Strategic Analysis

External Analysis

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SCHOOL OF BUSINESS ADMINISTRATION IN KARVINA

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STRATEGIC MANAGEMENT

Introduction

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- 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.

Strategic Management in Organization

- **Strategic management** is implemented at the top management level, has a significantly complex scope covering all the activities of the company and is the basis for all corporate plans and projects. Strategic management is implemented through the creation and implementation of individual strategies.

- **Tactical management** has the task of determining and managing the procedures and means leading to the most effective implementation of the enterprise's strategy. Tactical management takes place at the middle management level, where strategic objectives and means are specified, and includes a narrower range of activities. Planning is an essential part of tactical management and results in a business plan.

- **Operational management** represents the last, lowest link in the hierarchy of corporate management. It is very specific and detailed management over short time horizons, in quarters, months, decades, days and hours. The instruments are operational in-house plans and in-house management tools.

- To be successful in the long-run, companies must not only be able to execute current activities to satisfy an existing market, but they must also adapt those activities to satisfy new and changing markets.

- Strategic management is a set of ***managerial decisions and actions that determines the longrun performance of a corporation***. It includes environmental scanning (both external and internal), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control.

- The study of strategic management, therefore, emphasizes the monitoring and evaluating of external opportunities and threats in light of a corporation's strengths and weaknesses.

- Strategic management is a broader term that includes not only the stages already identified but also the earlier steps of determining the mission and objectives of an organization within the context of its external environment.

Strategic Management Concept

- Strategic management is a set of activities aimed at shaping the long-term objectives of the company.
- Strategic management is an integral part of the overall management of an enterprise.
- The objective of strategic management is to gain competitive advantage.
- It indicates the direction of the development of the enterprise and defines the main strategic directions of the enterprise.
- It enables the company to orient itself in the competitive environment.
- Strategic management has basic characteristics: long term, high risk, dynamic and creative approach
- The implementers of strategic management are the managers (top management or CEO) who
  - decide on the necessary activities of the enterprise;
  - create the conditions for the smooth running of these activities.

Strategic Management and Strategic Decision-Making

- Strategic decision-making is the process of finding such options in the future that will ensure the success of the company on the market, strengthen its competitiveness, and ensure its suitable position among producers.
- Decision-making is a typical managerial activity, which represents a dynamic conscious process of choosing one of the possible alternatives that, in the opinion of the decision-maker, allows the effective achievement of the goal.
- The decision-making process is always influenced by the personality of the decision maker, his personal characteristics, interests, knowledge and the influence of external conditions, especially time.
- The decision-making process always results in a decision that is the product of the individual's thought process or the recommendations of his/her colleagues and advisors.

Deciding between Strategic and Operational Decision-Making

Basic characteristics of strategic decision-making

- Long-term, future-oriented, high degree of risk and uncertainty, organization-wide, prioritizing, flexible, creative, relates the organization to the environment, always learning something new

Basic characteristics of operational decision-making

- Reactive, isolated, short-term, cautious, non-prioritizing, inflexible, predictable, satisfaction with the status quo

Process of Strategic Decision-Making

1. Precise formulation of the problem to be solved.
2. Determine the time appropriate for a decision (immediately, later, leave without a decision and await developments).
3. Gather all the necessary and available information and verify its veracity and telling power.
4. Examine the possible options and consider selecting one option from the given set.
5. Select the optimal option in the opinion of the decision maker.
6. Implement the chosen decision.
7. Verify the correctness of the decision based on the results of its implementation.

Characteristics of Strategic Decision-Making

- It is primarily the activity of the top management or owners of the business.
- It primarily takes into account the influences of the external environment in the form of opportunities and threats.
- It is oriented towards the more distant future, so that impacts are not immediately apparent.
- It has an impact on the organisational set-up of the enterprise.
- It influences the long-term perspective and existence of the enterprise.
- The results of decision-making are original.
- It affects much greater values than operational management.

