

# 2

## CHAPTER

# STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

*"The secret of success in battle lies often not so much in the use of one's own strength but in the exploitation of the other side's weaknesses"*  
-Jhon Christopher

## CHAPTER OUTLINE

### Topic-1

*Strategic Analysis*

### Topic-2

*Issues to be Considered  
for Strategic Analysis*

### Topic-3

*PESTLE Analysis*

### Topic-4

*Internationalization of  
Business*

### Topic-5

*International Business*

### Topic-6

*Understanding Product  
and Industry*

### Topic-7

*Product Life Cycle*

### Topic-8

*The Value Chain  
Analysis*

### Topic-9

*Porter's Five Forces  
Model*

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*Attractiveness of  
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*Value Creation*

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*Market and Customer*

### Topic-14

*Competitive Strategy*

### Topic-15

*Key Factors for  
Competitive Success*

































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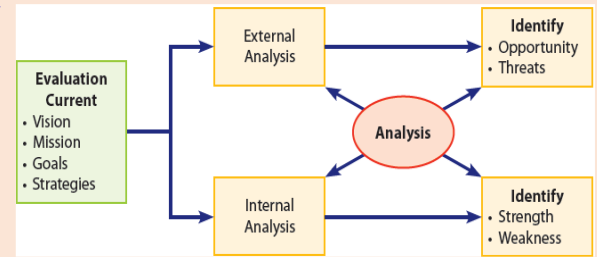
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### Strategic Analysis

- ✓ Strategic analysis seeks to determine alternative course of action that could best enable the firm - to achieve its mission and objectives.
- ✓ Strategic analysis tries to find out:
- ✓ How effective has the present strategy been?
- ✓ How effective will that strategy be in the future?
- ✓ How effective will the selected alternative strategy be in the future?



### Issues to be Considered for Strategic Analysis



Time	Balance	Risk
<p>Strategy evolves over a period of time (Result of a series of small Decisions)</p> <ul style="list-style-type: none"> <li>✓ Strategy is the result of a series of small decisions taken over an extended period of time.</li> </ul> 	<p>(Balance between the internal and external factors)</p> <p>Balance Between</p> <p>Resources, Capabilities, Competencies, Strengths and Weaknesses.</p> <p>And</p> <p>Events, Trends, Influences, Constraints and Opportunities.</p> 	<p>Strategic Risk (Analyzing risk involved and consequences thereon)</p> <ul style="list-style-type: none"> <li>✓ Competitive markets, liberalization, globalization, booms, recessions, technological advancements, inter-country relationships, etc. affect businesses and pose risk at varying degrees.</li> <li>✓ An important aspect of strategic analysis is to identify potential imbalances or risks and assess their consequences.</li> </ul>

Time

Short-term

Long-term

Strategic Risks

External

Internal

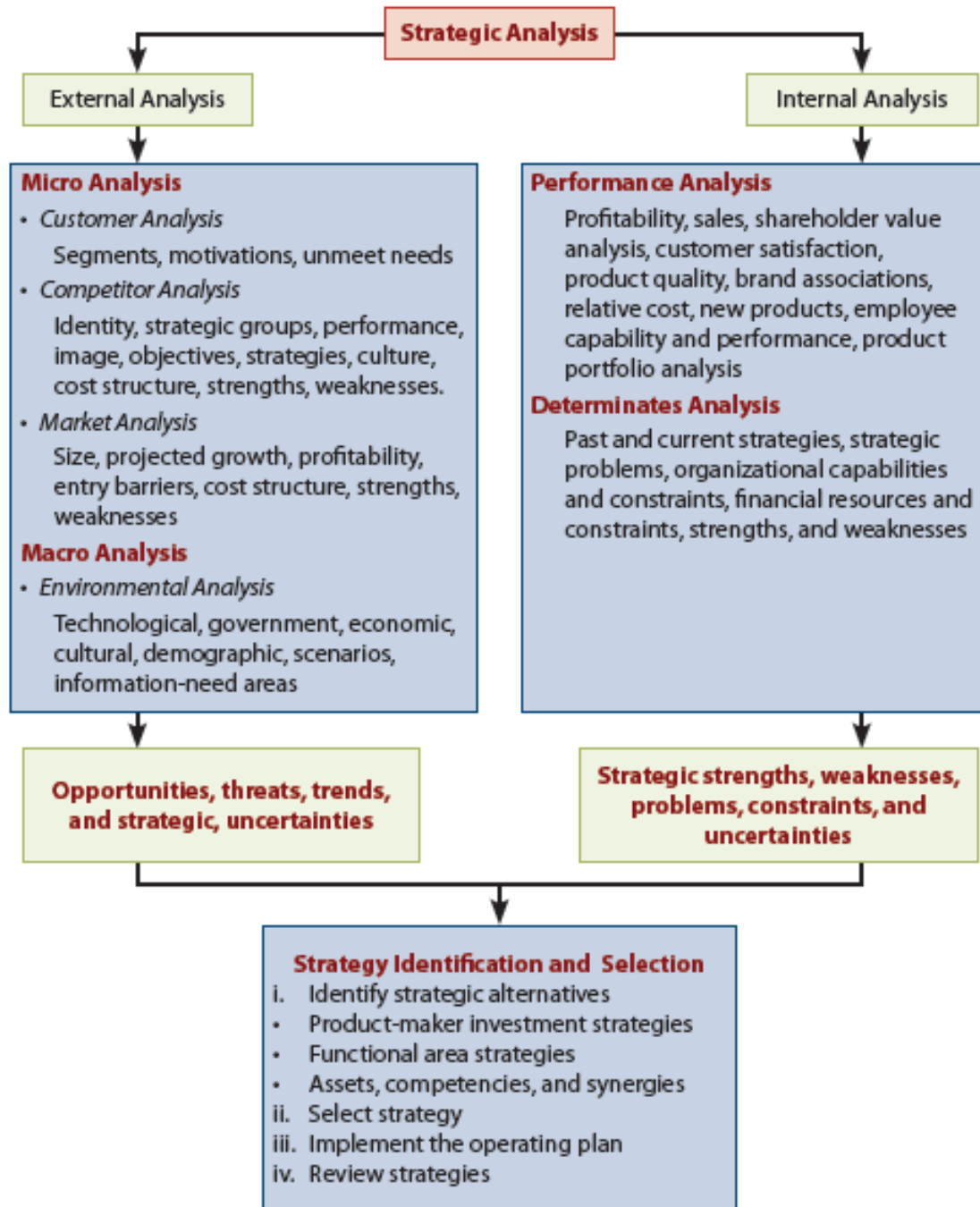
Errors in interpreting the environment cause strategic failure	Changes in the environment lead to obsolescence of strategy
Organizational capacity is unable to cope up with strategic demands	Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences





