Business Analysis Project

Session 2- Analysis of Strategic Issues

Andre Samuel

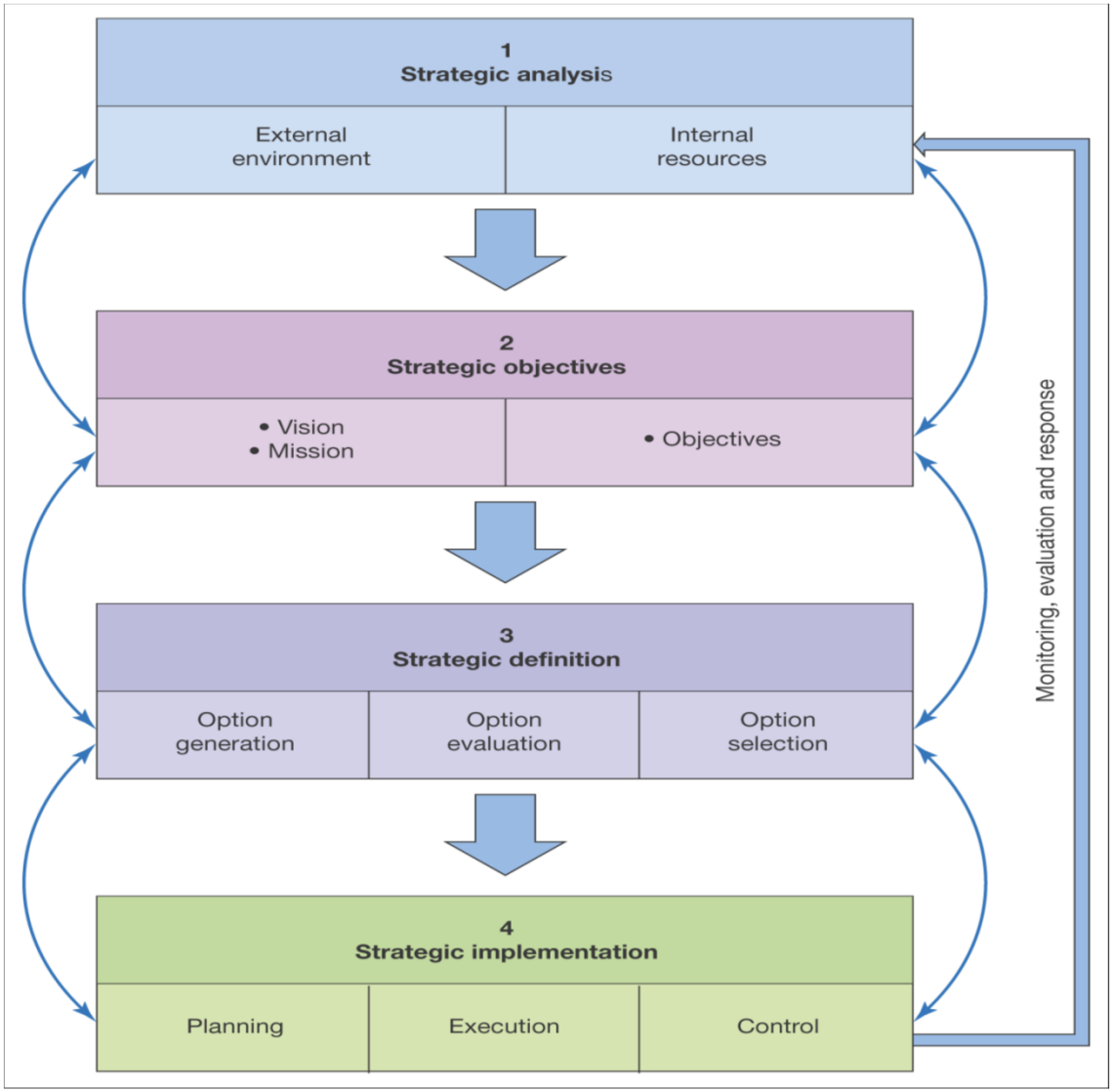
This Session

- Why study the environment of the organization
- Understanding the Macro-Business Environment
- The PESTLE Framework
- Introduction to Porter’s Five Forces

Why?

