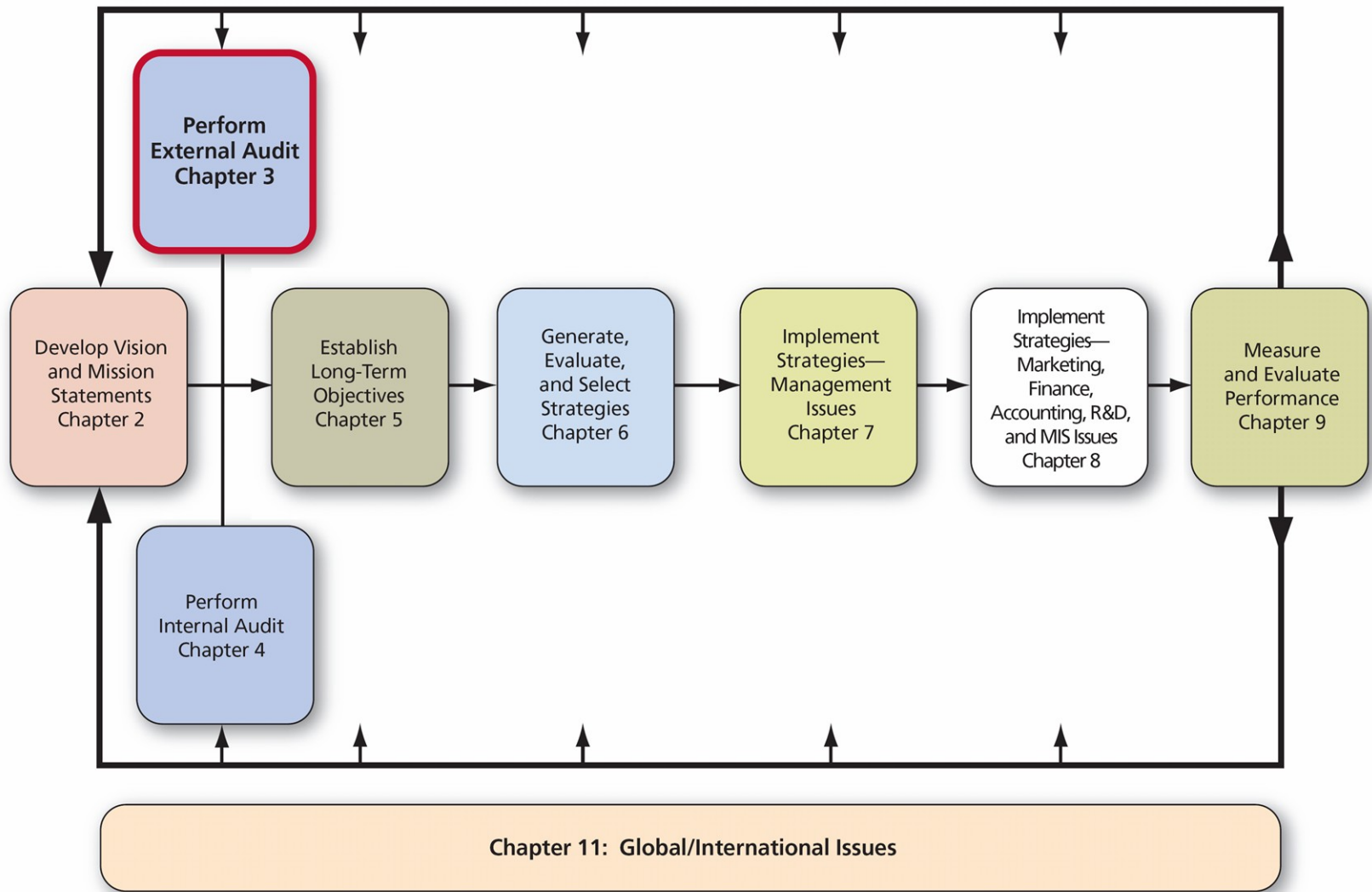


Chapter 3

The External Assessment

**Strategic Management:
Concepts & Cases
13th Edition
Fred David**

Chapter 10: Business Ethics/Social Responsibility/Environmental Sustainability Issues



