

TOPIC T – STRATEGIC ANALYSIS

Key focus:

Students will be introduced to the techniques of SWOT and PESTEL and how these might be used in a given business situation.

Specific Learning Outcomes for this topic:

T1	Explain the nature and purpose of SWOT analysis.
T2	Evaluate the usefulness of SWOT analysis for a given business situation.
T3	Explain the nature and purpose of PESTEL analysis.
T4	Evaluate the usefulness of PESTEL analysis for a given business situation.

Introduction:

Two powerful analytical tools used in business strategy: SWOT analysis and PESTEL analysis. These tools help businesses assess their internal and external environments, aiding in strategic decision-making and planning.

The strategic management process

Strategic management is successful when organisations, even those operating in environments of hypercompetition, achieve sustainable competitive advantage and earn above-average returns. Successful strategies are crafted from insightful understandings of the competitive environment as well as intimate knowledge of the organisation. And they are implemented with commitment and resolution. Figure 9.1 describes a series of steps involved in fulfilling the two major responsibilities of the strategic management process — strategy formulation and strategy implementation.

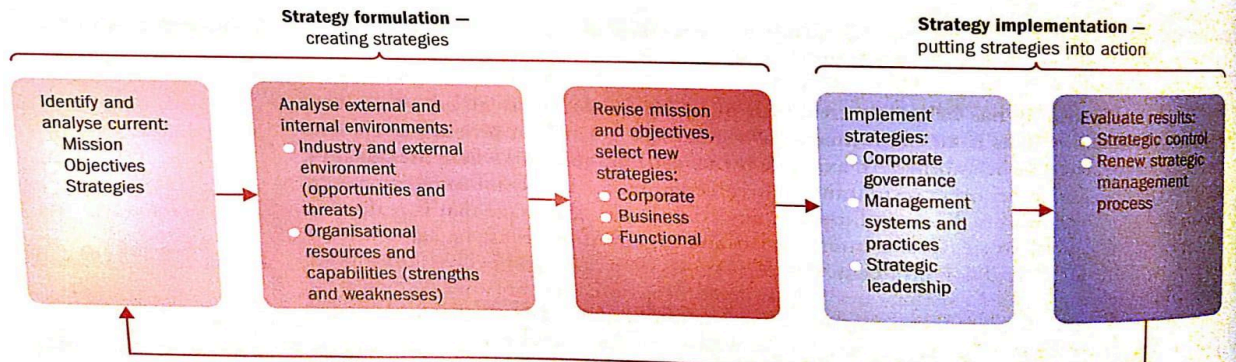


FIGURE 9.1 Strategy formulation and implementation in the strategic management process

Manager's notepad 9.1

Five strategic management tasks

1. Identify organisational mission and objectives. Ask: 'What business are we in? Where do we want to go?'
2. Assess current performance in relation to mission and objectives. Ask: 'How well are we currently doing?'
3. Create strategic plans to accomplish purpose and objectives. Ask: 'How can we get where we really want to be?'
4. Implement the strategic plans. Ask: 'Has everything been done that needs to be done?'
5. Evaluate results; change strategic plans and/or implementation processes as necessary. Ask: 'Are things working out as planned? What can be improved?'

FIGURE 9.2 External stakeholders and the mission statement



CORE VALUES

Behaviour in and by organisations will always be affected in part by values, which are broad beliefs about what is or is not appropriate. **Organisational culture** was first defined in the chapter on environment and diversity as the predominant value system of the organisation as a whole.²⁷ Through organisational cultures, the values of managers and other members are shaped and pointed in common directions. In strategic management, the presence of strong core values for an organisation helps build institutional identity. It gives character to an organisation in the eyes of its employees and external stakeholders, and it backs up the mission statement. Shared values also help guide the behaviour of organisation members in meaningful and consistent ways. For example, Merck backs up its mission with a public commitment to core values that state 'our core values are driven by a desire to improve human life, achieve scientific excellence, operate with the highest standards of integrity, expand access to our products and employ a diverse workforce that values collaboration'.²⁸ Intel backs up its mission by stating values such as customer orientation, results orientation, risk taking, great place to work, quality and discipline.²⁹

Organisational culture is the system of shared beliefs and values that develops within an organisation and guides the behaviour of its members.

