

Analysis of the External Business Environment

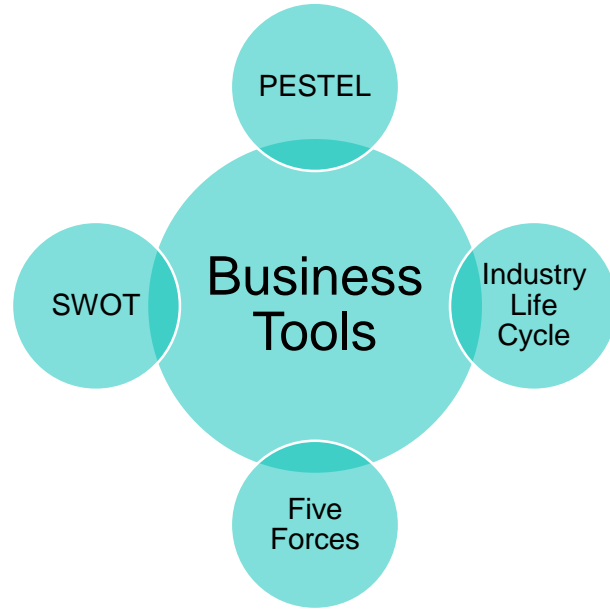
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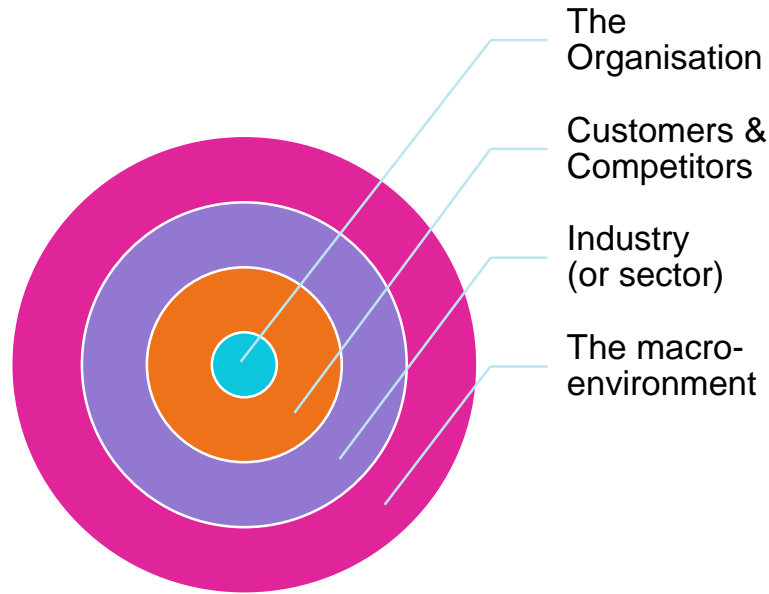
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The External Commercial Environment



- Qualitative analysis toolkit
 - not reliant on numeric data
- Evidence-based processes
 - public and private data required
- Volatile outcomes
 - things can change rapidly

Structure of the Business Environment



- Three layers/levels outside your organisation
 - Macro-environmental factors impact every organisation in every market
 - Industry/sector factors impact all the incumbent organisations
 - Customer/Competitor factors impact your organisation's ambitions

Level 1 - The PESTEL framework



Example - PESTEL Analysis for the Airline Industry

Political

- National carriers supported by governments
- Restrictions on immigration
- Security controls

Economic

- National growth rates
- Fuel prices

Social

- Rise in ageing travelling population
- International student study exchanges

Technological

- Higher-efficiency aircraft and engines
- Security checking technologies
- Tele/Video conferencing

Environmental

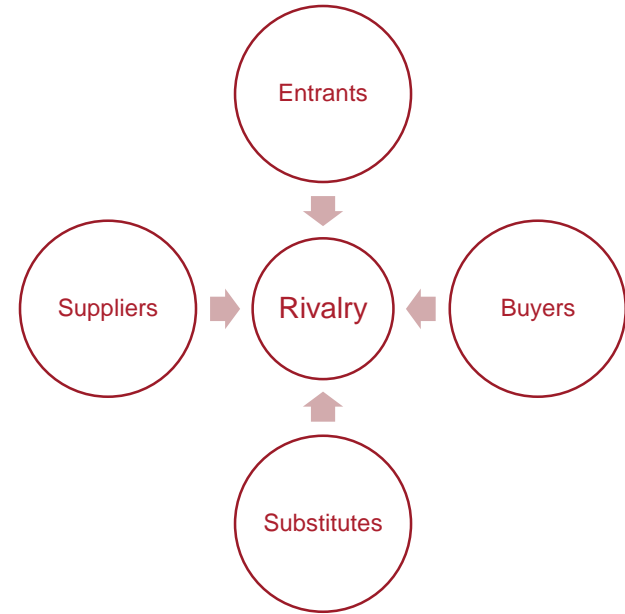
- Noise pollution controls
- Energy consumption controls
- Land availability for new airports

