

ENVIRONMENTAL SCANNING AND INDUSTRY ANALYSIS



ENVIRONMENTAL ISSUES

The Arctic is undergoing an extraordinary transformation - a transformation that will have global impact not only on wildlife, but upon many countries and a number of industries. Some of the most significant environmental changes are retreating sea ice, melting glaciers, thawing permafrost, increasing coastal erosion, and shifting vegetation zones. The average temperature of the Arctic has risen at twice the rate of the rest of the planet. According to Impacts of a Warming Arctic: Arctic Climate Impact Assessment, a 2004 report by the eight-nation Arctic Council, the melting of the area's highly reflective snow and sea ice is uncovering darker land and ocean surfaces, further increasing the absorption of the sun's heat. Reductions in Arctic sea ice will drastically shrink marine habitats for polar bears, ice seals, and some seabirds. The warming of the tundra will likely boost greenhouse gases by releasing long-stored quantities of methane and carbon dioxide.

ENVIRONMENTAL SCANNING

- Environmental scanning is the *monitoring, evaluation, and dissemination of information from the external and internal environments to key people* within the corporation.
- Corporation uses this tool to *avoid strategic surprise* and to *ensure its long-term health*.
- *Natural environment* includes physical resources, wildlife, and climate that are an inherent part of existence on Earth - form an ecological system of interrelated life.
- The *societal environment* is mankind's social system that includes general forces that do not directly touch on the short-run activities of the organization that can, and often do, influence its long-run decisions.

ENVIRONMENTAL SCANNING

- These factors affect multiple industries and are as follows:
 - *Economic* forces that regulate the exchange of materials, money, energy, and information.
 - *Technological* forces that generate problem-solving inventions.
 - *Political-legal* forces that allocate power and provide constraining and protecting laws and regulations.
 - *Sociocultural* forces that regulate the values, mores, and customs of society.

ENVIRONMENTAL SCANNING

- The *task environment* includes those elements or groups that directly affect a corporation and, in turn, are affected by it - governments, local communities, suppliers, competitors, customers, creditors, employees/labour unions, special-interest groups, and trade associations.
- *Industry analysis* refers to an in-depth examination of key factors within a corporation's task environment.

SCANNING THE NATURAL ENVIRONMENT

- Large corporations categorize the societal environment in any one geographic region into four areas and focus their scanning in each area on trends that have corporate wide relevance.
- By including trends from the natural environment, this scanning can be called STEEP Analysis, the scanning of Sociocultural, Technological, Economic, Ecological, and Political-legal environmental forces.
- It may also be called PESTEL Analysis for Political, Economic, Sociocultural, Technological, Ecological, and Legal forces.
- Obviously, trends in any one area may be very important to firms in one industry but of lesser importance to firms in other industries.

SCANNING THE NATURAL ENVIRONMENT

TABLE 4-1 Some Important Variables in the Societal Environment

Economic	Technological	Political-Legal	Sociocultural
GDP trends	Total government spending for R&D	Antitrust regulations	Lifestyle changes
Interest rates	Total industry spending for R&D	Environmental protection laws	Career expectations
Money supply	Focus of technological efforts	Global warming legislation	Consumer activism
Inflation rates	Patent protection	Immigration laws	Rate of family formation
Unemployment levels	New products	Tax laws	Growth rate of population
Wage/price controls	New developments in technology transfer from lab to marketplace	Special incentives	Age distribution of population
Devaluation/revaluation	Productivity improvements through automation	Foreign trade regulations	Regional shifts in population
Energy alternatives	Internet availability	Attitudes toward foreign companies	Life expectancies
Energy availability and cost	Telecommunication infrastructure	Laws on hiring and promotion	Birthrates
Disposable and discretionary income	Computer hacking activity	Stability of government	Pension plans
Currency markets		Outsourcing regulation	Health care
Global financial system		Foreign "sweat shops"	Level of education
			Living wage
			Unionization