OBJECTIVES

Whereas a mission statement sets forth an official purpose for the organisation and the core values describe appropriate standards of behaviour for its accomplishment, **operating objectives** direct activities towards specific performance results. These objectives are shorter term targets against which actual performance results can be measured as indicators of progress and continuous improvement. Any and all operating objectives should have clear means-ends links to the mission and purpose. Any and all strategies should, in turn, offer clear and demonstrable opportunities to accomplish operating objectives. According to Peter Drucker, the operating objectives of a business might include the following:

Operating objectives direct activities towards specific performance results.

1. *profitability* — producing at a profit in business
2. *market share* — gaining and holding a specific market share
3. *human talent* — recruiting and maintaining a high-quality workforce
4. *financial health* — acquiring capital; earning positive returns
5. *cost efficiency* — using resources well to operate at low cost
6. *product quality* — producing high-quality goods or services
7. *innovation* — developing new products and/or processes
8. *social responsibility* — making a positive contribution to society.³⁰

Analysis of organisational resources and capabilities

Two important steps in the strategic management process are analysis of the organisation and analysis of its environment. They may be approached by a technique known as **SWOT analysis** — the internal analysis of organisational Strengths and Weaknesses as well as the external analysis of environmental Opportunities and Threats. The origin of the SWOT framework is obscure; however, it has been in use in business since the 1960s.³¹

A **SWOT analysis** examines organisational strengths and weaknesses and environmental opportunities and threats.

As shown in figure 9.3 (overleaf), a SWOT analysis begins with a systematic evaluation of the organisation's resources and capabilities. A major goal is to identify core competencies in the form of special strengths that the organisation has or where it does exceptionally well in comparison with competitors. They are capabilities that by virtue of being rare, costly to imitate, and non-substitutable become viable sources of competitive advantage.³² **Core competencies** may be found in special knowledge or expertise, superior technologies, efficient manufacturing technologies or unique product distribution systems, among many other possibilities. But always, and as with the notion of strategy itself, they must be viewed

Core competencies are special strengths that give an organisation a competitive advantage.

Explain the Nature and Purpose of SWOT Analysis

- **Nature:** SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. It is a strategic planning tool used to identify internal strengths and weaknesses, as well as external opportunities and threats.
- **Purpose:** The purpose of SWOT analysis is to help businesses understand their current position in the market, identify areas for improvement, capitalize on opportunities, and mitigate potential risks.
- **Strengths:**

These are internal attributes and resources that the organization possesses and can use to its advantage. This could include things like a strong brand reputation, skilled workforce, unique products or services, or efficient internal processes.

- **Weaknesses:**

These are also internal factors but represent areas where the organization may be lacking or could improve. This could include things like outdated technology, poor location, limited resources, or ineffective marketing strategies.

- **Opportunities:**

These are external factors in the environment that the organization could exploit to its advantage. This could include things like market trends, changes in consumer behavior, emerging technologies, or gaps in the market that the organization could fill.

- **Threats:**

These are external factors that could potentially harm the organization's performance. This could include things like new competitors entering the market, changes in regulations, economic downturns, or shifts in consumer preferences away from the organization's offerings.