- The environment is what gives organizations their means of survival
- It creates **OPPORTUNITIES** and **THREATS**
- For example, Social Media presented Opportunities for organization to ‘get closer to their customers’ but Threatened traditional marketing channels
- While the same social media, Youtube is a Threat to the Music Industry, ask Taylor Swift!! But an Opportunity for the up and coming, ask Justin Beiber!!

- The starting point in developing business strategy is to explore, analyse the environment



Generic Strategy Process Model Chaffey (2009)

The Business Environment

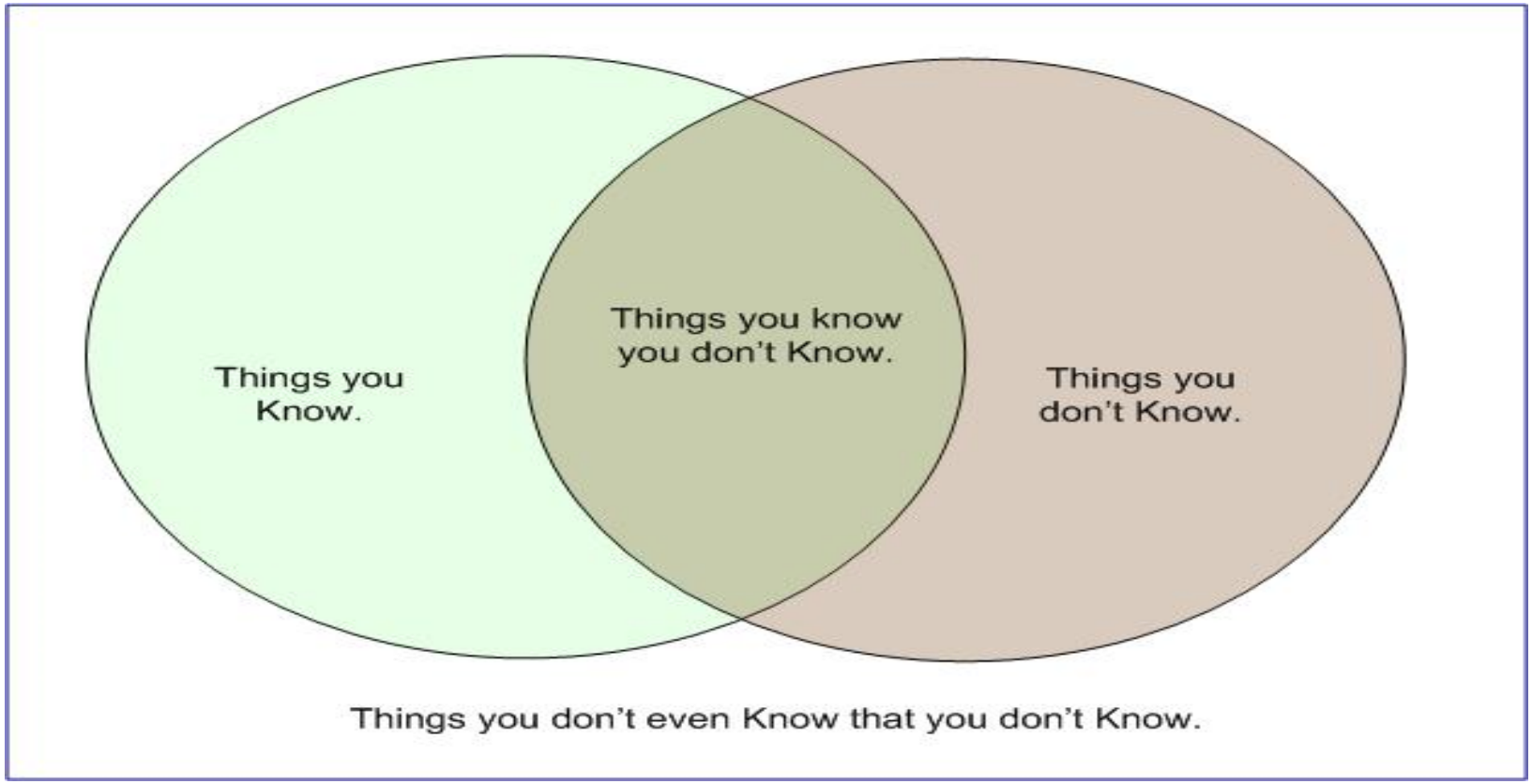
Johnson et al (2014)