### Framework of Strategic Analysis

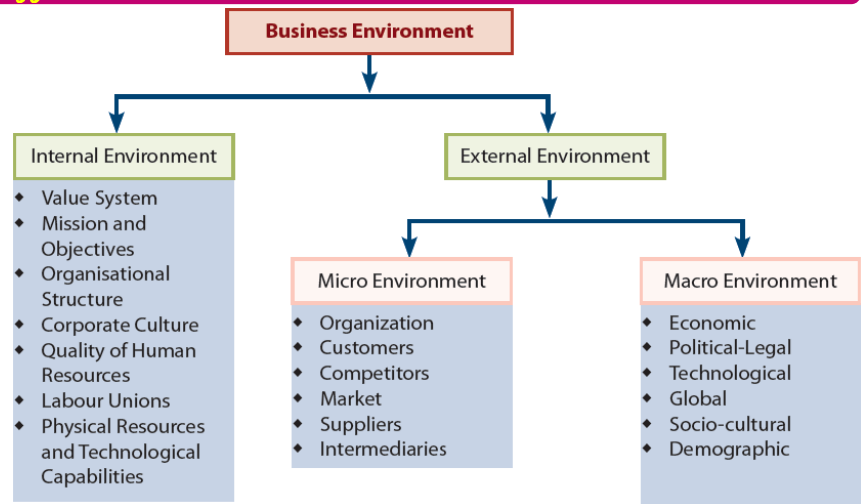
- ✓ Industries differ widely in their economic characteristics, competitive situations, and future profit prospects.
- ✓ The economic character of industries also varies.
- ✓ Competitive forces can be moderate in one industry and fierce, even cutthroat, in another.
- ✓ Industry and competitive conditions differ so much that leading companies in unattractive industries can find it hard to earn respectable profits, while even weak companies in attractive industries can achieve good performance.



## Strategy and Business Environment

### Interaction between a Business and its Environment

- ✓ *Image Building.*
- ✓ *Give Direction for growth.*
- ✓ *Continuous Learning.*
- ✓ *Determine Opportunities and threats.*
- ✓ *Meeting Competition.*



## PESTLE Analysis

### Political

- ⊕ Political stability
- ⊕ Political principles and ideologies
- ⊕ Current and future taxation policy
- ⊕ Regulatory bodies and processes
- ⊕ Government policies
- ⊕ Government term and change
- ⊕ Thrust areas of political leaders

### Social

- ⊕ Lifestyle trends
- ⊕ Demographics
- ⊕ Consumer attitudes and opinions
- ⊕ Brand, company, technology image
- ⊕ Consumer buying patterns
- ⊕ Ethnic/religious factors
- ⊕ Media views and perception

### Legal

- ⊕ Business and Corporate Laws
- ⊕ Employment Law
- ⊕ Competition Law
- ⊕ Health & Safety Law
- ⊕ International Treaty and Law
- ⊕ Regional Legislation

### Economic

- ⊕ Economy situation & trends
- ⊕ Market and trade cycles
- ⊕ Specific industry factors
- ⊕ Customer/end-user drivers
- ⊕ Interest and exchange rates
- ⊕ Inflation and unemployment
- ⊕ Strength of consumer spending

### Technological

- ⊕ Replacement technology/solutions
- ⊕ Maturity of technology
- ⊕ Manufacturing maturity and capacity
- ⊕ Innovation potential
- ⊕ Technology access, licensing, patents
- ⊕ Intellectual property rights and copyrights

### Environmental

- ⊕ Ecological/environmental issues
- ⊕ Environmental hazards
- ⊕ Environmental legislation
- ⊕ Energy consumption
- ⊕ Waste disposal



