

UNIT 2: ENVIRONMENTAL ANALYSIS

Tuesday, July 19, 2016

WHAT IS ENVIRONMENTAL ANALYSIS?

- ⦿ Business operations take place in ever uncertain and rapidly changing environments
- ⦿ *“Environment analysis is systematic method used by an organization to monitor and forecast those forces that are external to and not under the direct control of the organization or its industry”*
- ⦿ *Its also the process of identifying and evaluating the forces in the environment that can affect a business and then making decisions in line with what is obtaining in the environment.*

NEED FOR ENVIRONMENTAL ANALYSIS????

- ◉ The environment is dynamic
- ◉ Env. Analysis thus helps firms identify
 - ◉ - strengths and weaknesses that exist in the internal environment
 - ◉ - opportunities and threats that are in the external environment
- ◉ These are factors crucial to the survival of the firm

ASSESSMENT OF ENVIRONMENT

- ◉ The tools used to analyze the environments are as follows:
- ◉ 1. SWOT Analysis (Internal and External)
- ◉ 2. PESTEL Analysis (External)
- ◉ 3. Porters Five Forces (External) and
- ◉ 4. Competitor Analysis (External)

ASSESSMENT OF INTERNAL ENVIRONMENT

- ◉ **SWOT Analysis**

- ◉ Is used to analyze both the internal and external environments.
- ◉ SWOT analysis seeks to
 - ◉ - assist managers in finding the best match between environmental possibilities and *organisational capabilities*
 - ◉ - help managers identify areas that need to be strengthened

SWOT ANALYSIS

- ◉ **Strengths** - are positive aspects that enable a firm to have advantage over other firms e.g. financial resources, trained staff etc
- ◉ **Weaknesses** - are those negative aspects or incompetences that make the firm perform poorly e.g. bad reputation, narrow market, old equipment
- ◉ **Opportunities** - favorable conditions from the changes in the external environment e.g. failure of rivals, improved economy etc
- ◉ **Threats** - unfavorable conditions in the external environment that endanger a firm e.g. entry of rivals, changes in legislation

ORGANIZATIONAL CAPABILITIES

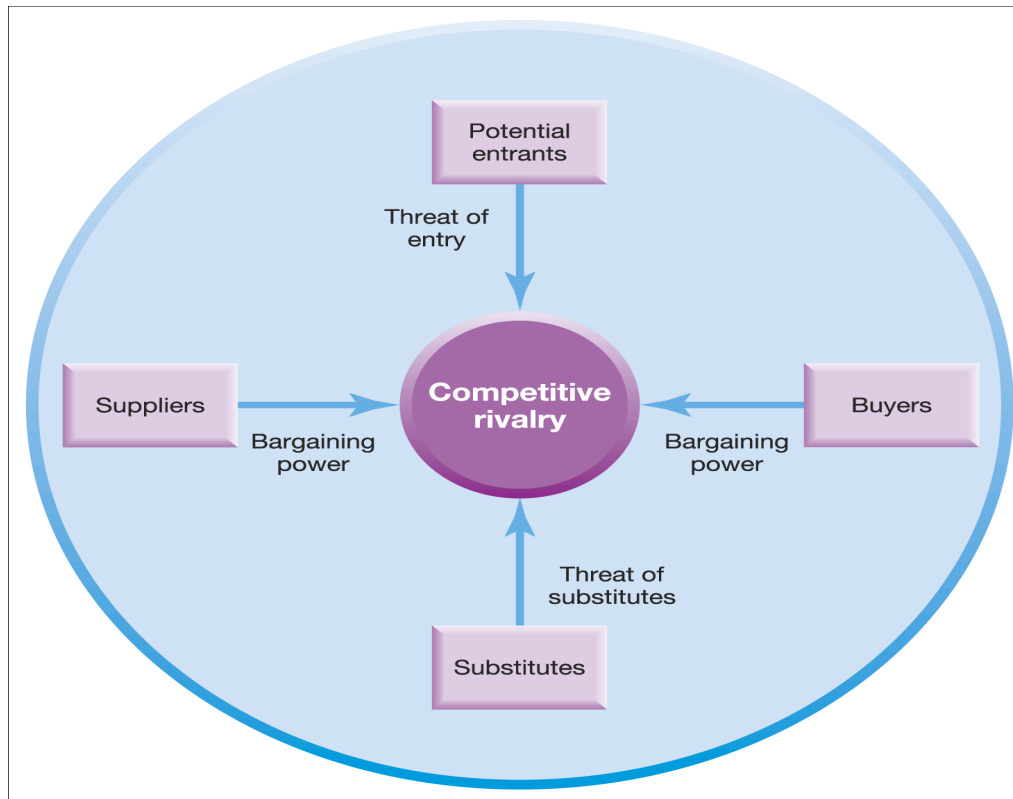
- ◉ These are the *resources*(*assets or what we have*) and *competences*(*skills, how we use assets effectively or what we do well*) that an organization has.
- ◉ They have to be understood as they are a source of competitive advantage
- ◉ Organizational Capabilities include:
 - ◉ - Financial Resources
 - ◉ - Marketing Resources
 - ◉ - Production Resources
 - ◉ - Human Resources