- As elements of the environment changes rapidly
- **Prescriptive Strategies** will want to anticipate the changes
- **Emergent Strategies** will be content with an understanding of the environment

- “the future can never be predicted perfectly”

- Solution: **Strategic Agility**

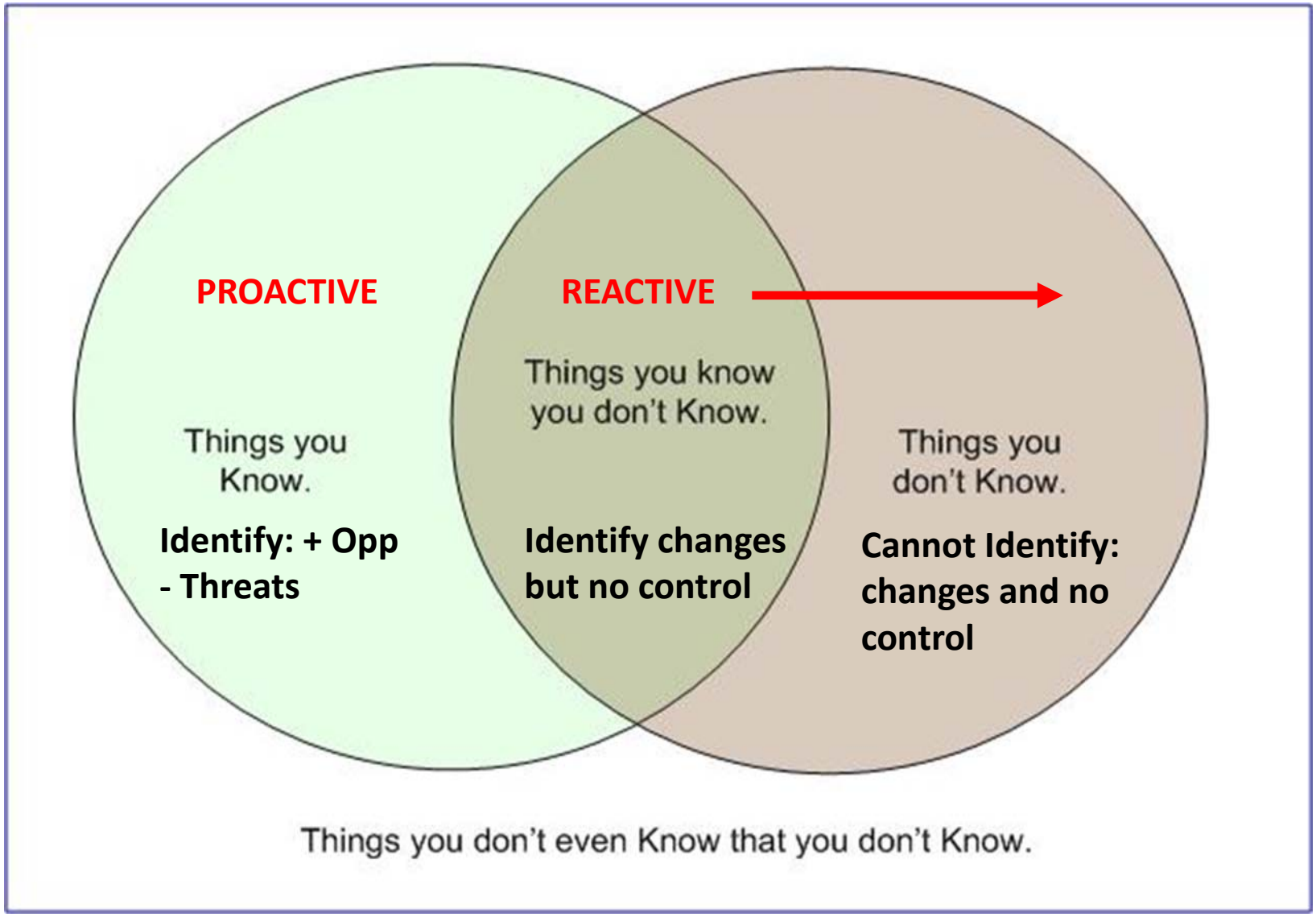
- Organizations must be able to **anticipate** and if possible **influence environmental change**
- But can they anticipate and influence?