External Assessment

“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”
– Charles Darwin

“Nothing focuses the mind better than the constant sight of a competitor who wants to wipe you off the map.”
– Wayne Calloway, Former CEO, PepsiCo

External Strategic Management Audit

- Environmental Scanning
- Industry Analysis

External Strategic Management Audit

Identify & evaluate factors beyond the control of a single firm

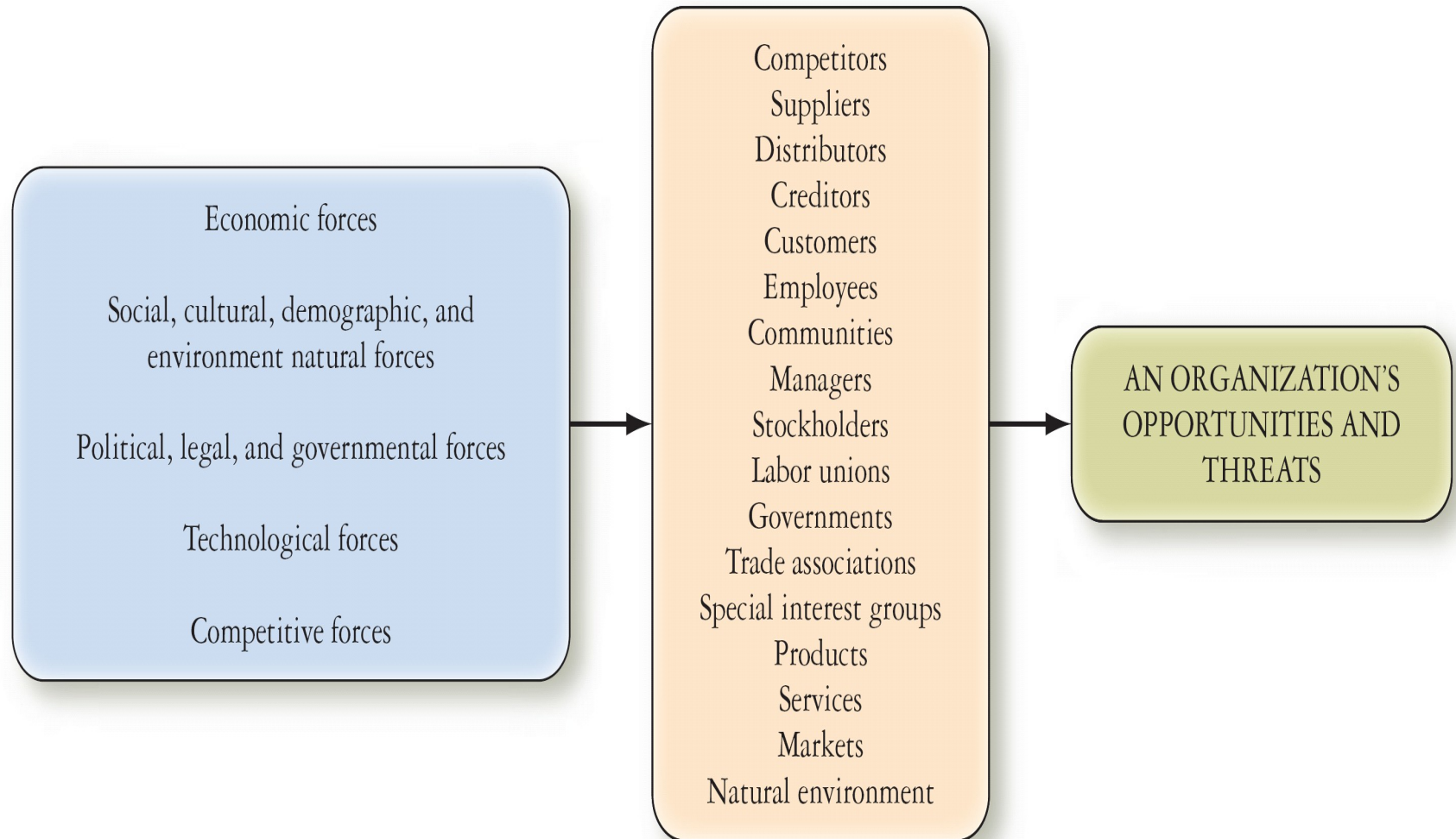
- ❑ **Increased foreign competition**
- ❑ **Population shifts**
- ❑ **Aging society**
- ❑ **Fear of traveling**
- ❑ **Stock market volatility**