SCANNING THE NATURAL ENVIRONMENT

- Changes in the technological part of the societal environment can have a great impact on multiple industries.
- Researchers at George Washington University have identified a number of technological breakthroughs that are already having a significant impact on many industries:
 - Portable information devices and electronic networking
 - Alternative energy sources
 - Precision farming
 - Virtual personal assistants
 - Genetically altered organisms
 - Smart, mobile robots

SCANNING THE NATURAL ENVIRONMENT

- Trends in the political–legal part of the societal environment have a significant impact not only on the level of competition within an industry but also on which strategies might be successful.
- Demographic trends are part of the sociocultural aspect of the societal environment.
- Eight current sociocultural trends are transforming North America and the rest of the world:
 1. Increasing environmental awareness
 2. Growing health consciousness
 3. Expanding seniors market
 4. Impact of Generation Y Boomlet

SCANNING THE NATURAL ENVIRONMENT

5. Declining mass market
 6. Changing pace and location of life
 7. Changing household composition
 8. Increasing diversity of workforce and markets
- International Societal Considerations. Each country or group of countries in which a company operates presents a unique societal environment with a different set of economic, technological, political–legal, and sociocultural variables for the company to face.
 - International societal environments vary so widely that a corporation’s internal environment and strategic management process must be very flexible.

SCANNING THE NATURAL ENVIRONMENT

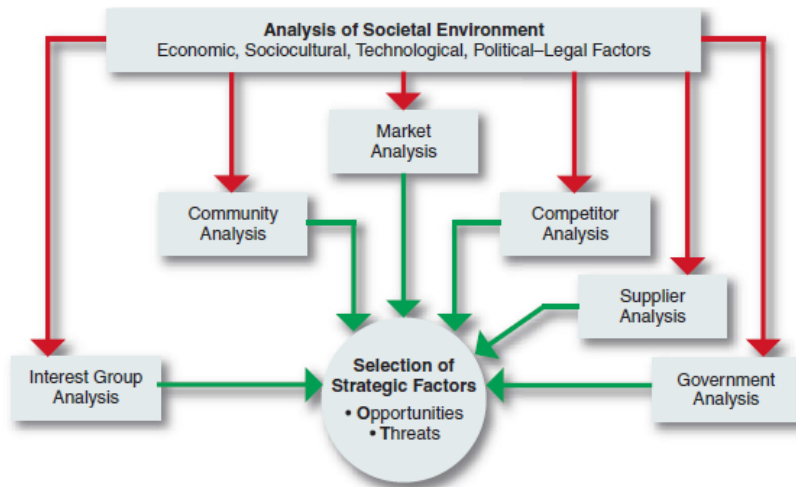
- Before planning its strategy for a particular international location, a company must scan the particular country environment in question for opportunities and threats, and it must compare those with its own organizational strengths and weaknesses.
- The key is to be able to identify the trigger point when demand for a particular product or service is ready to boom.
- How can anyone monitor and keep track of all the trends and factors in the worldwide societal environment? With the existence of the Internet – creating a scanning system.

SCANNING THE NATURAL ENVIRONMENT

TABLE 4-3 Some Important Variables in *International Societal Environments*

Economic	Technological	Political–Legal	Sociocultural
Economic development	Regulations on technology transfer	Form of government	Customs, norms, values
Per capita income	Energy availability/cost	Political ideology	Language
Climate	Natural resource availability	Tax laws	Demographics
GDP trends	Transportation network	Stability of government	Life expectancies
Monetary and fiscal policies	Skill level of workforce	Government attitude toward foreign companies	Social institutions
Unemployment levels	Patent-trademark protection	Regulations on foreign ownership of assets	Status symbols
Currency convertibility	Internet availability	Strength of opposition groups	Lifestyle
Wage levels	Telecommunication infrastructure	Trade regulations	Religious beliefs
Nature of competition	Computer hacking technology	Protectionist sentiment	Attitudes toward foreigners
Membership in regional economic associations, e.g., EU, NAFTA, ASEAN	New energy sources	Foreign policies	Literacy level
Membership in World Trade Organization (WTO)		Terrorist activity	Human rights
Outsourcing capability		Legal system	Environmentalism
Global financial system		Global warming laws	“Sweat shops”
		Immigration laws	Pension plans
			Health care
			Slavery

SCANNING THE TASK ENVIRONMENT



SCANNING THE TASK ENVIRONMENT

- A corporation's scanning of the environment includes analyses of all the relevant elements in the task environment.
- The many reports resulting from these scanning efforts, when boiled down to their essentials, act as a detailed list of external strategic factors.

