Chapter 2 - Strategic Analysis: External Environment

Strategic Analysis

Meaning

Analysis of a firm's external environment and its internal resources and capabilities

Why?

Helps in Strategy Formulation

- Otherwise (Without Strategic Analysis), Wrong Strategy
- No Competitive Advantage

Considerations to be kept in mind

- Industry & competitive conditions
- Company's own competitive capabilities, resources, internal strengths & weaknesses & market position

Issues to be considered for strategic analysis

Strategy evolves over a period of time

- Series of Decisions Over Time
- Influenced by Experience
  - Needs constant review and revision

Balance

- Matching Internal Potential with External Opportunities
- Workable Match Over Perfection
- Managers responsible for strategic decisions must balance opportunities, influences & constraints

Risk

- Identification of Potential Imbalances
- Assess their consequences
- Potential imbalances are created because of internal and external factors
- Example
  - Internal: R&D is strong, marketing is weak
  - External: Change in Consumer taste and preference.

Risk

External Risks

- Occur due to inconsistencies between strategies & forces in the environment
- Short-Time
  - Errors in interpreting the environment cause strategic failure
  - For example, a temporary surge in demand may cause disruptions.
- Long-Time
  - Changes in the environment lead to obsolescence of strategy
  - Example - Making ICE vehicles due to the increasing pollution and changing mindsets and govt. regulations.

Internal Risks

- Occur because of forces within the firm or are directly interacting with the organisation
- Short-Time
  - Organisational capacity is unable to cope up with strategic demands
  - Example - Skilled labour, Capital
- Long-Time
  - Inconsistencies with the strategy are developed on account of changes in internal capacities and preferences
  - Example - Change in culture

Types of Strategic Analysis

External Analysis

Customer Analysis

- Segments, motivations, unmet needs

Competitor Analysis:

- Strategic groups, performance, objectives, strategies, culture, cost structure

Market Analysis

- Size, growth, profitability, entry barriers

Environmental Analysis

- Technological, government, economic, cultural, demographic

Internal Analysis

Performance Analysis:

- Profitability, sales, customer satisfaction, product quality, relative cost, new products, human resources

Determinants Analysis:

- Strategies, problems, capabilities, constraints, resources, strengths, weaknesses

Strategic Analysis helps in strategy Identification & Selection

- Identify strategic alternatives

- Select strategy
- Implement the operating plan
- Review strategies

Limitation of Strategic Analysis

- Offers many innovative options but doesn't guide which to pick—options may be overlapping, confusing, or hard to implement.
- Can be time-consuming, affecting organisational functioning and delaying new product or service innovations.

Business Environment (BE)

- Refers to all external factors, influences, or situations
  - That in some way affects business decisions, plans, and operations.
- Dynamic and Continuously Evolving
- Success of an organisation
  - Determined by its business environment
  - And even more from its relationship with it

Close and continuous interaction between organisation and BE helps in following ways

1. **Determine opportunities and threats**
   - Identify new consumer needs, emerging trends, change in law and social behaviour
   - Can guide development of new products, can help in anticipating and mitigating threats
2. **Give direction for growth**
   - Identify areas of expansion
   - Can help in scaling
3. **Continuous Learning**
   - Informed about industry trends
   - Will help in remaining competitive
4. **Image Building**
   - Building a positive image
   - Example, contributing to local initiatives and showing sensitivity to community
5. **Meeting Competition**
   - Analyse strategies of competitors
   - Understanding their strengths and weakness
   - Positioning yourself uniquely

CBQ - Yash is planning to launch his new tech start-up. He is exploring different locations across the country to establish his company in the right business environment. One option is the city of Bengaluru, the silicon valley of India, with an engaging network of entrepreneurs, investors, advisors and mentors. Coupled with various subsidies for new ventures and tax benefits, Bengaluru might be an ideal choice for Yash to establish his company and increase the chances of success.Define the term Business Environment with respect to the above scenario. Explain the different ways in which the interaction of a business with its environment can be helpful in developing a successful strategy. (SA, May 2024, 5 Marks) (RTP, May 2025, NA)

Micro & Macro Environment

The business environment includes both the macro environment and the micro environment.