External Strategic Management Audit

Purpose of an External Audit

- Develop a finite list of
 - opportunities that could benefit a firm
 - threats that should be avoided

Relationships Between Key External Forces and an Organization

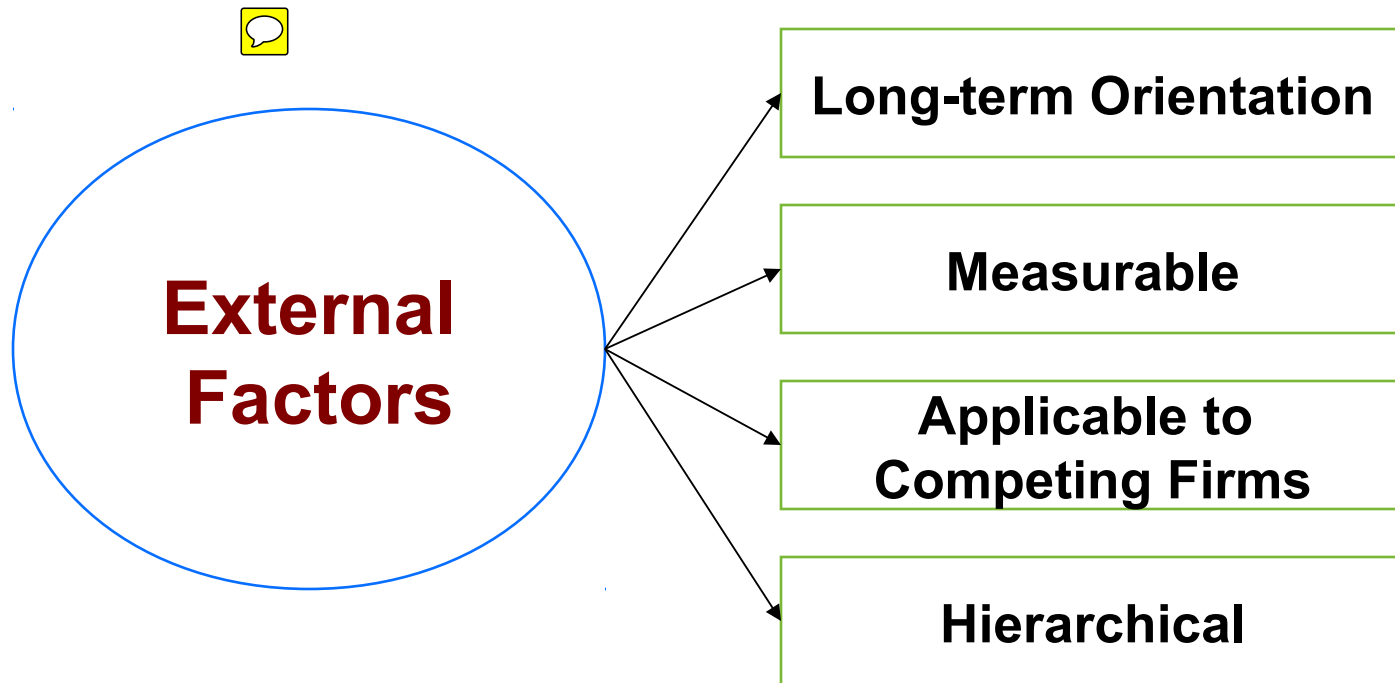


External Audit

- **Gather competitive intelligence**
 - **Assimilate information**
 - **Evaluate**

