

Gaining Advantages by Understanding the Competitive Environment

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WHAT'S COVERED

In this lesson, you will learn why managers study their competitive environment using a process called strategic analysis. You will also learn how to differentiate between internal factors and external factors in a firm's competitive environment. Specifically, this lesson will cover:

1. Why Firms Need To Analyze Their Competitive Environment

Strategic analysis is the process that firms use to study and understand the many different layers and aspects of their competitive environment.



BRAINSTORM

Why do firms spend time and money trying to understand what is going on around them?

Firms do not operate in a vacuum. They are impacted by forces and factors from both inside and outside their organizations. Understanding these forces and factors is crucial to achieving success as an organization.

➔ **EXAMPLE** The growth in the Spanish-speaking population in the United States has led many firms to change the signage in their stores and labels on their products to include Spanish, in order to make their stores easier to shop in and their products easier to identify for this growing market.

The external environment is continually changing, and the most successful firms are able to prepare for and quickly adapt to environmental changes as needed.

To react to change more easily and develop products consumers want, managers and consultants engage in **environmental scanning**—the systematic and intentional analysis of both a firm's internal state and its external, competitive environment. From a local coffee shop to an international corporation, firms of all sizes benefit from strategic analysis.



TERMS TO KNOW

Strategic Analysis

The process that firms use to study and understand the many different layers and aspects of their

competitive environment.

Environmental Scanning

The systematic and intentional analysis of both a firm's internal state and its external, competitive environment.

2. The Competitive Environment

A firm's **competitive environment** includes components inside the firm and outside the firm. **External factors** are things in the global environment that may impact a firm's operations or success, such as a rise in interest rates or a natural disaster. External factors cannot be controlled, but they must be managed effectively and it is important to understand them so that the firm can be successful.



THINK ABOUT IT

The unemployment rate will affect a firm's ability to hire qualified employees at a reasonable rate of pay. If unemployment is high, meaning that a lot of people are looking for jobs, then a firm will probably have a lot of applicants for any positions it needs to fill. It will be able to choose more highly qualified applicants to hire and may be able to hire them at a lower pay rate because the employee would rather work for a lower pay rate than not have a job at all. On the other hand, when unemployment is low, meaning that not many people are looking for jobs, firms may have to offer higher pay or settle for lower qualifications to find someone to fill a position.

Internal factors are characteristics of the firm itself. To plan to compete against other firms, a firm needs to understand what physical, financial, and human resources it has, what it is good at, and how it is organized.

➔ **EXAMPLE** Walmart has a sophisticated IT system that tracks inventory and automatically orders products before they run out, by calculating how long it will take for the new product to arrive and comparing that to the rate at which the product is selling off the shelves. Their perpetual inventory system orders new product so that it arrives just as the product on the shelves is running out. As a result, Walmart stores do not need to have storage space for inventory, dramatically reducing costs. All Walmart inventory is on the store shelves, ready to be sold to customers.



BRAINSTORM

How does this system benefit Walmart?

It does not have to spend money on storing or keeping track of inventory, all products in the store can generate revenue because they are available for customers to buy, and when the system is working optimally, the store never runs out of items customers want.



HINT

In the Touchstone assignment, you will recommend changes to your selected organization's strategy and structure. You will also consider any associated ethical implications of the organization's strategy and structure. The assignment requires you to apply SWOT analysis, PESTEL analysis, Porter's Five Forces of Industry Analysis, Porter's Generic Strategies, and organization design concepts related to strategy-structure fit. You will prepare a slide deck containing your analysis and recommendations that could be presented to the organization's Board.



REFLECT

Why do managers use strategic analysis? How are internal factors different from external factors in a firm's competitive environment?



TERMS TO KNOW

Competitive Environment

Includes components inside the firm and outside the firm that may impact the firm's success.

External Factors

Things in the global environment that may impact a firm's operations or success; examples are a rise in interest rates or a natural disaster.

Internal Factors

Characteristics of the firm itself including the physical, financial, and human resources it has, what it is good at, and how it is organized.



SUMMARY

In this lesson, you learned why managers study their competitive environment using a process called strategic analysis. You started the lesson by examining **why firms need to analyze their competitive environment**, which is to understand the many forces and factors from both inside and outside the organization that impact its ability to succeed. Part of this process involves environmental scanning, an analysis of a firm's internal state and external environment, which enables managers to react to change more easily and develop products consumers want. You also learned how to differentiate between these internal factors and external factors in a firm's **competitive environment**. External factors are things in the global environment that may impact a firm's operations or success, such as a rise in interest rates, the unemployment rate, or a natural disaster, while internal factors are characteristics of the firm itself, like its inventory system.

Best of luck in your learning!

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Strategic Analysis

The process that firms use to study and understand the many different layers and aspects of their competitive environment.