate** with their target customers are continuing to emerge, with many companies using **computer databases** to target potential customers and to maintain a dialogue with established customers (cf. Chatbots, AI in customer service).

3.4. The Economic Environment

Businesses need to keep an eye on indications of a nation's prosperity. There are many indicators of a nation's economic health, of which two of the most common are measures of **gross domestic product (GDP)** and household disposable income. Many of these indicators tend to follow **cyclical patterns** related to a general economic cycle of **expansion** followed by **contraction**. Throughout the **economic cycle**, the consumption of most goods and services tends to increase during the boom period and decline during recessionary periods.

➔ **Gross Domestic Product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a **comprehensive scorecard of the country's economic health**.



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Understanding the economic environment can become particularly difficult during periods of great turbulence. During **2008, a 'credit crunch'** led to the collapse of several banks and many commentators predicted that established economic patterns would change forever *(cf. 2008 study guide in ECN102)*.

4. The Micro-Environment (MIE)

The microenvironment of an organization can best be understood as comprising all those other organizations and individuals who directly or indirectly affect the activities of the organization. The microenvironment comprises actual people and organizations = **stakeholders ≠ shareholders**.

➔ A **stakeholder** is a party that has an **interest in a company and can either affect or be affected by the business.** The primary stakeholders in a typical corporation are its investors, employees, customers and suppliers. However, the modern theory of the idea goes beyond this original notion to include additional stakeholders such as a community, government or trade association.

➔ A **shareholder**, also referred to as a **stockholder**, is a person, company, or institution that owns at least one share of a company's stock, which is known as **equity**. Because shareholders are essentially owners in a company, they reap the benefits of a business' success. These rewards come in the form of increased stock valuations, or as financial profits distributed as dividends. Conversely, when a company loses money, the share price invariably drops, which can cause shareholders to lose money, or suffer declines in their portfolios' values.

Complexity theory is concerned with the behaviour over time of certain kinds of complex system. The systems of interest to complexity theory, under certain conditions, perform in regular, predictable ways; under other conditions they exhibit behaviour in which regularity and predictability is lost. Almost undetectable differences in initial conditions lead to gradually diverging system reactions until, eventually, the evolution of behaviour is quite dissimilar.

Chaos theory describes the dynamics of sensitive systems that are mathematically deterministic but nearly impossible to predict, due to their sensitivity to initial conditions. Many business environments may be considered as chaotic in that it can be very difficult to predict the sequence of events following an initial disturbance to equilibrium.

6.9. Business cycles

The **business cycle** describes the rise and fall in production output of goods and services in an economy. Business cycles are generally measured using the rise and fall in the real **gross domestic product (GDP)** or the **GDP adjusted for inflation**. The business cycle should not be confused with **market cycles,** which are measured using broad stock market indices. The business cycle is also different from the **debt cycle,** which refers to the rise and fall in household and government debt. The business cycle is also known as the **economic cycle or trade cycle**.

1. Expansion → This is the first stage. When the expansion occurs, there is an increase in employment, incomes, production, and sales. People generally pay their debts on time. The economy has a steady flow in the money supply and investment is booming.
2. Peak → The second stage is a peak when the economy hits a snag, having reached the maximum level of growth. Prices hit their highest level, and economic indicators stop growing. Many people start to restructure as the economy's growth starts to reverse.
3. Recession → These are periods of contraction. During a recession, unemployment rises, production slows down, sales start to drop because of a decline in demand, and incomes become stagnant or decline.
4. Depression → Economic growth continues to drop while unemployment rises and production plummets. Consumers and businesses find it hard to secure credit, trade is reduced, and bankruptcies start to increase. Consumer confidence and investment levels also drop.
5. Trough → This period marks the end of the depression, leading an economy into the next step: recovery.
6. Recovery → In this stage, the economy starts to turn around. Low prices spur an increase in demand, employment and production start to rise, and lenders start to open up their credit coffers. This stage marks the end of one business cycle.

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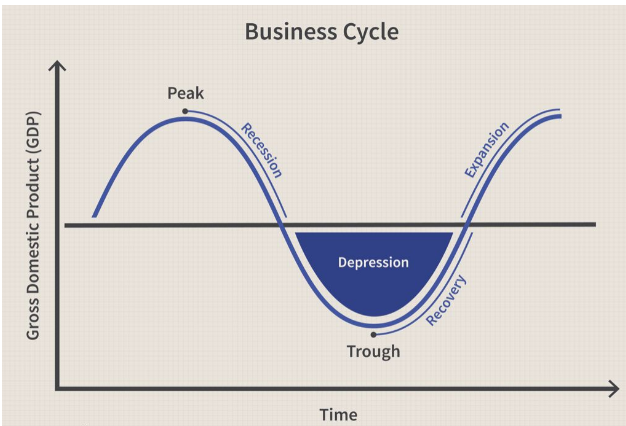

6.10. Risk & Uncertainty