

Part 2

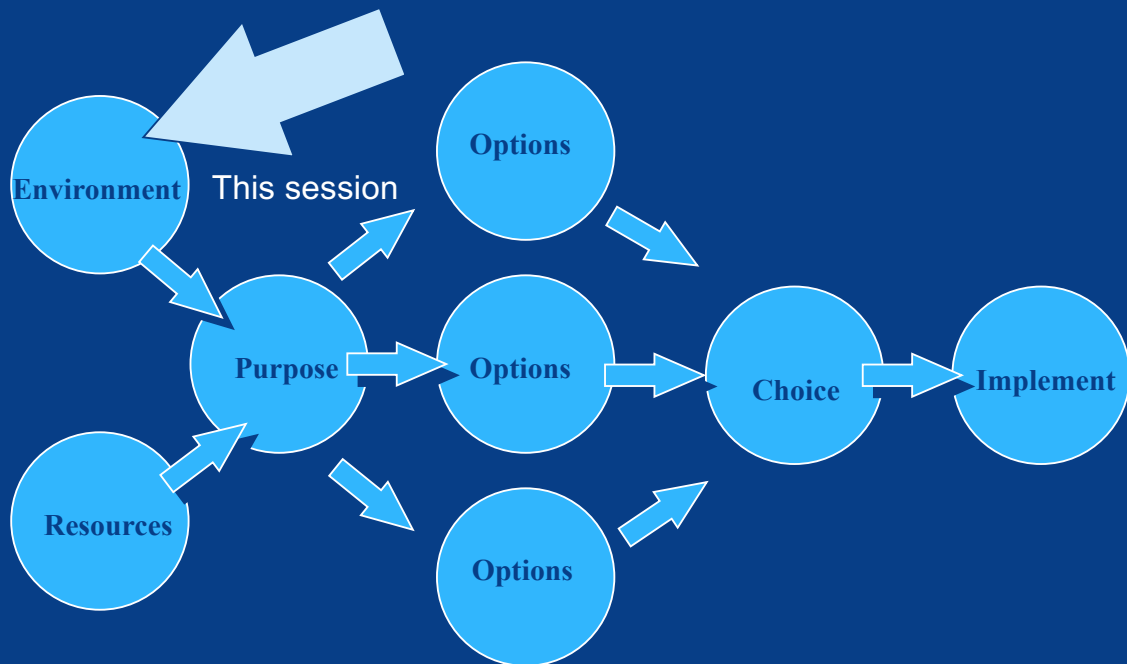
Strategic analysis and purpose

Chapter 3

Analysing the strategic environment

How do we analyse the strategic environment?