## Internationalization of Business

### Characteristics of a Global Company

- ✓ *Common Ownership*
- ✓ *Common Pool of Resources*
- ✓ *Common Strategy*

### Steps in International Strategic Planning

- ✓ *Evaluate global opportunities and threats and rate them with internal capabilities.*
- ✓ *Describe the scope of the firm's global commercial operations.*
- ✓ *Create the firm's global business objectives.*
- ✓ *Develop distinct corporate strategies for the global business and whole organization.*

### Reasons why Companies go Global

- ✓ *The need to grow.*
- ✓ *Rapid shrinking of time and distance across the globe.*
- ✓ *Domestic markets are no longer adequate.*
- ✓ *Need for reliable or cheaper source of raw-materials, cheap labour, etc.*
- ✓ *Reduce high transportation costs.*
- ✓ *Generate higher sales and better cash flow.*
- ✓ *The rise of services.*
- ✓ *Collapse of international trade barriers.*
- ✓ *Strategic alliances.*



## International Environment

Assessments of the international environment can be done at three levels:

### A. Multinational Environmental Analysis

- ✓ *Identifying, anticipating, and monitoring significant components of the global environment.*
- ✓ *Understanding global developments covering economic and other macro elements is important.*
- ✓ *Governments may have free or interventionist tendencies in economies that needs to be carefully considered.*

### B. Regional Environmental Analysis

- ✓ *In-depth evaluation of the critical factors in a specific geographical area.*
- ✓ *The emphasis would be on discovering market opportunities for goods, services, or innovations in the chosen location.*

### C. Country environmental analysis

- ✓ *Country environmental analysis must take a deeper look at the important environmental factors.*
- ✓ *Study of economic, legal, political, and cultural dimensions is required for planning to be successful.*
- ✓ *The analysis must be customized for each of the countries to develop effective market entrance strategies.*

## Understanding Product and Industry

### Characteristics of Business Products

- ✓ *Products are either tangible or intangible.*
- ✓ *Product has a price.*
- ✓ *Products have certain features.*
- ✓ *A product is pivotal for business.*
- ✓ *A product has a useful life.*

### Advantage of PIC Approach

- ✓ *Diagnoses a portfolio of products.*
- ✓ *Attention is to be paid to declining businesses.*
- ✓ *Appropriate strategic choices can be made.*
- ✓ *Mature businesses used as sources of cash for investment.*
- ✓ *Combination of strategies.*
- ✓ *Balanced portfolio of businesses.*

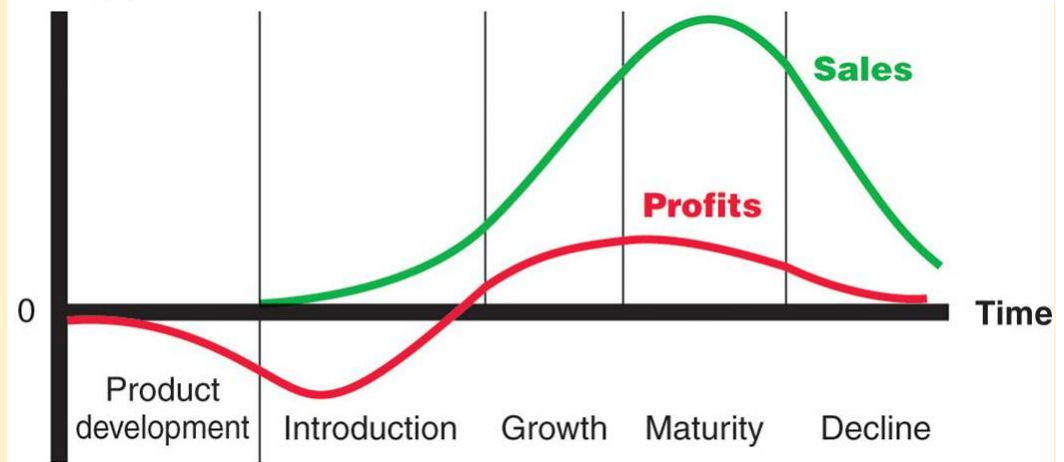




### PIC - Product Life Cycle

**Sales and Profits**

**Losses and Investments**



- A. **Introduction stage:** It is with *slow sales growth*, in which *competition* is almost *negligible*, *prices* are relatively *high*, and *markets* are *limited*. The growth in sales is at a lower rate because of a lack of awareness on the part of customers.
- B. **Growth stage:** It is with *rapid market acceptance*. In this stage, the *demand* expands rapidly, *prices* fall, *competition* increases, and the market expands. The customer has knowledge about the product and shows interest in purchasing it.
- C. **Maturity stage:** It is where there is *slowdown in growth rate*. In this stage, the *competition* gets tough, and the market gets stabilized. Profit comes down because of stiff competition. At this stage, organizations must work to maintain stability.
- D. **Decline stage:** It is with *sharp downward drift in sales*. The sales and profits fall sharply due to some new products replacing the existing product. So, a combination of strategies can be implemented to stay in the market either by *diversification* or *retrenchment*.

