

# **STRATEGIC ANALYSIS – EXTERNAL ENVIROMENT**

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# TOPICS

- *Strategic Analysis*
- *Strategy & Business Environment*
- *Understand Product & Industry*
- *Industry Environment Analysis*
- *Market & Customer*
- *Competitive Strategy*

# IMPORTANCE OF BUSINESS ENVIRONMENT

- **Determining opportunities & threats** – Environment helps us to **bring out opportunities and threats to business** .
- **Giving direction for growth** – Enables us to **find areas of growth & expansion** . Eg - Instagram
- **Continuous Learning** – Managers are motivated to learn , so they can **meet changes as per environment** . Eg – CA Practice
- **Image Building** – It helps organization to improve their image by showing concern towards sensitive issues. Eg –Akshay Kumar
- **Meeting Competition** – It helps firms **make competitive strategies**. Eg - Jio Cinema

# COMPONENTS OF BUSINESS ENVIRONMENT

- **Internal** – It consists of people within the organization , including management , current employees, & corporate culture . It is conditions , people , events , factors within an organization that influence its activities & choices , particularly behaviour of employees
- **External** – It includes Macro & Micro Environment

# COMPONENTS OF EXTERNAL ENVIRONMENT

## MICRO

- They can be controlled by organization
- They have direct impact on organization
- Narrow in scope

## MACRO

- They cannot be controlled by organization
- They have indirect impact on organization
- Broad in scope

# ELEMENTS OF MACRO ENVIRONMENT

**Deepika Padukone Aur Sachin Tendulkar Global Celebrity hai**

- Demographic
- Economic Environment
- Political - Legal
- Socio-cultural
- Technological
- Global

# DEMOGRAPHIC ENVIRONMENT

- It includes **characteristics of population like age , gender and income in order to understand features of a specific group**
- **It considers race , age , income , education , possession of assets , house ownership , job position & degree of education**
- **Data about these are of interest to Business men to take their decisions**

# SOCIO CULTURAL ENVIRONMENT

- It includes **social traditions , values & beliefs , level and standards of literacy & education , ethical standards , state of society , extent of social stratification , conflict & cohesiveness** and so forth . Eg – Mcdonalds , South culture
- **Core beliefs of society tends to be persistent , it is difficult to change these core values** , business has to adjust to social norms & beliefs



# ECONOMIC ENVIRONMENT

- It refers to **over-all economic situation** of the country .
- The purchasing power depends on **income , prices , savings , circulation of money , debt & credit availability** .
- These include **GDP , Per capita income , markets for goods & services , availability of capital , interest rates , disposable income , unemployment , inflation etc**

# POLITICAL LEGAL ENVIRONMENT

- It is similar to all enterprises . It includes **general state of policy development , degree of politicization , economic issues , level of political morality , law and order , political ideology**
- Business is **guided by government policies**
- Business prefer to **operate in a country where there is sound legal system**

# TECHNOLOGICAL ENVIRONMENT

- Technology has changed the way people communicate with advent of internet and telecommunication
- It has changed way business operates
- It can become both threat & opportunity .If business can take advantage of technology , it can bring strategic advantage
- Technology & Business are interrelated & interdependent

# PESTLE ANALYSIS (MACRO FACTORS)

It is **brief description of Macro Factors** to be kept in mind , while doing Business . Earlier it was PEST Analysis .

It is **simple to understand & quick to implement.**

It encourages management into **proactive & structured thinking in its decision making**

- Political
- Economic
- Social-cultural
- Technological
- Legal
- Environmental . Eg – Farming , Tourism , Insurance

# GLOBALISATION

- It means integrating our economy with world economy. It calls for removal of all trade barriers among countries.
- It means :
  - 1. Company commits itself heavily with several manufacturing locations around the world**
  - 2. Ability to compete in domestic markets along with foreign competitors**
- Company has gone global is called as multinational (MNC) . It operates in one or more countries. Company views whole world as one market .

