

Strategic Analysis



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STRATEGIC MANAGEMENT

Outline of the lecture



1. Environmental Scanning
 2. External Environment: Macroenvironment
 3. External Environment: Task (Market) Environment
 4. Industry
 5. Market
 6. Internal Environment
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Introduction



- Before an organization can begin strategy formulation, it must scan the external environment to identify possible opportunities and threats and its internal environment for strengths and weaknesses.
 - Environmental scanning is the monitoring, evaluation, and dissemination of information from the external and internal environments to key people within the corporation.
 - A corporation uses this tool to avoid strategic surprise and to ensure its long-term health.
 - Research has found a positive relationship between environmental scanning and profits.
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Environmental Scanning

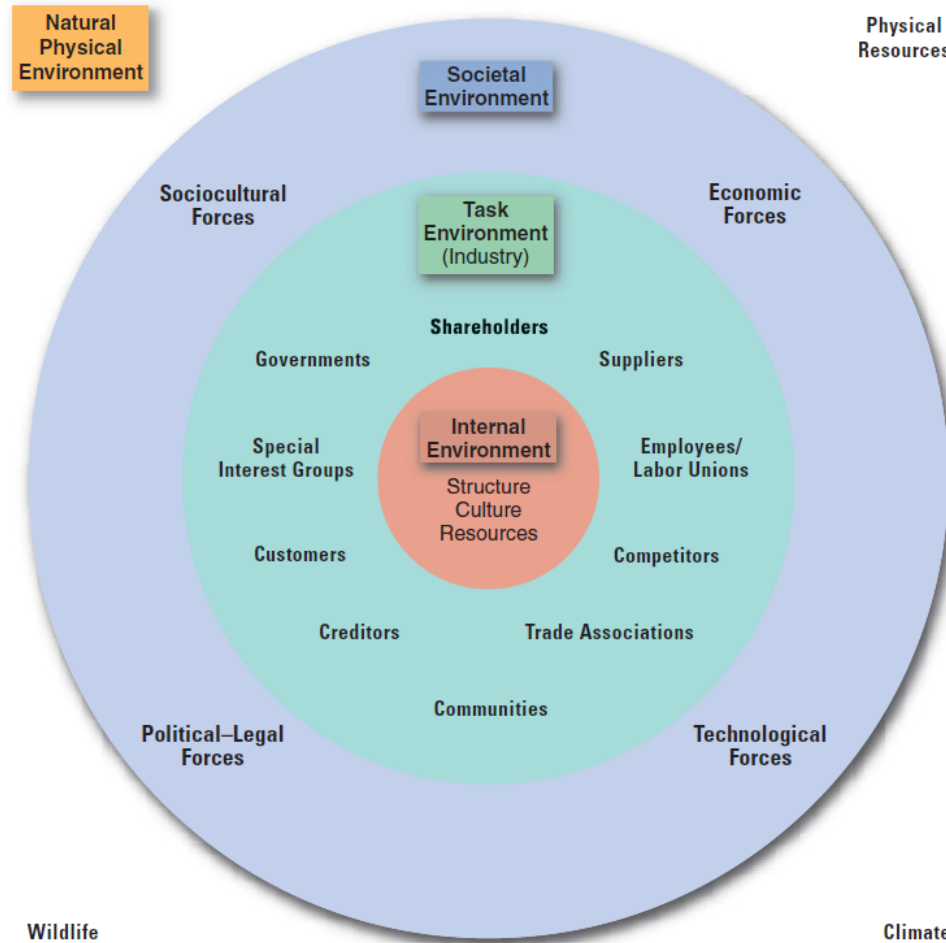


- Environmental scanning involves monitoring, collecting, and evaluating information in order to understand the current trends in the natural, societal, and task environments.
 - The information is then used to forecast whether these trends will continue or whether others will take their place.
 - *How will developments in the natural environment affect the world?*
 - *What kind of developments can we expect in the societal environment to affect our industry?*
 - *What will an industry look like in 10 to 20 years?*
 - *Who will be the key competitors?*
 - *Who is likely to fall by the wayside?*
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Environmental Scanning