Analysing the main elements of the environment

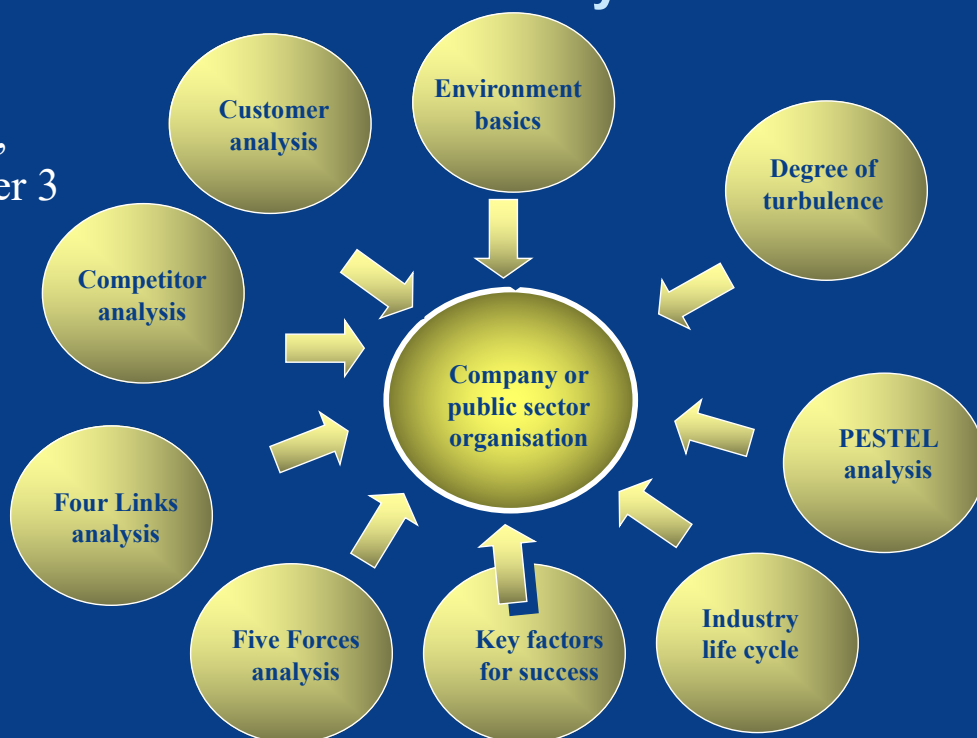


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Analysing the strategic environment - 1

The nine basic analytical tools

See:
Lynch,
Chapter 3



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Analysing the strategic environment - 2

Useful to take the tools in the following sequence:

1. General evaluation: market size, growth and share
2. Degree of turbulence
3. Factors affecting many industries: *PESTEL* analysis
4. Growth: *Life cycle* analysis
5. Factors specific to the industry: *Key factors for success*
6. Factors specific to competition: *Five Forces* analysis
7. Factors specific to co-operation: *Four Links* analysis
8. Factors specific to *immediate competitors*
9. Customer analysis: *demand, segmentation and positioning*

Step 1: General evaluation

- Market size
 - Market definition – what products/services do we include?
 - Is the market big or small?
 - Implications for business opportunity?
- Market growth
 - Growing fast or slow?
 - Attractive opportunity or really mature?
- Market share
 - Dominant company? Or fragmented market?

See: Lynch Ch 3,
Section 3.2

Step 2: Measure the degree of turbulence



- **Changeability:** the degree to which the environment is likely to change
- **Predictability:** the degree to which such changes can be predicted
- When both factors are high, essential to use *emergent* processes

See: Lynch, Ch 3, Section 3.3

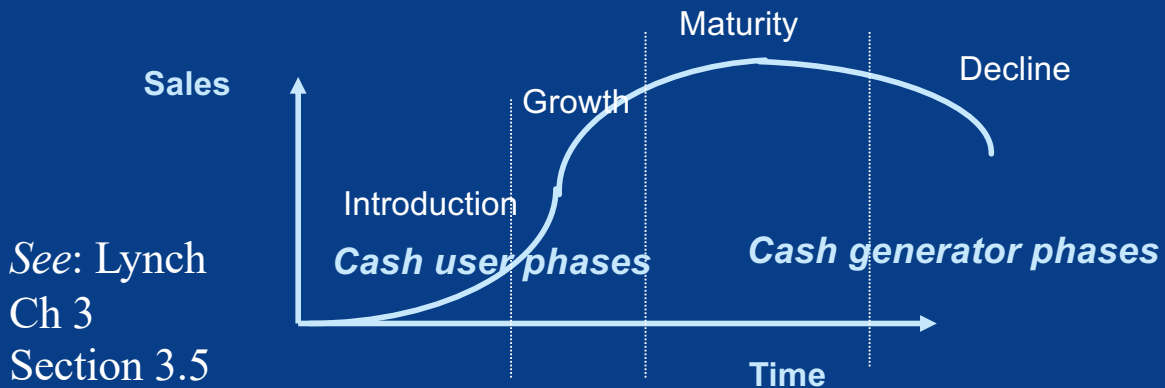
Step 3: Factors influencing many industries PESTEL Analysis

- Consider the general environment surrounding many businesses under six main headings:
 - Political
 - Economic
 - Sociological
 - Technological
 - Environmental
 - Legal
 - Key point: PESTEL is not a 'formula', just a useful checklist – it is wise to be selective
- See: Lynch & Davis
Section 3.4

See: Lynch Ch 3,
Section 3.4

Step 4: Growth and Life Cycle Analysis

- Theory suggests that businesses go through various phases of development
- Strategies will change with each phase



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Step 5: Factors specific to the industry

Key Factors for Success

- Many industries or markets have factors that are essential to deliver profits in that market: the **key factors for success (KFS)**
- Useful to identify KFS because they will help set the agenda for strategy: if strategy fails to address these issues, it may fail completely
- Useful also because there are many possible issues that *might* be considered by strategic management: KFS helps to *select* the key issues