Nature of Strategic Decision-Making

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- The **unique nature of the decisions**, which are often irreversible given the high costs, when they are proven to be ineffective once implemented.
- Strategic decision-making must take into account both **economic efficiency** and potential social impacts, so that it is necessary to ensure that we move towards the creation of effective socio-economic systems within the company.
- Given the **multi-criteria nature** of strategic problems, it is necessary to address the conflict of criteria and to seek an appropriate compromise even when activities are contradictory and have different weights of importance.
- Respect for the **existence of non-quantifiable factors** that can be described and ranked according to intensity but cannot be expressed in terms of value.
- **Imperfect information** in solving strategic problems is a concomitant phenomenon of the strategic decision-making process, and therefore some risk of success or failure must be taken into account.
- **Lack of information and longer time horizons** for meeting objectives mean that strategic decisions often take on the character of open systems and must be addressed as such.
- **The role of the human actor in decision-making** is irreplaceable, as he brings his individual characteristics, subjective criteria, motivation, his own opinions and personal characteristics to the decision-making process.

Strategic Mindset (Thinking)

- Strategic thinking represents a complex of cognitive and purposeful thinking activities of the top management of the company, aimed at achieving the set strategic goals of the company.
- Proper and well-implemented strategic thinking is one of the basic prerequisites for successful strategic management, which aims to create an optimal corporate strategy. It is therefore essentially a way of thinking that corresponds to the nature and specific features of strategic processes.
- Strategic thinking is characterised, on the one hand, by an intense analytical effort to make the best use of all available true information, which gives us a picture of both the enabling and constraining factors. At the same time, however, it is necessary to think prospectively and look at the enterprise and business activities on the basis of the foreseeable future.

Principles of Strategic Mindset (Thinking)

- The principles of strategic thinking represent a set of characteristic principles of strategic thinking that cannot be understood in isolation, as only their application as a whole brings the expected results.

- The principle of thinking in variations,
- the principle of permanence of the strategic process,
- the principle of interdisciplinary thinking
- the principle of creative thinking,
- the principle of synthesis of intuitive and exact thinking,
- the principle of thinking in time,
- the principle of applying feedback thinking,
- the principle of risk awareness,
- the principle of concentration,
- the principle of ethics.

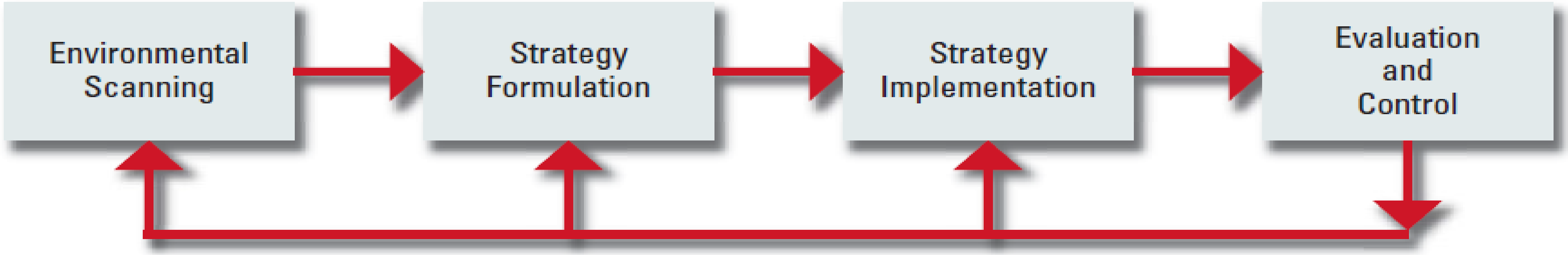
Stakeholders (Interest Groups) in Strategic Management

- The process of strategic management involves different people or groups of people who have different stakes and interests in the nature of the strategy developed, we speak of so-called interest groups.
- The term interest group refers to anyone (natural or legal persons) whose activities can affect the enterprise or who is affected by the enterprise's activities.
- The relative strength of interest groups in an enterprise is determined by a number of factors, including control over information or resources, irreplaceability in the corporate organism, functional position in the enterprise and the ability to exploit it, and control over contingencies (ability to cope with unexpected problems).
- In every enterprise, there are other interest groups outside the strategy maker, but their totality may not be complete and it is useful for each enterprise to broaden or narrow it.
- **Interest groups**: top management of the company, middle management, outsourced, business owners, employees, unions, creditors, customers, suppliers, competitors, local community, the general public, state (government)

