

The Role of Strategic Analysis in Formulating a Strategy

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WHAT'S COVERED

In this lesson, you will learn to indicate why strategic analysis is important for strategy formulation. Specifically, this lesson will cover:

1. Why Strategic Analysis Is Important to Strategy Formulation

In the previous lesson, you read about the various levels of analysis that a manager carries out in order to understand their firm's competitive environment. A **strategic analysis** of a firm's external environment (e.g., the world, competitors) and internal environment (e.g., firm capabilities and resources) gives its managers a clear picture of what they have to work with and also what needs to be addressed when developing a plan for the firm's success. Analysis comes early in the strategic process because the information a manager gets from the analysis informs the decision-making that follows. The information is so critical that entrepreneurs writing business plans (before the business even exists) do this analysis to understand if their business idea is feasible, and to understand how to position their business relative to existing competitors or potential customers in order to maximize their odds of success. The table below outlines just a few of the questions that strategic analysis tools can help answer.

PESTEL	Porter's Five Forces	Resources and Capabilities
<ul style="list-style-type: none">• What technological opportunities exist for my business?• What sociocultural trends provide opportunities for my business?• Are there laws or regulations that affect what I can sell or how I can make my product?	<ul style="list-style-type: none">• Are other firms in the industry competing based on prices or on differentiation?• Are new firms coming into this market?• Do buyers have attractive substitute options for my offerings?• Are suppliers available for the supplies I need?	<ul style="list-style-type: none">• Do we have any special resources or capabilities that our competitors don't?• Do we need any resources or capabilities in order to compete with other firms in the industry?

As an example of how the strategic tools help inform decisions, look back at the Walt Disney mission and vision in the previous section. Imagine if you were Mr. Walt Disney today, and you wanted to start a company with a vision of making people happy in the 21st century. A PESTEL analysis would tell you that technology is an important part of entertainment and that sociocultural trends include people's preference for on-demand entertainment, to be convenient and compatible with their busy schedules.



BRAINSTORM

- Disney's mission statement is broad enough about products and services to include a wide variety of offerings (they are thinking about the future too!), but if you were starting this company today, where would you start?
- What products or services would you plan to offer?
- Would you make movies for movie theaters, or develop a way to offer video entertainment online?
- Would you make console video games or phone apps?
- Who would your competition be, and what do they offer?
- How could you offer something better or cheaper?

Managers learn about the conditions that their business will have to operate in by doing strategic analysis, and understanding those conditions is required in order to develop the plans and actions that will lead to success.



REFLECT

1. What strategic analysis tools from the previous challenge would a manager use when planning a strategy for an existing business?
2. What tools would be most helpful for a start-up business?



TERM TO KNOW

Strategic Analysis

The systematic examination of a firm's internal and external situation that informs managerial decision-making.



SUMMARY

In this lesson, you learned **why strategic analysis is important for strategy formulation**. You learned that strategic analysis of a firm's external and internal environment comes early in the strategic process and provides its managers a clear picture of what they have to work with and what needs to be addressed when developing a plan for success. As a reminder, managers can utilize strategic analysis tools like PESTEL, Porter's Five Forces, and resources and capabilities analysis to help answer critical questions about the world at large, competitors, and the firm's unique skills and assets to inform their decision-making.

Best of luck in your learning!

Source: Access for free at <https://openstax.org/books/principles-management/pages/1-introduction>

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