# IB Business Management – Pre-Released Case Study Nov 2018

## As Fair As – Summary PEST Analysis



IB Business Management: www. BusinessManagementIB.com

### IB BUSINESS MANAGEMENT - PRE-RELEASED CASE STUDY NOV 2018: PEST ANALYSIS

#### Political:

- Business licencing. The government can revoke AFA's business licence to operate pop-up stalls.
- Business income tax. The government could increase the rate of corporation tax, reducing the profitability of AFA.
- Government regulations. New regulations could be introduced (e.g., new food safety standards or certificates of origin) that would increase compliance costs and reduce profitability at AFA.
- Developing country political considerations.
   AFA must follow the laws and regulations in the countries from where AFA buys the raw materials. Activism and increased political awareness in developing countries have made his essential.

#### **Economic:**

- Exchange rate volatility. A depreciating domestic currency would make it more expensive for AFA to purchase its retail goods from its fair-trader suppliers.
- Commodity price volatility (e.g., the price of coffee). Prices of commodities are relatively volatile. Thus, if the price of a fair-trade commodity such as coffee increased, AFA's profit margins would be squeezed, or the increased cost would need to be passed on to customers, reducing demand.
- The business cycle. If the economy enters into a recession then average incomes will decrease, and demand for AFA's products will also decrease.
- Wholesale prices. AFA's wholesalers have considerable negotiating power. If they begin to demand higher prices, AFA's profit margins may be squeezed.

### Social:

- Fair-trade movement. May diminish in importance in the minds of consumers, perhaps because other causes (e.g., global warming) become more important.
- Market demographics. AFA can offer cheaper products but it might have to sacrifice the quality. This is the main sociocultural challenge that the start-up faces. It will expand consumer base to include the buyers from the lower and the

### **Technological:**

- New transportation methods. Cleaner, greener transportation methods may be found. AFA sources its supplies from remote collectives in developing countries. At the moment its carbon footprint would be large.
- Technology in certification. Fair-trade supplies may be verified with more accuracy with new technologies (e.g., DNA analysis of coffee beans to confirm they are grown in specific locations).

# IB Business Management – Pre-Released Case Study Nov 2018

# As Fair As – Summary PEST Analysis

- middle-income tiers. The baby boomer generation is retiring. This means spending by older consumers will decrease. Now, AFA will have to tap the Gen X and the Millennials as customers.
- Changing work patterns. Experienced and effective managers may be less prepared to work the hours demanded in the retail industry (e.g., weekend and late nigh shopping).
- Corporate social responsibility. The CSR objectives of major retailers, such as supermarket chains, may reduce the differentiating factor of fair-trade as AFA's competitors become more and more ethical.
- Connectivity. AFA can introduce Wi-Fi capabilities in its outlets already. Internet is important to the consumers. They would be able to surf the web and do work while sipping AFA coffee. This is an added value to the brand. It enhances the overall consumer experience.
- POS payment technology. AFA may need to consider adapting its payment technology platforms to include mobile payments, Facebook and We Chat payments, smart watch payments, etc.

Source: <u>www.**Business**Management</u>**IB**.com