

CHAPTER 4

environmental
scanning and
Industry Analysis

STRATEGIC MANAGEMENT & BUSINESS POLICY
13TH EDITION

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4.1 Environmental Scanning

Environmental scanning- the monitoring, evaluation and dissemination of information from the external and internal environments to key people within the corporation

4.1 Environmental Scanning

Identifying External Environmental Variables

- Natural environment
- Societal environment
- Task environment

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Identifying External Environmental Variables

Natural environment

- Physical resources
- Wildlife
- Climate

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Identifying External Environmental Variables

Societal environment- social systems that influence long-term decisions

- Economic forces
- Technological forces
- Political-legal forces
- Sociocultural forces

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Identifying External Environmental Variables

Task environment- groups that directly affect a corporation and are affected by the corporation

- Government
 - Local communities
 - Suppliers
 - Competitors
 - Customers
 - Creditors
 - Unions
 - Special interest groups/trade associations
-

4.1 Environmental Scanning

Identifying External Environmental Variables

Industry analysis- an in-depth examination of key factors within a corporation's task environment

4.1 Environmental Scanning

Identifying External Environmental Variables

STEEP Analysis- monitoring trends in the societal and natural environments

- Sociocultural-
- Technological-
- Economic-
- Ecological-
- Political-legal forces

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Trends in Economic Forces:

- Interest rates
- Home sales
- Oil prices
- Emerging markets
 - BRIC countries
 - Eastern Europe

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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

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Trends in Technological Forces:

- Portable information devices and electronic networking
- Alternative energy sources
- Precision farming
- Virtual personal assistants
- Genetically altered organisms
- Smart, mobile robots

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Trends in Political-Legal Forces:

- Enforcement of U.S. antitrust laws
- Taxation and labor laws
- Government bureaucracy
- World Trade Organization

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Trends in Sociocultural Forces:

- Demographics
- Increasing environmental awareness
- Growing health consciousness
- Expanding seniors market
- Impact of Gen Y
- Declining mass market
- Changing pace and location of life
- Changing household composition
- Increasing diversity of workforce and markets

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TABLE 4-2	Generation	Born	Age in 2005	Number
Current U.S. Generations	WWII/Silent Generation	1932–1945	60–73	32 million
	Baby Boomers	1946–1964	41–59	77 million
	Generation X	1965–1977	28–40	45 million
	Generation Y	1978–1994	11–27	70 million

SOURCE: Developed from data listed in D. Parkinson, *Voices of Experience: Mature Workers in the Future Workforce* (New York: The Conference Board, 2002), p. 19.