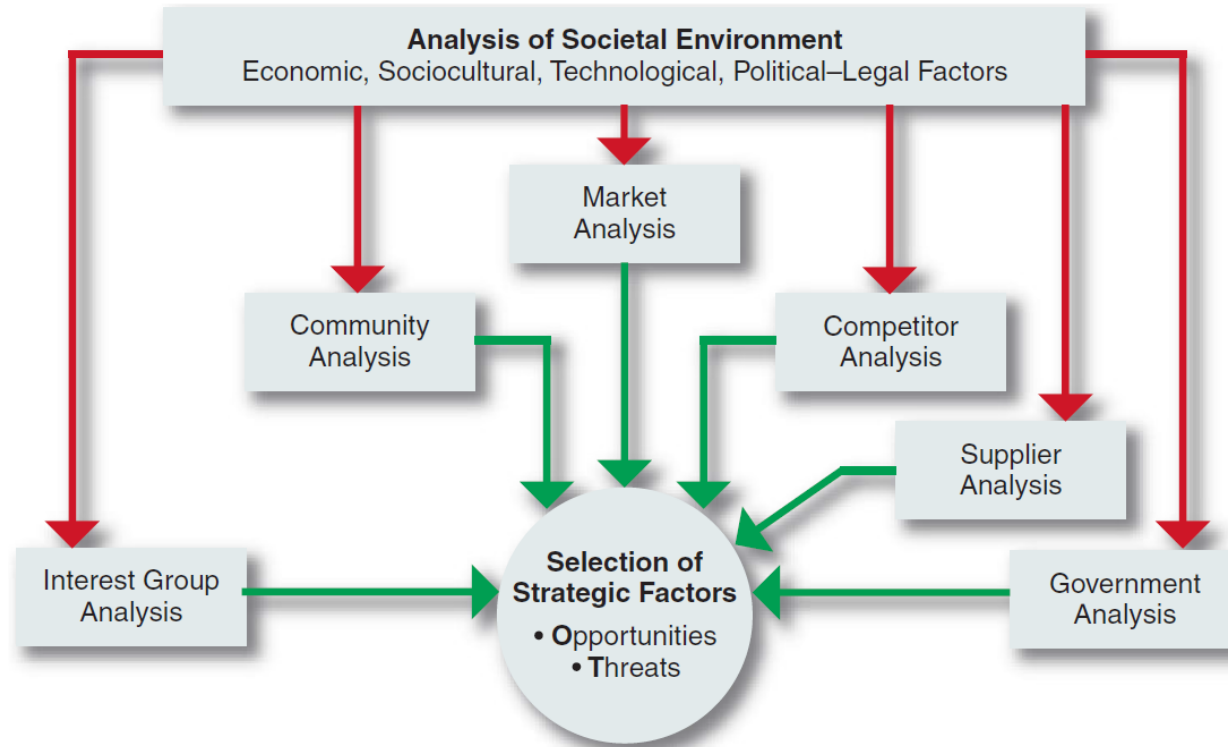
Company s environment – general forces and trends within the natural or societal environments or specific factors that affect company.



Environmental Scanning



- Environmental scanning is the *monitoring, evaluating, and disseminating of information from the external and internal environments* to key people within the corporation.
- A corporation's scanning of the environment includes analyses of all the relevant elements in the task environment.



External Environment



- In undertaking environmental scanning, strategic managers must first be aware of the many variables within a corporation's **natural, societal, and task environments**.
 - The natural environment includes **physical resources, wildlife, and climate** that are an inherent part of existence on Earth. These factors form an *ecological system of interrelated life*.
 - The societal environment is mankind's social system that includes general forces that do not directly touch on the short-run activities of the organization that can, and often do, influence its **long-run decisions**.
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External Environment: Macroenvironment



- **Macroenvironment** consists of large-scale fundamental forces that shape opportunities and pose threats to the organization. These forces are largely uncontrollable but must be monitored for purposes of both short- and long-term planning.
 - Macroenvironment concerns events and systems that operate on a large scale and form a backdrop to day-to-day business decisions. The macro environment also contains issues and events which are beyond the capacity of individual organizations to influence or control.
 - The macro environment is affecting all organizations in the economy/industry and over which no individual organization has much (if any) influence or control.
 - These forces affect companies and are as follows:
 - **Economic forces** that regulate the exchange of materials, money, energy, and information.
 - **Technological forces** that generate problem-solving inventions.
 - **Political–legal forces** that allocate power and provide constraining and protecting laws and regulations.
 - **Sociocultural forces** that regulate the values, mores, and customs of society.
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External Environmental Variables: Macroenvironment



