Session 4

2.3. External Analysis-internal

SWOT is an acronym used to describe the particular Strengths, Weaknesses, Opportunities, and Threats that are strategic factors for a specific company. A SWOT analysis should not only result in the identification of a corporation's core competencies, but also in the identification of opportunities that the firm is not currently able to take advantage of due to a lack of appropriate resources.

The SWOT analysis framework has gained widespread acceptance because it is both simple and powerful for strategy development. However, like any planning tool, SWOT is only as good as the information it contains. Thorough market research and accurate information systems are essential for the SWOT analysis to identify key issues in the environment.

Assess your market:

- What is happening externally and internally that will affect our company?
- Who are our customers?
- What are the strengths and weaknesses of each competitor? (Think Competitive Advantage)
- What are the driving forces behind sales trends?
- What are important and potentially important markets?
- What is happening in the world that might affect our company?
- What does it take to be successful in this market? (List the strengths all companies need to compete successfully in this market.)
- Assess your company:
- What do we do best?

- What are our company resources – assets, intellectual property, and people?
- What are our company capabilities (functions)?

Assess your competition:

- How are we different from the competition?
- What are the general market conditions of our business?
- What needs are there for our products and services?
- What are the customer-market-technology opportunities?
- What are the customer's problems and complains with the current products and services in the industry?
- What "If only…." Statements do a customer make?

Opportunity an area of "need" in which a company can perform profitably.

Threat

A challenge posed by an unfavorable trend or development that would lead (in absence of a defensive marketing action) to deterioration in profits/sales.

An evaluation needs to be completed drawing conclusions about how the opportunities and threats may affect the firm.

EXTERNAL: MACRO- demographic/economic, technological, social/cultural, political/legal MICRO- customers, competitors, channels, suppliers, publics INTERNAL RESOURCES: the firm

Competitor analysis is a critical aspect of this step.

- Identify the actual competitors as well as substitutes.

- Assess competitors' objectives, strategies, strengths & weaknesses, and reaction patterns.
- Select which competitors to attack or avoid.

The Internal Analysis of strengths and weaknesses focuses on internal factors that give an organization certain advantages and disadvantages in meeting the needs of its target market. Strengths refer to core competencies that give the firm an advantage in meeting the needs of its target markets. Any analysis of company strengths should be market oriented/customer focused because strengths are only meaningful when they assist the firm in meeting customer needs. Weaknesses refer to any limitations a company faces in developing or implementing a strategy (?). Weaknesses should also be examined from a customer perspective because customers often perceive weaknesses that a company cannot see. Being market focused when analyzing strengths and weaknesses does not mean that non-market oriented strengths and weaknesses should be forgotten. Rather, it suggests that all firms should tie their strengths and weaknesses to customer requirements. Only those strengths that relate to satisfying a customer need should be considered true core competencies.

The following area analyses are used to look at all internal factors affecting a company:

- Resources: Profitability, sales, product quality brand associations, existing overall brand, relative cost of this new product, employee capability, product portfolio analysis
- Capabilities: Goal: To identify internal strategic strengths, weaknesses, problems, constraints and uncertainties

The External Analysis examines opportunities and threats that exist in the environment. Both opportunities and threats exist independently of the firm. The way to differentiate between a strength and weakness from an opportunity or threat is to ask: Would this issue exist if the company did not exist? If the answer is yes, it should be considered external to the firm. Opportunities refer to favorable conditions in the environment that could produce rewards for the organization if acted upon properly. That is, opportunities are situations that exist but must be acted on if the firm is to benefit from them. Threats refer to conditions or barriers that may prevent the firms from reaching its objectives.

The following area analyses are used to look at all external factors affecting a company:

- Customer analysis: Segments, motivations, unmet needs
- Competitive analysis: Identify completely, put in strategic groups, evaluate performance, image, their objectives, strategies, culture, cost structure, strengths, weakness
- Market analysis: Overall size, projected growth, profitability, entry barriers, cost structure, distribution system, trends, key success factors
- Environmental analysis: Technological, governmental, economic, cultural, demographic, scenarios, information-need areas Goal: To identify external opportunities, threats, trends, and strategic uncertainties

The SWOT Matrix helps visualize the analysis. Also, when executing this analysis it is important to understand how these elements work together. When an organization matched internal strengths to external opportunities, it creates core competencies in meeting the needs of its customers. In addition, an organization should act to convert internal weaknesses into strengths and external threats into opportunities.