### Value Chain Analysis

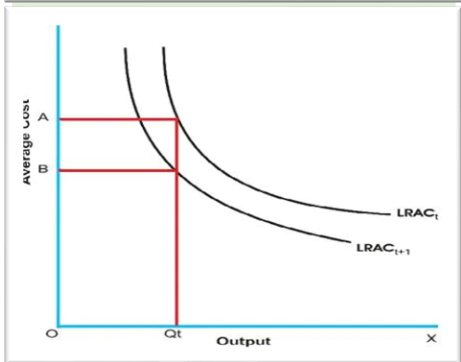
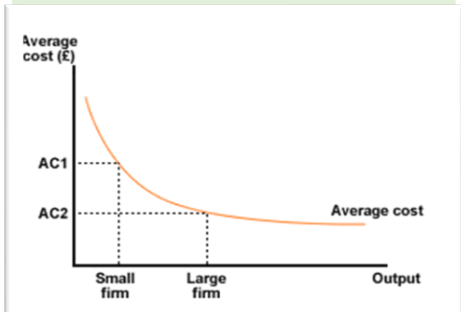




### Experience Curve

#### Economies of Scale (EOS)

- ✓ Adam Smith - 1776
- ✓ Theory of Mass Production



#### Learning Curve (LC)

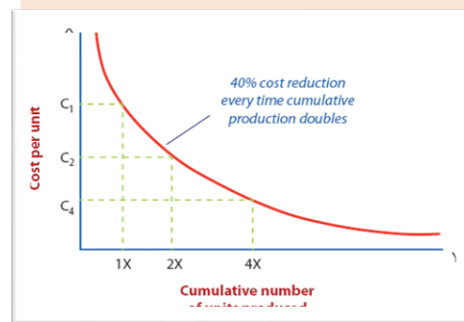
- ✓ Hermann Ebbinghaus - 1985
- ✓ German Psychologist

The more times a task has been performed, the less time is required on each subsequent iteration.



#### Experience Curve (EC)

- ✓ Experience curve shows the relationship between production cost and cumulative production quantity.
- ✓ Unit costs decline as a firm accumulates experience in terms of a cumulative volume of production.
- ✓ BCG - 25% Reduction
- ✓ Concorde - Upto 40% Reduction

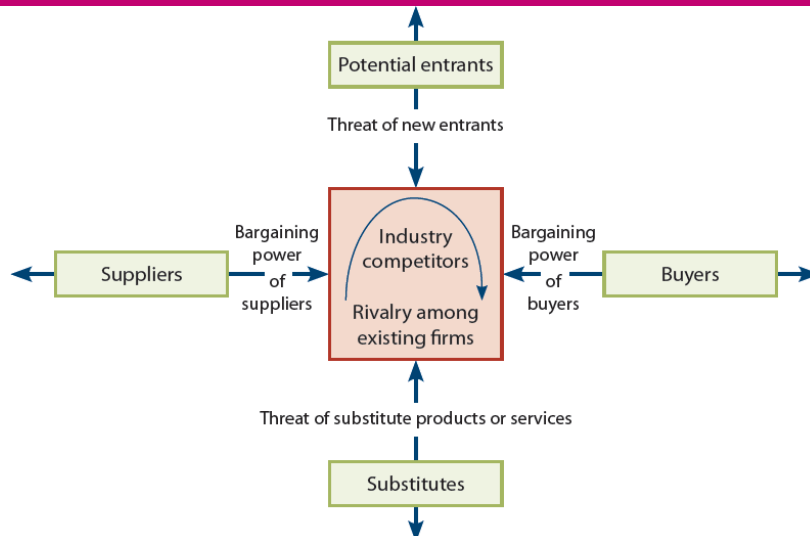


### Implications of Experience Curve

- ✓ Significant cost advantage.
- ✓ Business with the highest market share likely to have the best experience.
- ✓ Experience is a key barrier to entry.
- ✓ External growth might be the best way to do this if a business can acquire firms with strong experience.



### Michael Porter's Five Forces Model







# Michael Porter's 5 Forces Model

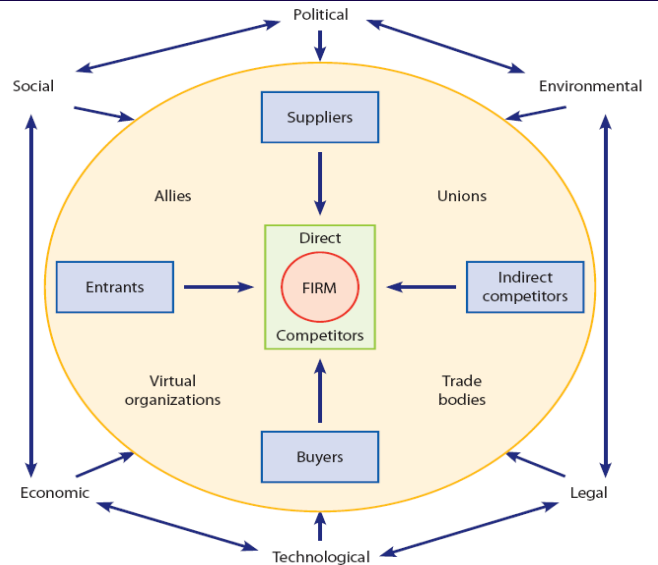
## Competitive Environment

The competitive environment is the dynamic system in which the business competes.

