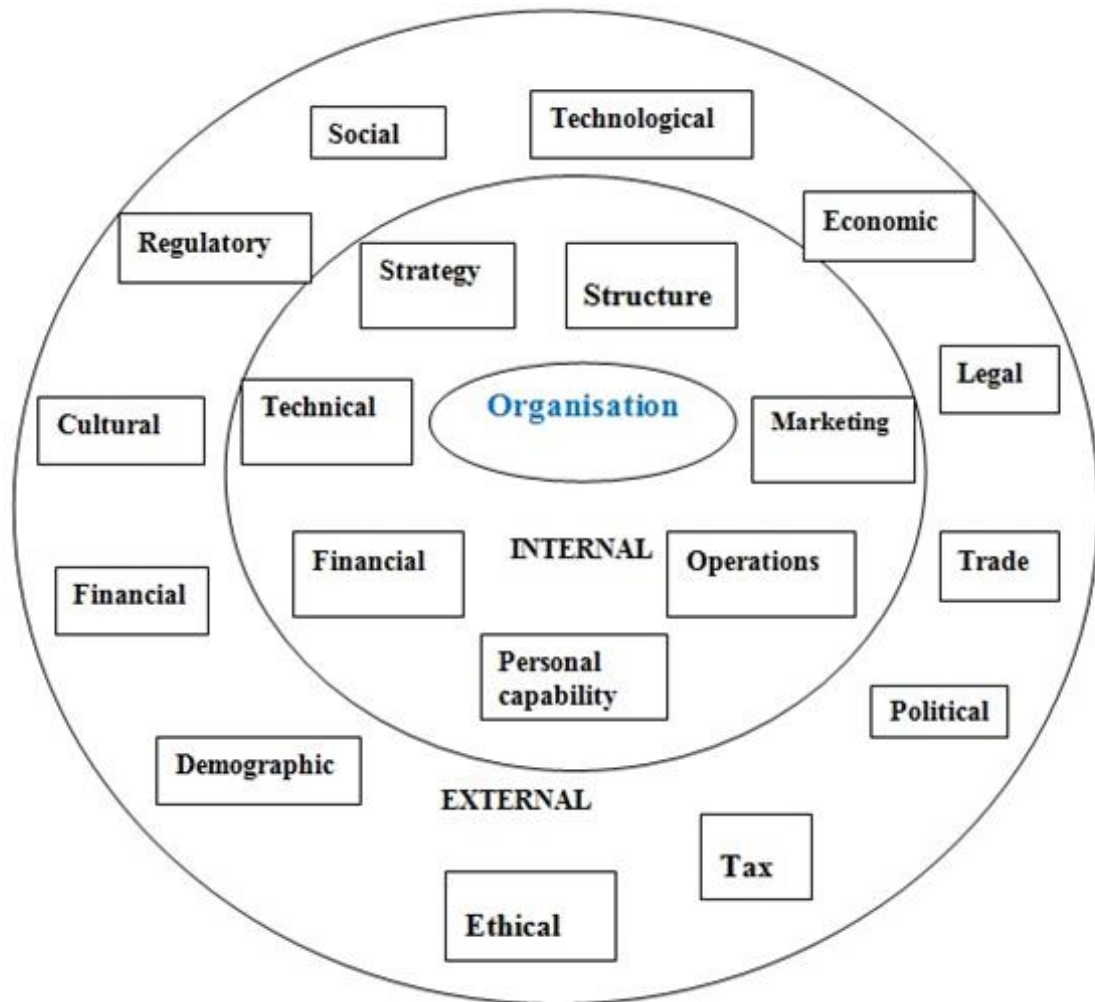


Environmental Analysis

Uncertainty has always baffled human. And we have been in a constant endeavour to reduce uncertainty and achieve security. Business as extension of human activity is also vulnerable to risk. So a business has to learn to cope up with the risk. So one has to go to the roots to find out the origin of risks. But if we look at any business or government, they cannot remain aloof to the environment in which they exist. Now this environment is very dynamic and is the main source of risk. So to face the risk one needs to understand the environment and its component, which makes it up. The dictionary meaning of environment is influences of circumstances under which someone or something exists.

The organisation operates within the larger framework of the external environment that shapes opportunities and poses threats to the organisation. The external environment is a set of complex, rapidly changing and significant interacting institutions and forces that affect the organisation's ability to serve its customers. External forces are not controlled by an organisation, but they may be influenced or affected by that organisation. It is necessary for organisations to understand the environmental conditions because they interact with strategy decisions. The external environment has a major impact on the determination of marketing decisions. Successful organisations scan their external environment so that they can respond profitably to unmet needs and trends in the targeted markets.