Strategic Management Process

Strategic management consists of four basic elements:

- Environmental scanning (Strategic analysis)
- Strategy formulation
- Strategy implementation
- Evaluation and control



SOURCE: T. L. Wheelen, "Strategic Management Model," adapted from "Concepts of Management," presented to Society for Advancement of Management (SAM)

Environmental Scanning (Strategic Analysis)

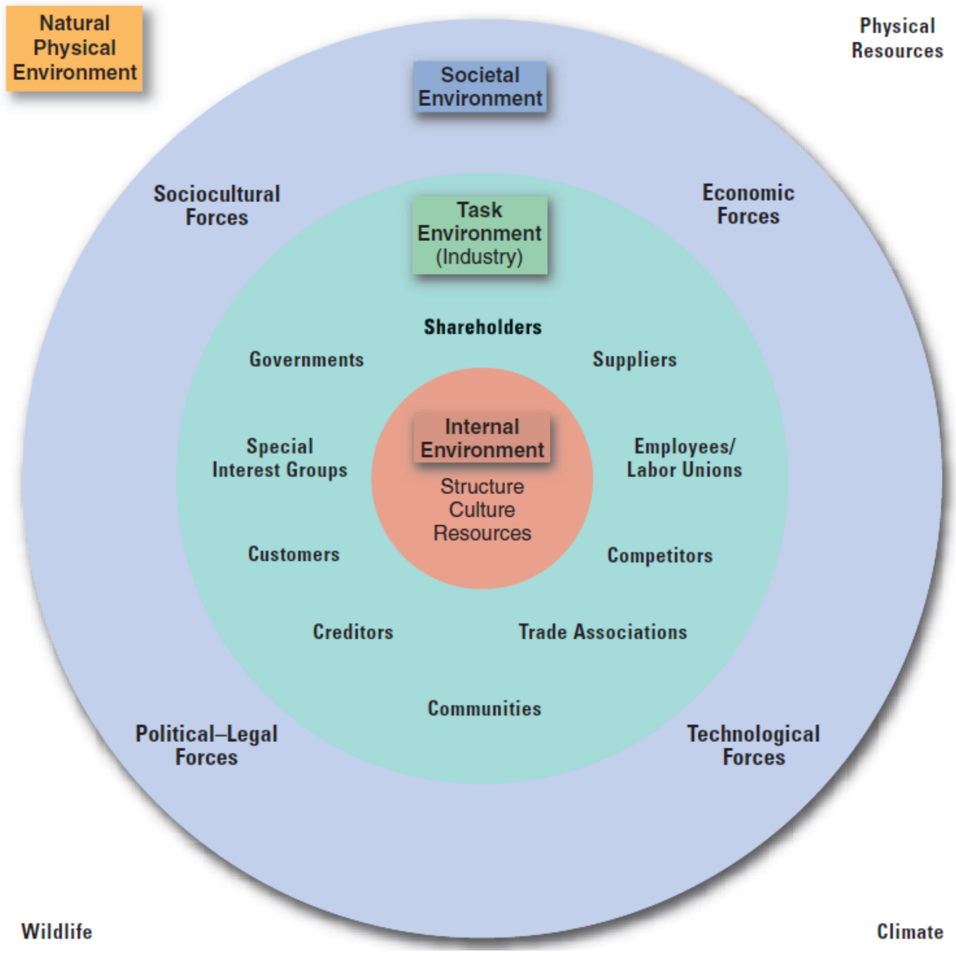
- Environmental scanning involves monitoring, collecting, and evaluating information in order to understand the current trends in the natural, societal, and task environments.