### Competitive Environmental Variables-

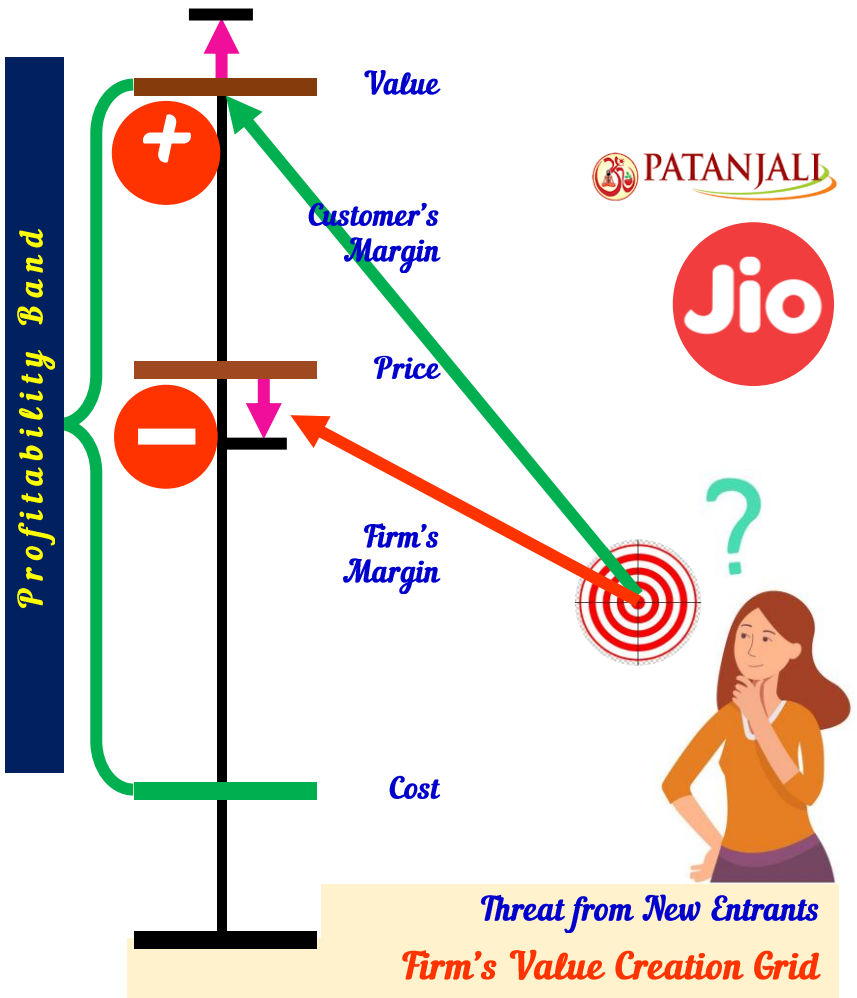
- ✓ New Entrants
- ✓ Suppliers
- ✓ Buyers
- ✓ Direct Competitors
- ✓ Indirect Competitors/Potential substitutes
  
- ✓ Competition within an industry is determined by its own particular structure.
- ✓ Industry structure refers to the interrelationship among five different forces that drive the behavior of the firms competing in that industry.

## Overall



## Factors of Threat from New Entrants

- ✓ Capital Requirements
- ✓ Economies of Scale, EC and IC
- ✓ Product Differentiation
- ✓ Brand Identity
- ✓ Switching Costs
- ✓ Distribution Channels
- ✓ Aggressive Retaliation

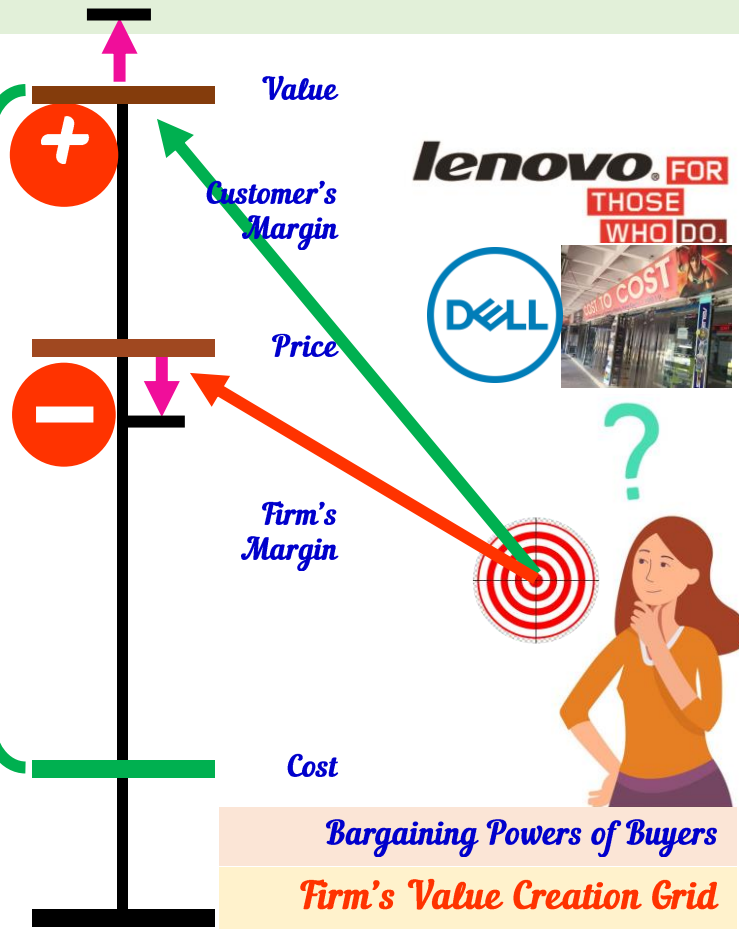


**Bargaining Power of the Buyers**

- ✓ Buyer's Knowledge
- ✓ Purchase Size
- ✓ Product Function
- ✓ Buyer's Concentration
- ✓ Product Differentiation
- ✓ Vertical Integration
- ✓ Switching Cost