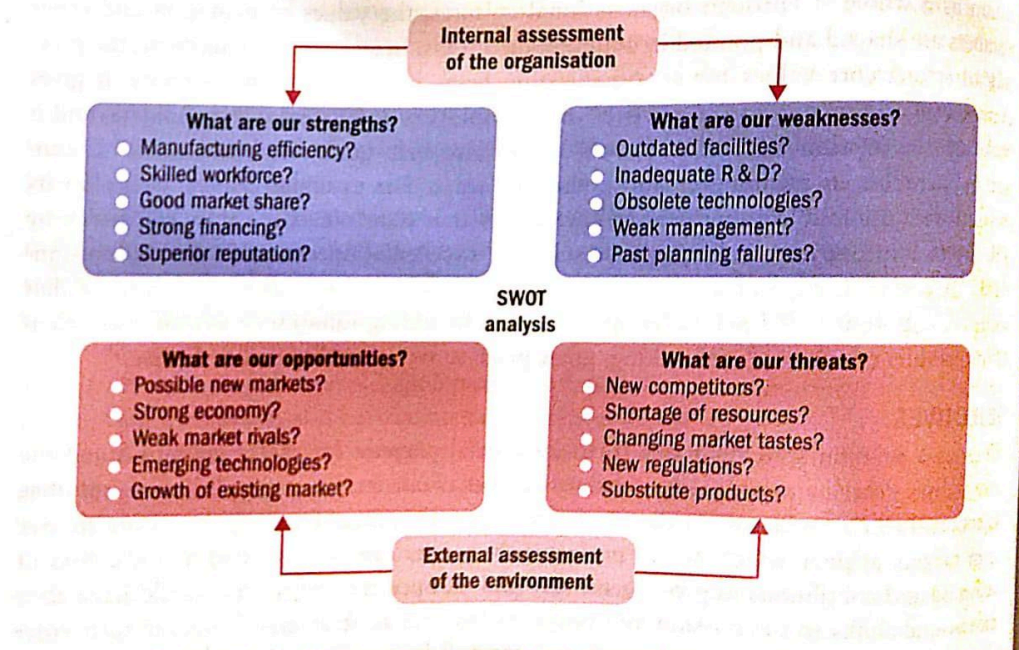
By identifying and analyzing these four aspects, organizations can develop strategies to capitalize on their strengths, address their weaknesses, take advantage of opportunities, and mitigate threats. SWOT analysis is a valuable tool for strategic planning, decision-making, and understanding the overall position of an organization in its external environment.

Example: Let's consider a retail business conducting a SWOT analysis:

- Strengths: Strong brand image, loyal customer base.
- Weaknesses: High employee turnover, outdated technology.
- Opportunities: Growing market for online sales, expanding into new geographic markets.
- Threats: Intense competition, economic downturn affecting consumer spending.

FIGURE 9.3 SWOT analysis of strengths, weaknesses, opportunities and threats

relative to the competition. Simply put, organisations need more competencies that do important things better than the competition and that are very difficult for competitors to duplicate.



Evaluate the Usefulness of SWOT Analysis

- **Usefulness:** SWOT analysis provides a simple yet effective framework for businesses to assess their strategic position. It helps in aligning strategies with objectives, fostering innovation, and improving decision-making.
- **Example:** The retail business, after conducting a SWOT analysis, decides to invest in employee training to address the high turnover rate and enhance customer service, leveraging its strong brand image to attract and retain customers.