- Micro environment: Forces close to the company affecting its routine functions. Includes company, suppliers, marketing intermediaries, customer markets, and competitors. Specific to the business and effects in the short term.
- Macro environment: Distant forces affecting the organization and micro environment. Includes demography, economy, natural forces, technology, politics, legal, and socio-cultural. General and affects all firms in an industry.

Relationship

- The micro environment (customers, suppliers, competitors, intermediaries, public) directly impacts a firm's operations,
- But these factors are influenced by macro environment forces (economic, technological, political, social, legal).
- Businesses must adapt to macro trends to stay competitive.
- Example - If a tech company relies on Chinese suppliers (micro) and a global trade ban (macro) disrupts imports, the company must find alternative suppliers or adjust pricing strategies.

DQ - Distinguish between Micro Environment and Macro Environment - (Model test paper 3,May 2025, 5 marks)

Demographic Environment

- Demographics are characteristics of a population classified by age, gender, income, race, education, assets, house ownership, job position, region, and geographic dispersion.
- This data is valuable to businesses, economists, marketers and social scientists who often divide populations by demographic makeup.

- India has a younger population, attracting multinationals due to its population size and ethnic mix.
- Businesses must study these factors, focusing on: What demographic trends affect market size? Which trends are opportunities or threats?
- Understanding their impact on strategic competitiveness is a key challenge.

Socio-Cultural Environment

- A general factor affecting almost all enterprises.
- It includes social traditions, values, beliefs, literacy standards, ethical standards, social stratification, conflict, and cohesiveness.
- Unlike demographics, it reflects the behaviour and belief system of the population.
- Beliefs, values, and norms guide how individuals and organizations interact.
- Core beliefs are persistent and hard to change, so businesses must adjust to them to function successfully.
- It affects strategic management, especially mission, objective setting, and product-market decisions.

Economic Environment

- Economic conditions directly impact business strategies.
- The economic environment includes regional, national, and global economic situations.
- It covers resource markets that affect inputs, outputs, their costs, and availability.
- It influences market strength, purchasing power, and depends on income, prices, savings, money circulation, debt, and credit availability.
- The income distribution pattern shapes business possibilities. Key factors are the effects of economic prospects, growth, and inflation on business operations.

Political-Legal Environment

- includes the level of political development, politicisation of business issues, political morality, law and order, political stability, ideology of the ruling party, efficiency of governmental agencies, and the extent of governmental intervention in economy and industry.
- It is partly general and partly enterprise-specific.
- Business is highly influenced by government policies, and the type of government affects business operations.
- Firms must track regulatory changes and their impact. Taxes and duties are also critical business concerns.
- Businesses prefer countries with a strong legal system.
- They must understand key laws related to consumers, competition, organizations, companies, intellectual property, foreign exchange, and labour.

Nationalism and Business Policies

- Supports enhancing a country's position in international business.
- In India, Make in India and Aatmanirbhar Bharat reflect this thrust.
- The Production Linked Incentives scheme rewards increased domestic production.
- It encourages foreign businesses to set up in India and incentivises domestic businesses to expand manufacturing, create jobs, and reduce import dependence.

Technological Environment

- Technology is a key factor today, changing how people communicate, work, and how businesses operate.
- Technology and business are interdependent.
- Businesses leverage technology, using discoveries to adapt and serve society.
- It reduces paperwork, improves payment scheduling, and inventory coordination, lowering costs, and shrinking time and distance, giving competitive advantage.
- Technological changes affect operations, production, and marketing strategies.
- Technology creates new business opportunities and can make current products and services obsolete.
- Tools like artificial intelligence, machine learning, and robotic process automation can be both opportunities and threats to a business.

PESTLE

Framework for analysis of macro environmental factors

- P – Political
- E – Economics
- S – Socio-Cultural
- T – Technological
- L – Legal
- E – Environmental
- (Past: PEST)

Environmental factors

- Environmental factors affect industries like tourism, farming, and insurance.
- Rising awareness of climate change is changing how companies operate and the products they offer—creating new markets while diminishing or destroying existing ones.