Legal

- Restrictions on M&A
- Preferential airport rights for some airlines

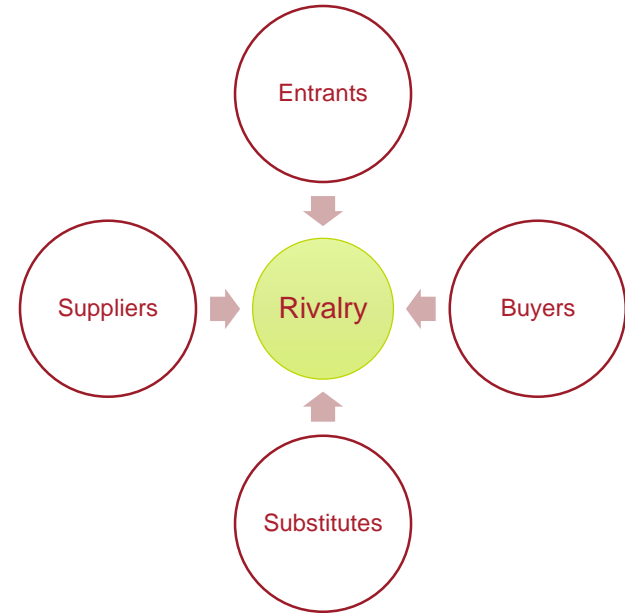
Level 2: Five Forces Driving Industry Competition

- Industries are not closed systems
- Structure will remain stable in the short term, but players enter and exit
- The numbers/types of players impact the prospects and profitability of industries



Level 2: Five Forces Driving Industry Competition

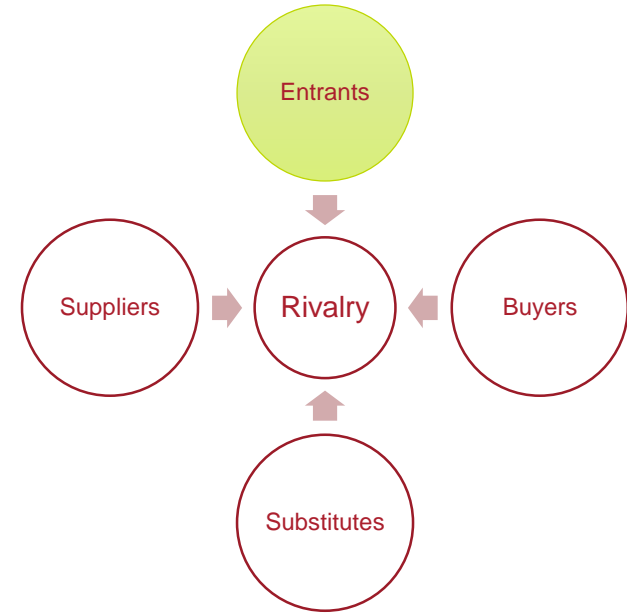
- Rivalry among existing competitors
 - Stable when 1-2 firms dominate
 - Unstable when fragmented
 - Market share growth vital in mature/declining industries
 - ‘Perishable’ markets for products or services may have intense periods/seasons



