Opportunities and Threats

**Opportunity**
- A condition in the general environment that if exploited, helps a company achieve strategic competitiveness

**Threat**
- A condition in the general environment that may hinder a company’s efforts to achieve strategic competitiveness
External Environmental Analysis

- **A continuous process which includes**
  - **Scanning** for early signals of potential changes and trends in the general environment
  - **Monitoring** changes to see if a trend emerges from among those spotted by scanning
  - **Forecasting** projections of outcomes based on monitored changes and trends
  - **Assessing** the timing and significance of changes and trends on the strategic management of the firm

The Firm’s External Environment

Remote Environment (Global and Domestic)
- Economic
- Sociocultural
- Demographic
- Political/Legal
- Technological
- Ecological

Industry Environment (Global and Domestic)
- Entry barriers
- Supplier power
- Substitute availability
- Competitive rivalry

Operating Environment (Global and Domestic)
- Competitors
- Creditors
- Customers
- Labor
- Suppliers

THE FIRM

Economic Factors

- **Concern nature and direction of economy in which a firm operates**

- **Types of factors**
  - Inflation rates
  - Interest rates
  - Level of disposable income
  - Propensity of people to spend
  - Trends in growth of GNP,GDP
  - Trade deficits/surpluses
Sociocultural Factors

- Include beliefs, values, opinions, and lifestyles of people

- Recent social trends
  - Women in workforce—Workforce diversity
  - Emphasis on quality-of-life issues
  - Shifts in work and career preferences
  - Shifts in customer product/service characteristics

Political/Legal Factors

- Define legal and regulatory parameters within which firms must operate

- Types of factors
  - Fair-trade decisions
  - Antitrust laws/Deregulation philosophies
  - Tax programs
  - Minimum wage legislation
  - Pollution and pricing policies
  - Administrative jawboning

Technological Factors

- Focus on technological changes affecting industry

- Types of changes
  - New products—communication and information
  - Improvements in existing products
  - Manufacturing and marketing techniques

- Role of technological forecasting
  - Foresees advancements and estimating their impact
  - Alerts managers to impending challenges and promising opportunities
Ecological Factors

- **Involve relationships among human beings and other living things and air, soil, and water**
- **Current concerns**
  - Global warming
  - Loss of habitat and biodiversity
  - Air, water, and land pollution
- **Responsibilities of firms**
  - Eliminating toxic by-products of current manufacturing processes
  - Cleaning up prior environmental damage

Demographic Factors

- **Population size**
- **Age distribution**
- **Geographic distribution**
- **Ethnic mix**
- **Income distribution**

Factors Used to Assess the International

**Economic Environment**
- Level of economic development
- Population
- GNP
- Per capita income
- Literacy level
- Social infrastructure
- Natural resources
- Climate
- Membership in economic blocs
- Monetary and fiscal policies
- Wage and salary levels
- Nature of competition
- Currency convertibility
- Inflation and interest rates
- Taxation system

**Political System**
- Form of government
- Political ideology
- Stability of government
- Strength of opposition parties
- Social unrest
- Political strife and insurgency
- Governmental attitude towards foreign firms
- Foreign policy
Factors Used to Assess the International Environment

**Legal Environment**
- Legal tradition
- Effectiveness of legal system
- Treaties with foreign nations
- Patent trademark laws
- Laws affecting business firms

**Cultural Environment**
- Customs, norms, values, beliefs
- Language
- Attitudes
- Motivations
- Social institutions
- Status symbols
- Religious beliefs

Forces Driving Industry Competition

**Porter’s Five Forces Model of Competition**

- **Potential entrants**
  - Threat of new entrants

- **Suppliers**
  - Bargaining power of suppliers

- **Industry competitors**
  - Rivalry Among Existing Firms

- **Buyers**
  - Bargaining power of buyers

- **Substitutes**
  - Threat of substitute products or services

Competitive Force: Threat of Entry

- **Seriousness of threat depends on**
  - **Barriers to entry**
  - **Reaction of existing firms**

- **Barriers to entry**
  - Economies of scale
  - Product differentiation
  - Capital requirements
  - Switching costs
  - Access to distribution channels
  - Cost disadvantages independent of size
  - Government policy
  - Expected retaliation
Competitive Force: Suppliers

- A supplier group is powerful if:
  - Dominated by a few firms
  - More concentrated than industry it sells to
  - Supplier products have few substitutes
  - Buyer is not an important customer to supplier
  - Supplier product is important to buyer
  - Supplier product is differentiated
  - Supplier products have high switching costs
  - Supplier poses credible threat of forward integration

Competitive Force: Buyers

- A buyer group is powerful if:
  - It is concentrated or purchases in large volumes
  - Purchase accounts for a significant fraction of suppliers sales
  - Products are undifferentiated
  - Buyers face few switching costs
  - Buyers industry earns low profits
  - Buyer presents credible threat of backward integration
  - Supplier product is unimportant to quality
  - Buyer has full information

Competitive Force: Substitute Products

- Relevance of substitutes
  - Products with similar function limit the prices firms can charge
    - By placing a ceiling on prices charged, they limit profit potential of an industry
  - Substitutes deserving the most attention are those
    - Subject to trends improving their price-performance trade-off with the industry’s product
    - Produced by industries earning high profits
Competitive Force: Rivalry Among Existing Competitors

- Usually the most powerful of the forces
- Weapons of competitive rivalry
  - Price competition
  - Improved quality
  - New product introductions
  - Increasing customer service and warranties
  - Advertising battles

What Causes Rivalry to be Intense?

- Numerous competitors or they are roughly equal in size and power
- Slow growth in industry
- Product lacks differentiation or switching costs
- High fixed costs or perishable product (high storage costs)
- Capacity normally augmented in large increments
- Rivals are diverse in strategies, origins, and “personalities”
- High exit barriers and strategic stakes

Rivalry Among Existing Competitors

*High exit barriers* are economic, strategic and emotional factors which cause companies to remain in an industry even when future profitability is questionable.

- Specialized assets
- Fixed cost of exit (e.g., labor agreements)
- Strategic interrelationships
- Emotional barriers
- Government and social restrictions
Interpreting Industry Analyses

Unattractive Industry
- Low entry barriers
- Suppliers and buyers have strong positions
- Strong threats from substitute products
- Intense rivalry among competitors

Low profit potential

Interpreting Industry Analyses

Attractive Industry
- High entry barriers
- Suppliers and buyers have weak positions
- Few threats from substitute products
- Moderate rivalry among competitors

High profit potential

Strategic Groups Defined

- A set of firms emphasizing similar strategic dimensions and using similar strategies
  - Internal competition between strategic group firms is greater than between firms outside that strategic group
  - There is more heterogeneity in the performance of firms within strategic groups
Strategic Groups

- **Strategic Dimensions**
  - Extent of technological leadership
  - Product quality
  - Pricing Policies
  - Distribution channels
  - Customer service

Competitor Analysis

- **Competitor Intelligence**
  - The ethical gathering of needed information and data that provides insight into:
    - A competitor’s direction (*future objectives*)
    - A competitor’s capabilities and intentions (*current strategy*)
    - A competitor’s beliefs about the industry (*its assumptions*)
    - A competitor’s capabilities