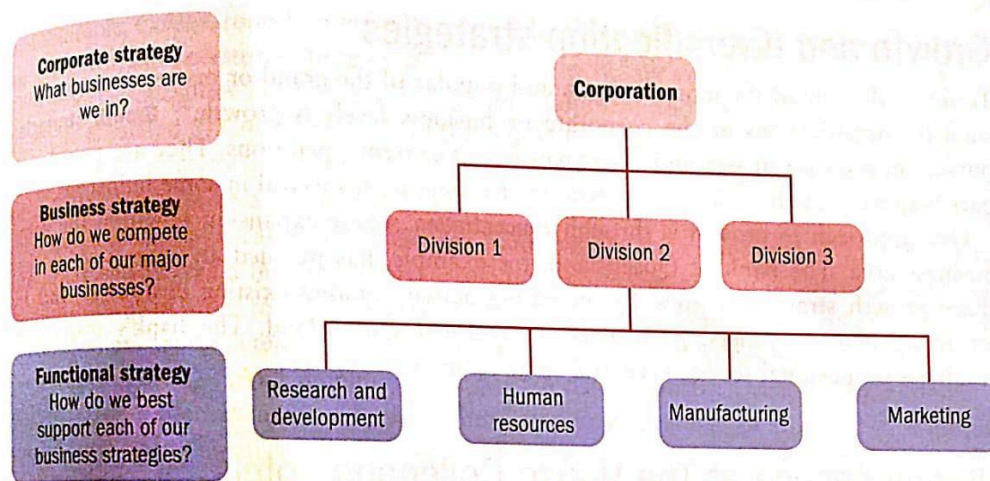


FIGURE 9.5 Levels of strategy in organisations

Levels of strategy

The level of **corporate strategy** directs the organisation as a whole towards sustainable competitive advantage. For a business it describes the scope of operations by answering the following question: In what industries and markets should we compete? The purpose of corporate strategy is to set direction and guide resource allocations for the entire enterprise. In large, complex organisations like General Electric (GE), corporate strategy identifies the different areas of business in which a company intends to compete. The organisation presently pursues business interests in aviation, home and businesses solutions, financial (capital) services, healthcare, energy and transportation, for example.³⁹ Typical strategic decisions at the corporate level relate to the allocation of resources for acquisitions, new business development, divestitures and so on across the business portfolio. Increasingly, corporate strategies for many businesses include an important role for global operations such as international joint ventures and strategic alliances.

A **corporate strategy** sets long-term direction for the total enterprise.

Explain the Nature and Purpose of PESTEL Analysis

Nature & Purpose: The purpose of PESTEL analysis is to identify external factors that could affect the business environment, helping businesses anticipate and adapt to changes. PESTEL analysis is a strategic framework used to assess the external macro-environmental factors that can impact an organization or a business. The acronym stands for Political, Economic, Social, Technological, Environmental, and Legal factors.

- **Political factors:** These include government policies, regulations, and political stability that can affect a business. For example, changes in tax policies or trade tariffs can impact the cost of doing business.
- **Economic factors:** These relate to economic conditions such as inflation, interest rates, economic growth, and exchange rates. They can influence consumer spending, demand for products, and the cost of raw materials.
- **Social factors:** These encompass cultural trends, demographics, lifestyle changes, and consumer attitudes and preferences. They can impact customer behavior and demand for products and services.
- **Technological factors:** These include advancements in technology, innovation, and automation. They can create new business opportunities, change how businesses operate, and affect competition.
- **Environmental factors:** These involve environmental issues such as climate change, sustainability, and environmental regulations. Businesses need to consider their impact on the environment and how environmental trends can affect their operations.
- **Legal factors:** These include laws and regulations that businesses must comply with, such as employment laws, health and safety regulations, and industry-specific regulations. Non-compliance can lead to legal issues and fines.

By analyzing these factors, businesses can identify potential opportunities and threats in the external environment and develop strategies to adapt to or leverage these factors to their advantage.

Example: Applying PESTEL analysis to the retail business:

- Political: Changes in trade policies affecting imports and exports.
- Economic: Economic downturn impacting consumer spending.
- Sociocultural: Shift in consumer preferences towards sustainable products.
- Technological: Advancements in e-commerce technology.
- Environmental: Increasing focus on environmental sustainability.
- Legal: Changes in labor laws affecting employee rights.

Evaluate the Usefulness of PESTEL Analysis

- **Usefulness:** PESTEL analysis provides a comprehensive framework for businesses to analyze external factors influencing their operations. It helps in identifying emerging trends, anticipating risks, and seizing opportunities.
- **Example:** The retail business, after conducting a PESTEL analysis, decides to invest in sustainable practices and online platforms to cater to changing consumer preferences and technological advancements.

Let's consider a hypothetical example of a small business, a local coffee shop, and how SWOT and PESTEL analysis could be applied:

SWOT Analysis:

- Strengths:
 - Prime location in a busy area.
 - Strong customer loyalty and repeat business.
 - Unique and high-quality coffee blends.
 - Effective social media presence.
- Weaknesses:
 - Limited seating space.
 - Reliance on a few key suppliers.
 - High staff turnover rate.
 - Limited marketing budget.
- Opportunities:
 - Introduction of new food items to the menu.
 - Collaborations with local businesses for promotions.
 - Expansion of online ordering and delivery services.
 - Hosting community events to attract more customers.
- Threats:
 - Competition from large coffee chains.
 - Fluctuating coffee bean prices.
 - Changing consumer preferences towards healthier options.
 - Economic downturn impacting discretionary spending.

