

Lesson Plan: Week 2 – The External Environment: Opportunities, Threats, Industry Competition, and Competitor Analysis

Target Duration: Approx. 3-4 Hours

Session Overview

This session examines the firm's external environment and its impact on strategic competitiveness. It covers the general, industry, and competitor environments, the external analysis process, the seven segments of the general environment, Porter's Five Forces, strategic groups, competitor analysis, and ethical considerations. The goal is to equip students with tools to identify opportunities and threats.

Learning Objectives

1. Explain the importance of analyzing the firm's external environment.
2. Define and describe the general and industry environments.
3. Discuss the four parts of the external environmental analysis process.
4. Name and describe the seven segments of the general environment.
5. Identify the five competitive forces and explain their impact on industry profitability.
6. Define strategic groups and describe their influence on firms.
7. Describe what firms need to know about competitors and ethical methods for intelligence gathering.

Lesson Plan Outline

Previous Week Recap: Group discussion

- What is strategic competitiveness, strategy, competitive advantage, above-average returns, and the strategic management process?
- What are the characteristics of the current competitive landscape? What two factors are the primary drivers of this landscape?
- According to the I/O model, what should a firm do to earn above-average returns?
- What does the resources-based model suggest a firm should do to earn above-average returns?
- What are stakeholders? How do the three primary stakeholder group influence organizations?

1. Introduction and Importance of External Analysis (10-15 minutes)

Objective: Highlight why understanding the external environment matters.

- External factors (e.g., technology, societal shifts) affect firm performance.
- Knowledge of the external environment builds capabilities, buffers threats, and identifies opportunities.
- Example: McDonald's adapting to changing consumer tastes (Opening Case).

Activity:

- Brainstorm (5 min): Ask students to list 2-3 external factors affecting a familiar firm (e.g., fast food). Share one example with the class.

2. Components of the External Environment (20-25 minutes)

Objective: Define the general, industry, and competitor environments.

- General Environment: Broad societal factors (e.g., demographic, economic) indirectly affecting industries (see Table 2.1).
- Industry Environment: Direct factors (e.g., rivalry, suppliers) influencing firm actions and profitability.
- Competitor Environment: Focus on rivals' strategies and capabilities.
- Integration of insights improves performance (see Figure 2.1).

Activity:

- Environment Sort (10 min): Provide a list of factors (e.g., "new tech," "rival pricing"). In pairs, categorize them as general, industry, or competitor-related. Discuss as a class.

3. External Environmental Analysis Process (20-25 minutes)

Objective: Explore the four-part process to identify opportunities/threats.

- Scanning: Detect early signals of change (e.g., Amazon tracking customer data).
- Monitoring: Observe trends over time (e.g., stakeholder shifts).
- Forecasting: Project future outcomes (e.g., tech adoption rates).
- Assessing: Evaluate timing/significance of trends (see Table 2.2).

Activity:

- Trend Tracker (10 min): In small groups, pick an industry (e.g., retail). Identify one trend, then apply scanning and forecasting steps. Share findings with the class.

4. Segments of the General Environment (25-30 minutes)

Objective: Detail the seven segments and their strategic relevance.

- Demographic: Population size, age, ethnicity (e.g., aging boomers).
- Economic: Inflation, GDP, unemployment (e.g., global trade impacts).
- Political/Legal: Laws, regulations (e.g., deregulation effects).
- Sociocultural: Attitudes, values (e.g., remote work trends).
- Technological: Innovations (e.g., e-commerce growth).
- Global: International markets, events (e.g., outsourcing trends).
- Physical: Sustainability, climate (e.g., energy shifts).

Activity:

- Segment Impact (10 min): Assign each group a segment. Analyze its impact on a chosen firm (e.g., Tesco). Present one opportunity or threat.

5. Industry Environment Analysis: Five Forces (30-35 minutes)

Objective: Use Porter's Five Forces to assess industry profitability.

- Threat of New Entrants: Barriers (e.g., economies of scale, retaliation).
- Power of Suppliers: Influence on costs (e.g., airline suppliers).
- Power of Buyers: Bargaining leverage (e.g., informed consumers).
- Threat of Substitutes: Alternative products (e.g., tea vs. coffee).
- Rivalry Intensity: Competition drivers (e.g., slow growth, high stakes) (see Figure 2.2).
- Strong forces = low profitability; weak forces = high profitability.

Activity:

- Five Forces Role-Play (15 min): Divide class into five groups, each representing a force. Analyze the toy industry (e.g., Toys 'R' Us). Argue how their force impacts profitability.

6. Strategic Groups and Competitor Analysis (25-30 minutes)

Objective: Understand strategic groups and competitor profiling.

- Strategic Groups: Firms with similar strategies (e.g., quality, pricing). Implications: intense rivalry within groups, varying force strengths (e.g., Toys 'R' Us vs. Walmart).
- Competitor Analysis: Profile rivals' objectives, strategies, assumptions, capabilities (see Figure 2.3).
- Ethical Considerations: Legal methods (e.g., public data) vs. unethical (e.g., theft).

Activity:

- Competitor Profile (10 min): In pairs, pick two firms in an industry (e.g., Amazon vs. Jet.com). List one objective and strategy for each. Discuss ethical data sources.

7. Wrap-Up and Review (10-15 minutes)

Summary: Recap key concepts (environments, analysis process, Five Forces, groups, competitor analysis).

- Q&A: Address questions.
- Answer Review Quiz 2: Available on Moodle.

Case Studies

1. [McDonald's – Adapting to Changing Consumer Tastes](#)

2. [Amazon – Leveraging Customer Data for Strategic Advantage](#)
3. [Toys “R” Us – Industry Competition and Strategic Groups](#)
4. [Jet Airways – Competitor Analysis and Market Dynamics](#)