# CHARACTERISTICS OF GLOBAL COMPANY (CCC)

- It is **conglomerate** of multiple units but linked by **common ownership**
- They have **common pool of resources** such as money , credit , information , patents , trade names & control systems
- They have **some common strategy**. Besides its managers and shareholders are also in different nation

# **STEPS IN INTERNATIONAL STRATEGIC PLANNING ARE -**

- 1. Evaluate Global Opportunities & Threats & rate them with Internal capabilities**
- 2. Describe the Scope of Firm's Global Operation**
- 3. Create the firm's global business objectives**
- 4. Develop distinct corporate strategies for global business & whole organisation**

# WHY COMPANIES GO GLOBAL ?

- **Need to Grow** in other parts of the globe
- **Rapid shrinkage of time and distance** due to faster communication , transportation etc
- **Domestic markets are no longer adequate and rich**
- **Reliable or cheaper source of raw material , cheap labour etc**
- **Set up overseas plants** to reduce high transportation cost
- **Overseas manufacturing plants and sales branches** to generate higher sales
- **To form strategic alliances & leverage competitive advantages**
- **Trade Tariffs & Custom barriers are getting lowered**



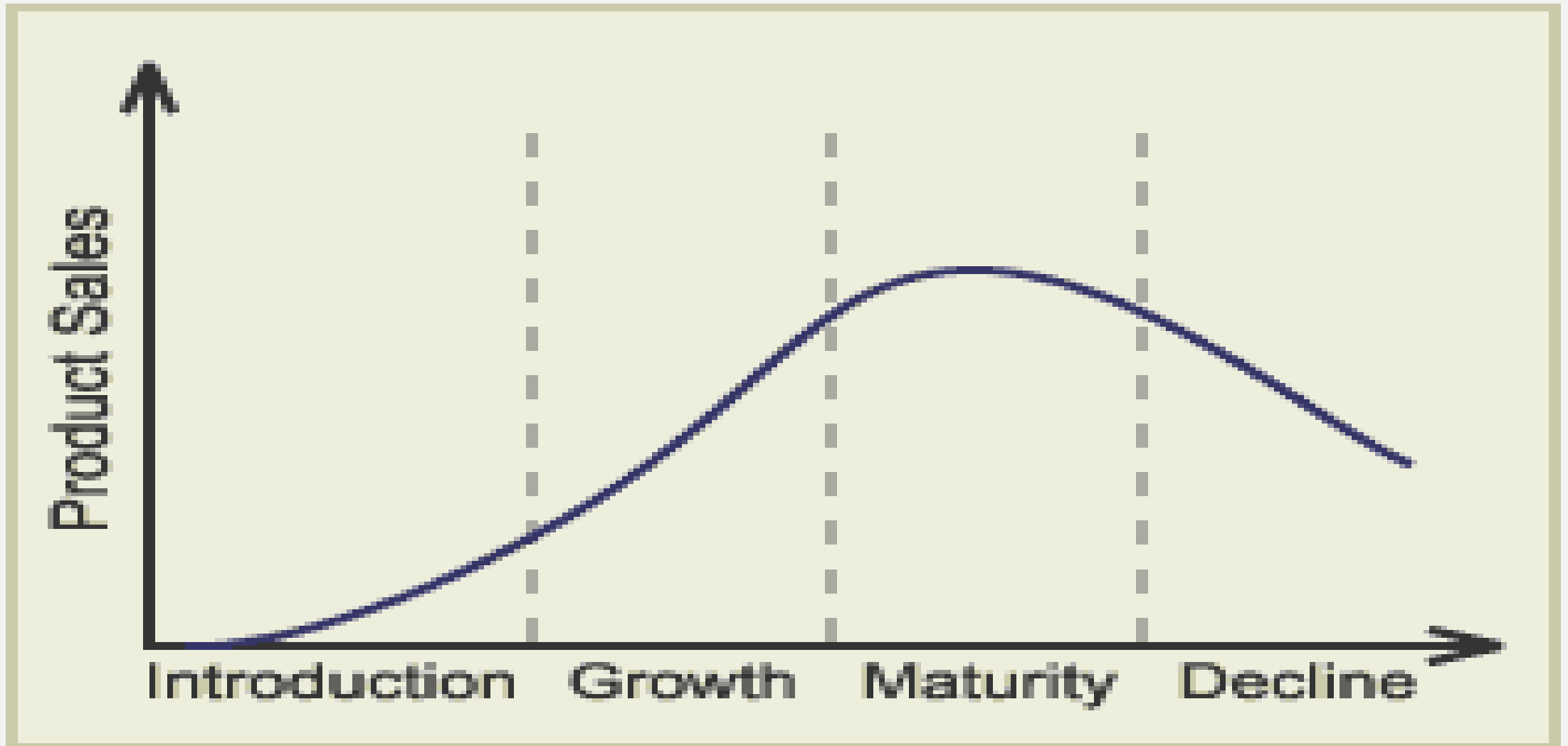
# HOW TO ASSESS INTERNATIONAL ENVIRONMENT (CRM)