PESTEL Analysis:

- Political:

- Changes in government regulations related to food safety and labor laws.
 - Government policies promoting small businesses and entrepreneurship.
- Economic:
 - Fluctuations in interest rates affecting borrowing costs.
 - Changes in consumer spending patterns due to economic conditions.
- Social:
 - Increasing trend towards environmentally sustainable practices.
 - Growing interest in supporting local businesses.
- Technological:
 - Advancements in mobile payment systems.
 - Opportunities for digital marketing and customer engagement.
- Environmental:
 - Pressure to use sustainable and recyclable packaging.
 - Impact of weather changes on customer traffic and sales.
- Legal:
 - Compliance with health and safety regulations.
 - Intellectual property rights related to branding and product offerings.

Analyzing these factors can help the coffee shop understand its internal strengths and weaknesses, as well as external opportunities and threats, enabling it to make informed decisions to improve its business performance.

Scenario: Opening a Hotel in a City

PESTEL Analysis:

- Political:
 - Stable political environment favorable for business operations.
 - Government policies supporting the tourism and hospitality industry.
 - Local regulations related to building permits and zoning laws.
- Economic:
 - Strong local economy with high disposable income.
 - Exchange rate fluctuations affecting international tourism.
 - Economic downturn impacting travel and tourism industry.
- Social:
 - Increasing trend towards experiential travel and unique accommodations.
 - Local cultural and social norms influencing hotel design and amenities.
 - Demographic changes affecting target market preferences.
- Technological:

- Advancements in hotel management software and booking systems.
- Opportunities for digital marketing and online presence.
- Integration of technology in guest services and amenities.
- Environmental:
 - Sustainability initiatives and regulations affecting hotel operations.
 - Impact of climate change on tourism patterns and seasonality.
 - Use of eco-friendly practices in hotel construction and operations.
- Legal:
 - Compliance with labor laws and regulations.
 - Health and safety regulations for food and accommodation services.
 - Licensing and permits required for operating a hotel.

Analysis:

- The stable political environment and government support for tourism are favorable factors.
- The strong local economy and increasing trend towards experiential travel present opportunities.
- However, economic downturns and exchange rate fluctuations could pose threats.
- Embracing technology and sustainability could be key success factors.
- Legal compliance and obtaining necessary permits are essential challenges to address.

Based on this analysis, the hotel should focus on offering unique experiences, integrating technology, and ensuring compliance with legal and regulatory requirements to capitalize on opportunities and mitigate potential threats.

SWOT Analysis of a College:

Strengths:

- Experienced faculty with expertise in their respective fields.

- Strong reputation for academic excellence.
- Well-equipped facilities, including libraries, labs, and sports amenities.
- Diverse student body, fostering a rich learning environment.
- Strong alumni network, providing opportunities for networking and mentorship.

Weaknesses:

- Limited funding for scholarships and financial aid.
- Inadequate infrastructure in some departments.
- High student-to-faculty ratio in certain classes.
- Limited partnerships with industries for internships and job placements.
- Limited online course offerings, limiting accessibility for distant learners.

Opportunities:

- Increasing demand for specialized courses in emerging fields.
- Partnerships with industries for research collaborations and internships.
- Expansion of online course offerings to reach a wider audience.
- Introduction of new degree programs to meet market demand.
- Enhancement of campus facilities to attract more students.

Threats:

- Competition from other colleges offering similar programs.
- Changes in government regulations affecting funding and accreditation.
- Economic downturn affecting enrollment numbers.
- Technological advancements leading to the need for constant infrastructure upgrades.
- Rising cost of education impacting student affordability.