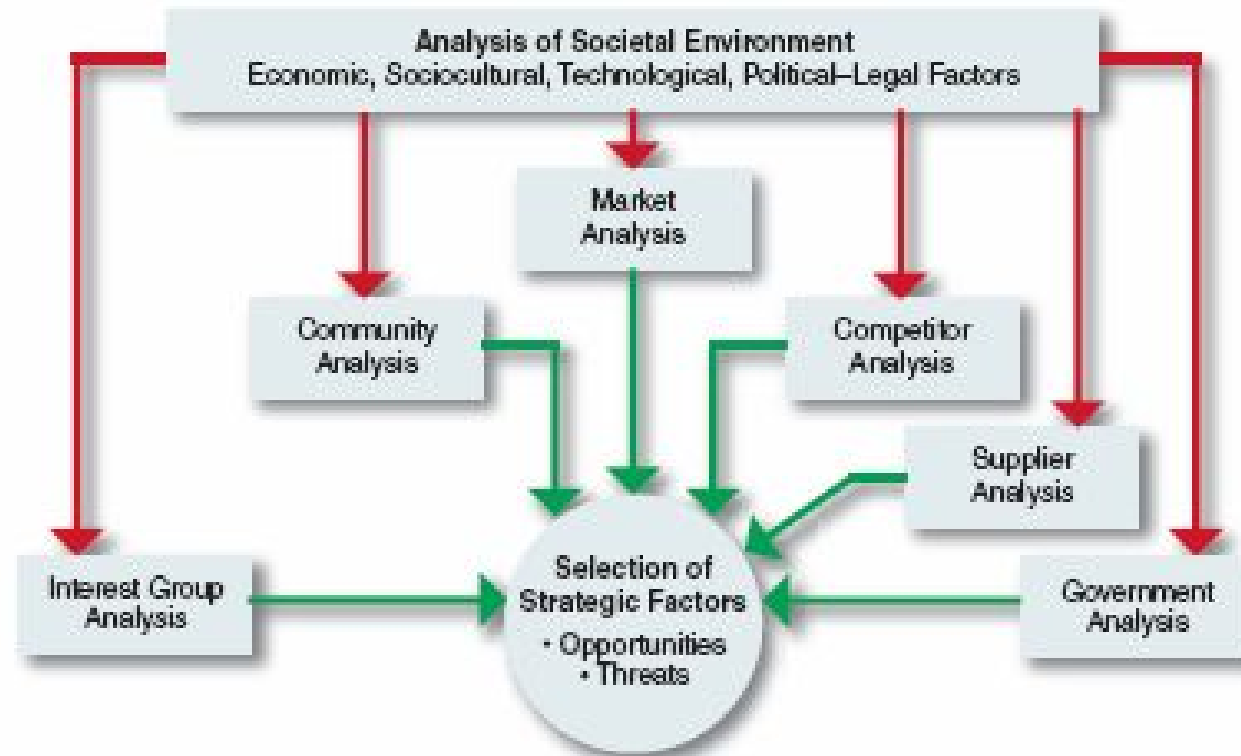
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TABLE 4-3 Some Important Variables in *International Societal Environments*

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

4.1 Environmental Scanning

FIGURE 4-1
Scanning External Environment



4.1 Environmental Scanning

Identifying External Strategic Factors:

Issues priority matrix- used to identify and analyze developments in the external environment

External strategic factors- 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

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FIGURE 4-2
Issues Priority
Matrix

		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

SOURCE: Reprinted from Long-Range Planning, Vol. 17, No. 3, 1984, Campbell, "Foresight Activities in the U.S.A.: Time for a Re-Assessment?" pp. 46. Copyright © 1984 with permission from Elsevier.

4.2 Industry Analysis: Analyzing the Task Environment

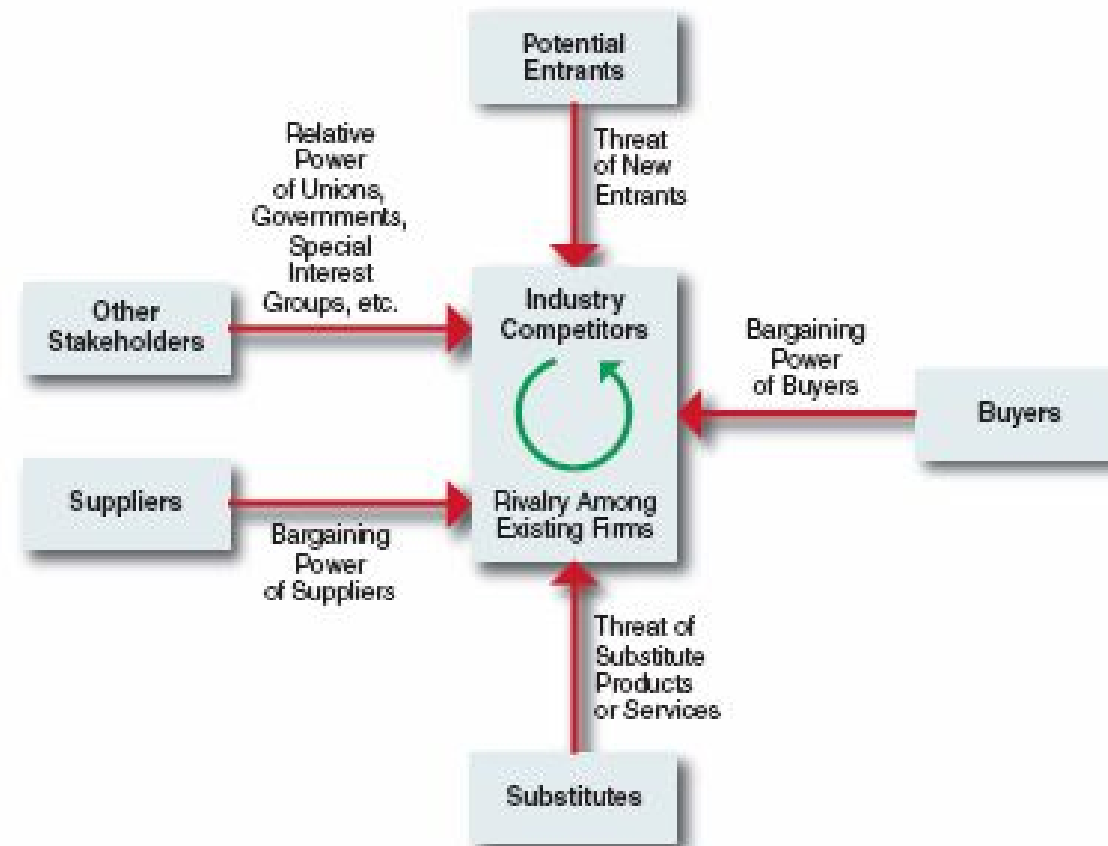
Industry- a group of firms that produces a similar product or service

