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Strategic management (Sec B)

Chapter - 2

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CONCEPT NOTES

CHAPTER - 2

STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

SECTION-B

INTRODUCTION

Businesses, whether small local shops or multinational corporations, vary in size, products, and markets. They don't exist in isolation but operate within an external environment shaped by factors like economy, technology, and legal considerations. This external context, known as the business environment, includes all external factors that influence managers' decisions, emphasizing the need for adaptability to external changes for sustained success.

STRATEGIC ANALYSIS

In brief, effective strategy formulation requires more than intuition and creativity. Managers must base their decisions on a thorough analysis of both the external environment and internal resources. Environmental scanning, whether informal or formal, is vital for gathering meaningful information. Learning about changes through various channels, from TV news to expert materials, is crucial. Successful entrepreneurs and managers distinguish themselves by collecting important information even in informal settings. Relying solely on informal techniques can lead to missed opportunities and unexpected risks. A systematic approach to environmental assessment is essential for managing risk and uncertainty in business strategy.

Many growing organizations use strategic planning to guide their operations. Strategic analysis, a systematic part of this process, involves making resource investments and achieving business objectives by considering industry conditions, competitors, and the organization's internal capabilities. The analysis helps in evaluating business plans and staying ahead of the competition. However, it has limitations: it provides various innovative options without specifying the best one, and it can be time-consuming, potentially impacting overall organizational efficiency and other innovations.

ISSUES TO CONSIDER FOR STRATEGIC ANALYSIS

STRATEGY EVOLVES OVER A PERIOD OF TIME:

Strategy develops gradually over time, shaped by numerous small decisions that balance various impacting factors. Strategic analysis involves considering the likely outcomes of daily decisions. The current strategy results from a series of small choices made over an extended period. When aiming to accelerate organizational growth, management may significantly alter strategy. Experience influences strategy, but updates are necessary based on clear results, reflecting the evolving nature of strategic decision-making over time.

BALANCE OF EXTERNAL AND INTERNAL FACTORS:

Achieving a balance between external and internal factors is crucial in strategic analysis. Management faces the challenge of reconciling conflicting elements since a perfect fit is unlikely. When making strategic decisions, consideration of opportunities, influences, and constraints is essential. Factors like entering a new market drive decisions, but constraints, like the presence of a large opponent, limit options. These constraints influence the type, extent, volume, and significance of the impact, and while some aspects are controllable, others surpass existing capabilities. Balancing these factors is key for effective decision-making in strategic management.

RISK:

Maintaining balance in strategic analysis is vital, but the complex and intertwined nature of environmental variables often challenges this equilibrium. Factors like competitive markets, globalization, economic fluctuations, and technological advancements introduce varying degrees of risk to businesses. In strategic analysis, it's crucial to identify and assess potential imbalances or risks and understand their potential consequences for effective decision-making.

External risk arises from discrepancies between a company's strategies and external environmental forces. Internal risk stems from factors within or directly interacting with the organization regularly. To plan effective strategies, businesses conduct analyses that cover both external and internal aspects. This assessment helps identify opportunities and threats from the external environment and strengths and weaknesses within the organization, aiding in strategic decision-making.

Industries vary significantly in economic traits and competitive dynamics, influencing future profit prospects. Factors such as market size, technological changes, geographic scope, number of buyers and sellers, product differentiation, economies of scale, and distribution channels shape industry characteristics. Competition intensity varies, focusing on factors like price, quality, features, service, or brand reputation. Some industries require collaboration for innovation, while others face challenges despite attractiveness. In summary, industry and competitive conditions determine whether profit prospects are poor, average, or excellent, with leading companies in unattractive industries struggling, and weaker firms in attractive industries potentially performing well.

STRATEGY AND BUSINESS ENVIRONMENT

Business strategists develop strategies and formulate policies, considering both internal and external factors, to achieve business goals. Strategic management offers a framework to adapt to an unpredictable and ever-changing business environment. The dynamic business environment requires strategists to bridge the gap between organizational capabilities and the opportunities and challenges present in the larger environment, serving as a crucial interface for effective decision-making.