Elements of Business Environment



Is it necessary to analyse the business environment?

Marketing environment is an essential part of marketing without which the marketing department cannot move. Also this environment is out of control of the organisation. But in order to develop the marketing strategies the organisation need to understand what is going around him. The best strategies are made when the firm is rightly fitted into the environment using marketing mix elements.

Marketing-mix elements as environmental interface



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Hence we need to analyse the marketing environment

- To understand the elements of the environment.
- To observe and understand the changes, which are occurring in the environment.
- To analyse the elements and the market situations to find out the opportunities and threats in the market.
- To assess the impact of opportunities and threats on the business.
- To fit in the organisation properly into the environment so that effective strategies can be developed.

The significance of scanning the environment is to prepare opportunity and threat profile (O-T profile) for the organisation profile is a summary of all the diagnosis carried out as a pc

environmental scanning. The O-T profile precisely gives the clear picture in such a way that one can readily understand the impact of the environmental trends on the company.

The Organisation as a System

It is useful to conceptualise the organisation as a system or a whole with interdependent and interrelated parts. The systems approach solves problems by diagnosing them within a framework of inputs, transformation processes, outputs, and feedback. Inputs are the labour (human), money (financial), materials, and equipment resources that enter a transformation process. Transformation processes comprise the technologies used to convert inputs into outputs. Outputs are the original inputs as changed by a transformation process, products and services. Feedback is information about a system's status and performance.

Internally, an organisation can be viewed as a resource conversion machine that takes inputs (labour, money, materials and equipment) from the external environment (i.e., the world outside the boundaries of the organisation), converts them into useful products, goods, and services, and makes them available to customers as outputs. The organisation must continuously monitor and adapt to the environment if it is to survive and prosper. Disturbances in the environment may spell profound threats or new opportunities. The successful organisation will identify, appraise, and respond to the various opportunities and threats in its environment.

The environment has a fourfold influence on the business. This can be described as follows:

- Firstly it is the opportunity i.e. a favourable condition in the environment of an organisation that enables the organisation to consolidate and strengthen its position.

- Second aspect is threat, which indicates an unanticipated condition in the organisation's environment, which creates a risk or causes damage to the organisation.
- Thirdly it is the strength, which indicates the inherent capacity, which an organisation can use to gain strategic advantage over its competitors.
- Finally it is weakness, which implies an inherent limitation or constraint, which creates a strategic disadvantage.

If an organisation can organisation can understand the opportunities and threats prevailing in the external environment and strength and weaknesses of the internal environment.

SWOT Analysis

Hence the starting point in the process of strategic and functional analysis involves a detailed environmental audit and review of marketing effectiveness. Together the two techniques are designed to provide the strategist to provide with a clear understanding of:

- Organisations current market position
- The nature of environmental opportunities and threats
- The organisation's ability to cope with the demands of this environment

The results of this analysis are then incorporated in a statement of Strengths, Weaknesses, Opportunities and Threats (SWOT).

This involves analysing where the organisation's marketing programme has been, how it has been doing, and what it is likely to face the future. Analysing the current market situation is often called a SWOT analysis. It includes making a thorough objective determination of the organisation's strengths and weaknesses, assessing organisational resources, and evaluating opportunities and threats. A SWOT analysis of strengths, weaknesses, opportunities and threats will help to focus the assessment, develop organisational competencies, and identify

"gaps" between resources available and resources required to meet goals and objectives. This analysis is done in two phases:

- External environmental analysis is an opportunity and threat analysis. Opportunities are areas of buyer need in which an organisation can perform profitably. They are classified according to attractiveness and probability of success. Threats are a challenge posed by an unfavourable trend or development. This analysis is done to find out the positive environmental factors already present or emerging. This is also necessary to find out the specific business opportunities available to the business unit.

- Internal environmental analysis is a strengths and weakness analysis of the organisation's internal resources. Also this helps in assessing the health and status of the different product lines, products and brands and also in assessing the competitive advantages available to the unit. This analysis is carried on in the areas of marketing, finance, R&D, Human Resources etc.


Faced with a constantly changing environment each business unit needs to develop a marketing information system to track trends and developments. Each trend or development can then be categorized as an opportunity or threat, and an assessment made of the feasibility and action needed if the organisation is either to capitalize upon the opportunity or minimize the impact of the threat. When you are planning strategically with any company, it is useful to complete an analysis that takes into account not only your own business, but your competitor's businesses and the current business environment as well. A SWOT is one such analysis. Completing a SWOT analysis helps you identify ways to minimise the effect of weaknesses in your business while maximising your strengths. Ideally, you will match your strengths against market opportunities that result from your competitors' weaknesses or voids. You can develop a basic SWOT analysis in a brainstorming session with members of your company, or by yourself if you are a one-person shop.