Using SWOT for Strategy and Planning:

- Strength-Opportunity (SO) Strategies: Leverage the experienced faculty and strong reputation to introduce new specialized courses in emerging fields.
- Strength-Threat (ST) Strategies: Enhance partnerships with industries to mitigate the threat of competition and economic downturn.
- Weakness-Opportunity (WO) Strategies: Increase funding for scholarships and financial aid to attract more students and capitalize on the increasing demand for education.
- Weakness-Threat (WT) Strategies: Address infrastructure shortcomings to mitigate the impact of technological advancements and rising costs.

Class Discussion:

- **Suggest strategies based on the SWOT analysis that the college could adopt to improve its performance and address its challenges.**

Porter's generic strategies

Michael Porter's five forces model for industry analysis was introduced earlier. Use of the model helps answer the question: Is this an attractive industry for us to compete in? Within an industry, however, the initial strategic challenge becomes positioning your organisation

and products relative to competitors. The strategic question becomes: How can we best compete for customers in this industry?⁵³ Porter advises managers to answer this question by using his generic strategies framework shown in figure 9.6.

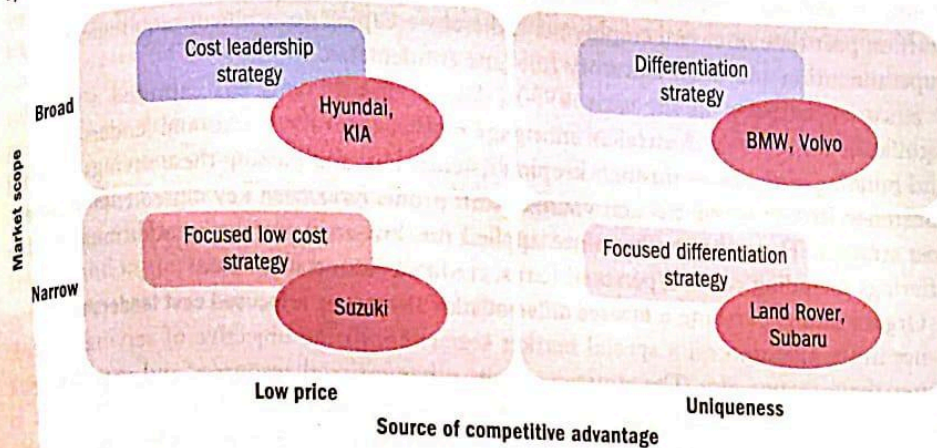


FIGURE 9.6 Porter's generic strategies framework: motor vehicle industry examples

According to Porter, business-level strategic decisions are driven by two basic factors: (1) *market scope* — ask: 'How broad or narrow is your market target?' and (2) *source of competitive advantage* — ask: 'How will you compete for competitive advantage, by lower price or product uniqueness?' As shown in the figure, these factors combine to create the following four generic strategies that organisations can pursue. The examples in the figure are of competitive positions within the motor vehicle industry.

1. *Differentiation* — where the organisation's resources and attention are directed towards distinguishing its products from those of the competition (for example, BMW, Volvo).
2. *Cost leadership* — where the organisation's resources and attention are directed towards minimising costs to operate more efficiently than the competition (for example, Hyundai, KIA).
3. *Focused differentiation* — where the organisation concentrates on one special market segment and tries to offer customers in that segment a unique product (for example, Land Rover, Subaru).
4. *Focused cost leadership* — where the organisation concentrates on one special market segment and tries in that segment to be the provider with lowest costs (for example, Suzuki).

Organisations pursuing a **differentiation strategy** seek competitive advantage through uniqueness. They try to develop goods and services that are clearly different from those made available by the competition. The objective is to attract customers who become loyal to the organisation's products and lose interest in those of competitors. This strategy requires organisational strengths in marketing, research and development, technological leadership and creativity. It is highly dependent for its success on continuing customer perceptions of product quality and uniqueness. An example in the apparel industry is Polo Ralph Lauren, retailer of upscale classic fashions and accessories.