Business and its environment maintain a continuous interaction, strengthening the firm and optimizing resource use. This interaction yields several benefits:

- **Identifying Opportunities and Threats:** The interaction reveals new consumer needs, legal changes, and competitors' strategies, helping the business recognize opportunities and threats.
- **Guidance for Growth:** Understanding environmental changes guides the business in identifying areas for growth and planning successful strategies.
- **Continuous Learning:** Managers stay motivated to continuously update their knowledge and skills to adapt to predicted changes in the business environment.
- **Image Building:** Awareness of environmental needs allows businesses to improve their image by showcasing responsiveness and sensitivity to the surroundings. This positive image fosters prosperity and competitiveness.
- **Meeting Competition:** By analyzing competitors' strategies, businesses can formulate their own strategies to flourish and surpass competition in products and services.

Business strategies connect organizational resources with challenges and opportunities in the broader environment. External changes push organizations to devise novel strategies for sustained success in a shrinking and increasingly competitive world. The pressure to develop and enhance competitiveness is rising. Strategic analysis, covering both internal and external factors, is crucial for achieving a competitive advantage, ensuring high performance, survival, and growth. Strategic decisions, vital for success, depend on effective top management functions and decision-making methods. Constant improvement in strategic decision-making is necessary due to the dynamic and unpredictable contemporary business environment.

MICRO AND MACRO ENVIRONMENT

The organizational environment includes internal strengths and weaknesses, along with external opportunities and threats. Business strategists need thorough awareness of their company's developments, industry trends, and the micro and macro business environments to make informed strategic decisions, comprehending facts and challenging assumptions. The external environment is categorized into micro (immediate surroundings) and macro (beyond direct control) environments, each influencing the organization differently.

MICRO-ENVIRONMENT

Micro-environment refers to the immediate surroundings of an organization, influencing it regularly and directly. It includes suppliers, consumers, marketing intermediaries, and competitors specific to the business. These elements, specific to the organization, have a direct and regular impact on its operations.

In the micro-environment, specific issues need attention:

- **Employees:** Focus on their characteristics and organization.
- **Customer Base:** Understand the existing customer reliance for business.
- **Finance:** Explore ways for the firm to raise funds.
- **Suppliers:** Identify and strengthen links with the firm's suppliers.
- **Local Community:** Consider the impact and engagement within the local community.
- **Competition:** Evaluate the performance of direct competitors.

ELEMENTS OF MACRO ENVIRONMENT

The macro-environment encompasses economic, socio-cultural, technological, political, and legal factors. This classification helps organizations manage complexity, understand influences, and relate environmental changes to strategic management. The external environment involves interactions with individuals, teams, organizations, agencies, and factors. Organizations not only conduct transactions but also develop plans and policies to address environmental changes, navigating their way into the future.

DEMOGRAPHIC ENVIRONMENT

Demographics involve classifying and understanding population characteristics like age, gender, income, race, education, and more. This analysis is crucial for businesses and economists. For instance, India's relatively younger population attracts multinational companies. Businesses must consider demographic trends to gauge market size, opportunities, and threats. Factors like population size, age distribution, geographic dispersion, ethnicity, and income influence an organization's strategic decisions. Adapting to changing demographics is a challenge that strategists need to navigate for future competitiveness.

SOCIO-CULTURAL ENVIRONMENT

Socio-cultural Environment encompasses social traditions, values, beliefs, literacy, ethics, and societal state. Unlike demographics, it focuses on the behavior and belief systems of a population. This environment influences human relationships and organizational operations. The core beliefs of a society are persistent, shaping how individuals and organizations interact. Businesses must align with these social norms and beliefs for successful operation, impacting strategic decisions in mission setting, objectives, and product-market choices.

ECONOMIC ENVIRONMENT

Economic Environment significantly impacts business strategies, covering regional, national, and global economic conditions. It includes factors affecting input and output markets, costs, and resource availability. The economic environment shapes market strength and size, influenced by purchasing power determined by income, prices, savings, money circulation, debt, and credit availability. Income distribution patterns impact business opportunities. Key economic factors include gross domestic product, per capita income, market conditions, capital availability, foreign exchange reserves, trade growth, capital market strength, interest rates, disposable income, unemployment, and inflation. Understanding these factors is crucial for assessing the state of the economy and its impact on business operations.

POLITICAL-LEGAL ENVIRONMENT

Political-Legal Environment encompasses political development, politicization of economic issues, political morality, law and order, political stability, ruling party ideology, and governmental agency effectiveness. It influences all enterprises, both generally and specifically. Government policies significantly guide and control business, impacting regulatory frameworks, taxes, and duties. A favorable legal system is preferred for business operations, and understanding laws related to consumers, competition, companies, intellectual property, foreign exchange, and labor is crucial for businesses in any country.