ASSESSMENT OF EXTERNAL ENVIRONMENT

- ◉ Tools used are:
- ◉ PESTEL Analysis (Covered)
- ◉ Porters Five Forces
- ◉ Competitor Analysis

FIVE FORCES MODEL

- The model looks at the competitiveness of an industry by evaluating five forces



PORTER'S FIVE FORCES

- ◉ **The Threat of New entrants**

- ◉ This is a real threat because if new firms enter an industry, they will get the market share or customers which will affect already existing firms (e.g. consider what it would be like if another telecoms firm entered the market)
- ◉ The strength of this depends on:
 - ◉ *Capital required to set up*
 - ◉ *Brand loyalty and switching costs*
 - ◉ *Economies of scale available to current firms*

PORTER'S FIVE FORCES

- ◎ **The Threat of New entrants - cont/d**
- ◎ *Access to input and distribution channels*
- ◎ *Cost of exit*
- ◎ *Government policy regarding licensing*

PORTER'S FIVE FORCES

◉ The Threat of Substitute Products

- ◉ A substitute product is one that meets the same need as the product of the firm e.g. coffee and tea, email and fax, car and bike etc
- ◉ Substitute products thus have the potential to reduce the market for the firm's product
- ◉ The strength of this threat depends on:
 - ◉ *Price and performance of the substitutes*
 - ◉ *Switching cost and willingness of buyers to switch*

PORTER'S FIVE FORCES

- ◉ **The Bargaining Power of Buyers**

- ◉ The Bargaining power reflects the influence that a party to a transaction exerts on the transaction terms e.g. price etc.
- ◉ The more power the buyers exert, the lower the transaction price.
- ◉ This power depends on a number of factors including;
- ◉ *the number of dominant buyers and number of sellers*

PORTER'S FIVE FORCES

- ◉ Cont/d...
- ◉ *The switching costs - if low, the buyers will have great influence as they can easily switch*
- ◉ *Availability of substitutes products - this will give the buyers more power*
- ◉ *Buyers threaten to integrate backwards - their power will be high*
- ◉ *Suppliers do not threaten to integrate forward*

PORTER'S FIVE FORCES

- ◎ **The Bargaining Power of Suppliers**
- ◎ Suppliers can also exert influence over the transaction terms such as price.
- ◎ Factors that can shape the extent of their influence include;
- ◎ *Uniqueness and scarcity of resource supplied*
- ◎ *Cost of switching to another resource*
- ◎ *The number of industries being supplied*
- ◎ *The number and size of resource suppliers*

PORTER'S FIVE FORCES

- ◉ **The Intensity of Rivalry in Industry**
- ◉ This force relates to the current competition face by the existing firms
- ◉ The competition in the industry affects the behaviour of firms
- ◉ Firms compete on the basis of price and non price bases such as innovation, brand advertising, additional services to customers, etc.
- ◉ The intensity of competition will depend on:

PORTER'S FIVE FORCES

- ◉ Cont/d...
- ◉ *The height of entry barriers and the number and size of the competitors in the industry*
- ◉ *The maturity of the industry*
- ◉ *The degree of brand loyalty of customers*
- ◉ *The power of buyers and availability of substitutes*