Strengths and Weakness

Although in many markets it is relatively simple process to identify a whole series of environmental opportunities, few organisations have the ability in terms of competence to capitalise upon more than a small number. Each business needs therefore to evaluate on regular basis its strengths and weaknesses.

Each factor is rated by management or an outsider consultant according to whether it is a fundamental strength, a marginal strength, a neutral factor, a marginal weakness, or a fundamental weakness. By linking these ratings a general picture of the organisation’s principal strengths and weaknesses emerges.

The performance-importance matrix



		Performance	
		High	Low
Importance	High	The focus for greater Managerial effort in order to improve performance	continue with the current effort to ensure that performance does not decline
	Low	Areas of low priority Is it worth spending in these areas	Re-think the current effort.

Cell 1: consists of those factors which are important but in which the organisation is currently performing badly, organisation needs to strengthen these factors

Cell 2: consists of factors in which the business is already strong but in which it needs to maintain the strengths.

Cell 3: Consists of unimportant factors, improvement desirable but not of high priority

Cell 4: consists of unimportant factors in which the business is unnecessarily strong.

Opportunity

For our purposes an opportunity can be seen as any sector of the market in which the company would enjoy a competitive advantage. These opportunities can then be assessed according to their attractiveness and organisation's probability of success in this area. Try to uncover areas where your strengths are not being fully utilised. Are there emerging trends that fit with your company's strengths? Is there a product/service area that you could do well in but are not yet competing? According to Johnson and Scholes, the opportunities should never be viewed as 'absolutes' since they might appear as opportunity at first sight but may not be actually in practice when examined against the organisation's resources, culture, expectations of its stakeholders, available strategies and the feasibility of implementing the strategy.

The opportunity matrix

		<i>Probability of success</i>	
		High	Low
<i>Attractiveness</i>	High	1	2
	Low	3	4

Cell 1: opportunities offering the greatest scope, needs management's focus

Cell 2 & 3: offer certain attractions, management to examine these closely to see whether scope exists either for improving their attractiveness or increasing the probability of success.

Cell 4: represents those opportunities which either are too small or which the organisation is unlikely to be able to exploit effectively.

The probability of success is influenced by several factors, but most obviously by the extent to which the organisation's strengths and in particular its distinctive competences match the key success requirements for operating effectively in the target market and exceed those of its

competitors. But competence is only sufficient for short-time measures since the competitive forces erode the competence in due time. Hence the strategists need to concentrate upon developing competitive advantages, which are sustainable over time. The methods for developing a sustainable competitive advantage can be divided into 3 main groups.

1) Organisational advantages

- Economies of scope
- Flexibility
- Competitive stance
- Size
- Speed of response
- Past performance
- Financial strengths
- Patterns of ownership
- Reputation



2) Departmental and functional advantages

Marketing

- Customer base
- Customer knowledge
- New product skills
- Pricing
- Communication and advertising
- Distribution
- Sales force

- Service support
- Reputation

R&D

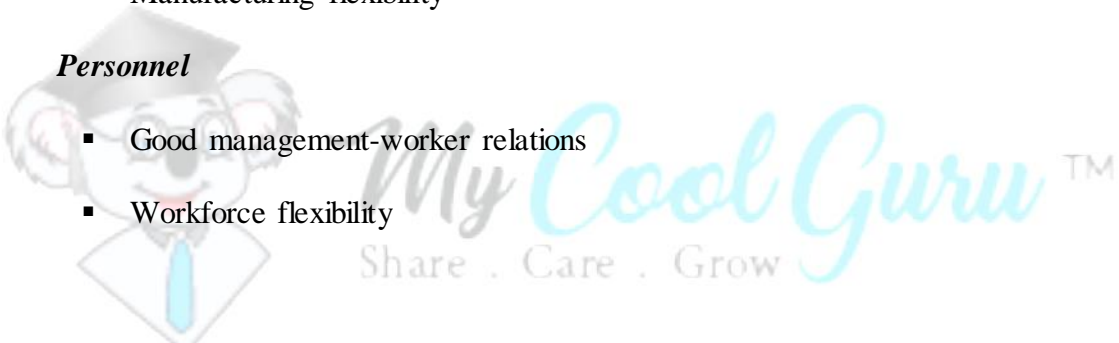
- Product technology
- Patents

Production

- Technology
- Economies of scale
- Experience
- Product quality
- Manufacturing flexibility