TECHNOLOGICAL ENVIRONMENT

Technology plays a pivotal role in modern times, transforming communication and business operations. The interdependence between technology and business benefits both, enhancing societal living standards. Businesses leverage technological advancements to adapt and contribute to societal progress. Technology streamlines operations, reduces paperwork, improves payment scheduling, and enhances inventory coordination, leading to cost reduction, increased efficiency, and a competitive edge for companies.

PESTLE– A TOOL TO ANALYSE MACRO ENVIRONMENT

PESTLE Analysis is a tool for examining macro-environmental factors affecting a business. It evaluates Political, Economic, Social, Technological, Legal, and Environmental influences. Originally PEST analysis, it expanded to include Legal and Environmental aspects. PESTLE helps organizations identify and scan factors shaping their environment, guiding policy decisions.

- **Political factors:** Political factors refer to the degree and manner in which the government engages in the economy and business operations. This influence extends to the types of goods and services the government supports or discourages. Moreover, governments significantly impact the nation's health, education, and infrastructure.
- **Economic Factors:** Economic factors profoundly influence business operations and decisions. For instance, interest rates impact a company's capital costs, influencing its growth. Exchange rates affect the costs and pricing of exported and imported goods. Variables like money supply,

inflation, credit flow, per capita income, and growth rates play a crucial role in shaping business decisions.

- **Social Factors:** Impact demand for products and influence company operations based on societal trends and preferences.
- **Technological Factors:** Determine barriers to entry, set production efficiency standards, influence outsourcing decisions, and drive innovation by affecting costs and quality.
- **Legal Factors:** Affect company operations, costs, and product demand by shaping the legal environment and ease of doing business.
- **Environmental Factors:** Influence industries like tourism, farming, and insurance, with growing climate change awareness creating new markets and impacting existing ones.

INTERNATIONALIZATION OF BUSINESS

Internationalization, a dominant trend, allows businesses to explore new markets for increased profits and cost-effective resources, achieving economies of scale and product lifespan extension. While the strategic-management process is similar globally, international processes are more complex, demanding systematic international strategy planning, including environmental scanning, to identify opportunities and threats in global markets and formulate effective strategies and objectives.

A GLOBAL BUSINESS EXHIBITS THREE KEY CHARACTERISTICS:

- It comprises multiple units across the globe under common ownership,
- These units share a common pool of resources like money, information, and patents, and
- The units align with a shared strategy, while managers and shareholders are dispersed across different nations.

DEVELOPING INTERNATIONALLY

Expanding globally is costly and challenging, requiring a methodical approach. The steps in international strategic planning:

- assess global opportunities and threats aligning with internal capabilities,
- define the scope of global commercial operations,
- establish global business objectives, and formulate specific corporate strategies for both the global business and the entire organization.

INTERNATIONAL ENVIRONMENT

In the international environment, an organization faces diverse factors such as social, cultural, demographic, environmental, political, governmental, legal, and technological aspects. As the complexity of these factors increases with the expansion of products and geographic reach, analyzing the international environment becomes crucial for organizations. This assessment, conducted at multinational, regional, and country levels, enables businesses to identify global opportunities and evaluate the feasibility of capitalizing on them.

Multinational environmental analysis involves understanding global economic and macro elements, considering governmental tendencies, and assessing their impact.

Regional environmental analysis delves deeper into specific geographical areas, focusing on market opportunities.

Country environmental analysis requires a thorough examination of economic, legal, political, and cultural dimensions for effective market entrance strategies. In today's strategic management, international environment considerations, including political risks, cultural differences, exchange rates, legal compliance, and taxation, are crucial for businesses with global interests. Decision-makers must prioritize understanding these factors.

UNDERSTANDING PRODUCT AND INDUSTRY

Businesses offer products, which can be physical goods (like cars or books) or services (like banking or repairs). Some products provide experiences, and businesses set prices based on market dynamics, quality, and customer satisfaction.

1. Tangible or Intangible:

Products are either things you can touch (like cars) or non-physical services (like banking).

2. Price Dynamics:

Businesses set prices based on costs, market demand, quality, and target customers to stay profitable in a competitive market.

3. Features for Satisfaction:

Product features, like design and function, satisfy customer needs, influencing pricing and optimizing the user experience.

4. Product's Role in Business:

The product is central to business, driving activities such as production, sales, marketing, and logistics.

5. Useful Life and Evolution:

Every product has a usable life and life cycle; for instance, mobile phones replacing fixed line phones reflects this evolution.