IDENTIFYING EXTERNAL STRATEGIC FACTORS

- The origin of competitive advantage lies in the ability to identify and respond to environmental change well in advance of competition.
- No firm can successfully monitor all external factors - choices must be made.
- Even though managers agree that strategic importance determines what variables are consistently tracked, they sometimes miss or choose to ignore crucial new developments.
- Personal values and functional experiences of a corporation's managers as well as the success of current strategies are likely to bias both their perception of what is important to monitor in the external environment and their interpretations of what they perceive.

IDENTIFYING EXTERNAL STRATEGIC FACTORS

- This willingness to reject unfamiliar as well as negative information is called strategic myopia.
- If a firm needs to change its strategy, it might not be gathering the appropriate external information to change strategies successfully.
- One way to identify and analyse developments in the external environment is to use the issues priority matrix as follows:
 1. Identify a number of likely trends emerging in the natural, societal, and task environments. These are strategic environmental issues—those important trends that, if they occur, determine what the industry or the world will look like in the near future.
 2. Assess the probability of these trends actually occurring, from low to medium to high.
 3. Attempt to ascertain the likely impact (from low to high) of each of these trends on the corporation being examined.

IDENTIFYING EXTERNAL STRATEGIC FACTORS

		Probable Impact on Corporation		
		High	Medium	Low
Probability of Occurrence	High	High Priority	High Priority	Medium Priority
	Medium	High Priority	Medium Priority	Low Priority
	Low	Medium Priority	Low Priority	Low Priority

IDENTIFYING EXTERNAL STRATEGIC FACTORS

- A corporation's external strategic factors are the key environmental trends that are judged to have both a medium to high probability of occurrence and a medium to high probability of impact on the corporation.
- The issues priority matrix can then be used to help managers decide which environmental trends should be merely scanned (low priority) and which should be monitored as strategic factors (high priority).
- Those environmental trends judged to be a corporation's strategic factors are then categorized as opportunities and threats and are included in strategy formulation.

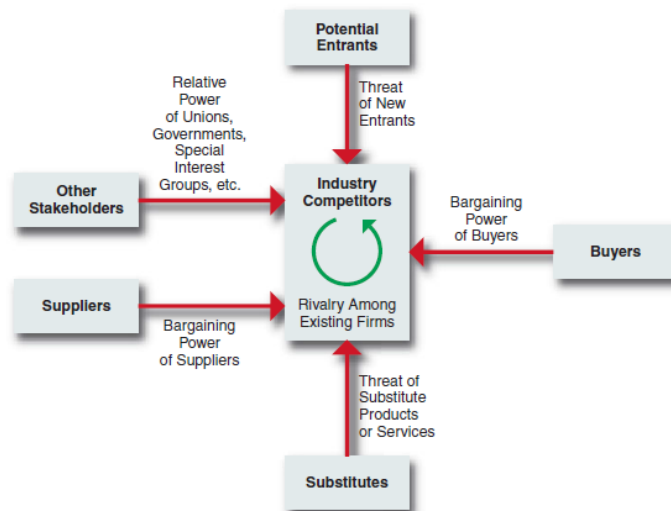
INDUSTRY ANALYSIS: ANALYSING THE TASK ENVIRONMENT

- An industry is a group of firms that produces a similar product or service, such as soft drinks or financial services.
- An examination of the important stakeholder groups, such as suppliers and customers, in a particular corporation's task environment is a part of industry analysis.