Resulting in a list of the most important key external factors

Performing External Audit

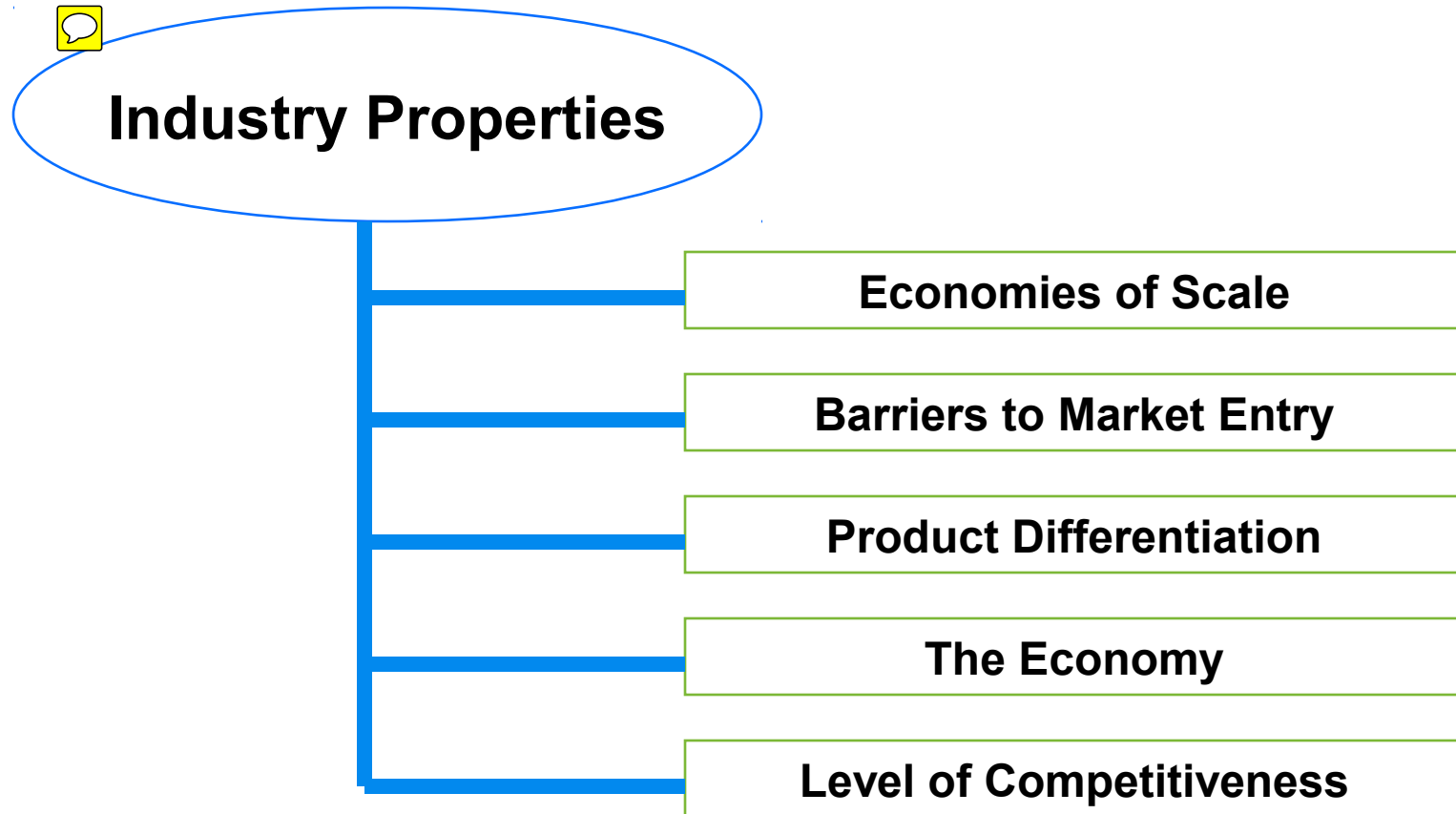


Industrial Organization (I/O) View

Industry factors are more important than internal factors

- **Performance determined by industry forces**

I/O Perspective Firm Performance



Economic Forces

- GDP
- Trends in the dollar's value
- Unemployment rates

TABLE 3-1 Key Economic Variables to Be Monitored

Shift to a service economy in the United States	Import/export factors
Availability of credit	Demand shifts for different categories of goods and services
Level of disposable income	Income differences by region and consumer groups
Propensity of people to spend	Price fluctuations
Interest rates	Export of labor and capital from the United States
Inflation rates	Monetary policies
Money market rates	Fiscal policies
Federal government budget deficits	Tax rates
Gross domestic product trend	European Economic Community (EEC) policies
Consumption patterns	Organization of Petroleum Exporting Countries (OPEC) policies
Unemployment trends	Coalitions of Lesser Developed Countries (LDC) policies
Worker productivity levels	
Value of the dollar in world markets	
Stock market trends	
Foreign countries' economic conditions	

Social, Cultural, Demographic, and Natural Environmental Forces

Major Impact –

- Products
- Services
- Markets
- Customers

Social, Cultural, Demographic, and Natural Environmental Forces

■ US Facts

- Aging population
- Less White
- Widening gap between rich & poor
- 2025 = 18.5% population > 65 years
- 2075 = no ethnic or racial majority

Social, Cultural, Demographic, and Natural Environmental Forces

■ Facts

- ❑ World population 7 billion
- ❑ World population = 8 billion by 2028
- ❑ World population = 9 billion by 2054
- ❑ U.S. population > 310 million

Social, Cultural, Demographic, and Natural Environmental Forces

■ Trends

- More American households with people living alone
- Aging Americans – affects all organizations

Political, Governmental, and Legal Forces

Government Regulation

Key opportunities & threats

- **Antitrust legislation**
- **Tax rates**