PRODUCT LIFE CYCLE

The Product Life Cycle (PLC) is a strategic concept representing the sales trajectory of a product over time, encompassing stages of introduction, growth, maturity, and decline in an S-shaped curve. Applied to businesses, this concept illustrates the lifecycle dynamics a company might undergo, guiding strategic decisions through different phases of development and decline.

1. Introduction Stage:

Slow sales growth, minimal competition, high prices, and limited markets characterize this phase. Customer awareness is low, resulting in a gradual increase in sales.

2. Growth Stage:

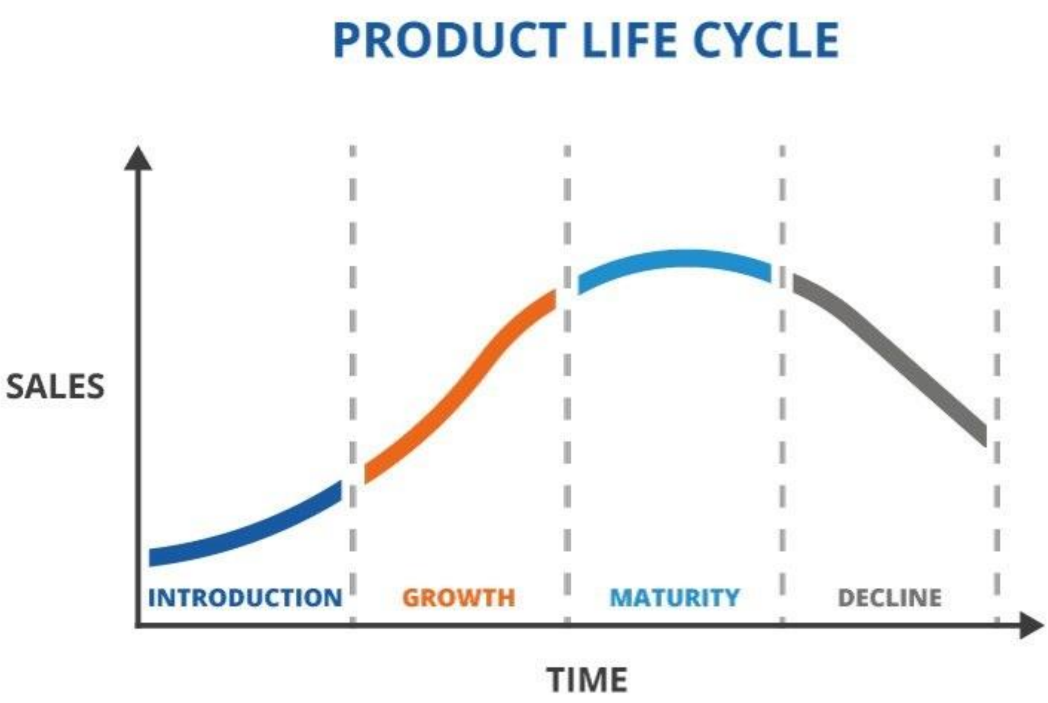
Rapid market acceptance defines this stage. Demand expands quickly, prices decrease, competition intensifies, and the market enlarges. Customers are knowledgeable and interested in purchasing the product.

3. Maturity Stage:

Growth slows down, competition toughens, and the market stabilizes. Profits decline due to increased competition. Organizations focus on maintaining stability during this phase.

4. Decline Stage:

Sales sharply decline as a new product replaces the existing one. Profits fall significantly. Strategies like diversification or retrenchment are considered to stay in the market amidst the declining product.



The PLC approach allows businesses to assess the stage of each product or business in their portfolio. This helps in making strategic decisions tailored to each stage—expanding introductory and growth businesses, using mature ones as cash sources for new investments, and adopting diverse strategies like selective harvesting or retrenchment for declining businesses. By applying the PLC concept, businesses can build a balanced and adaptive portfolio.

VALUE CHAIN ANALYSIS

Successful businesses create value through each transaction, providing satisfaction to consumers and generating profits. Value chain analysis, a method employed by strategists, dissects the processes within a business to enhance efficiency and gain a competitive advantage. It helps businesses of all sizes assess and optimize their unique procedures, emphasizing that strategic capability lies in competently performing activities and managing linkages between them for a competitive edge.