- 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?*

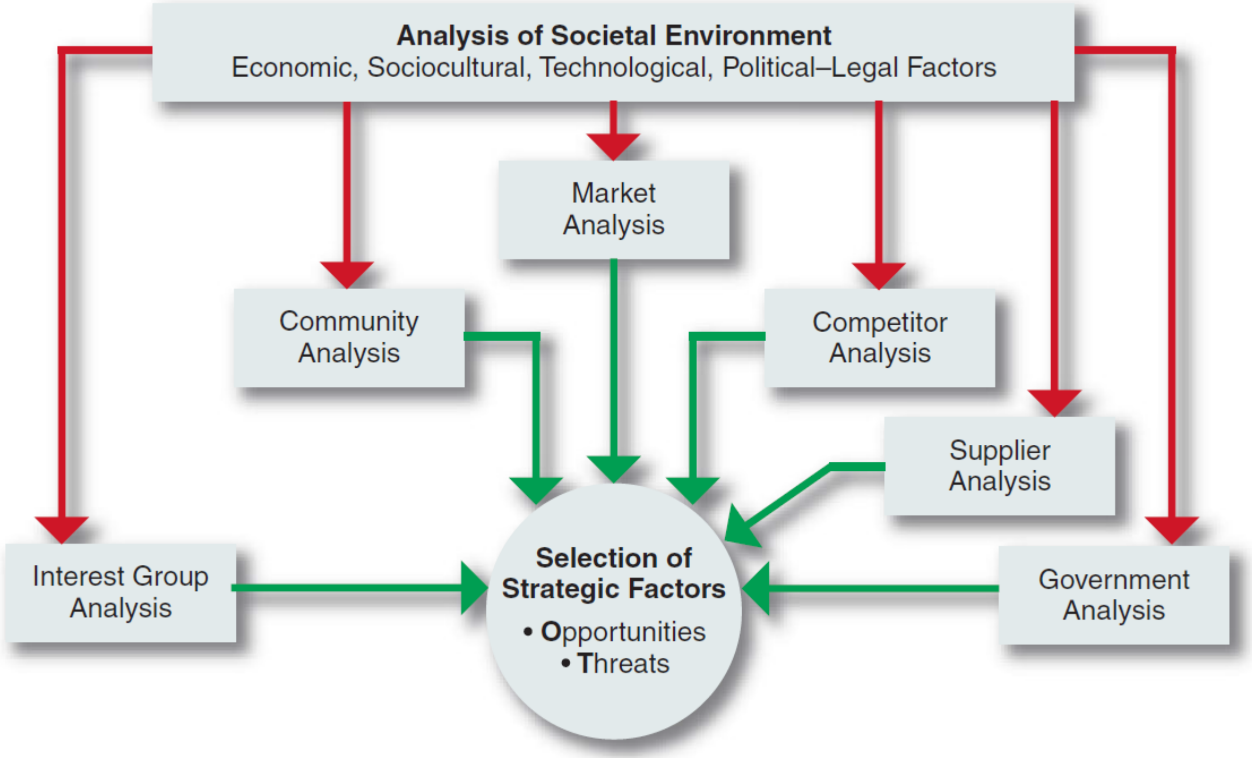
Environmental Scanning

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.



Essence of Strategic Analysis

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- Strategic analysis is the identification and evaluation of all relevant factors that can be expected to influence or may influence the strategy and strategic objectives of the company.
- Strategic analysis is a systematic, regular, thorough, critical and impartial examination and assessment of the internal situation of the enterprise (internal analysis) and the external environment (external analysis).
- The analysis is carried out at specific time intervals and examines past, present and future developments.
- The analysis assesses the overall situation of the enterprise, determines its place in the environment and defines the development of its future activities.
- It is the first step in the strategic planning process.

Structure of Strategic Analysis

- **Analysis of the external environment** – provides information on the nature of the external environment and its possible effects on the company in order to identify possible opportunities and threats
  - Remote environment analysis - macro environment
  - Analysis of the near environment - market, industry

- **Internal environment analysis** – provides information on the internal environment and internal resources of the enterprise, resulting in the identification of the strengths (strengths) and weaknesses (weaknesses) of the enterprise

- **Synthesis** – confronts the strengths/weaknesses of the enterprise with opportunities and threats from the environment in order to determine adequate strategic direction.

External Environment

- The external business environment is the external environment of the enterprise that influences and affects the enterprise.
- The external business environment can be divided into two levels, namely the more distant and the more proximate environment (the environment). The more distant environment is usually referred to as the **macroenvironment** and the more proximate environment as the **market environment** (market and industry).
- Analysis of the external environment is a continuous process of obtaining information about events (changes) taking place outside the organization to identify and interpret potential trends in the external environment.
- External environment analysis works with the following information sources:
  - Secondary sources about the macro environment and submarkets, studies, research, statistical files, journal articles, secondary information related to the target market;
  - Primary information obtained through research, information from the company's information system, etc.