COMPETITOR ANALYSIS

- ⦿ This is an analysis of the competitors of a business and the effect of their moves on the business.
- ⦿ A competitor is any organisation that is in the business of satisfying the same or similar needs of the customers of a particular business.
- ⦿ As noted earlier the moves of competitors can make it difficult for a business to operate.
- ⦿ Thus competitor analysis is crucial

COMPETITOR ANALYSIS

- ◉ Competitor analysis seeks to answer the following questions;
- ◉ *Who are our competitors?*
- ◉ *What are their strengths and weaknesses?*
- ◉ *What are their strategic objectives and thrust?*
- ◉ *What are their strategies?*
- ◉ *What are their response patterns?*

COMPETITOR ANALYSIS

◉ 1. Who are our Competitors?

- ◉ Competitors are those companies who are producing technically similar products (e.g paint companies).
- ◉ Competitors need to be identified as well as their actions assessed as that will help determine the responses to make

◉ 2. What are their strengths and weaknesses?

- ◉ A precise understanding of competitor strengths and weaknesses is an important pre requisite of developing competitor strategy.

COMPETITOR ANALYSIS

- ⦿ A three-stage data gathering process can be used as follows:
- ⦿ *Identify key factors for success in the industry*
- ⦿ *Rate the company and competitors on each key success factor using a rating scale*
- ⦿ *Consider the implications for competitive strategy*

COMPETITOR ANALYSIS

- ◉ **3. What are the strategic objectives and thrust?**
- ◉ This stage of competitor analysis defines the strategic objectives. Strategic objectives include:
 - ◉ **A build objective** -increasing sales and/or market share.
 - ◉ **A harvest objective** - maximizing short-term cash flow through cost reduction and price increase.
 - ◉ **A hold objective** - focus on maintaining sales and/or market share.

COMPETITOR ANALYSIS

◉ 4. What are their strategies?

- ◉ The strategies of competitors need to be assessed.
- ◉ The strategies here relate to the competitors position strategies e.g. does a competitor want to serve the entire market, or just a niche?

◉ 5. What are their response patterns?

- ◉ This step of the analysis seeks to predict the competitors' response patterns. The following are the categories of competitors responses;

COMPETITOR ANALYSIS

- ◉ **Retaliatory competitors** - these are market leaders who respond aggressively to competitive challenges.
- ◉ **Complacent competitors** - react slowly to new challenges.
- ◉ **Hemmed-in competitors** - are unlikely to respond because their strategies have restricted their scope of retaliation.
- ◉ **Selective competitors** - respond to some competitive moves but not others.
- ◉ **Unpredictable competitors** - sometimes respond, and other times do not respond.

MANAGEMENT OF ENVIRONMENTAL FORCES

- ◉ Options available to manage environmental forces include;
- ◉ *Adaptation*
- ◉ *Favourability Influence*
- ◉ *Domain Shift*

MANAGEMENT OF ENVIRONMENTAL FORCES

⦿ 1. **Adaptation**

- ⦿ ...involves changing internal operations and activities to make the organisation more compatible with its environment.
- ⦿ The four common approaches are
 1. *Buffering*
 2. *Smoothing*
 3. *Forecasting*
 4. *Rationing*

MANAGEMENT OF ENVIRONMENTAL FORCES

◉ 2. Favourability Influence

- ◉ ...involves attempting to alter environmental elements in order to make them more compatible with the needs of the organisation.
- ◉ Approaches include;
- ◉ *Advertising and Public Relations*
- ◉ *Negotiating Contracts*
- ◉ *Co-opting*
- ◉ *Establishing joint venture*

MANAGEMENT OF ENVIRONMENTAL FORCES

- ◉ Cont/d..
- ◉ *Recruiting*
- ◉ *Boundary Spanning*
- ◉ *Joining trade associations and*
- ◉ *Engaging in political activities*

MANAGEMENT OF ENVIRONMENTAL FORCES

⊙ 3. Domain Shifts

- ⊙ ...involves making changes in the mix of products and services offered so that an organisation will interface with more favourable environmental elements.
- ⊙ - *one approach is to move entirely out of current product or geographical area*
- ⊙ - *the other is to diversify*

THANK YOU!

ANY QUESTIONS?