Some important variables in the environment

Economic	Technological	Political–Legal	Sociocultural
GDP trends	Total government spending for R&D	Antitrust regulations	Lifestyle changes
Interest rates	Total industry spending for R&D	Environmental protection laws	Career expectations
Money supply	Focus of technological efforts	Global warming legislation	Consumer activism
Inflation rates	Patent protection	Immigration laws	Rate of family formation
Unemployment levels	New products	Tax laws	Growth rate of population
Wage/price controls	New developments in technology transfer from lab to marketplace	Special incentives	Age distribution of population
Devaluation/revaluation	Productivity improvements through automation	Foreign trade regulations	Regional shifts in population
Energy alternatives	Internet availability	Attitudes toward foreign companies	Life expectancies
Energy availability and cost	Telecommunication infrastructure	Laws on hiring and promotion	Birthrates
Disposable and discretionary income	Computer hacking activity	Stability of government	Pension plans
Currency markets		Outsourcing regulation	Health care
Global financial system		Foreign “sweat shops”	Level of education
			Living wage
			Unionization

External Environmental Variables: Macroenvironment



Some important variables in the international environment

Economic	Technological	Political–Legal	Sociocultural
Economic development	Regulations on technology transfer	Form of government	Customs, norms, values
Per capita income	Energy availability/cost	Political ideology	Language
Climate	Natural resource availability	Tax laws	Demographics
GDP trends	Transportation network	Stability of government	Life expectancies
Monetary and fiscal policies	Skill level of workforce	Government attitude toward foreign companies	Social institutions
Unemployment levels	Patent-trademark protection	Regulations on foreign ownership of assets	Status symbols
Currency convertibility	Internet availability	Strength of opposition groups	Lifestyle
Wage levels	Telecommunication infrastructure	Trade regulations	Religious beliefs
Nature of competition	Computer hacking technology	Protectionist sentiment	Attitudes toward foreigners
Membership in regional economic associations, e.g., EU, NAFTA, ASEAN	New energy sources	Foreign policies	Literacy level
Membership in World Trade Organization (WTO)		Terrorist activity	Human rights
Outsourcing capability		Legal system	Environmentalism
Global financial system		Global warming laws	“Sweat shops”
		Immigration laws	Pension plans
			Health care
			Slavery

External Environment: Task (Market) Environment



- The task environment includes those elements or groups that directly affect a corporation and, in turn, are affected by it.
 - These are governments, local communities, suppliers, competitors, customers, creditors, employees/labor unions, special-interest groups, and trade associations.
 - A corporation's task environment is typically the environment within which the firm operates.
 - **Industry**
 - **Market**
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- An *industry* is a **group of firms that produces a similar product or service**, such as soft drinks or financial services. An examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation's task environment is a part of industry analysis.
 - Dozens of industry classifications exist, and these are typically grouped into larger categories known as sectors.
 - Organizations operating in the same industry can also be compared to each other to evaluate the relative attractiveness of a organization within that industry.
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Typology of industries

- *Industries according to dependence on the economic cycle:*
 - Cyclical industry;
 - Anti-cyclical industry;
 - Neutral industry.
 - *Industries according to the intensity of production factors:*
 - Labor intensive;
 - Capitally intensive;
 - Investment intensive.
 - *Industries according to the number of available competitive advantages:*
 - Volumetric;
 - At an impasse;
 - Fragmented;
 - Specialized.
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- Dozens of industry classifications exist, and these are typically grouped into larger categories known as sectors. A sector is a group of closely related industries.
 - Economic sectors:
 - **Primary sector** – agriculture, mining and other natural resource industries;
 - **Secondary sector** – covering manufacturing, engineering and construction;
 - **Tertiary sector** – service industries;
 - **Quarternary sector** – intellectual activities involving education and research;
 - **Quinary sector** – high level decision makers in government and industry.
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- According to Porter, world industries vary on a continuum from **multidomestic to global.**





Multidomestic industries are specific to each country or group of countries. This type of international industry is a collection of essentially domestic industries, such as retailing and insurance.