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.
- The business entity alone cannot influence the macro environment and its parts.
- The enterprise only reflects the factors from the macro environment, can use them and possibly counteract the negative factors.
- The macro-environment is created by the social and historical development of a particular society in a particular location, which is why it is also referred to as the **'contextual level'**. Which means that the enterprise operates and exists in a certain wider context, a broader context.
- The macro-environment is not created by the state or the government.

Elements (Variables) of Macroenvironment

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- The **demographic environment** is made up of the people who live in a particular territory.
- The **economic environment** focuses mainly on the disposable purchasing power of the population, on prices, savings, debt and the availability of money (credit).
- The **political environment** and its influence is based on political decisions or political events in the country.
- The **legislative environment** creates the legislative framework for the activities of business entities through legal norms regulating business practices, rights and obligations in the implementation of these activities.
- The **social environment** shapes the basic beliefs, values and norms of the people living in it.
- The **cultural environment** is determined by culture, which is generally understood as a complex of values, customs, traditions, behaviours and other factors adopted and shared by persons of a particular group, society.
- The **technological environment** follows the development and use of new technologies in the activities of the enterprise.
- The **natural environment** focuses on the current state and deterioration of the environment, the depletion of natural resources and the increasing cost of energy.

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

Methods of Macroenvironmental Analysis

- The main sources of data for the analysis of the macro-environment are secondary sources: various statistics, analyses, studies, research, articles in professional journals, etc.

- PEST, PESTLE, STEP, STEEPLED, STEER
- Extrapolation of trends (forecasting) - a forecasting method determining the probable course of a certain phenomenon from its previous development.
- Expert methods - QUEST method (Quick Environmental Scanning Technique), Delphi method, Brainstorming - the use of experts for activities requiring special knowledge and expert assessment of the problem and its future development.
- Scenarios method
- Statistical analysis methods (time series analysis, regression and correlation analysis)
- Methods of demographic statistics
- Political science and macroeconomic theory
- Causal analysis methods

PEST Analysis

- PEST analysis is a modern method of **analysing the macroenvironment**.
- Its aim is to **find and analyse those components of the environment that are of importance to the company and may represent an opportunity or a threat to it. The analysis also tracks the evolution of critical factors over time.**
- PEST analysis focuses on the environment in which the enterprise actually operates.
- PEST analysis looks at the macro environment of the firm in terms of four basic groups of factors: political and legislative P, economic E, social and demographic S, technical and technological T.
- This original form of the method has been modified and extended over time to include additional elements. So today we encounter the following forms: PESTLE analysis (added legislative and environmental environment), SLEPT analysis, STEEP analysis, STEER analysis, STEEPLED analysis.
- The common purpose of all these analyses is to identify specific threats and opportunities, which helps the company to focus on key aspects of the macro environment and to evaluate these comprehensively.

LONGPEST Analysis

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- LONGPEST analysis, which is another modification of PEST analysis, takes into account local LO, national N and global G level political-legislative, economic, socio-demographic and technical-technological factors.

- The result is a strategic profile of the neighbourhood. The procedure includes the following steps:
- Creating a list of factors to be analyzed.
- Rating the importance of the factors using a Likert scale.
- Evaluation of the factors that have the greatest impact on the company (impact on profitability, liquidity, growth) and the company's options for responding to these factors.

Forecasting (Prognosing)

- **Forecasting** is a professional assessment of future developments, whereby possible future processes and phenomena are determined on the basis of the examination of past and existing processes and phenomena, while the characteristic feature of these processes and phenomena is their uncertainty, virtually uncertainty.
- Forecasting results in a forecast.
- A **forecast** is a qualified and reasoned statement relating to an unknown future event, the content of which is a probabilistic statement about the future with a relatively high degree of confidence.
- **Forecast** relies on scientific knowledge and specific methods.
- **Forecast** is systematically derived, reliably evaluable and occurs under certain conditions and at certain times.

