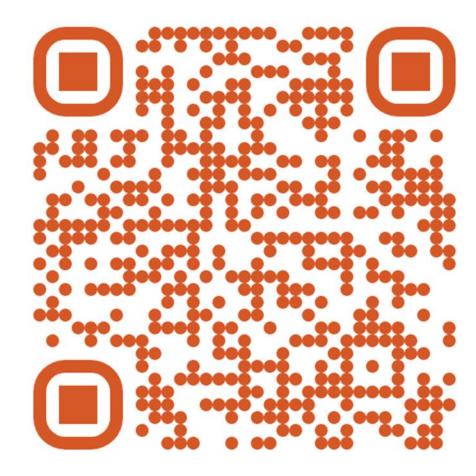
# Global Business Environment and International Strategy MOD007191

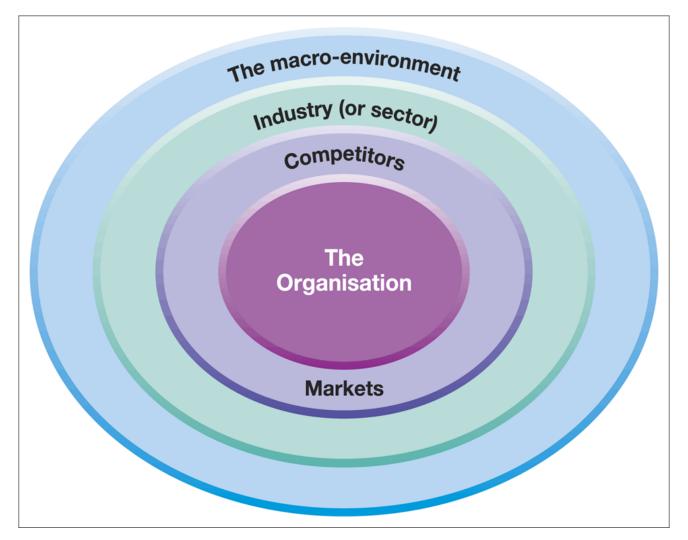
Lecture 5
The Macro Environment

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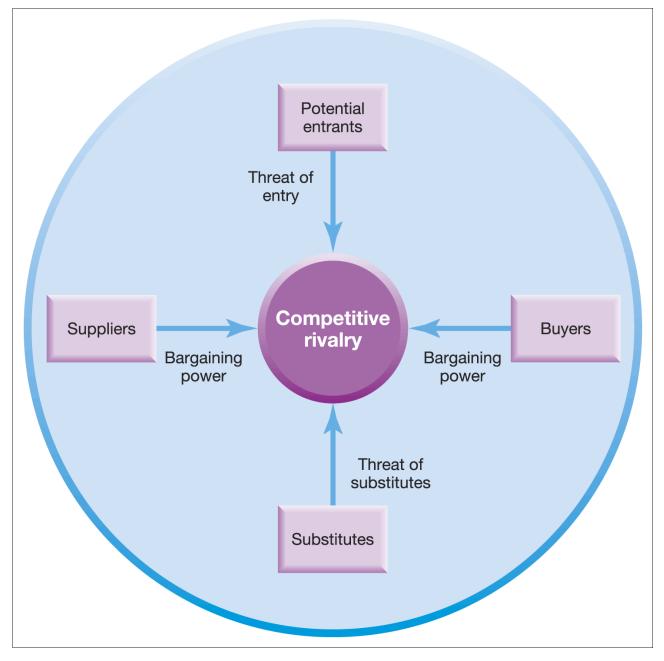
# Recap

# Layers of the business environment



Johnson, Whittington and Scholes (2011) Exploring Corporate Strategy

# The five forces framework



by Michael E. Porter. Copyright © 1980, 1998

# Summary of Porter's 5 forces: influencing factors

## Bargaining Power of Suppliers

### A supplier group is powerful when:

- It is dominated by a few companies and is more concentrated than the industry it sells to.
- There are no substitute products.
- The industry is not an important customer.
- Its products are important to the industry.
- Products are differentiated or suppliers have built up switching costs.
- It poses a credible threat of forward integration.