- **Lobbying activities**
- **Patent laws**

Political, Governmental, and Legal Forces

- Protectionist policies
- Governments taking equity stakes in companies

Technological Forces

Major Impact –

- Internet

Technological Forces

Significance of IT

- Chief Information Officer (CIO)
- Chief Technology Officer (CTO)

Technological Forces

Essential for nearly every
strategic decision

Competitive Forces

Collection & evaluation of data on competitors is essential for successful strategy formulation

Competitive Forces

Identify Rival Firms'

- Strengths
- Weaknesses
- Capabilities
- Opportunities
- Threats
- Objectives
- Strategies

Competitive Forces

Competition in virtually all industries can be described as intense

Key Questions Concerning Competitors

- Their strengths
- Their weaknesses
- Their objectives and strategies
- Their responses to external variables
- Their vulnerability to our alternative strategies
- Our vulnerability to strategic counterattack

Key Questions Concerning Competitors

- Our product/service positioning
- Entry and exit of firms in the industry
- Key factors for our current position in industry
- Sales/profit ranking of competitors over time
- Nature of supplier and distributor relationships
- The threat of substitute products/services

Competitive Forces

- 7 characteristics of most competitive firms
 - ❑ Market share matters
 - ❑ Understanding what business you are in
 - ❑ Broke or not, fix it
 - ❑ Innovate or evaporate
 - ❑ Acquisition is essential to growth
 - ❑ People make a difference
 - ❑ No substitute for quality

Competitive Intelligence

- A systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals

Sources of Competitive Intelligence

- Internet
 - Employees
 - Managers
 - Suppliers
 - Distributors
 - Customers
 - Creditors
- Consultants
 - Trade journals
 - Want ads
 - Newspaper articles
 - Government filings
 - Competitors

Objectives of Competitive Intelligence

- Provide a general understanding of industry and competitors
- Identify areas where competitors are vulnerable and assess impact of actions on competitors
- Identify potential moves that a competitor might make