Forecasting Methods

Forecasting methods are sets of theoretical and practical rules taken from different disciplines that lead to the construction of a forecast with a certain predictive power.

- **Quantitative methods** - are based on the assumption that future developments are a predictable and direct continuation (extrapolation) of existing trends. In this case, statistical analysis of past data at different points in time is applied.
  - Statistical methods (Trend and time series extrapolation method, regression and correlation analysis method, Box-Jenkins based methods, classification and regression trees, cluster analysis methods, spectral time series analysis methods, factor analysis methods, adaptive methods)
  - Operational research methods (Mathematical programming methods, simulation methods and games, decision theory methods, modified network graphs)
  - Methods of model experiments (Growth models, structuring models, global models)
- **Qualitative methods** - use the human factor, are based on the variation, ambiguity and probabilistic nature of the development of future events. Sometimes also called subjective or reflective.
  - Heuristic methods - Delphi method, Brainstorming method, Brainwriting method, Panel method, Personal evaluation, Market research, Future scenarios
- **According to the degree of su**bjectivity - Subjective methods, Objective methods, Systematic methods
- **Further breakdown of methods** - Exploratory (survey) method, Normative method (goal-directed), Integral forecasting method

Brainstorming

- Free team discussion to get new creative ideas and thoughts to improve or find the right solution in a short time.
- Logical thinking is replaced by intuitive
- When solving a fuzzy problem, a framed area
- Participants - experts in the field 50%, experts in related fields 30%, people with no connection to the field 20%
- Rules - no criticism, unleash imagination, mutual inspiration, as many as possible, equality of participants
- Brainstorming process:
  - The leader will repeat the basic rules of brainstorming.
  - Introducing the participants to the problem to be discussed and solved
  - Warm-up - to relax the participants and get them in the mood for creative thinking
  - Discussion of the topic itself
  - Processing and evaluation of the topics

DELPHI Method

- The purpose is to obtain predictive information or opinions from a selected group of experts relating to the identification or prediction of future events, development issues or trends
- Forms: Conventional Delphi, Argument Delphi, Policy Delphi
- Basic principles: anonymity, interaction, controlled feedback, statistical evaluation of responses
- Essence:
  - Sending a thoughtfully chosen series of questions (formalized questionnaire)
  - Independent experts
  - Repeated mailings - convergence of views
  - Consensus is only reached over the correct solution
  - Replaces direct discussion or seminar

Method of Scenarios

- Used when there are non-continuous changes in the company's environment.
- A scenario is a picture arranged from all achievable and relevant forecasts and information. an indicative, context-dependent description of a possible future situation that leads from the initial (current) state through the logical connections of a chain of events to a predicted end state
- The aim of scenarios is to identify the critical points of development at which major decisions need to be made.

The basic groups of scenarios are:

- Scenarios of possible events
- Simulation scenarios
- Environmental scenarios
- Environmental process scenarios

Applicability of Forecasting Methods

- Groundbreaking technical and technological inventions
- Basic research directions and application research directions
- Product parameters, functional characteristics of technologies and equipment
- Development tendencies and trends
- Societal implications of possible trends and technical developments
- Alternative solutions to societal objectives
- Alternative solutions and anticipation of objectives at lower levels of the organisation
- Anticipation of market behaviour, price movements, demand

External Environment: Task (Market) Environment

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- The term market or industry, or the mesoenvironment, is used rather than the term proximate business environment. Some authors include this environment in the microenvironment, i.e. the internal environment of the firm.
- A fundamental characteristic of this business environment is that enterprises can influence the actors and forces of this business environment. This influence is targeted and deliberate.
- The market environment can be referred to as the **transactional level**, because it is in this environment that transactions related to the implementation of business activities take place.
- Market environment actors include groups of people or organisations directly related to a particular business entity. **Market environment actors** include: customers, competitors, distribution links, the public, external influencers.
- Market environment analysis focuses on assessing the basic parameters of the **market** and the situation in a particular **industry**. Therefore, market environment analysis can be divided into industry analysis and market analysis.

Industry

- 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.
- Industries or economic activities are compulsorily classified in the European Union according to the NACE-CZ classification, which is derived from the ISIC (International Classification of All Economic Activities) used by the United Nations.