#### Threat of New Entrants

#### Barriers to entry:

- Economies of scale (including shared resources)
- Product differentiation (proprietary)
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale
- Government policy
- Expected reaction of incumbent

### Intensity of Rivalry

### Intense rivalry results from:

- Numerous or equally balanced competitors
- Slow industry growth
- High fixed or storage costs
- Lack of differentiation or switching costs
- Capacity augmented in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers

### **Bargaining Power of Buyers**

### A buyer group is powerful when:

- It is concentrated or purchases large volumes relative to seller sales.
- The products represent a significant fraction of the buyers' costs or purchases.
- The products are standard or undifferentiated.
- It faces few switching costs.
- It earns low profits.
- It poses a credible threat of backward integration.
- The bought product is unimportant.
- It has full information.

#### **Pressure from Substitute Products**

- Search for products that can perform the same function.
- Assess buyers' propensity to substitute.

#### Focus on those that:

- Are improving their price performance trade-off compared with the industries products.
- Require low switching costs.
- Are produced by industries earning high profits.

### Take offensive or defensive actions to create a defensible position against the forces:

- Positioning the firm so its capabilities provide the best defense
- Influencing the balance of forces through strategic moves
- Anticipating shifts in the factors underlying the forces and responding to them

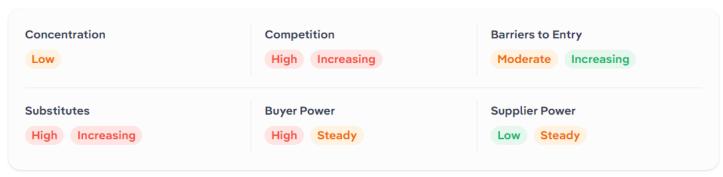
## **Summary of Five Forces- Carbonated Soft Drink**

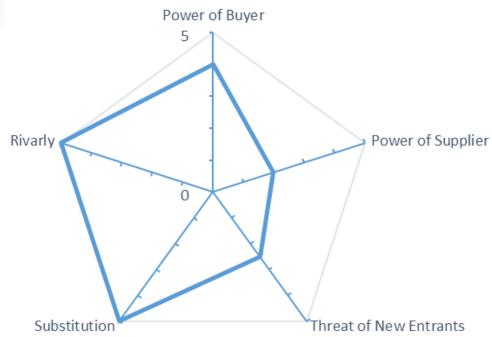
## **⇒** Competitive Forces

### **Key Takeaways**

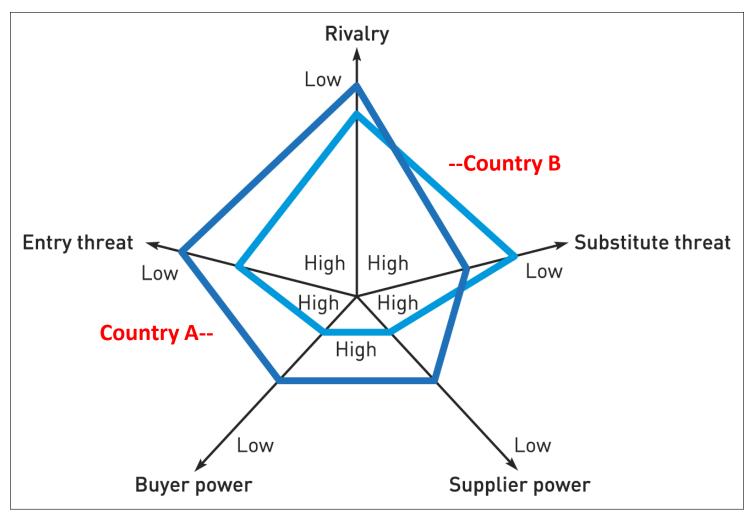
Manufacturers compete based on several factors including price levels, range of products offered, product innovation and marketing. The expansion of private label brands has also intensified price-based competition among manufacturers.