How PESTLE Helps

- Identify influence of: Political, Economic, Socio-Cultural, Technological, Legal, Environmental factors on an organisation
- Provides a way of scanning the environmental influences that have affected organisation
- Simple to understand
- Quick to implement
- Encourages management For proactive and structured thinking In its decision making

DQ - Nuvanta Healthcare is planning to launch a nutrition supplement targeted at urban consumers in Tier-2 Indian cities. The product team analyzed local population data age groups, income levels, lifestyle patterns and health concerns before finalizing the formulation and pricing. They are also reviewing how changes in government policy and tech adoption may affect the rollout. What kind of external factor has Nuvanta considered for pricing the product? Briefly explain the major categories of such external influences that shape business strategy.
(RTP, Sep 2025,NA)

Internationalization of Business

Characteristics of a global business

Conglomerate of multiple units

- All linked by common ownership
- Example: A multinational corporation like Unilever, which owns and operates numerous brands and subsidiaries across different continents, all under one umbrella of ownership.

Draw on a common pool of resources

- Such as money, credit, information, patents, trade names and control systems
- Example: A global tech company might use its patents and technological know-how across different countries, thereby spreading the R&D costs and maximizing the benefits from its innovations.

Respond to some common strategy

- Despite operating in different regions, all units of a global business respond to a unified strategy
- Example: A global automobile manufacturer may have a strategy focused on sustainability.

Developing Internationally

Internationalization is key for improving profitability and accessing cheaper resources. It helps businesses enter new markets, gain economies of scale, and extend product lifecycles. But it's complex due to new variables and linkages.

A structured international strategic planning approach includes:

1. Evaluate Global Opportunities and Threats – Assess global markets and align with internal capabilities.
2. Describe the Scope of Operations – Define the firm's international activities.
3. Create Global Business Objectives – Set objectives aligned with the firm's mission.
4. Develop Distinct Corporate Strategies – Formulate strategies for global competition.

These steps help identify market opportunities and build effective global strategies despite challenges.

Why do businesses go global?

Technological developments and political views have driven the rise of multinational organisations. Improved communication and transportation have made internationalisation easier by linking corporate headquarters with abroad operations and increasing mobility of money, people, raw materials, and finished items.

Other reasons

- Growth: The basic need to expand leads firms to explore opportunities globally.
- Shrinking time and distance: Faster communication, quicker transportation, growing financial flow, and technological changes.
- Domestic market limitations: Local competition may not exist abroad.
- Raw materials and labour: Need for cheaper or reliable sources and access to a large talent pool.
- Lower transportation cost: Producing near markets reduces costs and time.

- Higher sales and cash flow: Opening foreign markets may lead to overseas plants and sales branches.
- Rise of services sector and regional economic integration across developed and developing economies.
- Fall of trade barriers: Lower tariffs and custom duties, less government interference, and more reliance on value-added sectors.
- Strategic alliances: Firms collaborate globally to counter economic and technological threats and use comparative and competitive advantages.

International Environment - Assessment

Multinational environmental analysis

Involves tracking global developments, economic and macro elements, and government tendencies (free or interventionist), considering both present and future impact.

Regional environmental analysis

Focuses on key factors in a specific geographical area, finding opportunities for goods, services, or innovations.

Antivirus - A telecom company wants to expand in the African region, will have to study about infrastructure, existing competition, internet penetration etc.

Country environmental analysis

Requires in-depth study of economic, legal, political, and cultural dimensions to plan market entry strategies.Must be customised for each country for developing effective market entrance strategies.

Antivirus Example: Local labour laws, consumer preferences, industry specific laws etc.

Porter's Five Forces Model

Introduction

- Tool for understanding the competitive environment
- Helps in focusing on important things rather than bulk of information
- Basic structure - State of competition in an industry is a composite of competitive pressures:
  - Threat from New entrant
  - Bargaining power of Customer
  - Bargaining power of Supplier
  - Rivalry among Current players
  - Threat from Substitute
- Helps in
  - Diagnosing the competitive pressures
  - Assessing the strength and importance of each pressure

How to use it?