Porter's 5 forces:

- Threat of new entrants
- Rivalry among existing firms
- Threat of substitute products
- Bargaining power of buyers
- Bargaining power of suppliers
- Relative power of other stakeholders (added)

4.2 Industry Analysis: Analyzing the Task Environment

FIGURE 4-3
Forces Driving
Industry
Competition



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4.2 Industry Analysis: Analyzing the Task Environment

Threat of new entrants- new entrants to an industry bring new capacity, a desire to gain market share and substantial resources

4.2 Industry Analysis: Analyzing the Task Environment

Entry barrier- an obstruction that makes it difficult for a company to enter an industry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages due to size
- Government policies

4.2 Industry Analysis: Analyzing the Task Environment

Rivalry Among Existing Firms- new entrants to an industry bring new capacity, a desire to gain market share and substantial resources

- Number of competitors
 - Rate of industry growth
 - Product or service characteristics
 - Amount of fixed costs
 - Capacity
 - Height of exit barriers
 - Diversity of rivals
-



4.2 Industry Analysis: Analyzing the Task Environment

Threat of Substitute Products or Services-
products that appear different but can satisfy the
same need as another product

4.2 Industry Analysis: Analyzing the Task Environment

Bargaining Power of Buyers- ability of buyers to force prices down, bargain for higher quality, play competitors against each other

- Large purchases
 - Backward integration
 - Alternative suppliers
 - Low cost to change suppliers
 - Product represents a high percentage of buyer's cost
 - Buyer earns low profits
 - Product is unimportant to buyer
-

4.2 Industry Analysis: Analyzing the Task Environment

Bargaining Power of Suppliers- ability of suppliers to raise prices or reduce quality

- Industry is dominated by a few companies
- Unique product or service
- Substitutes are not readily available
- Ability to forward integrate
- Unimportance of product or service to the industry

4.2 Industry Analysis: Analyzing the Task Environment

Relative Power of Other Stakeholders

- Government
- Local communities
- Creditors
- Trade associations
- Special interest groups
- Unions
- Shareholders
- Complementors- products that work well with a firm's product

4.2 Industry Analysis: Analyzing the Task Environment

Industry Evolution

- Fragmented industry- no firm has a large market share and each firm only serves a small piece of the total market in competition with other firms
- Consolidated industry- domination by a few large firms, each struggles to differentiate products from its competition

4.2 Industry Analysis: Analyzing the Task Environment

Categorizing International Industries

- Multi-domestic Industries- specific to each country or group of countries
- Global Industries- operate worldwide with multinational companies making only small adjustments for country-specific circumstances
- Regional industries- multinational companies primarily coordinate their activities within regions

4.2 Industry Analysis: Analyzing the Task Environment

FIGURE 4-4
Continuum
of 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.