- The activities in a subsidiary of a multinational corporation (MNC) in this type of industry are essentially independent of the activities of the MNC's subsidiaries in other countries.
 - Within each country, it has a manufacturing facility to produce goods for sale within that country.
 - The MNC is thus able to tailor its products or services to the very specific needs of consumers in a particular country or group of countries having similar societal environments.
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Global industries, in contrast, *operate worldwide*, with MNCs making only small adjustments for country-specific circumstances.

- In a global industry an MNC's activities in one country are significantly affected by its activities in other countries.
 - MNCs in global industries produce products or services in various locations throughout the world and sell them, making only minor adjustments for specific country requirements.
 - Examples of global industries are commercial aircraft, television sets, semiconductors, copiers, automobiles, watches, and tires.
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- **The factors that tend to determine** whether an industry will be primarily multidomestic or primarily global are:
 1. Pressure for **coordination within the MNCs** operating in that industry.
 2. Pressure for **local responsiveness** on the part of individual country markets.
 - Between these two extremes lie a number of industries with varying characteristics of both multidomestic and global industries. These are **regional industries**, in which MNCs primarily coordinate their activities within regions, such as the Americas or Asia.
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Market



Market consists of individuals and organizations which are interested and willing to buy a particular product to obtain benefits that will satisfy a specific need or want and who have the resources to engage in such a transaction.

- In the market we can find these *market subjects*: buyers, organizational buyers, competition, publics
 - Market is usually measured by dollar (euro) sales and/or unit sales for a defined product-market and specified time period. For measurement of market we can use these three measures:
 - *Market potential* is an estimate of the maximum possible sales of a product, a group of products or a service for an entire industry during a specified time period.
 - *Market size* (market capacity) is total sales of product, a group of product or a service of the defined industry during a specified time period.
 - *Market share* is defined as the sales of product, a group of product or a service of the particular company in the defined industry during a specified time period.
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Market

- *Market segments* are distinct groups of customers within a market that can be differentiated from each other on the basis of their distinct attributes and specific demands.
- Each segment contains people who are relatively homogenous in their needs, wants and the product benefits they seek. Also, each segment seeks a different set of benefits from the same product category.
- The aim of segmentation is to identify groups within a heterogeneous market who share distinctive needs, preferences and behaviors.