PORTER'S APPROACH TO INDUSTRY ANALYSIS

- Michael Porter, an authority on competitive strategy, contends that a corporation is most concerned with the intensity of competition within its industry.
- The level of this intensity is determined by basic competitive forces.
- The collective strength of these forces, determines the ultimate profit potential in the industry, where profit potential is measured in terms of long-run return on invested capital.
- In carefully scanning its industry, a corporation must assess the importance to its success of each of six forces.
- The stronger each of these forces, the more limited companies are in their ability to raise prices and earn greater profits.

PORTER'S APPROACH TO INDUSTRY ANALYSIS



THREAT OF NEW ENTRANTS

- New entrants to an industry typically bring to it new capacity, a desire to gain market share, and substantial resources – threats.
- The threat of entry depends on the presence of entry barriers and the reaction that can be expected from existing competitors.
- An entry barrier is an obstruction that makes it difficult for a company to enter an industry.
- Some of the possible barriers to entry are:
 - Economies of scale
 - Product differentiation
 - Capital requirements
 - Switching costs
 - Access to distribution channels
 - Cost disadvantages independent of size
 - Government policy

RIVALRY AMONG EXISTING FIRMS

- In most industries, corporations are mutually dependent.
 - Product characteristics
 - Amount of fixed costs
- A competitive move by one firm can be expected to have a noticeable effect on its competitors and thus may cause retaliation.
 - Capacity
 - Height of exit barriers
 - Diversity of rivals
- intense rivalry is related to the presence of several factors:
 - Number of competitors
 - Rate of industry growth

THREAT OF SUBSTITUTE PRODUCTS OR SERVICES

- A substitute product is a product that appears to be different but can satisfy the same need as another product. searching for products or services that can perform the same function, even though they have a different appearance and may not appear to be easily substitutable.
- Substitutes limit the potential returns of an industry by placing a ceiling on the prices firms in the industry can profitably charge.
- Sometimes a difficult task, the identification of possible substitute products or services means

BARGAINING POWER OF BUYERS

- Buyers affect an industry through their ability to force down prices, bargain for higher quality or more services, and play competitors against each other.
- A buyer or a group of buyers is powerful if some of the following factors hold true:
 - A buyer purchases a large proportion of the seller's product.
 - A buyer has the potential to integrate backward by producing the product itself.
 - Alternative suppliers are plentiful because the product is standard or undifferentiated.
 - Changing suppliers costs very little.
 - The purchased product represents a high percentage of a buyer's costs, thus providing an incentive to shop around for a lower price.
 - A buyer earns low profits and is thus very sensitive to costs and service differences.
 - The purchased product is unimportant to the final quality or price of a buyer's products or services and thus can be easily substituted without affecting the final product adversely.

BARGAINING POWER OF SUPPLIERS

- Suppliers can affect an industry through their ability to raise prices or reduce the quality of purchased goods and services.
 - A supplier or supplier group is powerful if some of the following factors apply:
 - The supplier industry is dominated by a few companies, but it sells to many.
 - Its product or service is unique and/or it has built up switching costs.
 - Substitutes are not readily available.
 - Suppliers are able to integrate forward and compete directly with their present customers.
 - A purchasing industry buys only a small portion of the supplier group's goods and services and is thus unimportant to the supplier.

RELATIVE POWER OF OTHER STAKEHOLDERS

- A sixth force should be added to Porter's list to include a variety of stakeholder groups from the task environment.
- Some of these groups are governments, local communities, creditors, trade associations, special-interest groups, unions, shareholders, and complementors.
- Complementor is a company (e.g., Microsoft) or an industry whose product works well with a firm's (e.g., Intel's) product and without which the product would lose much of its value
- The importance of these stakeholders varies by industry.

INDUSTRY EVOLUTION

- Over time, most industries evolve through a series of stages from growth through maturity to eventual decline.
- The strength of each of the six forces mentioned earlier varies according to the stage of industry evolution.
- The industry life cycle is useful for explaining and predicting trends among the six forces that drive industry competition.
- when an industry is new, people often buy the product, regardless of price, because it fulfils a unique need.
- This usually occurs in a fragmented industry—where no firm has large market share, and each firm serves only a small piece of the total market in competition with others.