- **Country Environmental Analysis** – Study of economic , legal , political & cultural dimensions is required to be successful .We have to analyse each country to develop effective market entering strategy . Eg Haldirams in USA & India
- **Regional Environment Analysis** – In-depth evaluation of critical factors in a specific Geoprahical area . Discovering opportunity for goods , services in choosen location (MCDONALDS – NORTH , KFC – SOUTH)
- **Multinational Environment Analysis** – Involves identifying , anticipating & monitoring significant components of global environment on large scale .Analyse the government in that region , whether it is free or does intervention , these characteristics are evaluated in present & future impact . Eg India v/s North Korea v/s USA v/s China

# CHARACTERISTICS OF PRODUCT / SERVICE

- **Product could be Tangible / Intangible** – Tangible car , mobile , computer , tablet . Intangible – Teaching , Banking , insurance , telecom etc
- **Product is Pivotal for Business** – Product is driving force behind sales , marketing , quality , logistics & other business processes
- **Product has a Price** – Price that is paid is determined by market and all businesses have to work towards it to maintain profitability
- **Product has features which deliver Satisfaction** – It should provide value to customer , Product can be different in function , quality , design & experience
- **A Product has Useful Life** – Every product has useful life or cycle , after which it has to be replaced or reinvented or may cease to exist . Eg – Kodak , Nokia

# PRODUCT LIFE CYCLE



# PRODUCT LIFE CYCLE

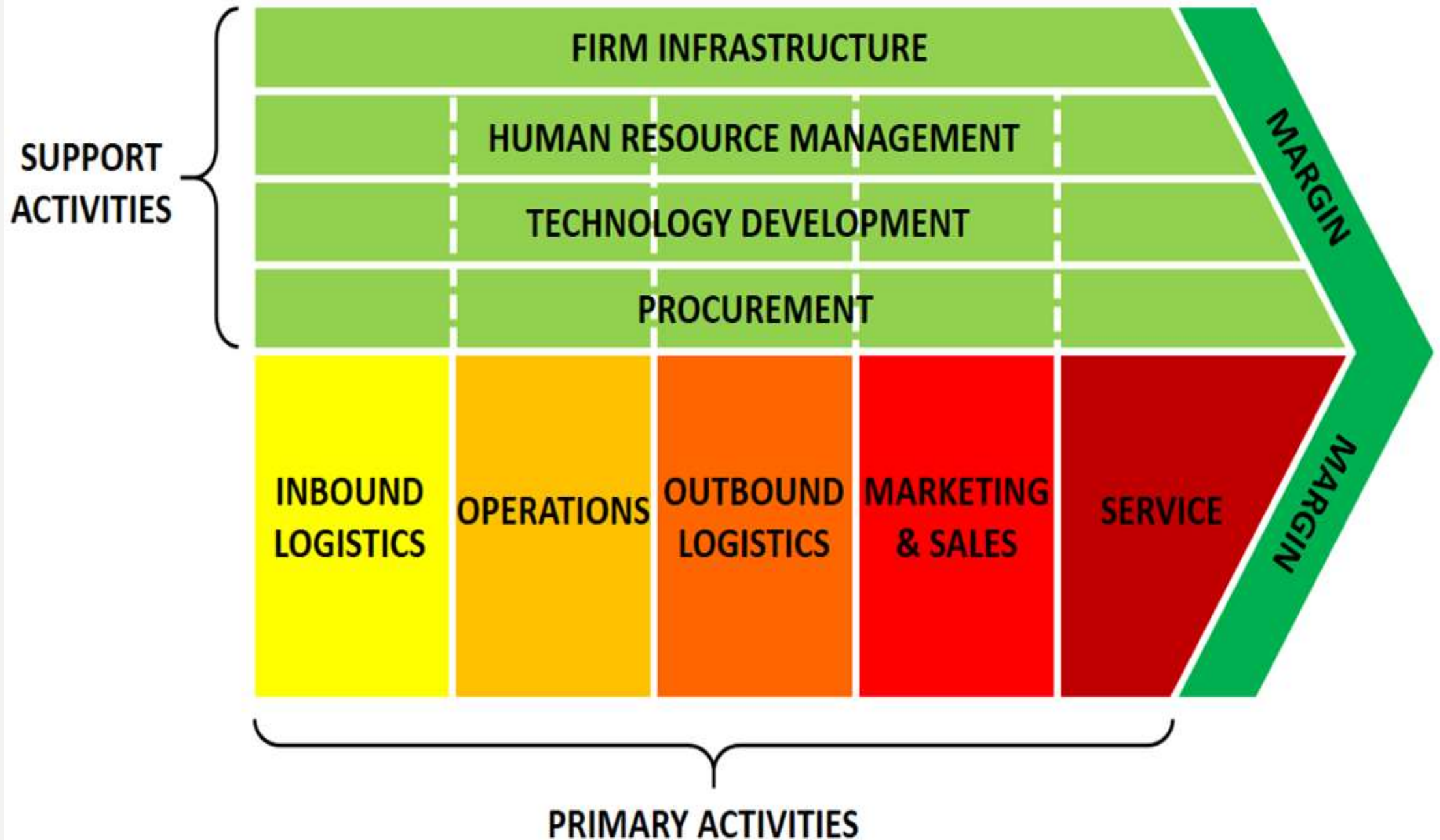
- It is useful concept for making strategic choice about product
- The main advantage of **PLC approach** is it is used to **diagnose a portfolio of products** in order to establish stage at which it exists
- For products that are in **decline stage** we can use strategies like **selective harvesting , retrenchment etc**
- **Expansion** is good for **Introduction & Growth stages**
- **Mature Business** may be used as **source of cash** for **investment in other business** which need resources