Profitability Band



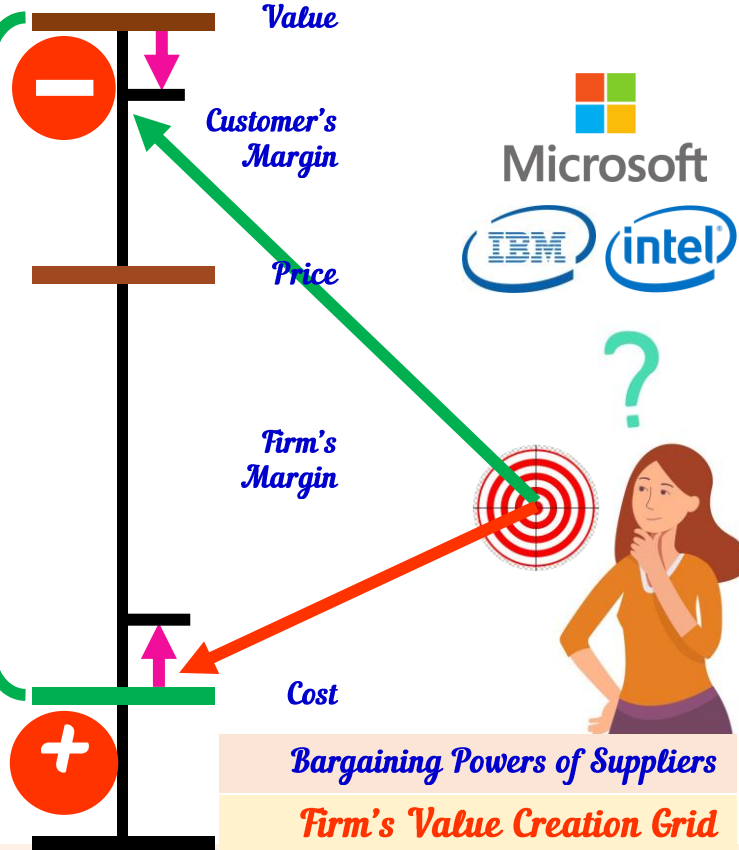
*Bargaining Powers of Buyers*  
*Firm's Value Creation Grid*

**Bargaining Power of the Suppliers**

- ✓ Purchase Size
- ✓ Product Function
- ✓ Supplier's Concentration
- ✓ Product Differentiation
- ✓ Vertical Integration
- ✓ Switching Cost