INDUSTRY EVOLUTION

- By the time an industry enters maturity, products tend to become more like commodities.
- This is now a consolidated industry—dominated by a few large firms, each of which struggles to differentiate its products from those of the competition.
- As an industry moves through maturity toward possible decline, its products' growth rate of sales slows and may even begin to decrease.
- To the extent that exit barriers are low, firms begin converting their facilities to alternate uses or sell them to other firms.
- The industry tends to consolidate around fewer but larger competitors.

CATEGORIZING INTERNATIONAL INDUSTRIES

Multidomestic

Industry in which companies tailor their products to the specific needs of consumers in a particular country.

- Retailing
- Insurance
- Banking

Global

Industry in which companies manufacture and sell the same products, with only minor adjustments made for individual countries around the world.

- Automobiles
- Tires
- Television sets

CATEGORIZING INTERNATIONAL INDUSTRIES

- According to Porter, world industries vary on a continuum from multidomestic to global.
- Multidomestic industries are specific to each country or group of countries.
- Global industries operate worldwide, with MNCs making only small adjustments for country-specific circumstances.
- In a global industry an MNC's activities in one country are significantly affected by its activities in other countries.

CATEGORIZING INTERNATIONAL INDUSTRIES

- The factors that tend to determine whether an industry will be primarily multidomestic or primarily global are:
 1. Pressure for coordination within the MNCs operating in that industry.
 2. Pressure for local responsiveness on the part of individual country markets.
- To the extent that the pressure for coordination is strong and the pressure for local responsiveness is weak for MNCs within a particular industry, that industry will tend to become global.

CATEGORIZING INTERNATIONAL INDUSTRIES

- In contrast, when the pressure for local responsiveness is strong and the pressure for coordination is weak for multinational corporations in an industry, that industry will tend to be multidomestic.
- Between these two extremes lie a number of industries with varying characteristics of both multidomestic and global industries. These are regional industries.
- The dynamic tension between the pressure for coordination and the pressure for local responsiveness is contained in the phrase, "Think globally but act locally."

INTERNATIONAL RISK ASSESSMENT

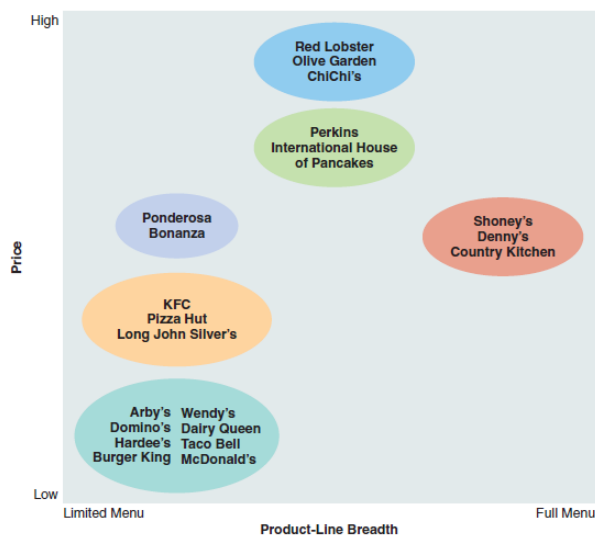
- Some firms develop elaborate information networks and computerized systems to evaluate and rank investment risks.
- Regardless of the source of data, a firm must develop its own method of assessing risk.
- It must decide on its most important risk factors and then assign weights to each.

STRATEGIC GROUPS

- A strategic group is a set of business units or firms that “pursue similar strategies with similar resources.
- Categorizing firms in any one industry into a set of strategic groups is very useful as a way of better understanding the competitive environment.
- Strategic groups in a particular industry can be mapped by plotting the market positions of industry competitors on a two-dimensional graph.

STRATEGIC GROUPS

Mapping Strategic Groups in the U.S. Restaurant Chain Industry



STRATEGIC TYPES

- A strategic type is a category of firms based on a common strategic orientation and a combination of structure, culture, and processes consistent with that strategy.
- These general types have the following characteristics:
 - Defenders are companies with a limited product line that focus on improving the efficiency of their existing operations.
 - Prospectors are companies with fairly broad product lines that focus on product innovation and market opportunities.
 - Analysers are corporations that operate in at least two different product-market areas, one stable and one variable.