# 4 STAGES OF PLC ARE :

- **Introduction** – In this **competition is negligible , prices are high , markets are limited.** Growth in sales is at lower rate because of lack of customer knowledge
- **Growth** – In this stage **demand expands rapidly , prices fall , competition increases and market expands.** Customer has knowledge of product and shows interest in purchasing.
- **Maturity** – **Competition gets tough** and markets are stabilised. **Profit comes down because of stiff competition ,** organisation works for maintaining stability
- **Decline** – **Sales & Profit falls down sharply** as new product replaces old , so either we can do diversification or retrenchment

# VALUE CHAIN ANALYSIS

- It is used to describe activities within and around organisation and relating them to assess competitive strength of organisation
- In other words , it is these competences to perform particular activities and ability to manage linkages between these activities which are source of competitive advantage
- There are 2 types of activities
  - PRIMARY
  - SECONDARY



# PRIMARY ACTIVITIES ARE :

- **Inbound Logistics** – are those activities concerned with receiving , storing and distributing inputs to product/service
- **Operations** – Transform these inputs into final product and include machining , packing , assembly , testing etc
- **Outbound Logistics** – Collect , store and distribute product to customers.
- **Marketing & Sales** – It includes sales , administration , advertising , selling and so on.
- **Service** – All those activities which enhance or maintain value of product such as installation , repair , training and spares



# SUPPORT ACTIVITIES ARE :

- **Procurement** – Refers to process of acquiring various resource inputs to primary activities
- **Technology Development** – The key technologies may be concerned directly with product or with processes or with a particular resource
- **Human Resource Management** – It covers recruitment , training , developing and rewarding people within the organisation
- **Infrastructure** – System of planning , finance , quality control , information management are crucially important to an organisation's performance in its primary activities

# USE OF VALUE CHAIN ANALYSIS FOR IDENTIFYING CORE COMPETENCES

- Although all activities in value chain are important , but we should identify those activities which will bring competitive advantage and they will become CORE competency
- It gives basis based on which we can get new opportunities
- Core Competence if in separate activities may be copied by someone
- But if they relate to management of linkages within organisation value chain and linkage into supply and distribution chains , then it is difficult to copy
- There may be linkages among Primary activities or Support Activities or both

# EXPERIENCE CURVE

- It is used for applying portfolio approach
- It is similar to **learning curve** which explain efficiency **gained by workers** through repetitive productive work
- It is based on **concept that cost will decline as we increase volume of production due to experience**
- It is due to various reasons like **economies of scale , product redesign & technological improvements in production**
- It can be **barrier for new firm doing entry in industry**
- It will **discourage competition**

# VALUE CREATION

- Value creation is **activity or performance by firm to create value that increase worth of goods , services , business processes or even whole business system**
- Value is measured by **product's features , quality , availability , durability , performance and by its services for which customers are willing to pay**
- We should **create value for customers as well as stakeholders**
- Ultimately this **concept gives business a competitive advantage in industry and helps them to earn above average profit/ returns**