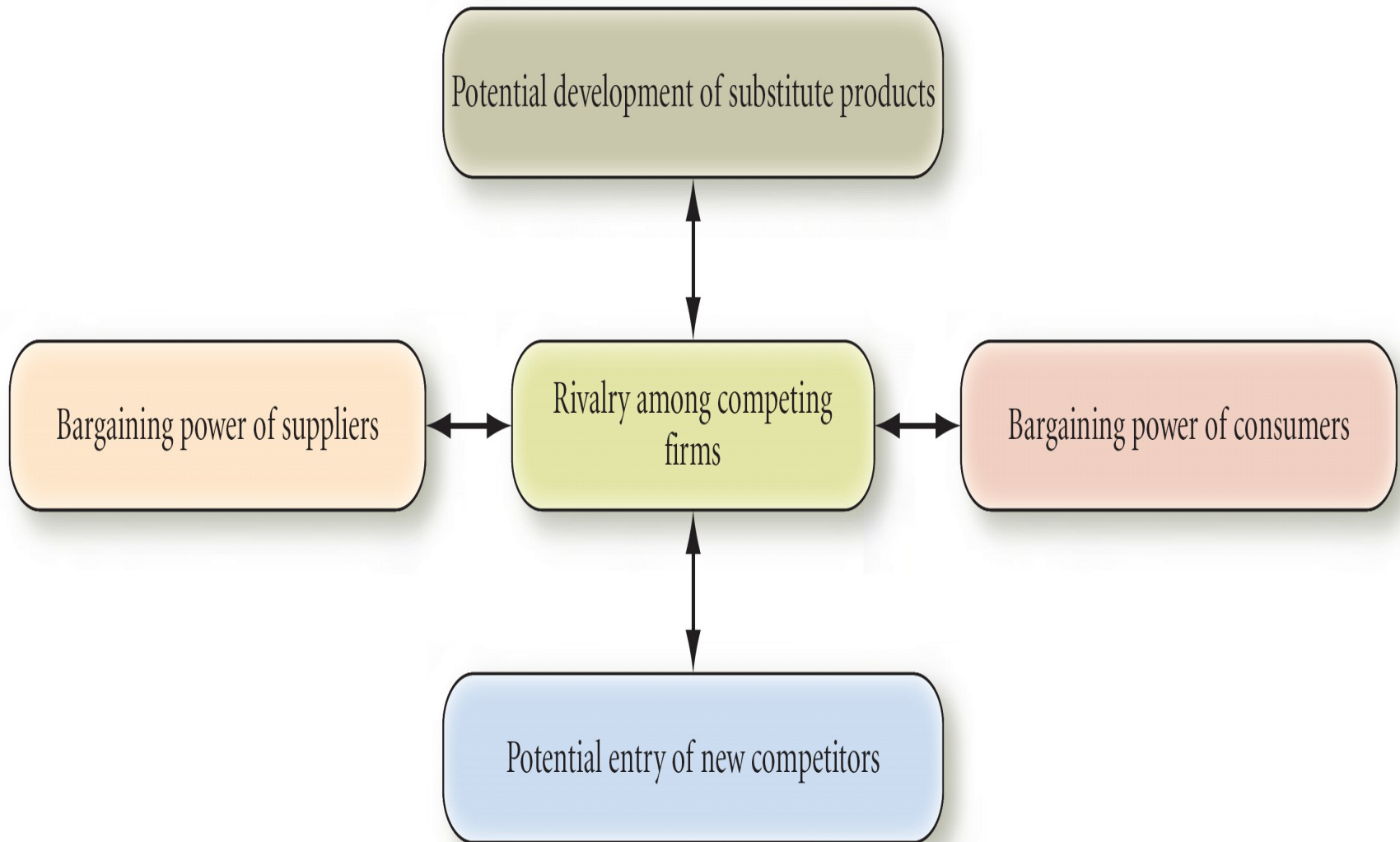
Market Commonality

- The number and significance of markets that a firm competes in with rivals

Resource Similarity

- Extent to which the type and amount of a firm's internal resources are comparable to a rival

The Five-Forces Model of Competition



Steps to Determine if an Acceptable Profit Can Be Earned

1. Identify key aspects or elements of each competitive force
2. Evaluate how strong and important each element is for the firm
3. Decide whether the collective strength of the elements is worth the firm entering or staying in the industry

The Five-Forces Model

- Rivalry among competing firms
 - Most powerful of the five forces
 - Focus on competitive advantage of strategies over other firms

Conditions that Cause High Rivalry Among Competing Firms

- High number of competing firms
- Similar size of firms competing
- Similar capability of firms competing
- Falling demand for the industry's products
- Falling product/service prices in the industry

