

Summary

Analysing Environment and Competitive Advantage

Environment analysis is an important tool that helps in an organisation's decision-making process and also helps foresee the organisation's future. Understanding the industry helps you understand your competitive advantage. There are various factors which one needs to look at while analysing the environment.

Analysing Environment

You might have an amazing idea, and a great vision, but for it to be a success, the environment must be suitable. It is important for you to know whether the opportunity is a substantial one and for that you would have to analyse the environment. In order to analyse the environment, you need to understand various factors like:

1. Demographic factors
2. Technological factors
3. Social-cultural factors
4. Economic factors
5. Political-legal factors

Understanding Industry (Porter's 5 Forces Model)

An Industry consists of groups of sellers, suppliers, competition and substitutes. To be able to assess the attractiveness of an industry you are in or trying to be in, it is ideal to use the Porter's five forces framework. It is a very important to get a good understanding of whether the industry you are targeting is attractive or not.

Porter's five forces is a competitive analysis model; it helps you to understand the nature of competition within your industry, and hence it is used to analyse the industry you operate in. It provides a good, simple yet powerful, framework for developing an understanding of the competitive forces in your industry.

The five forces that must be analysed in-depth are:

1. **Threat of entry:** Ease with which new competitors can enter the business
2. **Buyer power:** Strength of the buyers to command tough terms for the industry
3. **Supplier power:** Strength of the suppliers to squeeze margins out of the industry
4. **Threat of substitutes:** Ease at which an alternative option can substitute your product
5. **Competitive rivalry:** Extent to which firms within an industry put pressure on one another

Competitive Advantage

After understanding Porter's five forces you learned about the various factors that help you build sustainable competitive advantage which are:

- i. Proprietary elements
- ii. Superior organisational processes
- iii. Business model differentiation
- iv. Business with network effects

You should be able to:

At the end of this session, you should be able to:

1. Analyse the environment with respect to the following factors:
 - Demographic factors
 - Technological factors
 - Social-cultural factors
 - Economic factors
 - Political-legal factors
2. Analyse the attractiveness of the industry by conducting a Porter's five forces analysis for the purpose of understanding:
 - Threat of entry
 - Buyer power
 - Supplier power
 - Threat of substitutes
 - Competitive rivalry