1. **Inbound Logistics:** Deals with receiving, storing, and distributing inputs to the product or service. Includes activities like transportation, warehousing, and stock control.
2. **Operations:** Transforms inputs into the final product or service through activities like machining, packaging, assembly, and testing.
3. **Outbound Logistics:** Involves collecting, storing, and distributing the product to customers. For tangible products, it includes warehousing, transport, and materials handling.
4. **Marketing and Sales:** Creates awareness and enables consumers to purchase through activities such as sales administration, advertising, and selling. In public services, communication networks are vital.
5. **Service:** Activities that enhance or maintain the value of a product or service, including installation, repair, training, and spares.

Support activities complement primary activities and fall into four areas:

1. **Procurement:** Involves processes for acquiring resource inputs to primary activities, occurring throughout the organization.
2. **Technology Development:** Encompasses key technologies related to the product (e.g., R&D, product design), processes (e.g., process development), or specific resources (e.g., raw materials improvements).
3. **Human Resource Management:** Crucial across all primary activities, it includes recruiting, managing, training, developing, and rewarding people within the organization.

4. Infrastructure: Encompasses planning, finance, quality control, and information management systems crucial to organizational performance. Also includes structures and routines sustaining the organization's culture.

INDUSTRY ENVIRONMENT ANALYSIS

Industry analysis combines various ideas and methodologies to understand key industry traits, competition intensity, and factors driving industry change. This strategic assessment helps evaluate rival firms' positions, tactics, competitive success, and profit forecasts, providing insight into the broader business environment. The goal is to align strategy with evolving industry circumstances and realities for effective decision-making.

PORTER'S FIVE FORCES MODEL

Porter's Five Forces analysis is a powerful tool for understanding competition in an industry. It identifies five key competitive forces—rivalry among existing firms, threat of new entrants, threat of substitute products, supplier bargaining power, and buyer bargaining power. This model helps strategists assess the strength of these forces, determine industry attractiveness, and make informed decisions to boost profitability and gain a competitive edge. By evaluating the dynamics of these forces, managers can understand their firm's strengths, weaknesses, and future opportunities in a specific industry.

THE THREAT OF NEW ENTRANTS

New entrants can lower industry profitability by increasing supply, potentially lowering prices and impacting existing firms' market share. Their presence intensifies competition, and larger entrants have a more significant impact. To deter new competition, existing firms can create barriers to entry, such as high capital requirements, economies of scale, product differentiation, switching costs, brand identity, access to distribution channels, and the possibility of aggressive retaliation, which can limit the entry of new players and maintain higher profitability for existing firms.

- **Capital Requirements:** High entry capital acts as a barrier, excluding firms with limited funds, thereby boosting the profitability of existing firms in the industry.
- **Economies of Scale:** Industries benefiting from economies of scale, where per-unit costs decline with volume growth, discourage new entrants. Larger firms can produce at lower costs, deterring newcomers.
- **Product Differentiation:** Creating unique product features enhances brand identity and acts as a barrier, especially in industries like personal care and cosmetics, making it costly for new entrants to create genuine product differences.
- **Switching Costs:** High switching costs, involving testing, negotiation, and training, make buyers reluctant to change firms, benefiting existing players as new entrants struggle to persuade customers to switch.
- **Brand Identity:** Established brand identity, crucial for infrequently purchased high-cost products, serves as a barrier. Building such identity requires substantial resources over an extended period, hindering new entrants.
- **Access to Distribution Channels:** Control of physical distribution channels by existing firms limits access for new entrants, sustaining a barrier despite the internet's growth, as established players can impede their use.
- **Possibility of Aggressive Retaliation:** The threat of aggressive retaliation by incumbents can deter new entrants. For instance, introducing new products may lead incumbents to cut prices and increase advertising budgets, making entry less appealing.

BARGAINING POWER OF BUYERS

Buyers' influence in industries strengthens when they form groups or cartels, commonly observed in industrial products. These united buyers, formally or informally, exert pressure on producers, impacting not only prices but also the costs and investments of producers. Powerful buyers often negotiate for better services, leading to additional costs and investments by the producers.

- **Full Knowledge:** Buyers are well-informed about product sources and substitutes.
- **Significant Spending:** They are major purchasers, spending a substantial amount on industry products.

➢ **Product Non-Critical:** The industry's product is not crucial to buyers' needs, and buyers are concentrated. They can easily switch to available substitutes.

BARGAINING POWER OF SUPPLIERS

Suppliers often hold significant bargaining power, especially when they offer specialized products and are limited in number. The more unique the supplier's offering and the fewer suppliers available, the stronger their influence. This power affects the cost of raw materials for the industry, impacting its attractiveness and profitability.