INTERNAL	EXTERNAL
Strengths	Opportunities
Weaknesses	Threats

Focus on your strengths. Shore up your weaknesses. Capitalize on your opportunities. Recognize your threats.

Identify

- Against whom do we compete?
- Who are our most intense competitors? Less intense?
- Makers of substitute products?
- Can these competitors be grouped into strategic groups on the basis of assets, competencies, or strategies?
- Who are potential competitive entrants? What are their barriers to entry?

Evaluate

- What are their objectives and strategies?
- What is their cost structure? Do they have a cost advantage or disadvantage?
- What is their image and positioning strategy?
- Which are the most successful/unsuccessful competitors over time? Why?
- What are the strengths and weaknesses of each competitor?
- Evaluate competitors with respect to their assets and competencies.

Size and Growth what are important and potentially important markets? What are their size and growth characteristics? What markets are declining? What are the driving forces behind sales trends?

Profitability For each major market considers the following: Is this a business are in which the average firm will make money? How intense is the competition among existing firms? Evaluate the threats from potential entrants and substitute products. What is the bargaining power of suppliers and customers? How attractive/profitable are the market now and in the future?

Cost Structure what are the major cost and value-added components for various types of competitors?

Distribution Systems what are the alternative channels of distribution? How are they changing?

Market Trends what are the trends in the market?

Key Success Factors What is the key success factors, assets and competencies needed to compete successfully? How will these change in the future?

Environmental Analysis An environmental analysis is the four dimension of the External Analysis. The interest is in environmental trends and events that have the potential to affect strategy. This analysis should identify such trends and events and the estimate their likelihood and impact. When conducting this type of analysis, it is easy to get bogged down in an extensive, broad survey of trends. It is necessary to restrict the analysis to those areas relevant enough to have significant impact on strategy.

This analysis is divided into five areas: economic, technological, political-legal, sociocultural, and future.

Economic what economic trends might have an impact on business activity? (Interest rates, inflation, unemployment levels, energy availability, disposable income, etc.)

Technological To what extent are existing technologies maturing? What technological developments or trends are affecting or could affect our industry?

Government what changes in regulation is possible? What will their impact be on our industry? What tax or other incentives are being developed that might affect strategy development? Are there political or government stability risks?

Sociocultural what are the current or emerging trends in lifestyle, fashions, and other components of culture? What are there implications? What demographic trends will affect the market size of the industry? (Growth rate, income, population shifts) Do these trends represent an opportunity or a threat?

Future what are significant trends and future events? What are the key areas of uncertainty as to trends or events that have the potential to impact strategy?

Internal Analysis Understanding a business in depth is the goal of internal analysis. This analysis is based resources and capabilities of the firm.

Resources a good starting point to identify company resources is to look at tangible, intangible and human resources.

Tangible resources are the easiest to identify and evaluate: financial resources and physical assets are identifies and valued in the firm’s financial statements.

Intangible resources are largely invisible, but over time become more important to the firm than tangible assets because they can be a main source for a competitive advantage. Such intangible recourses include reputational assets (brands, image, etc.) and technological assets (proprietary technology and know-how).

Human resources or human capital are the productive services human beings offer the firm in terms of their skills, knowledge, reasoning, and decision-making abilities.

Capabilities

Resources are not productive on their own. The most productive tasks require that resources collaborate closely together within teams. The term organizational capabilities are used to refer to a firm's capacity for undertaking a particular productive activity. Our interest is not in capabilities per se, but in capabilities relative to other firms. To identify the firm's capabilities we will use the functional classification approach. A functional classification identifies organizational capabilities in relation to each of the principal functional areas.

2.3.1. Strengths

Two factors contribute to your strengths: ability and resources available.