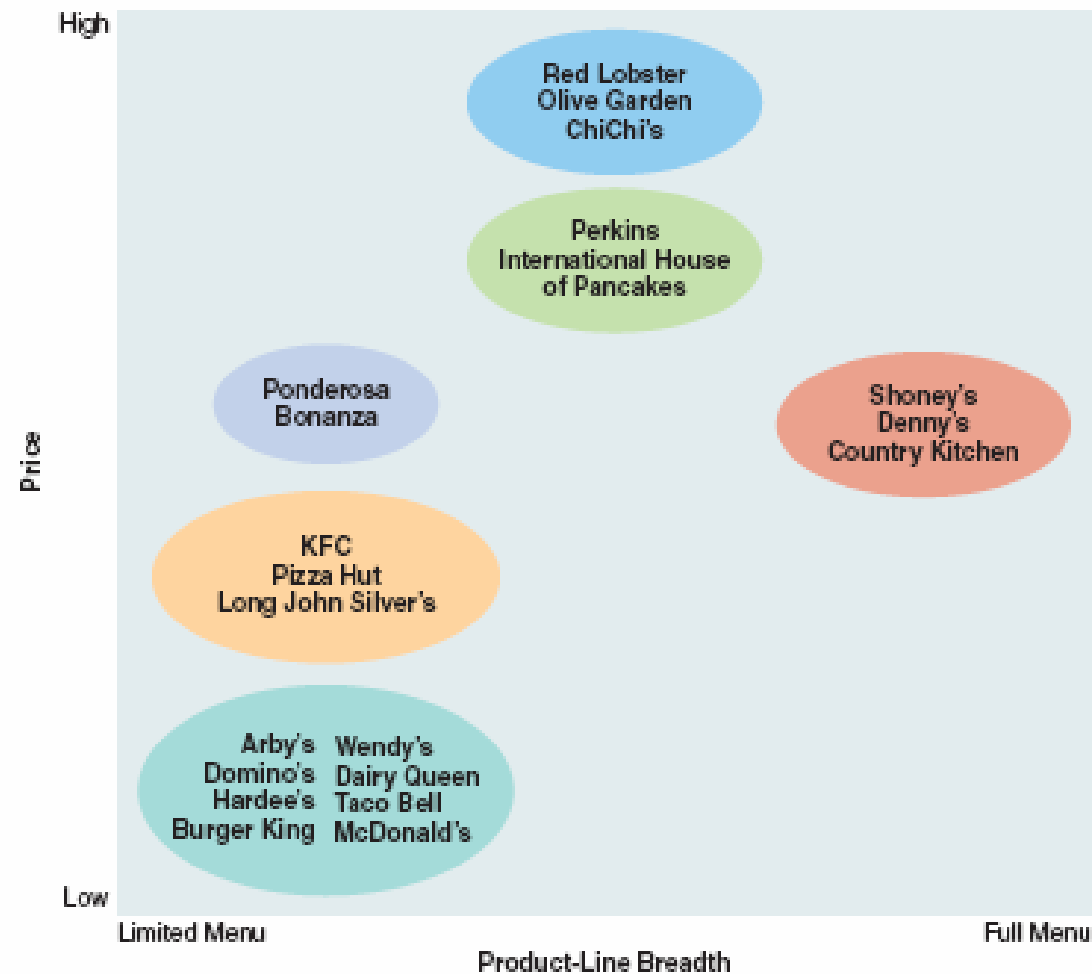
- Automobiles
- Tires
- Television sets

4.2 Industry Analysis: Analyzing the Task Environment

Strategic group- a set of business units or firms that pursue similar strategies with similar resources

4.2 Industry Analysis: Analyzing the Task Environment

FIGURE 4-5
Mapping Strategic
Groups in the
U.S. Restaurant
Chain Industry



4.2 Industry Analysis: Analyzing the Task Environment

Strategic Types

- Defenders- focus on improving efficiency
- Prospectors- focus on product innovation and market opportunities
- Analyzers- focus on at least two different product market areas
- Reactors- lack a consistent strategy-structure-culture relationship