Internal Environment

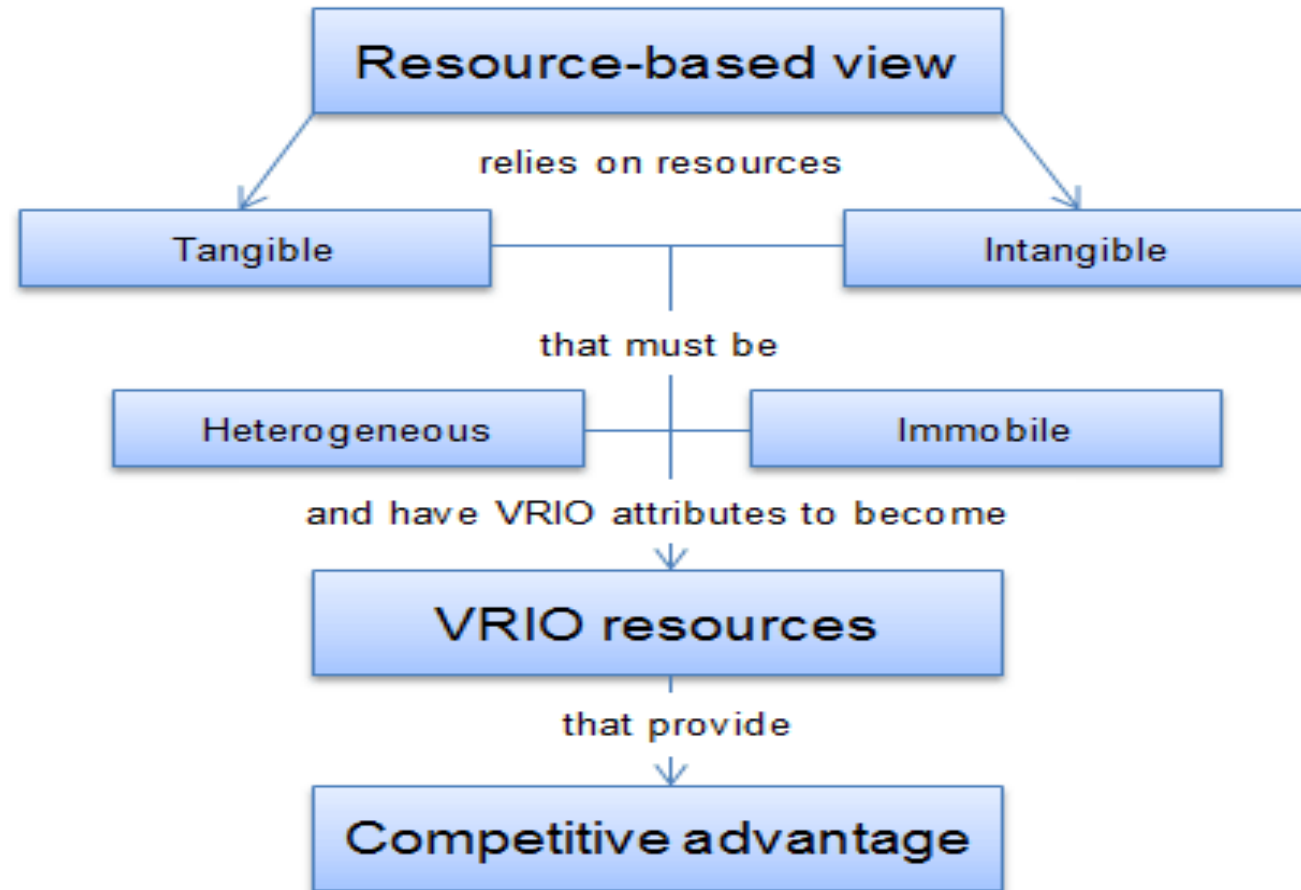


- Internal business environment refers to the environment within the organization.
 - Internal business environment (internal environmental factors) is within the control of organization. The environment is related to the core competencies and competitive advantages of organization.
 - The internal environment, associated with the employees of the organization, defines the relation between the organization as a social system and the organizational members with their individual attributes. The internal business environment is composed of strategic factors and organizational factors.
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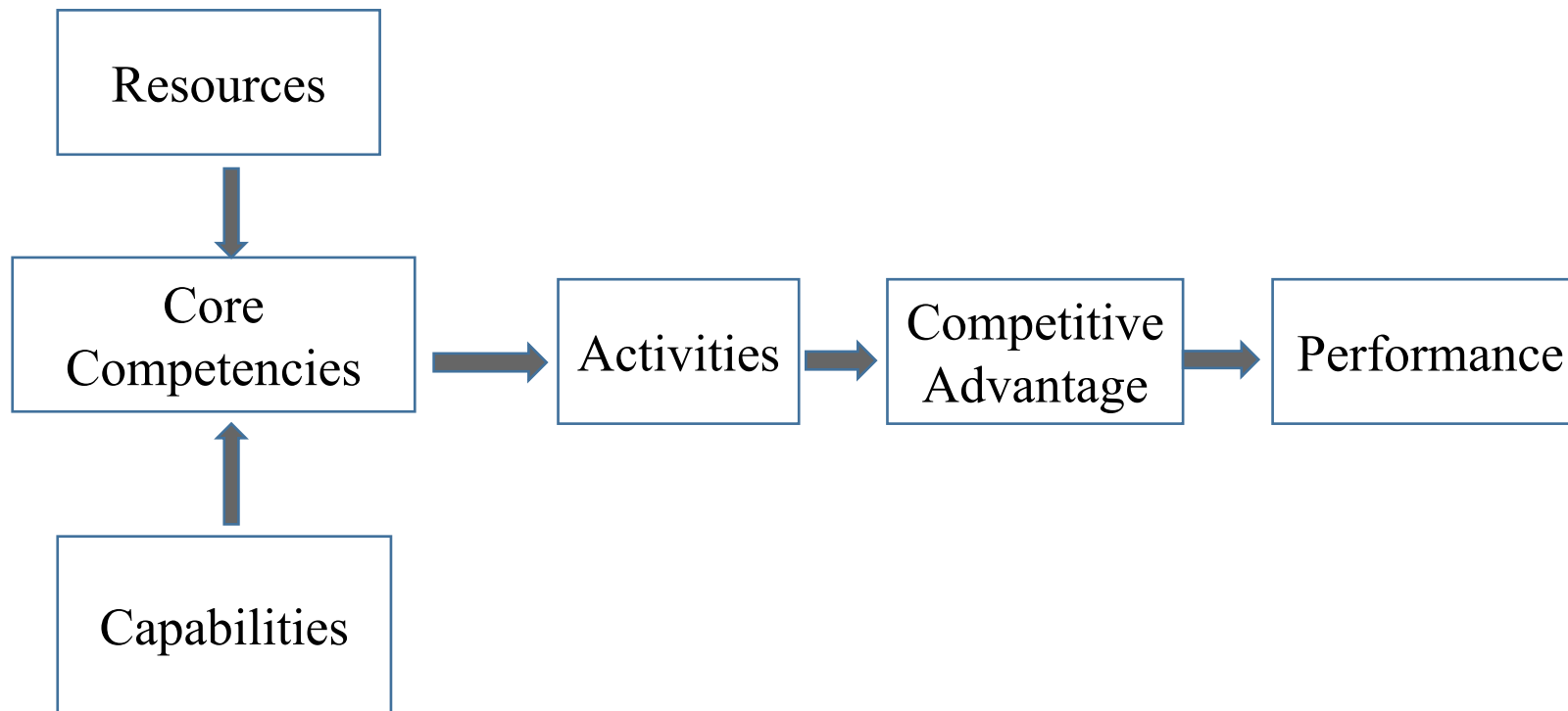
Internal Environment: Resources and Capabilities



- Resources are an organization's assets and are thus the basic building blocks of the organization.
 - They include **tangible assets**, such as its *plant, equipment, finances, and location*, *human assets, in terms of the number of employees, their skills, and motivation*, and **intangible assets**, such as its *technology (patents and copyrights), culture, and reputation*.
 - **Capabilities** refer to a corporation's ability to exploit its resources.
 - A capability is functionally based and is resident in a particular function. Thus, there are marketing capabilities, manufacturing capabilities, and human resource management capabilities. When these capabilities are constantly being changed and reconfigured to make them more adaptive to an uncertain environment, they are called **dynamic capabilities**.
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Resources and Capabilities



Prostor pro doplňující informace, poznámky

Internal Environment: Core Competencies and Competitive Advantage