- Identify - Specific competitive pressures associated with each of the five forces
- Evaluate - Strength of Pressure (how strong the pressures are):
  - Fierce
  - Strong
  - Moderate
  - Weak
- Determine - Whether the collective strength of the five competitive forces is conducive to earn attractive profits.

Threat of new entrants

New entrants and Profitability

- New entrants can reduce industry profitability
  - New production capacity → Increase supply
  - Lower price
  - Reduce the market share of the existing firm
- Existing firms can try to raise barriers to entry
- Profitability tends to be higher
  - If other firms are blocked from entering the industry

Barriers to Entry and Industry Profitability

- Meaning - Economic forces that slow down or impede entry by other firms
- A firm's profitability is higher when new entrants are blocked.

Common barriers to entry:

- Capital requirements: Industries needing high capital investment exclude firms lacking funds, enhancing profitability of existing firms.
- Economies of scale: As volume increases, per-unit cost decreases. Large firms benefit from lower costs, discouraging entry.
- Product differentiation: Physical or perceptual differences make products unique. Industries like

personal care and cosmetics use this. High differentiation costs deter new firms.
- Switching costs: Customers may face financial and psychological costs in switching—like testing, contracts, training, or facility modifications—which discourages change.
- Brand identity: Strong brand identity in high-cost, infrequently purchased products creates barriers. Building brands needs substantial resources and time.
- Access to distribution channels: Existing firms often control distribution channels, limiting access for new firms. Even with the internet, physical channels remain vital.
- Aggressive retaliation: The threat of existing firms cutting prices or raising advertising can deter new entrants.

Antivirus - Switching costs are the expenses or inconveniences that customers face when they change from one product or service to another. These costs can be financial such as fees to end a contract early or non-financial, like the time and effort needed to learn a new system or the emotional attachment to a familiar brand.

Bargaining Power of Buyers

- Affects suppliers pricing strategy
- Influence **on Costs and Investments –** More investment needed for better services
- Pressure **on Existing Firms**
  - Lower prices
  - Better services
- Conditions **Increasing Buyer Power**
  - Full knowledge of product sources and substitutes
  - Significant spending on industry's products (big buyers)
  - Product is not critical to buyer's needs
  - Buyers are more concentrated than suppliers
  - Ease of switching to substitutes

Bargaining Power of Suppliers

- Specialized **offerings increase supplier's clout**
- Influence **on Profitability**
- Conditions **Increasing Supplier Power and Profitability**
  - Products crucial to the buyer and lack of substitutes
  - High switching costs
  - Suppliers more concentrated than buyers

Nature of Rivalry (Competition)

1. Important determinant of attractiveness
2. Influences decisions at different strategic levels
3. On functional levels, it impacts:
   - Pricing
   - Marketing, etc.
4. Directly influences:
   - Cost of raw materials, input services
   - Distribution cost
   - Marketing, ultimately impacts profitability/attractiveness of the industry cost
   - Therefore
5. More intense rivalry = Less attractive industry

Conditions Increasing Rivalry (Intensity of Rivalry)

Rivalry among competitors greatly affects industry attractiveness and profitability. When rivalry becomes intense, several conditions reduce profits:

1. Industry Leader Presence: A strong leader may maintain pricing discipline, but with many competitors, aggressive pricing reduces profitability.
2. Number of Competitors: More competitors increase rivalry, making price control difficult and leading to price competition.
3. High Fixed Costs: Firms with high fixed costs cut prices to use capacity, hurting industry profitability.
4. Exit Barriers: High exit barriers (e.g., specialized assets) trap firms in the market, sustaining competition and reducing profits.
5. Product Differentiation: Without differentiation, firms compete on price, leading to price wars. Differentiated products earn higher margins and reduce rivalry.
6. Slow Industry Growth: Low growth forces firms to compete aggressively for market share, increasing rivalry and lowering profitability.

