



Changes in External Factors

The small business person is not an island unto himself/herself. We have already covered how customers affect the small business. But there are other important players - like your competitors and the government.

Let's take a look at the competitors first. In order to attract more business, your competitors may lower their prices. When that happens you may have to make some changes in order to hold your customers. You might want to lower your prices and at the same time try to lower your costs so that your profit margins are maintained. Or you might want to keep your prices at the same level, but add some type of additional service which you know your customers would like. Knowing your customers, what they like/dislike, and their income level will be very valuable in making this type of decision. For example, if many of your customers are from higher income levels, lowering your prices may not be as beneficial as providing another type of service with the items that they purchase.

The government, be it local, state, or national, affects the small business person both directly and indirectly. One of the direct ways government affects the small business is through additional taxes and regulations. Increasing taxes or increasing the requirements to do business decreases profits unless prices are increased and/or costs are decreased. The small business person must be alert to that.

Government also affects businesses indirectly. Suppose that the fare for a bus goes up by twenty-five percent. If you are in the delivery business you will probably see a rise in the number of people who want to use your service because some people may not want to pay the extra fare. Of course, the opposite could happen if the bus fare decreases.