Organisations pursuing a **cost leadership strategy** try to continuously improve the operating efficiencies of production, distribution and other organisational systems. The objective is to have lower costs than competitors and therefore achieve higher profits. This requires tight cost and managerial controls as well as products that are easy to manufacture and distribute. Of course, **quality** must not be sacrificed in the process. In fast food,

A **differentiation strategy** offers products that are unique and different from the competition.

A **cost leadership strategy** seeks to operate with lower costs than competitors.

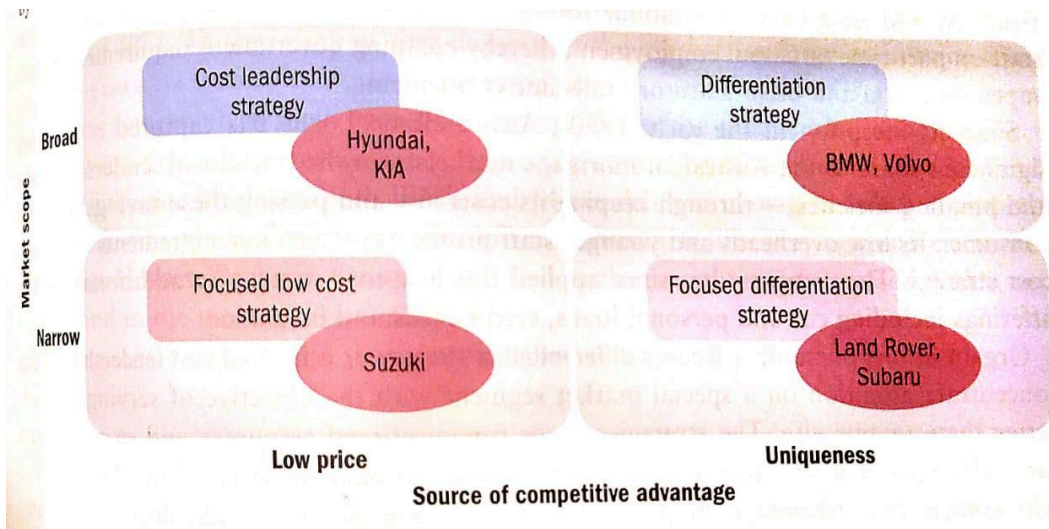


FIGURE 9.6 Porter's generic strategies framework: motor vehicle industry examples

The **BCG matrix** analyses business opportunities according to market growth rate and market share.

BCG MATRIX

Figure 9.8 summarises an approach to business portfolio planning developed by the Boston Consulting Group and known as the **BCG matrix**. This framework ties strategy formulation to an analysis of business opportunities according to industry or market growth rate and market share.⁵⁸ This comparison results in the following four possible business conditions, with each being associated with a strategic implication: *stars* — high market share, high-growth businesses; *cash cows* — high market share, low-growth businesses; *question marks* — low market share, high-growth businesses; and *dogs* — low market share, low-growth businesses.