Outcomes of Analysing the Environment

- So what happens when you find out all these things about the environment?
- So you can either have:
  - PROACTIVE outcomes
  - REACTIVE outcomes

  Lynch (2015)


PROACTIVE
REACTIVE
Things you know you don't Know.
Things you Know.
Things you don't Know.
Identify: + Opp - Threats
Identify changes but no control
Cannot Identify: changes and no control
Things you don't even Know that you don't Know.

Analysing The Macro- Environment

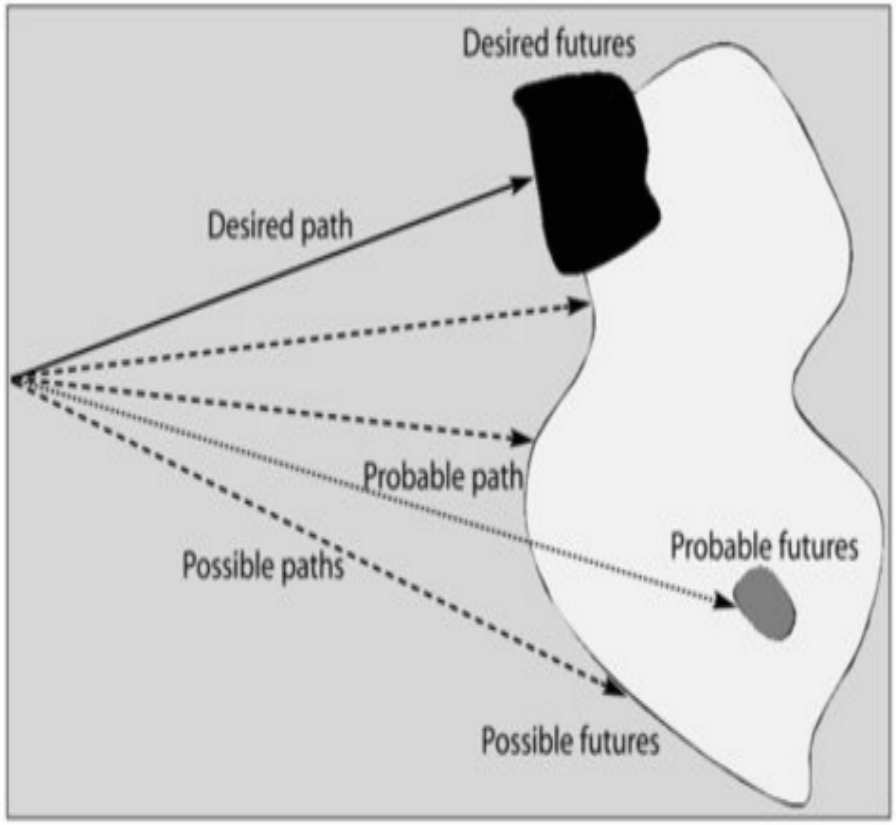
- This is the highest level layer
- Broad environmental factors that impact all organizations
- ***PESTLE Framework*** is used
- It provides broad ideas of the ***key drivers of change***
- These key drivers can be used to ***construct Scenarios*** of alternative possible futures