Profitability Band

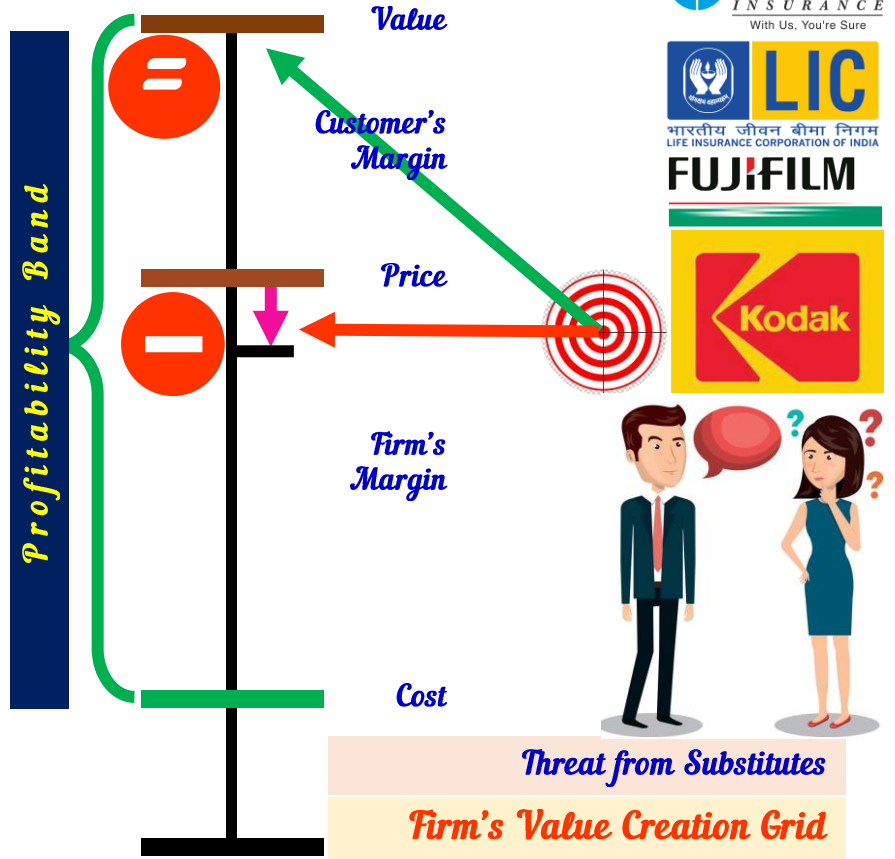


*Bargaining Powers of Suppliers*  
*Firm's Value Creation Grid*



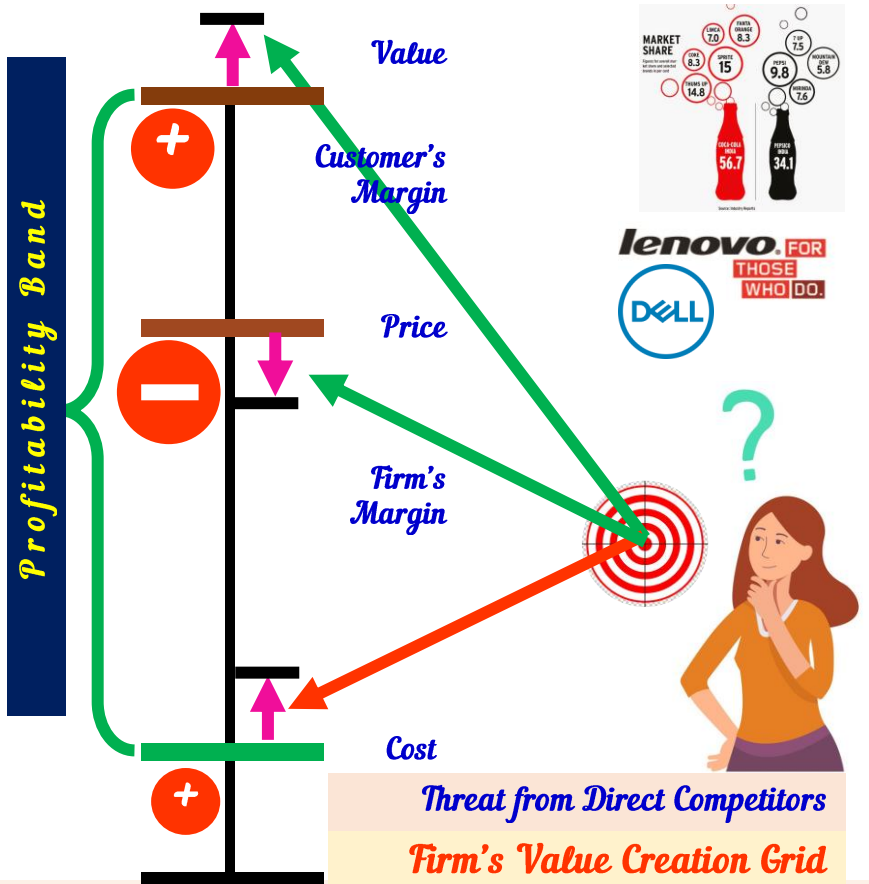
**Threat from Substitution/Indirect Comp.**

- ✓ Real estate, insurance, bonds and bank deposits for example are clear substitutes for common stocks, because they represent alternate ways to invest funds.
- ✓ Digital cell phones currently pose this kind of threat to landline telecommunications firms.



**Threat from Direct Competitors**

- ✓ Industry Leader
- ✓ Number of Competitors
- ✓ Type of Competition
- ✓ Entry Barrier and Exit Barrier
- ✓ Fixed Cost
- ✓ Product Differentiation
- ✓ Industry Growth Rate





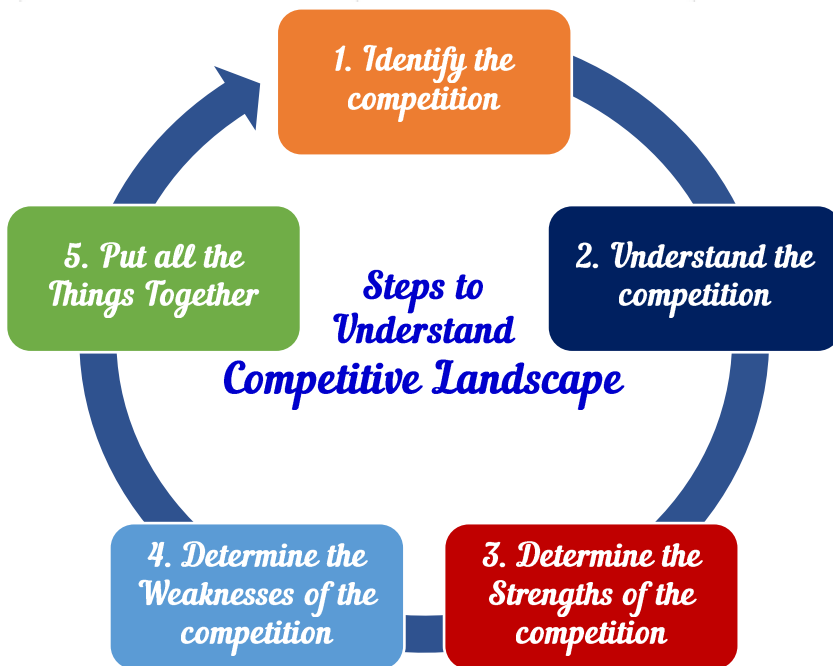
## Competitive Landscape



- ✓ Competitive landscape is a **business analysis** which identifies competitors, either direct or indirect.
- ✓ It's about **identifying and understanding** the competitors
- ✓ It permits the comprehension of their **vision, mission, core values, niche market, strengths and weaknesses**.
- ✓ Understanding of competitive landscape requires an application of "**competitive intelligence**".