- **Core competencies** are those assets that are valuable for improving business, are difficult for competitors to imitate and can be extended as a value-creating capability for use in other product or geographic markets.
 - Core competencies are usually classified into one of three basic groups:
 - Superior technological know-how;
 - Reliable innovative processes;
 - Close relationships with external parties.
 - **Competitive advantage** is an advantage that a organization has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition.
 - Competitive advantage is a sustainable advantage. The advantage is sustainable for long term.
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Internal Environment: Resources and Capabilities



Examples of core competencies

Company	Core competencies	Application examples
Amazon.com	Superior IT capabilities	Online retailing: largest selection of items online
Apple	Superior marketing and retailing experience Superior industrial design in integration of hardware and software	Creation of innovative and category-defining mobile devices and software services
Coca-Cola	Superior marketing and distribution	Leveraging one of the world's most recognized brands Global availability of products
Honda	Superior engineering of small but powerful and highly reliable internal combustion engines	Motorcycles, cars, sporting boats, snowmobiles, small aircraft

Internal Environmental Factors



- Internal environmental factors are events that occur within an organization.
 - We distinguish between two groups of internal environmental factors:
 - ***Strategic factors***
 - Strategy;
 - Organizational structure;
 - Competitiveness.
 - ***Organizational factors***
 - Managerial team;
 - Organizational resources;
 - Business culture.
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