➢ **Crucial Products:** Their products are vital, and no substitutes are available.

➢ **High Switching Costs:** They can impose significant costs if buyers switch to other suppliers.

➢ **Supplier Concentration:** Suppliers are more concentrated than their buyers, giving them stronger bargaining power.

THE NATURE OF RIVALRY IN THE INDUSTRY

High rivalry among existing players, seen as competition, influences strategic decisions, affecting prices, advertising, and cost pressures. This intensity directly impacts industry attractiveness and profitability by influencing supplier costs, distribution costs, and customer attraction costs. More intense rivalry makes the industry less attractive.

(i) Industry Leader: A strong leader can discourage price wars due to greater financial resources, outlasting smaller rivals. Smaller rivals often avoid initiating price wars.

(ii) Number of Competitors: The leader's ability to exert pricing discipline diminishes with more rivals, making communication challenging.

(iii) Fixed Costs: High fixed costs motivate firms to cut prices with excess capacity, lowering profitability in industries with high fixed costs.

(iv) Exit Barriers: Lower rivalry and higher profitability occur when exit barriers are few, allowing competitors to leave the industry.

(v) Product Differentiation: Profitability is higher in industries with product differentiation, as firms can insulate themselves from price wars.

(vi) Slow Growth: Industries with slowing growth face more intense rivalry, reducing profitability for all.

THREAT OF SUBSTITUTES

Substitute products quietly compete in an industry, often becoming a significant factor. If substitutes offer better prices or performance, they can swiftly change an industry's competitiveness. For instance, synthetic fiber impacted coir. Industries investing heavily in R&D face potential threats from substitutes, constraining prices and profits.

The availability of substitutes for an industry's product is a crucial factor influencing profitability. To anticipate profit challenges, firms must identify products serving a similar function. For instance, real estate, insurance, and bank deposits are substitutes for common stocks as alternative investment avenues. The combined effect of these five competitive forces determines industry attractiveness and profitability, shaping elements like costs and investments needed to participate. The collective strength of these forces dictates the potential for earning attractive profits, varying across industries.

ATTRACTIVENESS OF INDUSTRY

Industry analysis helps strategists evaluate if an industry offers a favorable business opportunity. Strategists assess the industry outlook to determine if conditions are conducive for growth and profitability. This is crucial as companies invest significant capital, requiring careful consideration in choosing industries. The goal is to identify whether an industry aligns with the organization's goals and presents a viable and promising prospect for sustained success.

- **Growth Potential:** Assess if the industry has a promising future.

- **Current Profitability:** Evaluate if existing competition allows for sufficient profits, considering potential shifts.
- **Impact of Driving Forces:** Examine how external forces affect industry profitability.
- **Competitive Position:** Analyze the organization's current standing and if it's poised to strengthen or weaken.
- **Exploiting Weaknesses:** Identify opportunities to capitalize on vulnerabilities of weaker rivals.
- **Defense Strategies**: Determine if the company can defend against unfavorable industry factors.
- **Risk and Uncertainty:** Evaluate the levels of risk and uncertainty in the industry's future.

Industry Challenges: Assess the severity of problems affecting the industry.

- **Strategic Importance**: Consider if participating in the industry contributes significantly to the firm's overall success and business interests.

If an industry shows above-average profit prospects, it is deemed attractive; below-average prospects render it unattractive. However, attractiveness varies among firms, being relative rather than absolute. Fundamentally attractive industries prompt current players to strengthen positions through strategic investments, while in unattractive ones, successful firms may proceed cautiously, safeguard competitiveness, and explore diversification or acquisitions in more promising sectors. Weaker firms in unattractive industries might consider mergers to enhance market share or seek opportunities beyond the industry.

EXPERIENCE CURVE

The experience curve, similar to a learning curve, illustrates the efficiency improvement gained through repeated production. It reflects the observed trend where unit costs decrease as a company accumulates experience through increased production volume. The underlying idea is that growing firms in an industry typically have lower unit costs than smaller counterparts, providing a competitive cost advantage. The experience curve is influenced by factors like learning effects, economies of scale, product redesign, and technological advancements in production.

As businesses grow, they gain experience, leading to increased efficiency and knowledge. This experience can offer a competitive advantage over rivals and becomes a crucial barrier for new entrants. Larger and successful organizations benefit even more, possessing a stronger "experience effect" that contributes to their sustained advantage in the market.