STRATEGIC TYPES

- Reactors are corporations that lack a consistent strategy-structure-culture relationship.
- Dividing the competition into these four categories enables the strategic manager not only to monitor the effectiveness of certain strategic orientations, but also to develop scenarios of future industry developments.

HYPERCOMPETITION

- Most industries today are facing an ever-increasing level of environmental uncertainty.
- They are becoming more complex and more dynamic.
- In hypercompetitive industries, competitive advantage comes from an up-to-date knowledge of environmental trends and competitive activity coupled with a willingness to risk a current advantage for a possible new advantage.
- Companies must be willing to cannibalize their own products in order to sustain their competitive advantage.

USING KEY SUCCESS FACTORS TO CREATE AN INDUSTRY MATRIX

- Key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry.
- They typically vary from industry to industry and are crucial to determining a company's ability to succeed within that industry.
- They are usually determined by the economic and technological characteristics of the industry and by the competitive weapons on which the firms in the industry have built their strategies.

USING KEY SUCCESS FACTORS TO CREATE AN INDUSTRY MATRIX

- An industry matrix summarizes the key success factors within a particular industry.
- The matrix gives a weight for each factor based on how important that factor is for success within the industry.
- The matrix also specifies how well various competitors in the industry are responding to each factor.

COMPETITIVE INTELLIGENCE

- Competitive intelligence is a formal program of gathering information on a company's competitors.
- Often called business intelligence, it is one of the fastest growing fields within strategic management.
- Research indicates that there is a strong association between corporate performance and competitive intelligence activities.

COMPETITIVE INTELLIGENCE

- Sources of competitive intelligence:
 - In-house libraries and computerized information systems to deal with the growing mass of available information.
 - The Internet.
 - Some companies choose to use industrial espionage or other intelligence-gathering techniques to get their information straight from their competitors.
 - To combat the increasing theft of company secrets, the United States government passed the Economic Espionage Act in 1996.

MONITORING COMPETITORS FOR STRATEGIC PLANNING

- The primary activity of a competitive intelligence unit is to monitor competitors—organizations that offer same, similar, or substitutable products or services in the business area in which a particular company operates.
- To understand a competitor, it is important to answer the following 10 questions:
 1. Why do your competitors exist? Do they exist to make profits or just to support another unit?
 2. Where do they add customer value—higher quality, lower price, excellent credit terms, or better service?
 3. Which of your customers are the competitors most interested in? Are they cherry-picking your best customers, picking the ones you don't want, or going after all of them?

MONITORING COMPETITORS FOR STRATEGIC PLANNING

4. What is their cost base and liquidity? How much cash do they have? How do they get their supplies?
5. Are they less exposed with their suppliers than your firm? Are their suppliers better than yours?
6. What do they intend to do in the future? Do they have a strategic plan to target your market segments? How committed are they to growth? Are there any succession issues?

MONITORING COMPETITORS FOR STRATEGIC PLANNING

7. How will their activity affect your strategies? Should you adjust your plans and operations?
8. How much better than your competitor do you need to be in order to win customers? Do either of you have a competitive advantage in the marketplace?
9. Will new competitors or new ways of doing things appear over the next few years? Who is a potential new entrant?
10. If you were a customer, would you choose your product over those offered by your competitors? What irritates your current customers? What competitors solve these particular customer complaints?

MONITORING COMPETITORS FOR STRATEGIC PLANNING

- To answer these and other questions, competitive intelligence professionals utilize a number of analytical techniques.
- In addition to the previously discussed SWOT analysis, Michael Porter's industry forces analysis, and strategic group analysis, some of these techniques are Porter's four corner exercise, Treacy and Wiersema's value disciplines, Gilad's blind spot analysis, and war gaming.
- Done right, competitive intelligence is a key input to strategic planning.

THANK YOU FOR
YOUR ATTENTION!