Threat of Substitutes

Identifying Substitutes

- Look for products that serve the **same or similar function**.
- Examples: **– Investment substitutes:** Real estate, insurance, bonds, and bank deposits can replace common stocks.

High-Tech Industries & Substitutes

- High-tech industries **face strong substitute threats**.
- Examples:
  - **Photography industry:** Digital filmless cameras replaced traditional film cameras.
  - **Mobile technology:** Smartphones replaced traditional cameras

Attractiveness of Industry

Industry analysis ends with identifying issues and concluding whether the industry is attractive or unattractive, both near-term and long-term. Key factors to consider:

- Industry growth potential—Is it futuristically viable?
- Does competition allow adequate profitability, and will competitive forces strengthen or weaken?
- Will driving forces affect industry profitability favourably or unfavourably?
- What is the firm's competitive position? Is it likely to grow stronger or weaker? (A strong leader in a weak industry can still be profitable, while a weak player in a good industry may struggle.)
- Can the firm capitalize on weaker rivals' vulnerabilities?
- Can the firm defend against unattractive industry factors?
- What are the risk and uncertainty levels?
- What is the severity of industry-wide problems?
- Does being in this industry help the firm succeed in other industries?

If profit prospects are above average, the industry is attractive; if below average, it's unattractive. But attractiveness is relative—what's unattractive to weak competitors may be attractive to strong ones.

In attractive industries, firms invest in competitive positions, sales, and facilities. In unattractive industries, strong firms invest cautiously, while weak firms may merge or diversify.

Experience Curve

Meaning and concept

- The experience curve is similar to the learning curve and shows efficiency gained through repetitive work.
- It explains that unit costs decline as a firm gains experience from cumulative volume of production. Based on the idea: "we learn as we grow".
- Larger firms tend to have lower unit costs, gaining competitive cost advantage over smaller firms.
- This is due to learning effects, economies of scale, product redesign, and technological improvements.

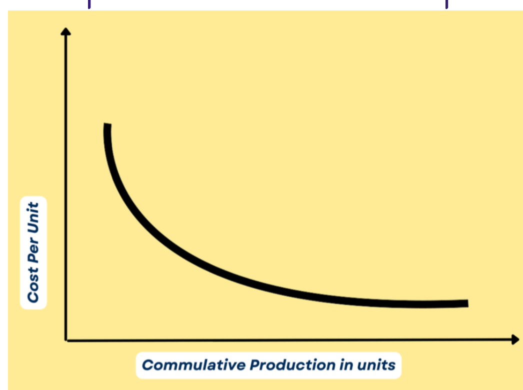
Relevance in Strategic Management

- Experience curve is a barrier to entry for new firms.
- It helps build market share and discourage competition.

Experience curve has the following features

- Growing firms gain experience.
- Experience provides advantage and is a key barrier to entry.
- Large firms have stronger experience effects.

A typical experience curve shows that as a business grows, it understands complexities and benefits from experience.



Value Chain Analysis

Value chain analysis is a strategic tool used to examine each business activity to determine how it adds value, helping firms improve efficiency, identify cost-saving opportunities and gain competitive advantage through better coordination and performance of internal processes.

Value Chain

- Chain of activities (All the steps involved)
- That a business undertakes from creating a product to customer satisfaction

Activities

- Primary (5)
- Secondary (4) (Support)

Primary activities

- Inbound logistics: Receiving, storing, and distributing inputs (materials handling, stock control, transport).
- Operations: Transforming inputs into final product/service (machining, packaging, assembly, testing).
- Outbound logistics: Delivering product to customers (warehousing, transport); for services, arranging customer access (e.g., sports events).
- Marketing and sales: Making users aware and enabling purchase (advertising, selling, sales admin, communication networks in public services).
- Service: Activities that maintain/enhance value (installation, repair, training, spares).