Building Scenarios

With high degree of uncertainty in the environment it is impossible to develop a single view of the impact of the changes. So we **build alternative views** of the futures

Types of Futures

- Possible - “might” happen (future knowledge)
- Plausible – “could” happen (current knowledge)
- Probable - “likely to” happen (current trends)
- Preferable - “want to” happen (value judgements)



Lindgren And Bandhold (2009)

PESTLE Analysis

Political future

- Political parties and alignments at local, national and European or regional trading-block level
- Legislation, e.g. on taxation and employment law
- Relations between government and the organisation (possibly influencing the preceding items in a major way and forming a part of future strategic management)
- Government ownership of industry and attitude to monopolies and competition

Socio-cultural future

- Shifts in values and culture
- Change in lifestyle
- Attitudes to work and leisure
- 'Green' environmental issues
- Education and health
- Demographic changes
- Distribution of income

Economic future

- Total GDP and GDP per head
- Inflation
- Consumer expenditure and disposable income
- Interest rates
- Currency fluctuations and exchange rates
- Investment – by the state, private enterprise and foreign companies
- Cyclicality
- Unemployment
- Energy costs, transport costs, communications costs, raw materials costs

Technological future

- Government and EU investment policy
- Identified new research initiatives
- New patents and products
- Speed of change and adoption of new technology
- Level of expenditure on R&D by organisation's rivals
- Developments in nominally unrelated industries that might be applicable

Environmental future

- 'Green' issues that affect the environment and impact on the company
- Level and type of energy consumed – renewable energy?
- Rubbish, waste and its disposal

Legal future

- Competition law and government policy
- Employment and safety law
- Product safety issues

Application of PESTLE analysis to Higher Education UK

- Howard Thomas, (2007),"An analysis of the environment and competitive dynamics of management education", Journal of Management Development, Vol. 26 Iss 1 pp. 9 - 21
- Permanent link to this document:

http://dx.doi.org/10.1108/02621710710720040

Outcomes of a PESTLE Analysis

- Key drivers of Change
- Impact of factors:
  - Identification of Opportunities, so called positives (+)
  - Identification of Threats, so called negatives (-)
  - sample PESTLE Analysis impact.pdf

Developing Scenarios

- Levis- Fashion Futures 2025

https://www.forumforthefuture.org/project/fashion-futures-2025/overview

Class Group Exercise

- In groups of 4-5
- Carry out a quick PESTLE analysis for Caribbean Airlines
- Do an Impact analysis for each of the Factors

- What are the most important opportunities for Caribbean Airlines?
- What are the most important Threats to Caribbean Airlines?

- Identify two possible futures for Caribbean Airlines

Analysing the Competitive Industry

- Examination of the forces influencing the organization
- Purpose of the analysis is to develop competitive advantage to defeat rivals
- ***Porter's Five Forces Model***

Porter’s Five Forces Model

Porter's Five Forces Model- Factors

Application of Porter's Five Forces

- To brew or not to brew
- Chery Automobile Company
- UK Higher Education

Implications from Porter's Five Forces Analysis

1. Is there a case for changing the strategic relationship with suppliers
2. Is there a case for forming a new relationship with large buyers
3. What are the key factors for success that drive an industry and influence its strategic development
4. Are there any major technical developments that rivals are working in that could fundamentally alter the industry
5. Which industries to enter or leave
6. What influences can be exerted
7. How are competitors differently affected

Next Session

- Critical Comments on the Five Forces Model
- The Real Competitive Forces- Modifying Porter’s Model
- Drivers of Globalization

Reference List

- Lindgren, M. and Bandhold, H. (2009): Scenario Planning – The Link Between Future and Strategy, Palgrave Macmillan: Houndmills
- Johnson, Scholes & Whittington (2011) Exploring Corporate Strategy, 9th edition, FT Pitman
- Lynch, R (2015) Strategic Management, 7th edition, Pearson, UK
- Chaffey, D (2009) E-Business and E-Commerce Management, 4th edition, Marketing Insights Limited, London