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Typology of industries

- ***Industries according to dependence on the economic cy***cle:
  - 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.

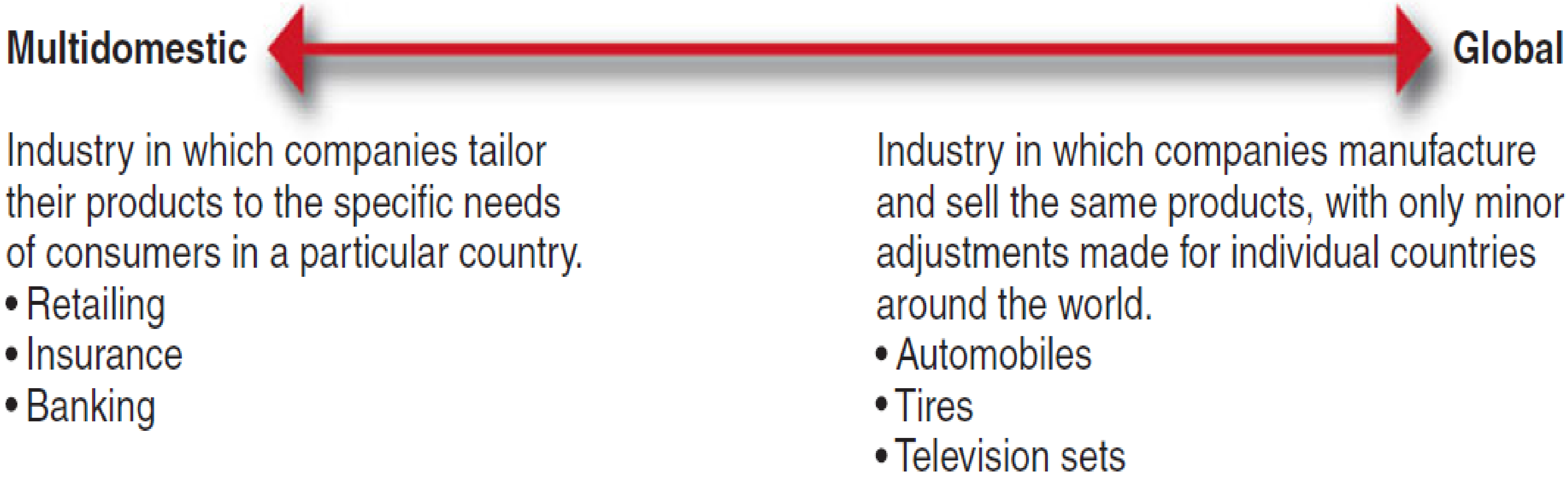
Industry

- 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.

International Industries

- According to Porter, **world industries vary on a continuum from multidomestic to global.**



International Industries

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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.

International Industries

- **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.

Methods of Industry Analysis

- The object of the sector analysis is the business entities in a particular sector. The purpose of the sector analysis is to describe the structure of the sector, identify the main drivers of the sector, assess the attractiveness of the sector and the level of the sector.
- The information sources for the market environment analysis are mainly secondary information related to the target market, primary information obtained through research, information from the company's information system.
- The **sectoral structure** follows the basic characteristics of a particular industry :
  - the number and size of enterprises in the sector;
  - types of products and services in the sector;
  - the strength of individual enterprises in the sector;
  - the extent of market barriers in the sector.
- The **analysis of sectoral drivers** is intended to identify the forces in the sector that are determinant for a firm in a particular sector. The process of analysing sectoral drivers involves the following steps :
  - Defining the relevant industry;
  - identification of key players, forces in each group according to Porter's competitive analysis;
  - determining the strength of each force and the sources of its strength;
  - assessing the overall structure of the industry.