Conditions that Cause High Rivalry Among Competing Firms

- Consumers can switch brands easily
- Barriers to leaving the market are high
- Barriers to entering the market are low
- Fixed costs are high among firms competing
- The product is perishable

Conditions that Cause High Rivalry Among Competing Firms

- Rivals have excess capacity
- Consumer demand is falling
- Rivals have excess inventory
- Rivals sell similar products/services
- Mergers are common in the industry

The Five-Forces Model

- Potential Entry of New Competitors
 - Barriers to entry are important
 - Quality, pricing, and marketing can overcome barriers

The Five-Forces Model

- Potential development of substitute products
 - Pressure increases when:
 - Prices of substitutes decrease
 - Consumers' switching costs decrease

The Five-Forces Model

- Bargaining Power of Suppliers is increased when there are:
 - Large numbers of suppliers
 - Few substitutes
 - Costs of switching raw materials is high
- Backward integration is gaining control or ownership of suppliers

The Five-Forces Model

- Bargaining power of consumers
 - Customers being concentrated or buying in volume affects intensity of competition
 - Consumer power is higher where products are standard or undifferentiated

Conditions Where Consumers Gain Bargaining Power

- If buyers can inexpensively switch
- If buyers are particularly important
- If sellers are struggling in the face of falling consumer demand
- If buyers are informed about sellers' products, prices, and costs
- If buyers have discretion in whether and when they purchase the product

Sources of External Information:

Unpublished Sources

- Customer surveys
- Market research
- Speeches at professional or shareholder meetings
- Television programs
- Interviews and conversations with stakeholders

Sources of External Information:

Published Sources

- Periodicals
- Journals
- Reports
- Government documents
- Abstracts
- Books
- Directories
- Newspapers
- Manuals

Sources of External Information: Web Sites

- <http://marketwatch.multexinvestor.com>
- <http://moneycentral.msn.com>
- <http://finance.yahoo.com>
- www.clearstation.com
- <https://us.etrade.com/e/t/invest/markets>
- www.hoovers.com

Forecasting Tools and Techniques

- Forecasts are educated assumptions about future trends and events
 - Quantitative techniques – most appropriate when historical data is available and there is a constant relationship
 - Qualitative techniques

Assumptions

Estimates of future events based upon the best available information in the present

Industry Analysis: The External Factor Evaluation (EFE) Matrix

- | | |
|--|--|
| <ul style="list-style-type: none">■ Economic■ Social■ Cultural■ Demographic■ Environmental | <ul style="list-style-type: none">■ Political■ Governmental■ Technological■ Competitive■ Legal |
|--|--|

EFE Matrix Steps

1. List key external factors
2. Weight from 0 to 1
3. Rate effectiveness of current strategies
4. Multiply weight * rating
5. Sum weighted scores

TABLE 3-12 **EFE Matrix for a Local Ten-Theatre Cinema Complex**

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Rowan County is growing 8% annually in population	0.05	3	0.15
2. TDB University is expanding 6% annually	0.08	4	0.32
3. Major competitor across town recently ceased operations	0.08	3	0.24
4. Demand for going to cinema growing 10% annually	0.07	2	0.14
5. Two new neighborhoods being developed within 3 miles	0.09	1	0.09
6. Disposable income among citizens grew 5% in prior year	0.06	3	0.18
7. Unemployment rate in county declined to 3.1%	0.03	2	0.06

TABLE 3-12 EFE Matrix for a Local Ten-Theatre Cinema Complex

Key External Factors	Weight	Rating	Weighted Score
Threats			
8. Trend toward healthy eating eroding concession sales	0.12	4	0.48
9. Demand for online movies and DVDs growing 10% annually	0.06	2	0.12
10. Commercial property adjacent to cinemas for sale	0.06	3	0.18
11. TDB University installing an on-campus movie theatre	0.04	3	0.12
12. County and city property taxes increasing 25% this year	0.08	2	0.16
13. Local religious groups object to R-rated movies being shown	0.04	3	0.12
14. Movies rented from local Blockbuster store up 12%	0.08	2	0.16
15. Movies rented last quarter from Time Warner up 15%	0.06	1	0.06
Total	1.00		2.58