The experience curve concept plays a significant role in strategic management, acting as a barrier for new firms entering an industry. It is utilized to gain market share and deter competition. In the Indian automobile industry, Maruti Suzuki exemplifies the impact of the experience curve. Competitors may strategically opt for niche markets, focusing on specific demographics or geographic segments to navigate this competitive landscape.

VALUE CREATION

The concept of value creation revolves around providing products and services that offer more worth to customers. This value is determined by factors like product features, quality, availability, durability, and performance. Beyond customer value, businesses now extend their focus to stakeholders, aiming to enhance overall worth in terms of goods, services, and business processes. Value creation is a strategic activity that not only benefits customers but also contributes to a competitive advantage, leading to above-average profits and returns for the business.

Competitive advantage leading to superior profitability is determined by three key factors: the value customers place on the products, the price charged, and the costs of creating those products. The value customers assign to a product is based on attributes like performance, design, quality, and service. Sustainable competitive advantage, crucial for long-term success, can be achieved through either differentiation or cost advantage. Differentiation involves providing superior value through unique features or quality, allowing a company to command higher prices. The value chain, as conceptualized by Michael Porter, explores various organizational functions impacting cost and differentiation advantages. Ultimately, value creation occurs when consumers value a product or service more than its actual cost, resulting in a competitive edge.

MARKET AND CUSTOMER

A market is a space, physical or virtual, where buyers and sellers exchange goods or services for a price. It can be a physical store, online platform, stock exchange, or a specific place where individuals trade commodities. The term also extends to defining businesses or industries, like the global oil market.

Marketing is a strategic effort that goes beyond the physical market space. It involves diverse operations such as research, design, pricing, promotion, transportation, and distribution. The four Ps of marketing - product, place, pricing, and promotion - are key components that help businesses identify customer needs, meet demands, and provide satisfaction. The ultimate goals of marketing are to deliver an excellent customer experience and build and grow lasting relationships with customers.

Product orientation emphasizes that customers choose products based on quality, performance, design, or features. Production-oriented businesses believe customers prefer low-priced products. Sales-oriented businesses think that sufficient advertising and promotion can persuade customers to make a purchase. These orientations reflect different approaches to understanding and meeting customer preferences.

In a customer-oriented approach, businesses prioritize understanding and meeting customer needs. By actively gathering, disseminating, and utilizing customer and competitive information, a customer-centric business continually learns from its customers' needs and market dynamics. In today's business landscape, success often hinges on adopting customer-centric approaches.

CUSTOMER

A customer is an individual or business that purchases products or services, providing essential revenue for organizations. Businesses strive to attract customers through marketing or competitive pricing. While the terms "customer" and "consumer" are often used interchangeably, consumers are those who actually use or consume products and services, whereas customers are the purchasers in the economy, encompassing both consumers and those who buy on behalf of others, as in the case of groceries bought by a parent for the entire family.

Businesses regularly conduct research on consumer characteristics, utilizing demographics such as age, race, gender, ethnicity, economic level, and geographic region. This helps in tailoring marketing strategies and adjusting inventory to attract a target audience, creating a profile of an ideal customer for more effective business practices.

CUSTOMER ANALYSIS

Customer analysis is a vital part of a strategic business plan. It identifies target clients, assesses their needs, and aligns the product to meet those requirements. In essence, it involves studying and evaluating what consumers need and want.

Customer analysis involves conducting surveys, studying consumer data, evaluating market positioning, developing customer profiles, and selecting effective segmentation techniques. These efforts generate facts to establish effective customer profiles, revealing demographic information. Various parties, including buyers, sellers, distributors, managers, and others, contribute to gathering information to assess consumer needs. Successful businesses consistently monitor the behavior of existing and potential customers.

CUSTOMER BEHAVIOUR

Customer behavior analysis goes beyond identifying customers to understanding how they purchase products. It explores factors like shopping frequency, product preferences, and perceptions of marketing, sales, and services. This understanding helps businesses create effective marketing campaigns, offer products that meet customer needs, and foster customer retention for repeat sales.

External Influences: External influences, such as ads, peer recommendations, and social norms, directly affect the psychological processes influencing consumer decisions. These factors focus on elements impacting customers' choices in satisfying needs and selecting products. They are divided into the company's marketing efforts and various environmental elements.

Internal Influences: Internal processes are psychological factors within the customer that influence consumer decision-making. Consumer behavior is shaped by a mix of internal and external influences, encompassing factors like motivation and attitudes.