See: Lynch checklist of KFS areas: Section 3.6

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Step 6: Factors specific to competition

Five Forces Analysis

- Underpinning logic: economic power in the market place
- Key question: how much *bargaining power* does a company have against the five forces acting against it?
- **The Five Forces:** each with an example of their power
 1. **Industry competitors** – e.g. some may have stronger brands
 2. **Customers** – e.g. may be large enough to dictate buying terms
 3. **Suppliers** – e.g. perhaps supplying a unique ingredient
 4. **Substitutes** for the company's products – e.g. may be cheaper
 5. **Potential new entrants** – e.g. could enter the market with new technology and threaten the company's existence

Step 6: Factors specific to competition

Five Forces Analysis

How to analyse the Five Forces:

Potential entrants: high, medium or low threat of new entrants based on barriers to entry

See: Lynch, Ch 3, Section 3.7

Suppliers: have high, medium or low bargaining power depending on what they supply – patented, quality, etc.

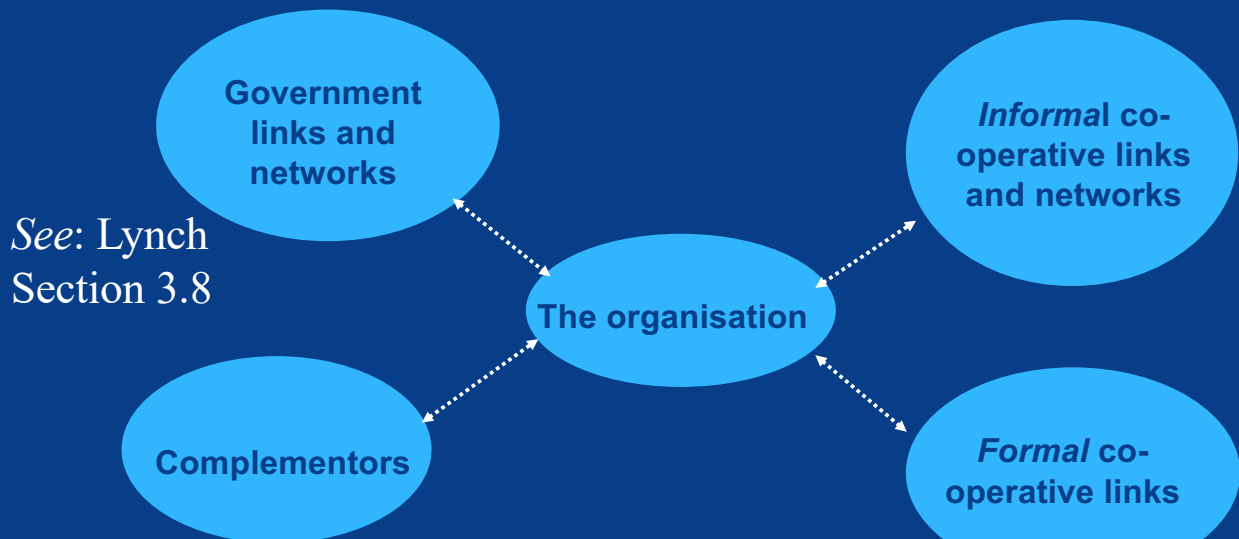
Industry competitors: high, medium or low threat based on competitors' resources, plans, etc.

Customers: have high, medium or low bargaining power based on size of order, etc.

Substitutes: high, medium or low threat based on ease and cost of alternative, etc.

Step 7: Factors specific to co-operation

Four Links Analysis



Underpinning logic: economic benefits derived from working together

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Step 7: Factors specific to co-operation

Four Links Analysis

Government links and networks: Government contracts are *crucial* to some companies and informal networks are important to influence government tax legislation, R&D support, gain government support grants, etc.

For example, Sony has had strong support from the Japanese government over investment in electronics

Informal co-operative links and networks: alliances, mutual industry support, informal talks – but price agreements illegal!