Level 2: Five Forces Driving Industry Competition

- New Entrants

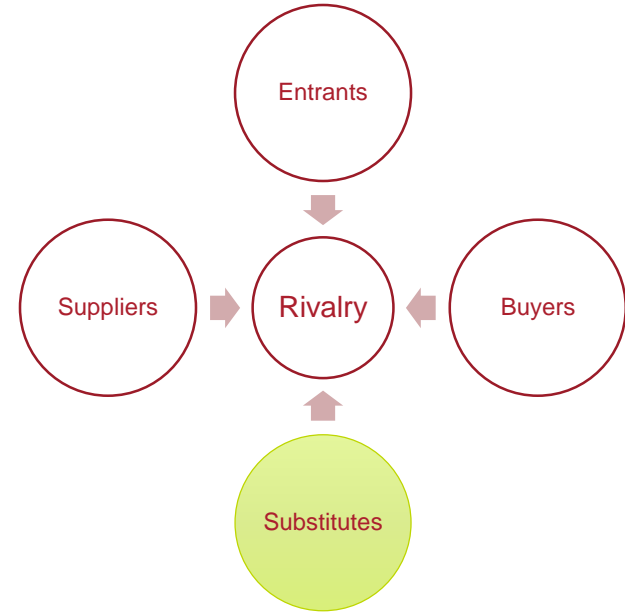
- Barriers to entry
- Bring more capacity, affecting prices
- Different business models may threaten incumbents
- Buyers' switching costs
- Capital-intensive industries
- Application of IPR
- Competition Laws



Level 2: Five Forces Driving Industry Competition

▪ Substitutes

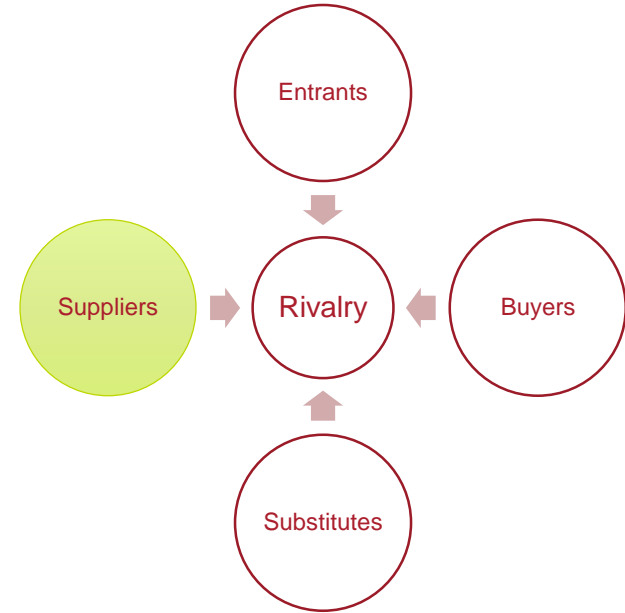
- **Products** that perform the same function or meet the same need as an existing
 - Blackberry versus iPhone
- Threat higher when substitute product is cheaper to buy/supply
- Respond by differentiation and stronger advertising/branding



Level 2: Five Forces Driving Industry Competition

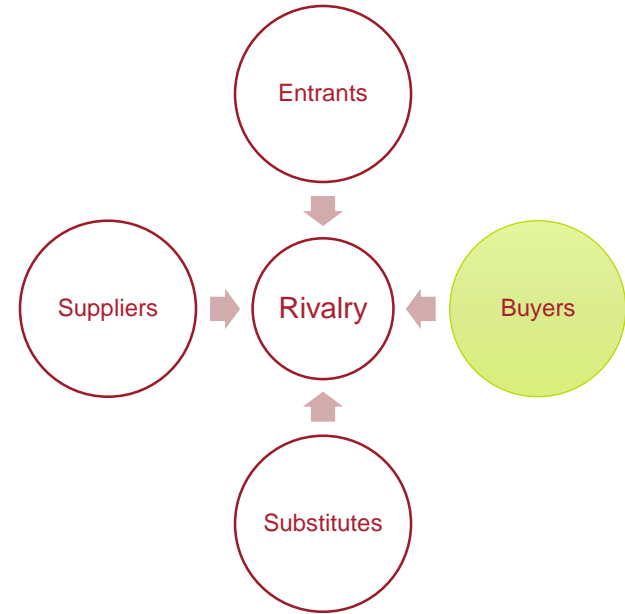
▪ Suppliers

- Don't forget labour as well as materials or finished parts
- Fewer larger suppliers have much more bargaining powers than many small ones
- Just-In-Time (lean) manufacturing strategies increase dependency on suppliers