Competition with producers of other ready-to-drink (RTD) beverages has intensified in recent years. Products manufactured by juice producers, like sparkling fruit drinks, have seen growth recently.





# **Five Forces- Country Comparative**

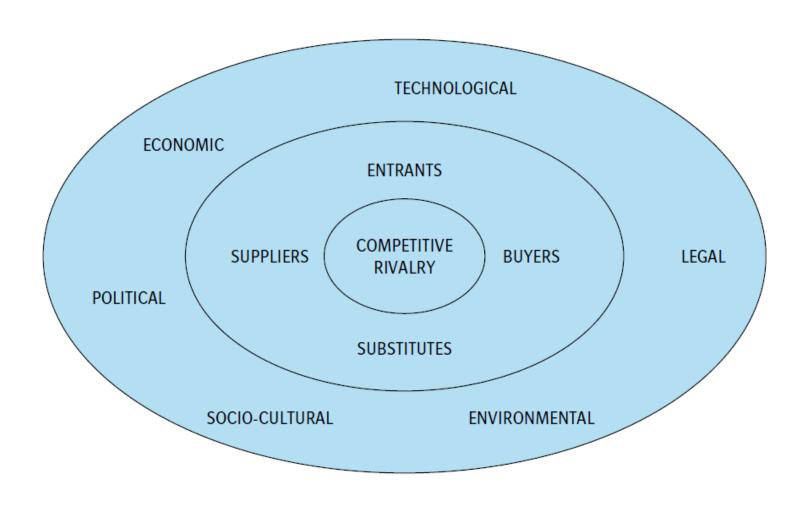


# **Essential Reading to Date**

- 1. Hamilton and Webster, The International Business Environment, Fourth Edition
  - Chapter 1-4

- 2. David Needle and Jane Burns, *Business in Context*, Seventh Edition
  - Chapter 1-3

## The Macro-environment



# Why analyse the Macro Environment?

- A turbulent environment is one where there is rapid, unexpected change
- Turbulence has increased with the rapid widening and deepening of the political, economic, socio-cultural, and technological interconnections
- brought about by globalization and facilitated by advances in telecommunications.

# **Opportunities**

- Globalization generates opportunities for business to:
  - Enter new markets
  - Take advantage of differences in the costs and quality of labour and other resources
  - Gain economies of scale
  - Get access to raw materials

## **Threats**

- Globalization is also accompanied by threats
- Threats for international firms tended to be seen as country-specific, arising from:
  - Financial risks—for example, currency crises, inflation
  - Political risks associated with events such as expropriation of assets by foreign governments
  - Unwelcome regulations
  - Natural disasters such as earthquakes and tsunamis.

## Frameworks -- PEST, PESTEL AND LoNGPEST

### **PEST**

- Political environment (P)
- Economic environment (E)
- Socio-cultural environment (S)
- Technological environment (T)

### **PESTEL**

- PEST AND ADD.....
  - Ethical/Environmental (E)
  - Legal environment (L)

### **LoNGPEST**

- PEST plus
  - Local (Lo)
  - National (N)
  - Global (G)

## The PESTEL framework

The PESTEL framework categorises environmental influences into six main types:

political, economic,

social, technological,

environmental legal

Thus PESTEL provides a comprehensive list of influences on the possible success or failure of particular strategies.

## The PESTEL framework

- Political Factors: For example, Government policies, taxation changes, foreign trade regulations, political risk in foreign markets, changes in trade blocks (EU).
- *Economic Factors:* For example, business cycles, interest rates, personal disposable income, exchange rates, unemployment rates, GDP trends.
- Socio-cultural Factors: For example, population changes, income distribution, lifestyle changes, consumerism, changes in culture and fashion.