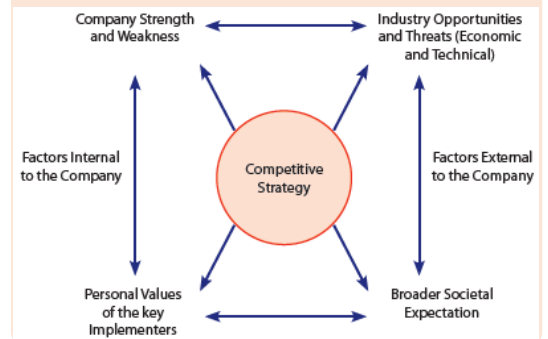
**Example:** Hyundai is a competitive company inside the Automobiles (car) market because they have achieved constant success every year. This company is based on the development of new strategies that helps Hyundai to differentiate from the competitors like Honda, Toyota, Suzuki, Ford, GM, etc.

	Competitor 01	Competitor 02	Competitor 03
Feature 01	✓		
Feature 02			✓
Feature 03	✓		
Feature 04		✓	



### What is Competitive Strategy?

- ✓ Competitive strategy is designed to help firms achieve **Competitive Advantage**.
- ✓ A competitive strategy consists of moves to:
  - Attract customers
  - Face Competition
  - Beat Competition
  - Strengthen an organization's market position



### Om Trivedi's Strategy for V

- ✓ **CL and CS** is considered as **VVH** topic among question setters.
- ✓ You must read and practice all the study-material and "**Mentor Question Bank**".



### Attractiveness of Industry

#### Important Factors of Attractiveness of Industry

- ✓ Growth potential.
- ✓ Adequate profitability.
- ✓ Competitive forces.
- ✓ Strategic drivers.
- ✓ Potential to capitalize on the vulnerabilities of competitors.
- ✓ Degrees of risk and uncertainty.
- ✓ Severity of problems confronting the industry.

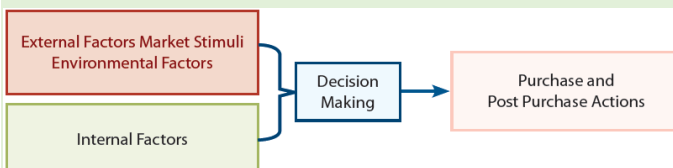
#### Attractiveness Vs. Unattractiveness

- ✓ Overall profit prospects are above average, the industry can be considered attractive & *Vice Versa*.
- ✓ Potential entrants make it interesting.
- ✓ Unattractive to weak competitors & *Vice Versa*.
- ✓ If the industry and competitive situation is judged relatively unattractive, more successful industry participants may choose to invest cautiously.
- ✓ Strong companies may consider diversification into more attractive businesses.

### Market and Customer

#### Important Factors of Attractiveness of Industry

- ✓ Marketing
- ✓ Product Marketing
- ✓ Customer
- ✓ Customer Analysis
- ✓ Customer Behaviour



#### Factors influencing Consumer behaviour

##### External Influences

- Advertisement, peer recommendations or social norms

##### Internal Influences

- Psychological factors

##### Decision Making (Stages)

- Problem recognition, search for desirable alternatives and list them, Seeking information on available alternatives & Make a final choice.

##### Post-decision Processes

- Evaluating the outcome & level of satisfaction.



### Key Factors for Competitive Success

**Key Success Factors (KSFs)** are those things that most affect industry members' ability to prosper in the marketplace -

- the particular *strategy elements*,
- *product attributes*,
- *resources, competencies, competitive capabilities*, and
- *business outcomes that spell the difference between profit and loss and, ultimately, between competitive success or failure.*

**The answers to three questions help identify an industry's key success factors:**

- i. On what basis do customers choose between the competing brands of sellers?
- ii. What resources and competitive capabilities does a seller need to have to be competitively successful?
- iii. What does it take for sellers to achieve a sustainable competitive advantage?

#### Notes:

1. Key success factors vary from industry to industry and even from time to time within the same industry as driving forces and competitive conditions change.
2. Determining the industry's key success factors, given prevailing and anticipated industry and competitive conditions, is a top-priority analytical consideration.





**Question of the Day!**

**SBQ 1:** Suresh Singhania is the owner of an Agri-based private company in Sangrur, Punjab. His unit is producing puree, ketchups, and sauces. While its products have a significant market share in the northern part of the country, the sales have been on decline in last couple of years. He seeks help from a management expert who advises him to first understand the competitive landscape.

*Explain the steps to be followed by Suresh Singhania to understand competitive landscape.*

**SBQ 4:** Baby Turtle is a children's clothing brand that has created a new age demand for washable diapers. The major benefit for the brand has been that not many companies have shown interest in the product, thinking it is not viable, however, customers, majorly working mothers are loving their product. The core material needed for production is also used in many other waterproofing products in various industries. Baby Turtle sources this material from a renowned supplier at comparatively low prices.

*Which of the five forces of competitive pressure would Baby Turtle experience due to above setup and what are major factors that create such pressure for a product?*

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