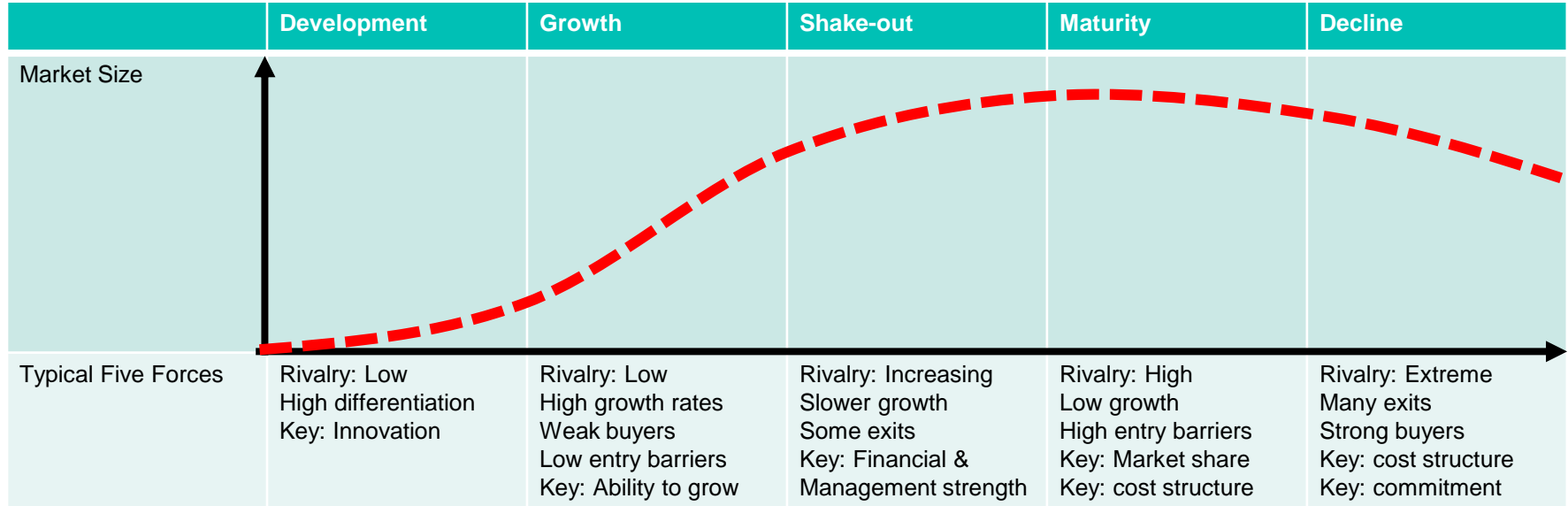


Level 2: Five Forces Driving Industry Competition

- Buyers
 - Often looking for the best price/value
 - Buyers often much larger than their suppliers
 - Market segments can represent a massive group of buyers with similar needs
 - Brand differentiation can have a direct impact on prices (hence margins)



Level 2: The Industry Life Cycle



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Level 2-3: SWOT

- SWOT stands for
 - Strengths, Weaknesses, Opportunities and Threats
 - a helpful way of classifying key issues
 - it is only a list – action must be taken to achieve lasting results
 - often shown as a 2x2 matrix or 4-box chart
- This tool allows you to combine high-level internal and external environmental* analysis to support decision-making

** in this context this refers to the business environment*

The SWOT Table

Strengths	Weaknesses
<ul style="list-style-type: none">• What your organisation is good at – not your opinion, but from the views of people outside your organisation• A strength is where you have a recognised advantage that can be exploited	<ul style="list-style-type: none">• Aspects of your business that your customers tell you your competitors do better than you• Other factors may include aspects that your customers/employees/suppliers tell you need development
Opportunities	Threats
<ul style="list-style-type: none">• Exploitable areas where you can use your strengths, or where you can improve one of your weaknesses to make money	<ul style="list-style-type: none">• Things that might happen to your disadvantage in the market place• They could impact everyone, or just your own organisation

The Different Environments

External

Opportunities

Threats

PESTLE Factors
Supply Chain
Demographics

Products & Technology
Markets & Competition

Internal

Strengths

Weaknesses

Behaviours/Culture
Organisation Structure
Innovation Culture
Routes to Market

Management
R&D Capability
Operations
Financing & Capital

Some Tips on SWOT Analysis

- Please try to do the following:
 - make continuous and explicit comparisons with competitors and substitutes to reality-test the strengths and weaknesses
 - where factors could be classified as strengths or weaknesses, separate out the two aspects and list under both headings
 - Always ‘think customer’ when classifying product or service strengths or weaknesses
 - try to use a scale (say 1 to 5) when rating strengths and weaknesses
 - create an overall strengths <-> weaknesses profile