## The PESTEL framework

 Technological Factors: For example, new discoveries and technology developments, ICT innovations, rates of obsolescence, increased spending on R&D.

- Environmental ('Green') Factors: For example, environmental protection regulations, energy consumption, global warming, waste disposal and re-cycling.
- Legal Factors: For example, competition laws, health and safety laws, employment laws, licensing laws, IPR laws.

# Key drivers of change

## **Key drivers for change:**

 The environmental factors likely to have a high impact on the success or failure of strategy.

 For example, the birth rate is a key driver for those planning nursery education provision in the public sector.

Typically key drivers vary by industry or sector.

# Using the PESTEL framework

- Apply selectively –identify specific factors which impact on the industry, market and organisation in question.
- Identify factors which are important currently but also consider which will become more important in the next few years.
- Use data to support the points and analyse trends using up to date information

 Identify opportunities and threats – the main point of the exercise!

# Culture

Impact on Business

## Hofstede's Cultural Framework

- Power distance
- Uncertainty avoidance
- Individualism-collectivism
- Masculinity-femininity
- Long versus short-term orientation
- Indulgence Vs estraint

## **POWER DISTANCE**

## High power distance

- Unequal power distribution accepted
- Social arrangements reflect this
- Importance of titles and status
- High dependence on bosses

## Low power distance

- A wish to equalize power in society
- Low dependence on bosses

## **UNCERTAINTY AVOIDANCE**

### **High uncertainty avoidance**

Rejection of deviant ideas

Careful consideration of proposals

Procedures to avoid ambiguity – rules, low job mobility

Slow decision-making

### Low uncertainty avoidance

Welcome new ideas

Relaxed attitude to rules

Fast decision-making

### INDIVIDUALISM-COLLECTIVISM

### Individualism

- Focus on self and immediate family
- Loose social networks

### Collectivism

- Collaboration for the collective good
- Importance of the extended family
- Strong wide networks

### **MASCULINITY-FEMININITY**

## Masculinity

- Assertiveness
- Competitive and concern for performance
- Focus on financial rewards
- Clear differentiation of male and female roles

## Femininity

- Sensitivity towards others
- Concern for welfare and security
- Concern for quality of life
- Overlap of male and female roles

## **LONG VERSUS SHORT TERM ORIENTATION**

## Long-termism

Pursuit of long-term goals

### Short-termism

- Pursuit of short-term gain and advantage
- Market share versus profit motive

## Long-termism associated with Confucian dynamism

- Commitment to the work ethic
- Respect for tradition
- Savings

## **INDULGENCE VERSUS RESTRAINT**

A recent addition to Hofstede's work (in 2012)

- Indulgence
  - Importance is attached to satisfying basic drive leisure and free speech. Sexual norms are fairly lenient
- Restraint
  - Suppression of gratification and control of impulses. Importance of savings. Sexual norms are much stricter.

# **Politics**

Impact on Business

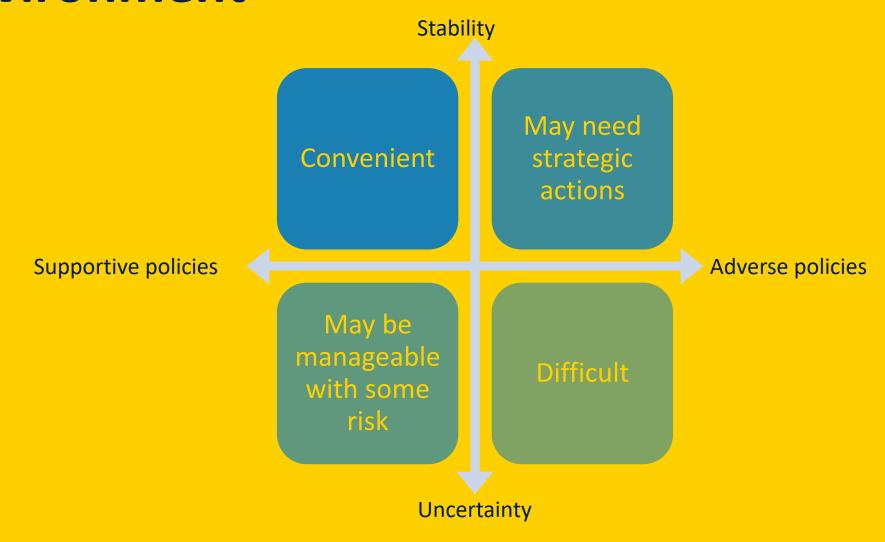
# Political Economy of the region/market