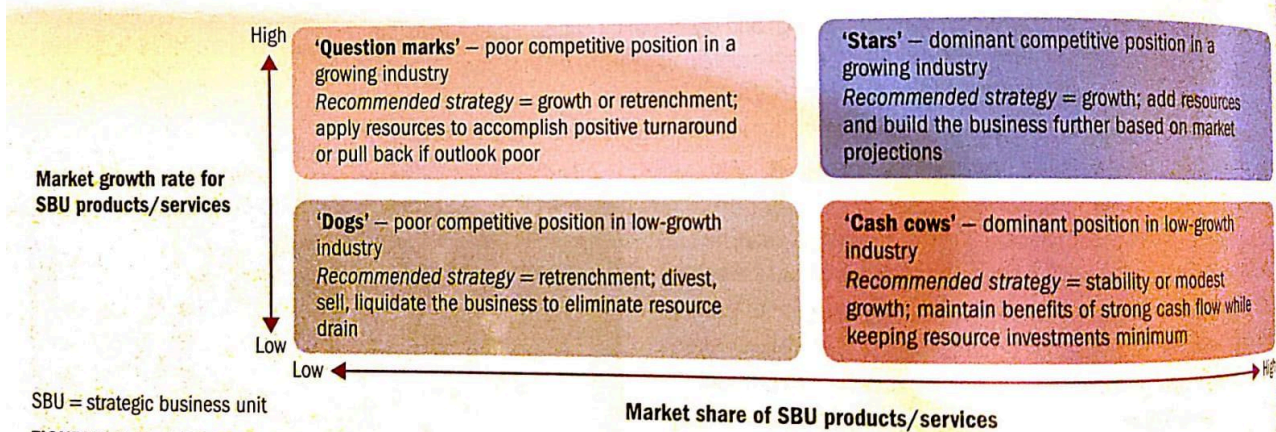


FIGURE 9.8 The BCG matrix approach to corporate strategy formulation

Conclusion:

SWOT and PESTEL analyses are invaluable tools for businesses seeking to develop robust strategies, navigate uncertainties, and stay ahead in today's dynamic business environment. By understanding their internal strengths and weaknesses and external opportunities and threats, businesses can make informed decisions and drive sustainable growth.

Discussion Questions:

How can businesses use SWOT analysis to gain a competitive advantage?

In what ways can PESTEL analysis help businesses anticipate and respond to external changes?

Can you think of any real-life examples where SWOT or PESTEL analysis influenced a business strategy?

How can businesses use SWOT analysis to gain a competitive advantage?

- **Strengths:** Identify internal strengths such as a strong brand, skilled workforce, or innovative products/services that can be leveraged to outperform competitors.
- **Weaknesses:** Recognize internal weaknesses like outdated technology, poor location, or lack of marketing expertise that need to be addressed to compete effectively.
- **Opportunities:** Identify external opportunities such as market growth, emerging trends, or new technologies that can be capitalized on to expand the business.
- **Threats:** Recognize external threats like new competitors, changing regulations, or economic downturns that could negatively impact the business.
- By analyzing these factors, businesses can develop strategies to capitalize on strengths, minimize weaknesses, seize opportunities, and mitigate threats, thus gaining a competitive advantage.

In what ways can PESTEL analysis help businesses anticipate and respond to external changes?

- **Political Factors:** Changes in government policies, regulations, or stability can impact businesses. Anticipating these changes helps businesses prepare and adapt their strategies accordingly.
- **Economic Factors:** Economic indicators such as inflation, exchange rates, and economic growth affect consumer spending and business operations.

Understanding these factors helps businesses adjust their strategies to economic conditions.

- **Social Factors:** Changing demographics, lifestyles, and cultural trends influence consumer behavior and demand for products/services. Businesses can align their strategies with these trends to meet consumer needs.
- **Technological Factors:** Advances in technology impact how businesses operate and offer products/services. Monitoring technological trends helps businesses innovate and stay competitive.
- **Environmental Factors:** Growing concerns about environmental sustainability and climate change affect business operations and consumer preferences. Businesses can adopt environmentally friendly practices to meet consumer expectations and regulatory requirements.
- **Legal Factors:** Changes in laws and regulations impact business operations and compliance requirements. Businesses need to stay informed about legal developments and adjust their strategies accordingly.

Real-life examples where SWOT or PESTEL analysis influenced a business strategy:

- **Apple:** SWOT analysis helped Apple identify its strengths in brand loyalty and innovative products, weaknesses in high product prices, opportunities in emerging markets, and threats from competitors. This analysis influenced Apple's strategy to focus on product innovation and customer experience to maintain its competitive edge.
- **Uber:** PESTEL analysis helped Uber anticipate changes in regulations, economic conditions, and technological trends affecting the ride-sharing industry. This analysis influenced Uber's strategy to expand globally, innovate with new services like UberEATS, and adapt to local market conditions.
- **IKEA:** PESTEL analysis helped IKEA understand environmental trends and consumer preferences for sustainable products. This analysis influenced IKEA's strategy to focus on sustainability, offering eco-friendly products and reducing environmental impact in its operations.

SWOT and PESTEL analysis are valuable tools for businesses to assess their internal capabilities and external environment, helping them develop strategies to gain a competitive advantage and respond to changes effectively.