Ability is evaluated on 3 counts:

1. Versatility: your ability to adapt to an ever changing environment.
2. Growth: your ability to maintain a continuing growth.
3. Markets: your ability to penetrate or create new markets.

The strength of resources has three dimensions:

1. Availability: your ability to obtain the resources needed.
2. Quality: the quality and up-to-datedness of the resources employed.
3. Allocation: your ability to distribute resources both effectively and efficiently.

2.3.2. Weaknesses

Your weaknesses are determined through failures, defeats, losses and inability to match up with the dynamic situation and rapid change. The weaknesses may be rooted in lack of managerial skills, insufficient quality, technological backwardness, inadequate systems or processes, slow deliveries, or shortage of resources. There are three possible outcomes to the analysis of your weaknesses.1

1. Correction of an identified defect.
2. Protection through cover-up and prevention strategies to reduce the exposure of your weaknesses.
3. Aggression to divert the attention from your weaknesses.

2.3.3. Opportunities

Opportunities are abundant. You must develop a formula which will help you define what comes within the ambit of an opportunity to focus on those areas and pursue those opportunities where effectiveness is possible. The formula must define product/service, target market, capabilities required and resources to be employed, returns expected and the level of risk allowed.

Weaknesses of your competitions are also opportunities for you. You can exploit them in two following ways:

1. Marketing warfare: attacking the weak leader's position and focusing all your efforts at that point, or making a surprise move into an uncontested area.
2. Collaboration: you can use your complementary strengths to establish a strategic alliance with your competitor.

2.3.4. Threats

External threats arise from political, economic, social, technological (PEST) forces. Technological developments may make your offerings obsolete. Market changes may result from the changes in the customer needs, competitors' moves, or demographic shifts. The political situation determines government policy and taxation structure.

2.3.5. Relations between weakness, opportunities, strengths and threats.

Strengths: ability, resources, weakness of the competition, or the opposing sources.

Weaknesses: failures, defeats, loses, and inability to match up with the dynamic situation of growth and the change.

Opportunities: possibilities of what can be done and where effectiveness is possible.

Threats: changes in business environment, PEST forces – political, economic, social, technological

2.4. The formulation of models and contingency planning

Developing strategies for how a business will use its money, materials and people to accomplish its goals is part of starting and running a business. Within the strategic planning process, a contingency plan serves as a backup in cases where a business veers off course from one or more intended outcomes. Strategic contingency planning attempts to lessen the effects of less than favorable circumstances and keep a business afloat during difficult periods.

Review of Strategic Planning

Strategic planning plays a significant role in how a business intends to run its operations and market its products, services or brand. Strategies for future growth also require planning in accordance with a company's objectives and goals. Part of the strategic planning process involves comparing the different directions a company can move in and determining which one will best suit the company's purpose. In order to do this, managers may develop "what if" scenarios that incorporate particular objectives and examine the possible effects of each scenario within the company's strategic plan.

Contingency Planning

In the process of developing a company's overall strategic plan, business managers may develop alternative strategies as a means to accommodate unexpected conditions or events, such as economic recessions or catastrophic events. Contingency planning involves having alternative strategies in place as a way of preparing for the unexpected. These types of plans may also be categorized as disaster recovery plans or business continuity plans, depending on the overall purpose of the plan. The primary purpose for a contingency plan provides a strategy for minimizing the effects of unexpected circumstances. By doing so, business managers increase the likelihood that a business' main operations will continue with minimal losses or damages.

Developing Scenarios

While strategic contingency planning cannot actually predict future events and outcomes, developing possible scenarios can provide plans of action that apply within different circumstances. Business managers develop scenarios that address known challenges confronting a business, such as economic recessions, changes within a particular industry or political influences that impact a company's financial obligations or marketing channels. In effect, a strategic contingency plan provides a map for any possible future unknowns while strategic planning charts the overall course and direction a business will take.

Timing

Developing two or more strategic contingency plans provides actionable steps to follow within different circumstances. However, knowing when to enact one plan or another requires additional consideration and planning. In order to incorporate timing factors into a contingency plan, business managers must identify specific circumstance or conditions that would warrant the need to put an alternate plan in place. For example, a 30 percent decline in product sales could serve as an indicator that a particular contingency plan is needed. As contingency plans are based on anticipated challenges or conditions, managers can identify timing factors during the course of developing each alternative plan.