4.2 Industry Analysis: Analyzing the Task Environment

Hypercompetition

Creates a condition of disequilibrium and change

- Competitive advantage comes from:
 - knowledge of environment
 - willingness to take risks
 - Cannibalization of own products

4.2 Industry Analysis: Analyzing the Task Environment

Key success factors- variables that can significantly affect the overall competitive positions of companies within an industry

Industry matrix- summarizes the key success factors within a particular industry

4.2 Industry Analysis: Analyzing the Task Environment

TABLE 4-4 Industry Matrix

Key Success Factors	Weight		Company A Rating		Company A Weighted Score		Company B Rating		Company B Weighted Score	
	1	2	3	4	5	6				
Total	<u>1.00</u>			==		==				

SOURCE: T. L. Wheelen and J. D. Hunger, *Industry Matrix*. Copyright © 1997, 2001, and 2005 by Wheelen & Hunger Associates. Reprinted with permission.

4.3 Competitive Intelligence

Using Key Success Factors to Create an Industry Matrix

Competitive intelligence (business intelligence)- a formal program of gathering information on a company's competitors

Sources of competitive intelligence:

- Information brokers
 - Internet
 - Industrial espionage
 - Investigatory services
-

4.3 Competitive Intelligence

Monitoring Competitors for Strategic Planning

Primary activity of competitive intelligence is to monitor competitors

Competitors organizations that offer same, similar, or substitute products or services in the business areas in which a particular company operates

4.4 Forecasting

- Forecasting is based on a set of assumptions
- Faulty underlying assumptions are the most frequent cause of forecasting errors

Useful forecasting techniques

- Extrapolation
- Brainstorming
- Expert opinion
- Industry Scenario
- Delphi technique
- Statistical modeling
- Prediction markets
- Cross impact analysis

