



Short Case 1: The Informal Economy

- Macro-environment & Industry Analysis

Topics



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- Formal vs Informal Economy
- Implications for Firms & Economies
- Competition Analysis
- Opportunities & Threats
- Strategic Takeaways

The Formal Economy



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- Registered and regulated firms
- Pay taxes and comply with labour laws
- Higher operating costs
- Predictable competitive environment

The Informal Economy



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- Unregistered and untaxed activities
- Flexible and low-cost operations
- Limited labour protection
- Significant share of employment

From a **PESTEL** perspective, the informal economy emerges particularly where:

- Economic systems fail to generate sufficient jobs
- Legal and administrative systems are inefficient
- Social norms tolerate informality

Why the Informal Economy Exists



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- High unemployment
- Weak institutions
- Social acceptance
- Limited formal job creation

Implications for Formal Firms



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- Cost disadvantage
- Price undercutting
- Increased rivalry
- Strategic uncertainty

Implications for National Economies



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- **Positive:**
 - . Employment absorption
 - . Low-cost goods

- **Negative:**
 - . Lost tax revenue
 - . Low productivity

Informal Firms as Competitors



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- Compete for same customers
- Affect pricing and demand
- Must be included in Five Forces

Industry Structure Effects



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- Higher rivalry
- Lower entry barriers
- Reduced profitability

Opportunities for Formal Firms



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- Learn customer needs
- Low-cost innovation
- Recruit informal talent
- Expand markets

Threats for Formal Firms



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- Persistent price pressure
- Margin erosion
- Strategic drift (where formal firms fail to adapt to changing competitive realities)

Strategic Takeaways



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- Informality is a strategic reality
- Must be analysed in PESTEL & industry analysis
- Adaptation is essential