Decision Making: A rational consumer, as a decision-maker, seeks information on potential choices, integrating it with existing product knowledge. They weigh the pros and cons of alternatives through stages like problem recognition, searching for options, gathering information, and making a final choice. This decision-making behavior is frequent, especially for significant purchases influencing health or self-image, like cars or electronics, as opposed to less impactful items like ice cream or soft drinks

Post-decision Processes: After buying a product, the final phase involves evaluating the outcome. Satisfied customers may make repeat purchases and recommend the product, while dissatisfied customers may avoid repurchasing and discourage others from buying it.

COMPETITIVE STRATEGY

Competition is inherent in economic systems, where businesses, both small and large, vie for resources and customers. In an industry, competition drives the pursuit of higher quality services or superior goods. Competitive strategy focuses on how a business aims to create and maintain an advantage over rivals, ultimately leading to long-term profitability. The analysis of a firm's competitive strategy considers **the creation and protection of competitive advantage** in its specific business domain.

In industry and competitive analysis, understanding the sources and strength of competitive pressure is crucial. Porter's five forces model provides a valuable framework for this analysis. It systematically examines the main competitive pressures in a market, helping assess their strength and significance. Widely used, this tool is effective for understanding and gauging competition in a straightforward manner.

COMPETITIVE LANDSCAPE

Competitive landscape analysis involves identifying and understanding both direct and indirect competitors. It includes assessing their vision, mission, core values, niche market, strengths, and weaknesses. This analysis, driven by competitive intelligence, helps a firm choose and implement effective strategies to enhance its competitive advantage. In essence, understanding the competitive landscape is crucial for building and maintaining a competitive edge.

- **Identify the competitor:**

To understand the competitive landscape, start by identifying competitors in the industry and gathering data on their market share. This answers the question: Who are the competitors, and how big are they?

- **Understand the competitors:**

After identifying competitors, use various sources like market research reports, the internet, newspapers, social media, and industry reports to understand the products and services they offer in different markets. This answers the question: What are their products and services?

- **Determine the strengths of the competitors:**

Determine the strengths of competitors by evaluating their financial positions, cost and price advantages, potential actions, distribution network strength, and human resource capabilities. This answers questions about their financial positions, cost and price advantages, potential actions, distribution network strength, and human resource strengths.

- **Determine the weaknesses of the competitors:**

Identify the weaknesses of competitors by examining consumer reports, reviews in various media, and financial information from annual reports. This answers the question of where competitors may be lacking or weak.

- **Put all of the information together:**

Put together all information about competitors and draw inferences about what they are not offering. Identify areas where the firm can fill in the gaps and strengthen its position. This answers questions about how the business will use the information, what improvements are needed, and how the firm can exploit competitors' weaknesses.

KEY FACTORS FOR COMPETITIVE SUCCESS

Key Success Factors (KSFs) in an industry are critical elements that significantly impact the ability of industry members to thrive in the market. These include strategy elements, product attributes, resources, competencies, and business outcomes that differentiate between success and failure, influencing profitability and overall competitiveness. All firms in the industry must carefully consider and address these factors to achieve success.

Key Success Factors (KSFs) in an industry can be identified by answering three key questions:

- On what basis do customers choose between competing brands? What product attributes are crucial to sales?
- What resources and competitive capabilities does a seller need for competitive success, such as human capital, product quality, quantity, or service cost?
- What does it take for sellers to achieve sustainable competitive advantage in the long term?

For example, in apparel manufacturing, KSFs may include appealing designs and color combinations (to attract buyers) and low-cost manufacturing efficiency (enabling attractive pricing and profit margins).

Identifying and understanding the industry's Key Success Factors (KSFs) is crucial for strategic decision-making. Managers must comprehend what factors are more important for competitive success and recognize competitively valuable resources. Misinterpreting these critical industry factors increases the risk of developing a misguided strategy. Conversely, organizations that strategically focus on and excel at industry KSFs can achieve sustainable competitive advantage, positioning themselves distinctly better than rivals. Excelling at specific KSFs presents a golden opportunity for gaining a strong market position. Therefore, leveraging industry KSFs as strategic cornerstones and excelling in one particular factor is a fruitful competitive strategy.

Key Success Factors (KSFs) are dynamic and specific to each industry, often changing with driving forces and competitive conditions. Typically, an industry has only three or four KSFs at any given time, with one or two being more significant than others. Managers should avoid including factors of minor importance and focus on identifying the critical elements that truly impact long-term competitive success. The purpose of identifying KSFs is to prioritize and concentrate management attention on the factors that matter most in the competitive landscape.