Management 390 Industry Condition Analysis

# Ebook 30-34

## Operating environment

* Operating environment
  + Factors in the immediate competitive situation that affect a firm’s success in acquiring needed resources
  + Task environment
  + Typically much more subject to the firm’s influence or control than the remote environment
  + Firms can more proactive in dealing with the operating environment than dealing with the remote environment

### Competitive position

* Assessing its competitive position improves a firm’s chances of designing strategies that optimize its environmental opportunities
  + More accurately forecast short term and long term growth
* Criteria
  + Market share
  + Breadth of product line
  + Effectiveness of sale distribution
  + Proprietary and key account advantages
  + Price competitiveness
  + Advertising and promotion effectiveness
  + Location and age facility
  + Capacity and productivity
  + Experience
  + Raw materials costs
  + Financial position
  + Relative product quality
  + R&D advantages position
  + Caliber of personnel
  + General images
  + Customer profile
  + Patents and copyrights
  + Union relations
  + Technological position
  + Community reputation
* These criteria are weighted to reflect their importance to a firm’s success
* This type of competitor profile is limited by the subjectivity of its criteria selection, weighting, and evaluation approach

### Customer profiles

* Developing a profile of a firm’s present and prospective customers improves the ability of its managers to plan strategic operations, to anticipate changes in size of markets, and to reallocate resources and forecast demand patterns
* Segments
  + Demographic
  + Geographic
  + Psychographic
  + Buyer behavior information
* Assessing consumer behaviour is a key element in the process of satisfying your target market needs
* Market research and industry surveys can help to reduce a firm’s chances of relying on illusive assumptions
* Firms most vulnerable are those that have had success with one or more products in marketplace and as a result try to base consumer behaviour on past data and trends

#### Geographic

* Define the geographic area from which customers do or could come
* Location will influence on the products’ attractiveness

#### Demographic

* Used to differentiate groups of present or potential customers
* Easy to collect, quantify, and use in strategic forecasting, and the minimum basis for a customer profile

#### Psychographic

* Personality and lifestyle
* Physically active, group-oriented, nonprofessional are the largest customer segment characteristics

#### Buyer behaviour

* Can be a component of the customer profile
* Used to explain or predict some aspect of customer behaviour with regard to a product or service
* Can provide significant aid in the design of more accurate and profitable strategies

### Suppliers

* Dependable relationship is essential to the firm’s long-term survival and growth
* Questions should ask
  + Are the suppliers’ prices competitive? Do the suppliers offer attractive quantity discounts?
  + How costly are their shipping charges?
  + Are the suppliers competitive in terms of production standards?
  + In terms of deficiency rates, are the suppliers’ abilities, reputations, and services competitive?
  + Are the suppliers reciprocally dependent on the firm?

### Creditors

* Questions
  + Do the creditors fairly value and willingly accept the firm’s stock as collateral?
  + Do the creditors perceive the firm as having an acceptable record of past payment?
  + A strong working capital position? Little or no leverage?
  + Are the creditors’ loan terms compatible with the firm’s profitability objectives?
  + Are the creditors able to extend the necessary lines of credit?
* The answers to these and related questions help a firm forecast the availability of the resources it will need to implement and sustain its competitive strategies

## Human resources: nature of the labour market

* Reputation
  + A major element of its ability to satisfy its personnel needs
  + More likely to attract and retain valuable employees if it is seen as permanent in the community
  + Competitive
    - Compensation package
    - Concern with the welfare of its employees
    - If it is respected for its product or service
    - Appreciated for tis overall contribution to the general welfare
* Employment rates
  + Vary considerable with the stage of a community’s growth
* Availability
  + The skills of some people are so specialized that relocation may be necessary to secure the jobs and compensation that those skills commonly command
  + A firm that seeks to hire such a person is said to have broad labour market boundaries
  + People with more common skills are less likely to relocate from a considerable distance to achieve modest economic or career advancements
  + The labour market boundaries are fairly limit for such occupational groups as unskilled labourers, clerical personnel, and retail clerks
* Labour unions
  + Unions represent the workers in their negotiations with employers through the process of collective bargaining

## Emphasis on environmental factors

* The forces in the external environment are so dynamic and interactive that the impact of any single element cannot be wholly disassociated from the effect of other elements.
* Different external elements affect different strategies at different times and with varying strengths.
* The only certainty is that the effect of the remote and operating environments will be uncertain until a strategy is implemented. This leads many managers, particularly in less powerful or smaller firms, to minimize long-term planning, which requires a commitment of resources.
* While such a decision has considerable merit for many firms, there is an associated trade-off, namely that absence of a strong resource and psychological commitment to a proactive strategy effectively bars a firm from assuming a leadership role in its competitive environment.

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## Question 5: what strategic moves are rivals likely to make next?

* Studying competitors’ past behaviour and preferences provides a valuable assist in anticipating what moves rivals are likely to make next and outmaneuvering them in the marketplace

## A framework for competitive analysis

* Framework for competitor analysis
  + Four indicators of a rival’s like strategic moves and countermoves
    - Current strategy
    - Objectives
    - Capabilities
    - Assumptions
* Current strategy
  + Need to have a good understanding of each rival’s current strategy as indicator of its pattern of behavior best strategic options
  + Questions
    - How is the competitor positioned in the market?
    - What is the basis for its competitive advantage?
    - What is kinds of investments is it making?
* Objectives
  + An appraisal of a rival’s objectives should include not only its financial performance objectives, but strategic ones as well
  + To consider the extent to which they are meeting these objectives and whether they are under pressure to improve
  + Typically
    - Good performance 🡪 continue current strategy
    - Poor performance 🡪 change strategy
* Capability
  + A rival’s strategic moves and countermoves are both enabled and constrained by the set of capabilities they have at hand
    - Serve as a strong signal of future strategic actions
* Assumptions
  + How a rival’s top managers think about their strategic situation can have a big impact on how they behave