- Liberalization -- A shift from state control of the economy towards a free market
- **Privatization** the sale of state assets to private interests. It has been a feature in many countries gaining momentum since the 1980s.

## **Political environment**

- Most countries have their own unique political and legal environment.
- Political and legal environments keep changing, in some countries more often than in others.
- Organisations must adjust their business practices to these changing environment.
- Companies spend time and money trying to influence governments & politicians – at times unethically or illegally too
- Politics influence the economics of the country
  - Capitalism
  - Communism/socialism
  - Conservative/Progressive
  - Closed/Open

# Impact of Politics on the Business Environment



# **Assessing a Country's Potential**

# Gross domestic product (GDP)

 Total value of all goods and services in a year including exports less imports.

### **GDP** per capita

 As above divided by the number of population.

# **Gross National Product (GNP)**

 Total value of all goods and services in a year plus income from residents overseas minus income at home by nonresidents.

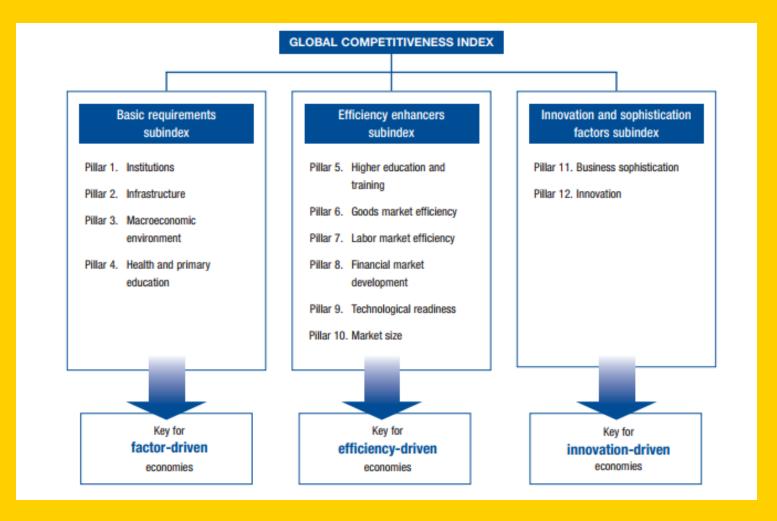
# Gross National Income (GNI)

 GDP plus or minus income received from or paid to other countries e.g. Interest on loans.

# Purchasing power parity (PPP)

 Measure of the relative cost of living in different countries and an indicator of poverty.

# **Measuring Global Attractiveness**



Source: http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017 FINAL.pdf

Process of entering (foreign) markets - Analysis

FACTOR	WEIGHT	COUNTRY A	COUNTRY B	COUNTRY C
MARKET POTENTIAL				
Size of market	0.4	4	3	3
Growth rate	0.3	2	2	1
Market share	0.3	3	2	2
TOTAL		9	7	6
EASE OF DOING BUSINESS				
Starting a Business	0.3	3	3	3
Getting Credit	0.1	3	1	2
TOTAL		6	4	5
RISKS				
Political risks	0.4	2	3	2
Foreign exchange	0.2	1	2	1
TOTAL		3	5	3
NET TOTAL		12	6	8