Support Activities

- Procurement: Acquiring resource inputs for primary activities, focusing on sourcing methods across the organization.
- Technology Development: Includes R&D, product design, process improvement, and resource development to boost value activity performance.
- Human Resource Management: Covers recruiting, training, development, and rewarding employees to ensure effective activity performance.
- Infrastructure: Involves planning, finance, quality control, info management, and culture to support and coordinate all activities.

Value Creation – usefulness – "worth"

Value creation means offering products/services with more worth, measured by features, quality, availability, durability, performance, and related services, and is the extra worth a consumer sees beyond the price, leading to a firm's margin.

Firms now focus on value for both customers and stakeholders, aiming for competitive advantage and above-average profits.
Customer value depends on:

1. Value perceived by customer (utility),
2. Price charged,
3. Cost of creating value.

Utility is the satisfaction customers derive from a product—based on its performance, design, quality, and service—and is different from price

According to Michael Porter, firms gain competitive advantage via:

- Differentiation (superior features, service, higher pricing), or
- Cost advantage (lower cost than rivals).

Porter's Value Chain helps identify sources of differentiation and understand cost behavior through analysis of primary and supporting activities.

Understanding Product and Industry - Product

Businesses sell products, which can be either a good or a service. It might be a physical good, service, or experience. Key characteristics of business products:

Business products are either tangible or intangible.

A **tangible product** can be handled, seen, and felt, like a **mobile handset**. An **intangible product** includes **telecom services**, **banking**, **insurance** etc.

A product has a price.

The market price is influenced by supply and demand, where quantity provided equals quantity desired. In a competitive world, the price is often set by the market, so businesses must manage costs to maintain profitability.

New Product Pricing Strategy

- Customer-***centric*** approach in development. (make your price acceptable)
- Ensure ***returns*** with reasonable margin.
- Aim to increase ***market share***.

Products have features that deliver satisfaction.

A **product feature** is a **component** that satisfies a **consumer need**. Features **determine** pricing and may change during the **development process** to improve the **user experience**. Products must deliver **value satisfaction** to **customers** through **function**, **design**, **quality**, and **experience**.

A product is central to business.

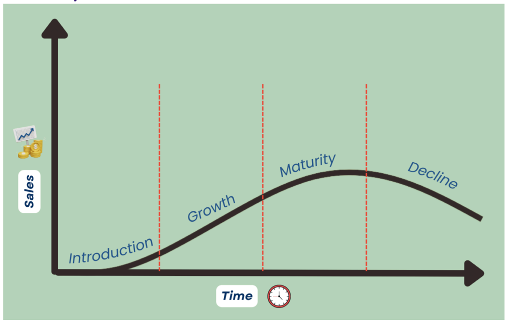
It drives production, quality, sales, marketing, logistics, and all business processes. It is the driving force behind all business activities.

A product has a useful life.
It has a **usable life** and a life cycle after which it may be **reinvented** or replaced—e.g., **fixed line telephone** replaced by **mobile phones**.

Classification and differentiation
- Classified as industrial/consumer, essential/luxury, durable/perishable.
- Some products have steady demand, others may have seasonal demand.
- Differentiation via size, shape, color, brand, after-sales service.
- Psychological branding influences customer perception.
- Example: P&G brands (Head & Shoulders, Olay, Pantene, etc.).
- Brand names legally protected to establish identity.
- Firms build image & loyalty through advertising.

Product Strategy
- Strategies: Manage existing, add new, drop failures.
- Decisions on branding, packaging, warranties.

Product Life Cycle
PLC is an S-shaped curve showing the relationship between sales of a product and time, moving through four stages: Introduction, Growth, Maturity, and Decline. The concept applies to both products and businesses.



Stages of Product - A product passes through 4 successive stages
- Introduction: Slow sales growth, high prices, low competition, limited market, and low customer awareness.
- Growth: Rapid demand, falling prices, rising competition, expanding market, and more customer interest.
- Maturity: Growth slows, tough competition, stable market, falling profits, need to maintain stability.
- Decline: Sharp drop in sales and profits, due to new products replacing old ones. Use diversification or retrenchment.