# **HOW PROFITABLE COMPANY BECOMES DEPENDS ON 3 FACTORS :**

- 1. Costs of creating those products**
  - 2. Price company charges for it's products**
  - 3. Value Customers place on company's products**
- According to porter company can generate competitive advantage in 2 ways – Cost Advantage or Differentiation**

# STEPS TO UNDERSTAND COMPETITIVE LANDSCAPE / INTELLIGENCE

- Identify the Competitor
- Understand the Competitor
- Determine the Strengths of Competitor
- Determine the Weakness of Competitor
- Put all the Information together

# KEY FACTORS FOR COMPETITIVE SUCCESS

- A Industry's Key Success Factors are those thing which affect the Industry members ability to prosper in market place
- 3 Things that help to identify industry's key success factors are :
  1. **On What basis do customers choose between competing brands of seller ?**
  2. **What resources and capabilities seller should have to compete successfully?**
  3. **What does it take for sellers to achieve a sustainable competitive advantage ?**
- In an industry there are only 3 to 4 KSF , and we should try to achieve them , so we can get competitive edge & try to avoid other things

# WHAT FACTORS / ELEMENTS INFLUENCE CUSTOMER BEHAVIOUR?

- **External Influences** – It includes **Advertisement , peer recommendations or social norms which has a direct impact on consumer decisions** .These aspects are divided into 2 groups – company's marketing efforts & numerous environmental effects
- **Internal Influences** – These are **factors internal to customer** & affects its decision making
- **Decision Making** – It has 4 Steps –
  1. Problem recognition
  2. Search for alternatives & list them
  3. Seeking information on best alternative & weighing their pros & cons
  4. Make a final choice
- **Post Decision Process** – After making decision & purchasing product , final decision is evaluating outcome , while happy customer will purchase again & dissatisfied will neither purchase nor recommend



# **PORTER 5 FORCES MODEL – COMPETITIVE ANALYSIS**

- Before doing any Business , we should check the Competitive Pressure in order to compete in the Industry
- The competitive forces are different from one Industry to another
- Most Powerful tool for analysing Competitive Pressure is PORTER 5 FORCES

# PORTER'S 5 COMPETITIVE PRESSURES OPERATING IN MARKET



# COMPETITIVE ANALYSIS IS DONE IN FOLLOWING STEPS

- Identify specific Competitive Pressure associated with each of the 5 Forces
- Evaluate how Strong the Pressure is (Fierce , Strong , Moderate or Weak)
- Determine whether Collective Strength of 5 Forces is conducive to earn Attractive Profits

# THREAT OF NEW ENTRANTS

- A Firm Profits are higher than other firm when other firms are blocked from entering Industry
- New entrants can reduce profit because they can sell at lower price
- There should be Barriers to Entry which will discourage new entrants

# COMMON BARRIERS TO ENTRY IN NEW ENTRANTS ARE :

- **ECONOMICS KI ABCD**
- **Economies** of Scale
- **Access** to Distribution Channels
- Possibility of **Aggressive** Retaliation by Existing Players
- **Brand** Identity
- **Capital** Requirements
- Switching **Costs**
- Product **Differentiation**

# BARGAINING POWER OF BUYERS

- **Buyers can sometimes exert lot of pressure on existing firms to lower prices , this happens when :**
- Buyers have full knowledge of products & their substitutes
- They are big buyers
- Product is not critical to buyers and it is available elsewhere and there are substitutes available also
- Buyers are less , suppliers are more

# BARGAINING POWER OF SUPPLIERS

- Suppliers can Influence Profit in number of ways :
- Their products are crucial and substitutes are not available
- They can erect high switching costs
- They are less than their Buyers

# NATURE OF RIVALRY IN THE INDUSTRY

- Rivalry is significant factor in the industry . More Intensive Rivalry , less attractive Industry is.
- Rivalry is more and Industry Profits are low when :
  1. Industry has no leader
  2. Huge Competitors in Industry
  3. Competitors operate with Fixed Cost
  4. They face High Exit Barriers
  5. Little opportunity to differentiate their offerings
  6. Industry faces slow or diminished growth



# THREAT OF SUBSTITUTES

- Substitutes are those which perform the same function or nearly the same as that of existing Products
- Threat of Substitutes is high in high tech industries
- More Substitutes of the Product available , less Attractive & Profits Industry will earn