Methods of Industry Analysis

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- **Porter's five competitive forces** analysis evaluates the competitive forces in a given industry that affect the long-term profit attractiveness of a particular industry. The competitive forces evaluated include (Porter, 1994):
  - ***Existing competitors*** - their ability to influence the price and quantity offered of a given product/service.
  - ***Potential competitors*** - their ability to enter the market and influence the price and quantity offered of a given product/service.
  - ***Suppliers*** - their ability to influence the price and quantity offered of the input required.
  - ***Buyers*** - their ability to influence the price and quantity demanded of the product/service.
  - ***Substitutes*** - the price and quantity offered of products/services capable of substituting, at least in part, the product/service in question.
- In the context of significant changes in the business environment, there are some modifications to this traditional model of competitive forces. For example, a sixth force is added, namely ***complementary products***

Methods of Industry Analysis

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- **The attractiveness of an industry** is a multi-criteria evaluation of the industry based on selected factors and their weighted assessment. According to Váchal and Váchalová (2001), there are 15 factors and they are rated on a scale of 1 to 10. Different authors include different elements in the factors assessing industry attractiveness.
- **Porter's attractiveness factors** - profits in excess of entry costs, opportunity for growth, barriers to entry into the industry, investment costs necessary to engage in the new business, additional investment to overcome other barriers to entry, expected costs due to retaliation by industry members against entry, expected cash flows associated with being in the industry, opportunity for the new business to establish a defensible position in the industry over the long term, etc.
- Michael E. Porter's method, known as the **Porter Diamond**, is used to assess the level and maturity of an industry. The Porter diamond identifies four basic groups of factors:
  - Conditions of Production Factors (Conditions Factor);
  - Demand-side conditions (demand conditions);
  - Related and supporting industries (related and supporting industries);
  - Corporate strategy, structure and rivalry in the industry.

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 to 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.

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.

Methods of Market Analysis

- The market analysis focuses on the specification and description of customers and customer groups.
- The market analysis is used to identify the customers that are under consideration for a particular market offer.
- The information sources for the market environment analysis are mainly secondary information related to the target market, primary information obtained through research, information from the company's information system.

- **Market research** is the specification, collection, analysis and interpretation of information used as a basis for managerial decision making.
- Market research is a part of the enterprise information system, which consists of: internal information system, external intelligence system, research system, decision support system.
- The market research process is a sequence of steps leading from the preparation of research towards the actual implementation of research. Although each research and its process is characterised by specific features and differences, it can be divided into three basic phases:
  - Preparatory phase - setting the research objective, specification of the research problem, designing the research plan;
  - Implementation phase - collection of information, data analysis, transformation of data structure into information;
  - Presentation phase - written and oral presentation of research results.

Methods of Market Analysis

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- **Strategy maps** are created by examining the differences of companies in a given sector.
- They are particularly meaningful in those sectors where there are several groups of competitors with different characteristics and a significant market position.
- These groups of firms are then plotted on a two-variable map according to selected characteristics. This creates strategic areas, spaces, strategic groups of competitors in the overall market. The size of each circle indicates the share of the strategic group in the total market.
- Strategic maps are an important, useful and simple tool for industry analysis. They allow a better understanding of the nature of sectoral competition and to make changes in the sector or strategic group of customers.

Methods of Market Analysis

- **The analysis of globalisation trends** mainly looks at:
- Costs (technology development and deployment costs, transport and resources),
- customers (their requirements and the possibility of applying uniform forms of marketing),
- national specificities (business support and state protection, application of technical standards, institutional norms, customs barriers)
- competition (manifestations of global competition in its 'super' and 'hyper' forms).
- This method is often referred to as the '4C' method, as it is made up of the words
    - CUSTOMER,
    - COUNTRY (national specifics),
    - COMPETITION
    - COST.
- The result of this analysis should be a proposal of the country where the company will locate its plant, how many markets the company will offer its products, etc.

Methods of Market Analysis

- **Strategic gap analysis** – in the course of using the strategy, it can be noted that there is a drop-off or, on the contrary, a fall-off in the performance of the set tasks, which creates a certain gap between the plan and the reality. These possible changes are caused by both internal and external conditions that need to be remedied as a matter of urgency.

- The causes of deviations from the plan in a negative direction are often due to the following phenomena:
  - Unexpected developments in the company's environment.
  - The increasing influence of competitors and their unexpected activities.
  - Changes in customer segment values.
  - Inappropriate employee selection and management.
  - The demands of an influential interest group.
  - Incorrectly developed corporate activity plan.
  - Inappropriate implementation of sub-strategic measures.