Advantage of PLC
- Helps analyse product/business portfolios by identifying their stage.
- Depending on the diagnosis, appropriate strategic choice can be made
  - **For introductory/growth stages: adopt expansion strategies.**
  - **For the mature stage: use as cash sources for others.**
  - **For the declining stage: use selective harvesting, retrenchment, etc.**
- A balanced portfolio is built using PLC-based strategic choice.

Market
- Place where goods and services can be exchanged for a price
- Maybe
  - Physical
  - Virtual (like e-commerce websites and applications)
  - May further be local or global
- Can be be used for
  - stock market,
  - group of individuals potential buyers and
  - for defining business or industry
- May further be ***local*** or ***global***
- Markets are not the same for all businesse
  - Each business has its ***own*** set of ***customers***, i.e., market.
  - Each ***product within*** a ***business*** has its ***own market***.

Marketing
Marketing improves business success. It's explained using 4 Ps - Product, Place, Pricing, and Promotion - to meet customer needs and deliver satisfaction.
The goal of marketing is to deliver a great customer experience and build strong relationships.

Marketing Orientations
- Product-**oriented**: Focus on **quality**, **performance**, **design**
- Production-**oriented**: Focus on **low price**
- Sales-**oriented**: Rely on **advertising and promotion**
- Customer-**oriented**: Focus on **customer needs**, value creation using **market and competitor data**

Customer

Basics

- A person or business who buys goods or services
- Provides essential revenue for business survival
- Businesses compete for customers by:
  - Aggressive marketing
  - Lowering prices

Customer Research and Segmentation

Businesses study customer characteristics and segments to:

- Create marketing strategies
- Adjust inventory levels

Segmentation is based on demographics like age, race, gender, ethnicity, income level, and geographic region

Customer analysis

- Essential marketing component of strategic business plan
- Identifies Target customers, Determines wants, Defines how products meet their needs
- Includes:
  - Administration of customer surveys
  - Study of consumer data
  - Evaluation of market positioning analysis
  - Development of customer profiles (Persona)
  - Selection of best market segmentation techniques
- Example: A headphone brand categorizes buyers into:
  - High value buyers (willing to pay more)
  - Medium value buyers
  - Low value buyers (spend less)

Customer vs. Consumer

- Customer: ***Buys*** the product/service.
- Consumer: ***Uses*** the product/service.
- Example:
  - ***Parents*** buy stationery (customers), but ***kids*** use it (consumers).
  - Baby ***diapers*** are bought by ***parents***, but babies use them.
- Marketers must ***understand both*** for effective strategies.
- If ***consumers*** (users) are ***unhappy***, ***retaining customers*** (buyers) becomes ***difficult***.

Customer behaviour

Customer behaviour explains how customers purchase products—covering shopping frequency, product preferences, and perception of marketing, sales, and service. It helps in effective communication, marketing, advertising, and customer retention.

Consumer behaviour is influenced by three conceptual domains:

- External InfluencesInclude advertisement, peer recommendations, and social norms. These affect psychological and internal processes in decision-making. Divided into
  - Company's marketing efforts
  - Environmental elements
- Internal Influences: Psychological factors like motivation and attitudes internal to the customer that impact decisions.
- Decision making - Gather information,check pros and cons, integrate with prior knowledge and then make decisions. Stages of decision making processes:
  - Problem recognition
  - Search for desirable alternatives
  - Seeking information on available alternatives and weighing their pros and cons
  - Make a final choice