Industry Analysis EFE

Total weighted score of 4.0

- Organization response is outstanding to threats and weaknesses

Total weighted score of 1.0

- Firm's strategies not capitalizing on opportunities or avoiding threats

Industry Analysis: Competitive Profile Matrix (CPM)

- Identifies firm's major competitors and their strengths & weaknesses in relation to a sample firm's strategic positions
- Critical success factors include internal and external issues

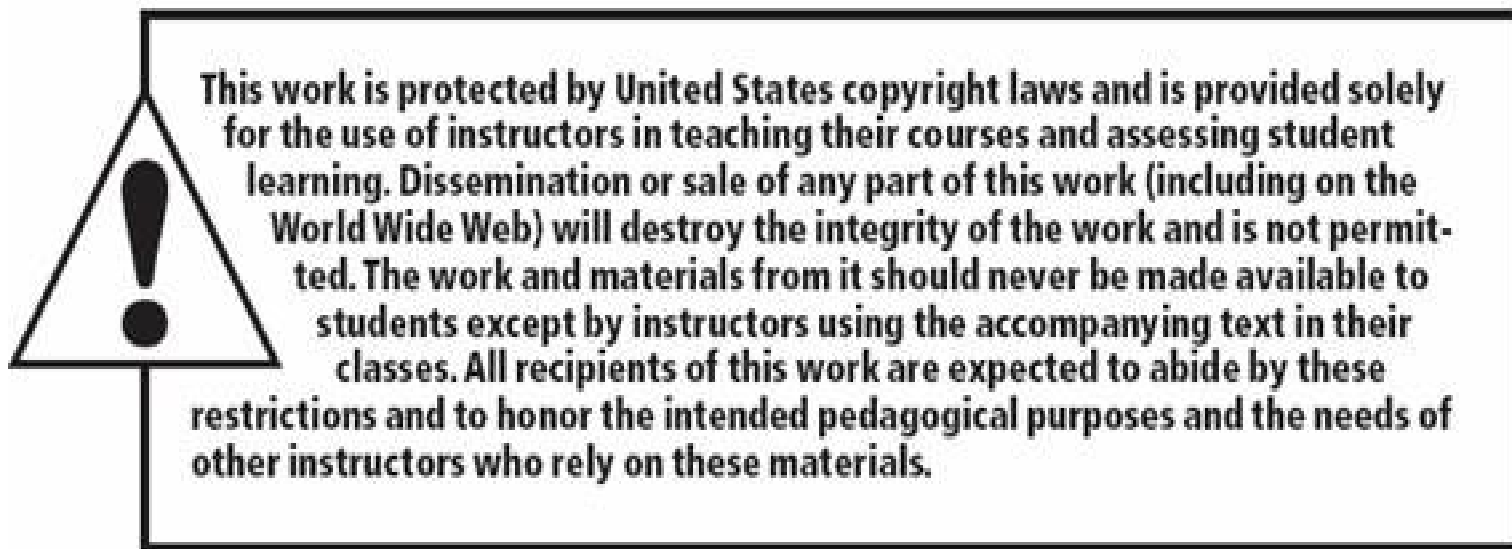
TABLE 3-13 An Example Competitive Profile Matrix

Critical Success Factors	Weight	Company 1		Company 2		Company 3	
		Rating	Score	Rating	Score	Rating	Score
Advertising	0.20	1	0.20	4	0.80	3	0.60
Product Quality	0.10	4	0.40	3	0.30	2	0.20
Price Competitiveness	0.10	3	0.30	2	0.20	4	0.40
Management	0.10	4	0.40	3	0.20	3	0.30
Financial Position	0.15	4	0.60	2	0.30	3	0.45
Customer Loyalty	0.10	4	0.40	3	0.30	2	0.20
Global Expansion	0.20	4	0.80	1	0.20	2	0.40
Market Share	0.05	1	0.05	4	0.20	3	0.15
Total	1.00		3.15		2.50		2.70

Industry Analysis CPM

Important –

Just because one firm receives a 3.2 rating and another receives a 2.8 rating, it does not follow that the first firm is 20 percent better than the second.



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