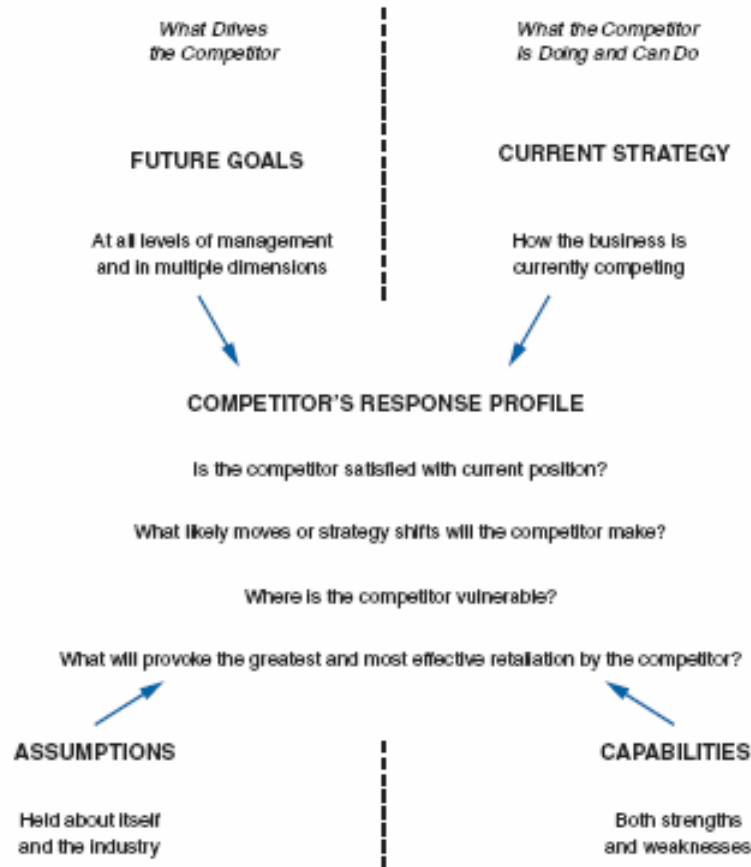
4.6 Synthesis of External Factors—EFAS

TABLE 4–5 External Factor Analysis Summary (EFAS Table): Maytag as Example

External Factors	Weight		Rating		Weighted Score		Comments
	1	2	3	4	5		
Opportunities							
■ Economic integration of European Community		.20	4.1		.82		Acquisition of Hoover
■ Demographics favor quality appliances		.10	5.0		.50		Maytag quality
■ Economic development of Asia		.05	1.0		.05		Low Maytag presence
■ Opening of Eastern Europe		.05	2.0		.10		Will take time
■ Trend to “Super Stores”		.10	1.8		.18		Maytag weak in this channel
Threats							
■ Increasing government regulations		.10	4.3		.43		Well positioned
■ Strong U.S. competition		.10	4.0		.40		Well positioned
■ Whirlpool and Electrolux strong globally		.15	3.0		.45		Hoover weak globally
■ New product advances		.05	1.2		.06		Questionable
■ Japanese appliance companies		.10	1.6		.16		Only Asian presence in Australia
Total Scores		<u>1.00</u>			<u>3.15</u>		

Competitive Analysis Techniques

FIGURE 4-6
Four-Corner Exercise: Porter's Components of Competitor Analysis



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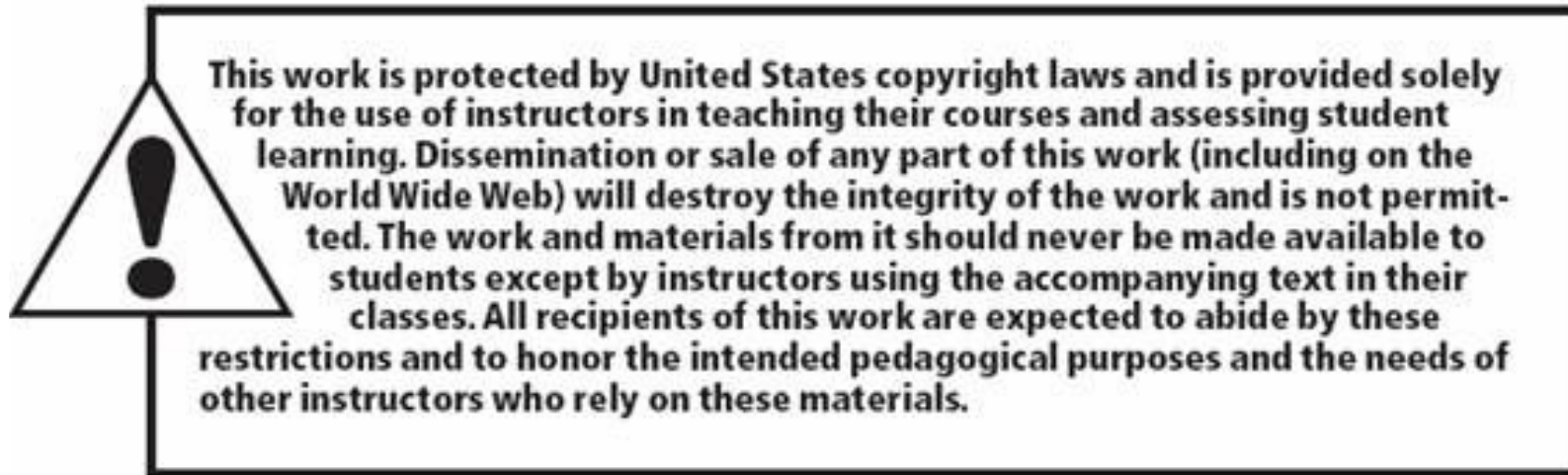
DISCUSSION QUESTIONS

1. Discuss how a development in a corporation's natural and societal environments can affect the corporation through its task environment
2. According to Porter, what determines the level of competitive intensity in an industry?
3. According to Porter's discussion of industry analysis, is Pepsi Cola a substitute of Coca Cola?
4. How can a decision maker identify strategic factors in a corporation's external international environment?
5. Compare and contrast trend extrapolation with the writing of scenarios as forecasting techniques

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