Some Tips on SWOT Analysis

- Please try to **not to do the following**:
 - complete a SWOT without highlighting the key areas for competing effectively
 - be self-critical about some business aspects which are seen by others as being strong
 - equate compiling a SWOT analysis with creating a strategy
 - treat SWOT as the only technique in the strategic tool-kit
 - complete a SWOT without looking for patterns about the overall business position

External Business Environment - Summary

- External influences can be visualised as **three layers** encircling any organisation
- **PESTEL** analysis identifies the key drivers of change
- Porter's **Five Forces** analyses individual industries/sectors, which then indicates industry/sector attractiveness
- Industries/sectors are dynamic, and all can be analysed in terms of the **industry life cycle**
- **SWOT** analysis identifies the priorities for business development

Unconscious Bias

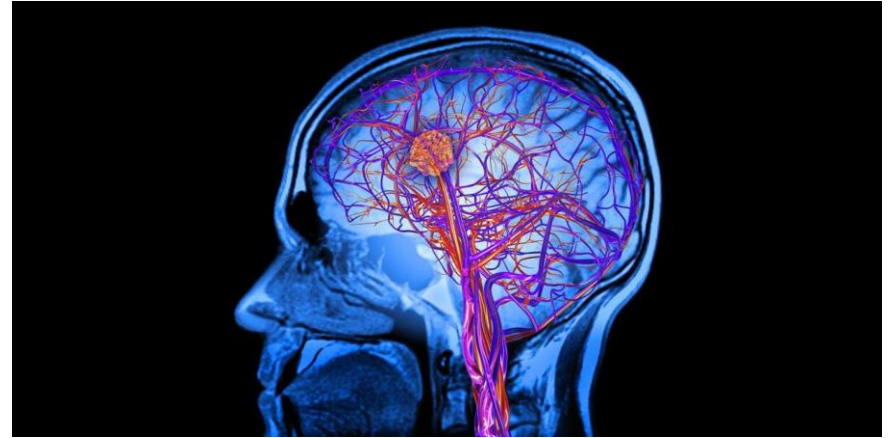
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What is Unconscious Bias?

- Our natural people preferences?
- Our unconscious brain processes about 200,000 times more information than our conscious brain
- When we see things occurring together, this becomes what our unconscious brain expects.



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Unconscious Bias - Example

- A man and his son are driving home together, but en-route they are involved in a nasty accident.
- The father tragically dies at the scene and the son is rushed to hospital where he requires emergency surgery.
- Just before the operation is about to commence the surgeon enters the room, looks at the patient and says 'I am sorry, I can't operate on this patient, he is my son.'
- Who is the surgeon?

How does it affect our behaviour?

- Unconscious bias is very subtle
 - it operates below our awareness level at all times
- It results in harmful micro-behaviours
 - paying a little less attention to what someone says
 - addressing them a little less warmly (micro-inequities)
- It influences our ability to make objective decisions
 - Our brains only see data/trends that they want to see

Bias is very likely when you are ...

Under
Pressure to
Perform

Carrying a
High Cognitive
Workload

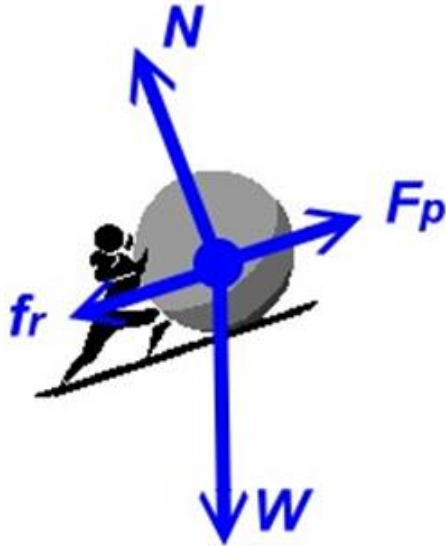
Need to
complete/finish
projects

Worried about
Perceptions

“Under the
Influence”

Exhausted

Can we overcome it?



- Get to know your own biases
 - find ways to overcome them
- Use objective criteria
 - try to minimise bias in decisions
- Use teams
 - create a culture of open challenge

Acknowledgements & References

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