Formal co-operative links: joint ventures and other forms of contractual co-operation

Economic benefits from all the above areas

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Step 7: Factors specific to co-operation

Four Links Analysis

Complementors: companies whose products add more to the products of the base company than they would possess by themselves

For example, Sony *Vaio* computers – the base company - benefit from having the widely accepted Microsoft *Windows* software as the complementor

Microsoft *complements* Sony

Coca Cola *complements* McDonalds Restaurants, etc.

Economic benefits from powerful complementary links between well-respected products and brands

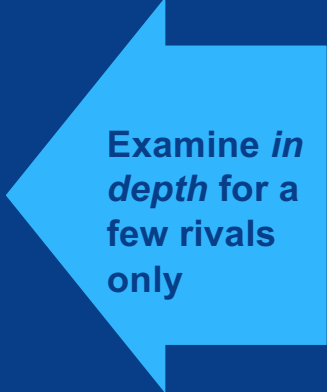
Four Links Analysis: how to assess the links



Step 8: Factors specific to immediate competitors

The following aspects of the competitor's organisation need to be explored:

- Objectives
- Resources
- Past record of performance
- Current products and services
- Present strategies



Examine *in depth* for a few rivals only

See: Lynch Section 3.9

Step 9: Customer analysis Demand, Segmentation and Positioning

The following aspects need to be explored:

- Customer profiling
- Market segmentation
- Market positioning
- Present customer strategies



Examine *in depth* for company's products

Key point: Competitive analysis is important in strategy, but ultimately it is the **Customers** who make the buying decision

See: Lynch, Section 3.10

Customer profiling - 1

- Customer profiling describes the main characteristics of the customer and how customers make their purchasing decisions
- Important because an understanding of why customers buy will indicate to an organisation where they need to develop and sustain their competitive advantages
- Competitive advantage in strategy is only meaningful if it attracts customers, e.g.
 - Gucci may or may not be a low-cost producer of its high quality fashion items but this is largely irrelevant to that company's customers
 - Mars' *Snickers* has good quality ingredients, but retail price/value versus competing products is equally important

Customer profiling - 2

Some examples:

- **Domestic customers**, e.g. people buying confectionery
 - Buy products for themselves and their families
 - Individual bargaining power usually low
 - Often grouped together into segments
- **Large industrial customers**, e.g. airlines buying passenger jets
 - Each customer has different needs
 - Tend to buy for more rational and economic reasons
 - Buying power if individual customers sufficient to justify special attention
- **Public service customers**, e.g. local library or housing service
 - Customers may be grouped into segments
 - Service important: people providing service are part of 'product'
 - But profit may not be prime motive

Segmentation and positioning - 1

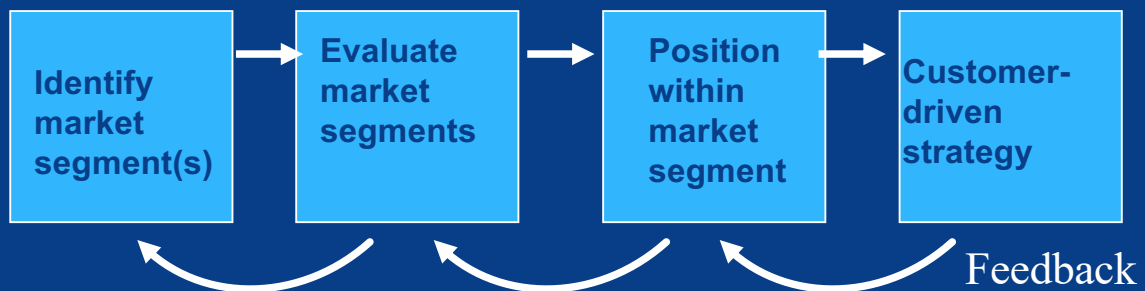
- Market segmentation is the identification of specific groups (or segments) of customers who respond to competitive strategies differently from other groups
- Positioning is the choice of a differential advantage possessed by an organisation that allows it to compete and survive in a market place in a segment of a market
- In theory, it is possible to position a product without considering segmentation – perhaps for a unique new product or service
- In practice, segmentation usually comes first, especially in consumer markets
- Typical sequence: identify segments and then position product or service within segment

Segmentation and positioning - 2

- Identification of specific groups (or segments) of customers who respond differently from other groups to competitive strategies
- Criteria for selecting useful market segments:
 - *Distinguishable*: customers must be sufficiently distinctive so that they can be isolated in some way
 - *Relevant* to purchasing needs of customer
 - *Sufficient size* to justify special strategies and their associated costs
 - *Reachable* so that it is possible to direct the strategy to the segment.

