Business Analysis Project

Session 2- Analysis of Strategic Issues

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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

Identify: + Opp - Threats

Things you Know.

REACTIVE

Identify changes but no control

Things you don’t Know.

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)
<table>
<thead>
<tr>
<th>Political future</th>
<th>Economic future</th>
<th>Technological future</th>
<th>Environmental future</th>
<th>Legal future</th>
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</thead>
<tbody>
<tr>
<td>Political parties and alignments at local, national and European or regional trading-block level</td>
<td>Total GDP and GDP per head</td>
<td>Government and EU investment policy</td>
<td>‘Green’ issues that affect the environment and impact on the company</td>
<td>Competition law and government policy</td>
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<td>Legislation, e.g. on taxation and employment law</td>
<td>Inflation</td>
<td>Identified new research initiatives</td>
<td>Level and type of energy consumed – renewable energy?</td>
<td>Employment and safety law</td>
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<td>Relations between government and the organisation (possibly influencing the preceding items in a major way and forming a part of future strategic management)</td>
<td>Consumer expenditure and disposable income</td>
<td>New patents and products</td>
<td>Rubbish, waste and its disposal</td>
<td>Product safety issues</td>
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<td>Government ownership of industry and attitude to monopolies and competition</td>
<td>Interest rates</td>
<td>Speed of change and adoption of new technology</td>
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<tr>
<td>Socio-cultural future</td>
<td>Currency fluctuations and exchange rates</td>
<td>Level of expenditure on R&amp;D by organisation’s rivals</td>
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<td>Shifts in values and culture</td>
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<td>Developments in nominally unrelated industries that might be applicable</td>
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<td>Change in lifestyle</td>
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<td>Attitudes to work and leisure</td>
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<td>‘Green’ environmental issues</td>
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<td>Education and health</td>
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<td>Demographic changes</td>
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<td>Distribution of income</td>
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<tr>
<td>Economic future</td>
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Application of PESTLE analysis to Higher Education UK


• 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

- Threat of New Entry
  - Time and cost of entry
  - Specialist knowledge
  - Economies of scale
  - Cost advantages
  - Technology protection
  - Barriers to entry

- Competitive Rivalry
  - Number of competitors
  - Quality differences
  - Other differences
  - Switching costs
  - Customer loyalty

- Supplier Power
  - Number of suppliers
  - Size of suppliers
  - Uniqueness of service
  - Your ability to substitute
  - Cost of changing

- Buyer Power
  - Number of customers
  - Size of each order
  - Differences between competitors
  - Price sensitivity
  - Ability to substitute
  - Cost of changing

- Threat of Substitution
  - Substitute performance
  - Cost of change
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


