MGTOP590 – Strategy

Dr. Robert F. Jenefsky

Unit 3 - Environmental scanning – Opportunities and threats
ExaUnit 3 - Roadmap

Strategy and the strategy process (Unit 2)

Environmental scanning (Unit 3)

Competitive Advantage (Unit 4)

Internal analysis (Unit 5)
Unit 3 Activities

• Readings
  – Hill & Jones: Chapter 2
  – Article: “Strategic Analysis” (Harrison)

• Multimedia
  – Boxer video clip:
    – 3: Beer industry environment

• Article discussion #1
  – Covers readings through Unit 3
Environmental Scanning

• First step in strategy formulation process
• External environment
  – Macro-economic factors
  – Industry environment
• Analysis provides a momentary snapshot of a dynamically evolving situations
• External environment leads to
  – Opportunities
  – Threats
Macro-economic Factors

• Affect all players, some more than others
• Are difficult or impossible to influence in the short-term
• Companies need to react and anticipate in order to
  – Not be taken by surprise (blindsiding)
  – Take advantages of opportunities
Macro-economic Factors

• Economic environment
  – Inflation, GDP growth, unemployment etc.

• Socio-economic trends
  – Demographics, birth rates, dual-income families etc.

• Legal environment
  – Free-trade agreements, regulations etc.

• Ecology and environmental awareness

• Etc.
Industries

- Industry = companies offering products and services to meet a specific set of needs
  - Pharmaceutical industry
  - Airline industry
  - Hotel industry

- Industry segment or strategic group = sub-set of one of the above
  - Low-cost airlines, legacy airlines etc.
Industry Environment

• Competitors
  – Current competitors
  – Potential new competitors
• Substitute products
• Clients
• Suppliers
• Industry: group of companies offering similar products or services
Industry Analysis

- Strategic groups, e.g.
  - Pharmaceuticals
    - Proprietary (patented)
    - Generic (patent has expired)
  - Airlines
    - Low-cost (EasyJet, JetBlue, Southwest)
    - Legacy (Delta, Swiss, Singapore)

- Segments, e.g.
  - Computer industry
    - Components
    - Software
    - services
Industry Analysis

- Basic idea: Look for “sweet spot” where you can compete from a position of strength

- Strength = ability to protect profit margin

- Analytical tool: Porter’s “5 Forces” model
  - The weaker each force, the greater your potential ability to be profitable
  - If the forces are too strong, look for another place to do business!
Porter’s “5 Forces”

- See the animation of Porter’s “5 Forces” within the course page.
Porter’s 5 forces

- Rivalry between competitors
  - Example: Coke vs. Pepsi

- Barriers to entry
  - Example: allocation of airport slots

- Threat of substitute products
  - Example: hotels vs. furnished apartments

- Customer power
  - Example: switching barriers

- Supplier power
  - Example: petroleum
Limitations

- Like all strategy tools, 5 forces model has limitations
  - Static view of situation (snapshot)
  - Looks only at positioning, doesn’t take game-changers into account
- Is still useful for determining attractiveness of a business idea
- No one single strategy tool is sufficient!