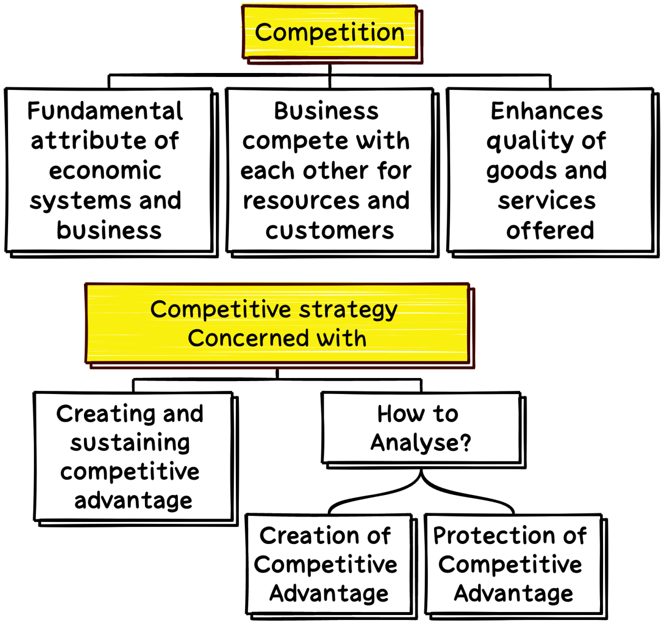
More common for significant purchases in comparison to casual choices, like ice cream, et cetera.

Post decision process

- Evaluate satisfaction
- Happy customers make repeat purchase and recommend to others
- Dissatisfied won't purchase again or recommend to others

CBQ - You are a strategic manager for a tech company launching a new smartphone model. The company wants to target tech-savvy consumers who value innovation and cutting-edge technology. Using the concept of customer behaviour, develop a marketing strategy to promote the new smartphone. (MTP1, May 2024, 5 Marks)(MTP1, Jan 2025, 5 Marks) (ICAI Study material)(Model Test Paper 1,May 2025, 5 marks) (Model test paper 6,May 2025, 5 marks)

Competitive strategy



Competitive advantage over competitors means being more profitable in the long run.

Competitive landscape

Competitive landscape is a business analysis to identify competitors, direct or indirect. It involves understanding their vision, mission, core values, niche market, strengths, and weaknesses.

Steps to understand the competitive landscape:

- **Identify the competitor**: Find competitors in the industry and collect data on **market share**.
- **Understand the competitors** - Use **market research reports**, internet, **social media**, **industry reports**, etc., to study their **products** and **services**.
- **Determine the strengths of the competitors** - What do they do well? Good **products**? Strong **marketing**? Why do **customers** choose them?
- **Determine the weaknesses of the competitors** - Use **consumer reports** and **reviews** to find weak areas.
- **Put all of the information together** - Summarize findings to identify gaps and areas the firm can **fill** or **strengthen**.

Riya Sharma owns a confectionery business in Jaipur, specializing in homemade chocolates and candies. Despite holding a substantial market share in the central region, her business has experienced declining sales of these products over the last few years. Concerned about the market dynamics, Riya consulted a management expert for guidance. The consultant recommends a comprehensive understanding of the competitive landscape. Explain the steps to be followed by Riya Sharma to understand the competitive landscape to address the sales decline.
(MTP2, May 2024, 5 Marks)(ICAI Study material) (RTP, Jan 2025, NA) (MTP1,Sep 2025,5 Marks)

Key success factors

Meaning

- An industry's Key Success Factors (KSFs) are things that most affect industry members' ability to prosper in the marketplace.
- KSFs are so important that all firms must pay close attention to them.
- They are the prerequisites for industry success
- KSFs are the rules that determine whether a company will be financially and competitively successful.
- Misdiagnosis raises risk of misdirected strategy

Dynamics

- Vary from industry to industry and from time to time
- At one time rarely an industry has more than 3-4 KSFs
- One or two usually outrank others in importance

KSF Questions

Three questions help identify an industry's key success factors:

- Basis
  - On what basis customers choose between competing brands of sellers
  - What product attributes are crucial to sales?
- Resources and competitive capabilities
  - What resources are needed to be competitively successful e.g. better human capital, quality of product, quantity of product, cost of service, etc?
- Sustainable competitive advantage
  - What does it take for sellers to achieve a sustainable competitive advantage

DQ - Analyze the role of Key Success Factors (KSFs) in determining competitive success within an industry.
(MTP2, Sep 2024, 5 Marks)(MTP2, Jan 2025, 5 Marks) (Model test paper 5,May 2025, 5 marks) (Model test paper 7,May 2025, 5 marks)