2.5. Industrial analysis methods

The course is based on the ability of students to define their business, conduct an effective industry analysis, and identify the "key success factory" for firms competing in the industry. Such industry analysis is based on:

Define the business.

The boundary for industry analysis is the markets and products that describe the domain of the industry. Once you understand the business segment that is to be analyzed, identify the capabilities required to participate in that industry, and those competitors that are able to effectively target the same business segments. These four elements set the parameters for understanding and analyzing the industry. As industries like printers, copiers, scanners, and facsimile machines converge, business definitions become more difficult.   In industries like computers, consumers are becoming more demanding for customized products and services.

Describe the industry Structure.

For each product-market segment, an industry analysis will describe the "five-forces" of competition.

1. A primary force comes customer segments that make up the markets. The size and importance of customers provide the power to negotiate prices and deals that reduce the profitability of the industry. The size and growth of segments determine their potential influence on product development and level of competition.

2. A second force comes from the competitors and their strategies for gaining market share. Each competitor offers a set of products and services that attempts to provide higher value to the product-market segments they address. Strategies can be to provide some combination of higher performance, more fashion and features, higher quality, or lower price. Increased rivalry often leads to price or service competition that can reduce the profitability of the business.
3. A third force comes from the industry suppliers. Industry suppliers often control critical inputs that can affect a firm's ability to compete. Access to critical equipment, materials, or components can determine what firms will lead the industry. For this reason, increased outsourcing often leads to lower entry barriers for new competition.
4. The fourth force represents the barriers to change in industry structure, either from new competitors entering the industry or current competitors existing the industry. Barriers to entry often include heavy investment in capital, equipment, and market development. Barriers to exit often include outstanding warranty or service contracts that must be honored and alternative use or potential sale of equipment and facilities. Once specialized facilities are established, they are seldom shut down, but are often sold to another industry participant.
5. The fifth force represents the potential for change in product-market structure of the industry through the substitution of products or services with alternative approaches to satisfying the customer's needs. This requires the identification of potential substitutes and the characteristics that would cause rapid substitution. Price often becomes a driver for substitutes, such as plastics for metals in cars and plumbing supplies. Today, the Internet is becoming a substitute for mail service and, eventually, telephone service.

Identify key Success Factors.

The primary purpose of industry analysis is to identify the requirements and trends that determine the key success factors for the business. These factors encompass

1 Customer requirements,

2 Competitive factors that must be met,

3 Regulations/industry standards in the business,

4 The resource requirements to implement competitive strategy, and other

5 Technical requirements to build a competitive position.

A. Customers are looking for products that provide some level of value for the price they pay. Each buyer segment has different requirements that affect its key success factors. Requirements can include high performance, durability, special features or fashion, ease of use, or rapid availability.
B. .Competing firms often use similar product-market strategies. Competition is often based on price, quality, and delivery. Depending on their strategic focus, each firm must develop a set of skills (strategic weapons) that allow it to perform better than their competitors on each competitive dimension.
C. Industry regulations or standards are often minimum requirements for participation in a competitive arena. Government regulations often affect safety issues for the environment or end users. Industry standards often determine technical compatibility, process performance, and interface issues for network or system products. Industry standards can be set by a special body, like the Industry Standards Organization (ISO), or become ad hoc standards set by leading competitors, like Intel and Microsoft.

D. Resource requirements are becoming increasingly critical as markets become global and economies of scale become critical for research and development, manufacturing, and marketing. Investments now exceed $1 billion for facilities in semiconductors, paper making, and steel production. In high technology areas, like information technology, shortages of qualified personnel are forcing firms to outsource much of their capabilities.

E. Technical requirements are also key to today's competitive environment. Without access to, or internal technology, firms are not able to participate in many industries. This is especially important for suppliers, such as component suppliers for electronics or automobiles. As firms reduce their number of suppliers, suppliers must increasingly add research and development capabilities to stay in the game.