Segmentation and positioning - 3

- Emergent sequence of development shown below
- Prescriptive process similar but has no feedback mechanism
- Relatively easy to identify market segments using marketing research
- Positioning within segment not so simple – requires experimentation with actual or potential customers and judgement on the most attractive gaps



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Segmentation and positioning - 4

Process of developing market positioning:

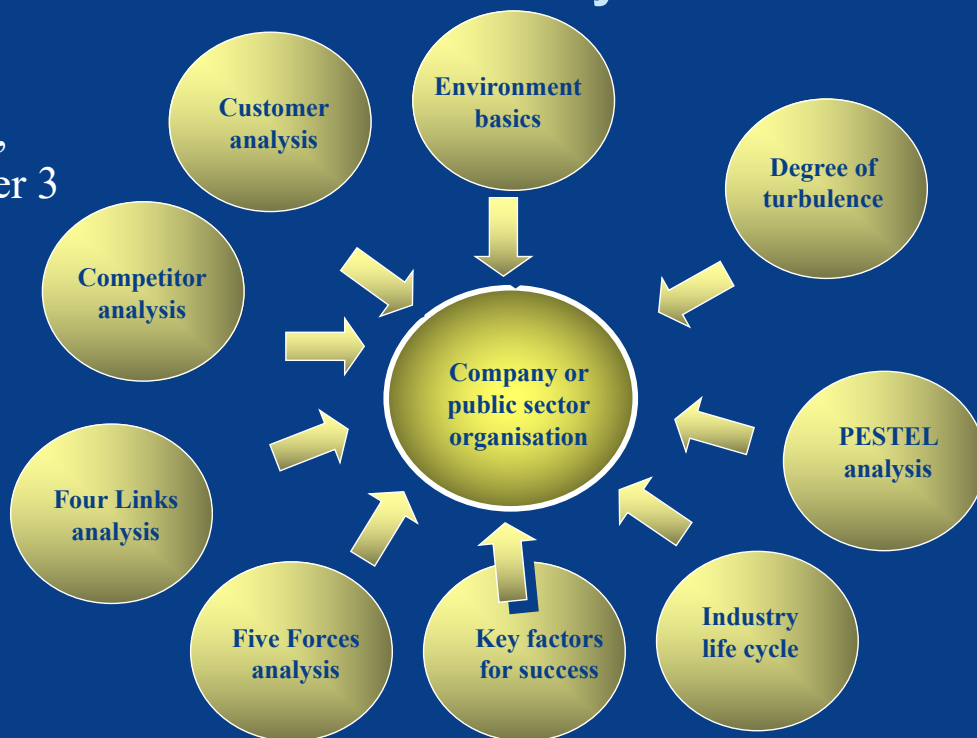
1. Perceptual mapping: in-depth qualitative research on actual and prospective customers to see how they make decisions in the market place
2. Positioning: existing brands are then place on the map using the above research
3. Options development: existing and new products are analysed for their strengths and weaknesses to fill new positions on the map
4. Testing: simple experiment with a few customers and then in the market place

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Analysing the strategic environment

The nine basic analytical tools

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How do we analyse the strategic environment?

Some additional overheads

Five political trends that have affected strategic management

- Decline of the centrally directed command economies of Eastern Europe coupled with the move towards democracy and freer markets
- The absence of world wars and the more recent end of the Cold War
- The relative weakness of African and South/Central American economies
- The rise of international trade, global companies and new trading nations
- Emergence of supportive international finance and economic institutions such as the World Bank and International Monetary Fund.

Government and industrial policy - 1

Basic policy:

- *Laissez faire*: free market approach
- *Dirigiste*: centrally directed approach

Broader analysis of government policy and state institutions:

- Public expenditure
- Competition policy
- Taxation policy
- Regional policy

Government and industrial policy - 2

Analysis needed at two levels:

- *National economy*: macroeconomic level to determine growth, inflation and policies for many organisations
- *Industry-level studies*: to establish government attitudes to specific industries in areas such as competition policy, support, employment