Personnel

- Good management-worker relations
- Workforce flexibility

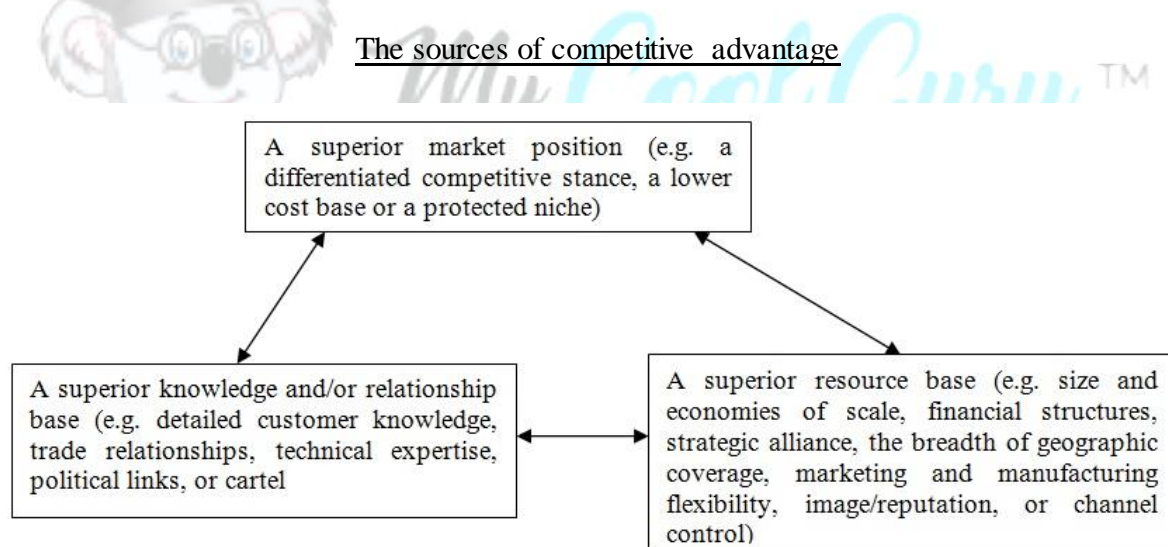


3) Advantages based on relationships with external bodies

- Customer loyalty
- Channel control
- Preferential political and legislative treatment
- Government assistance
- Beneficial tariff and non-tariff barriers
- Cartels
- Intra-organisational relationships
- Access to preferential and flexible financial resources

The significance of competitive advantage has been highlighted by a wide variety of writers. Boston Consulting Group's Annual Report for 1982 mentioned that in the real world of business competition, each survivor is uniquely superior to all others in some significant way, no matter how subtle the difference. That competitor dominates his unique niche or his life cycle is short. The nearly infinite possible combinations of customer characteristics, costs, logistics, methodology etc. make it possible for vast numbers of competitors to co-exist and each competitor may simultaneously be defending its niche against multiple unique antagonists. Strategy development starts with the task of identifying the comparative differentials for each competitor that constitutes a constraint. The next step is to determine the trade-offs and match-ups that make competitive equilibrium possible. The strategy itself must aim at enlarging either the scope or depth of the competitive advantage.

The sources of competitive advantage according to McDonald are as described below.



Threats

- At the same time as generating opportunities the external environment also presents a series of threats. Threats can be classified on the basis of their seriousness and probability of their occurrence. Look both inside and outside of your company for things that could damage your business. Internally, do you have financial, development,

or other problems? Externally, are your competitors becoming stronger, are there emerging trends that amplify one of your weaknesses, or do you see other threats to your company's success?

The threat Matrix

Probability of occurrence

	<i>High</i>	<i>Low</i>
<i>High</i>	1	2
Seriousness	3	4
<i>Low</i>		

Cell 1: threats are serious, high probability of occurrence, strategists need to monitor developments closely and have a detailed contingency plan available to cope with any changes that take place.

Cell 2: threats need to be closely monitored in case they become critical, contingency planning is unlikely to be necessary.

Cell 4: threats are minor and can be largely ignored

Putting together threats and opportunities attempting to arrive at a measure of market's overall attractiveness, we have four possibilities:

1. An ideal business that is characterised by numerous opportunities but few, if any, threats
2. A speculative business that is high both in opportunities and threats
3. A mature business that is low both in opportunities and threats

A troubled business that is low in opportunities but high in threats

Making SWOT analyses more effective

Piercy proposes 5 guidelines for enhancing the effectiveness of the SWOT analysis.

1. Focus the SWOT on a particular issue or element, such as a specific product market, a customer segment, a competitor, or the individual; elements of the marketing mix.
2. Use the SWOT analysis as a mechanism for developing a shared vision for planning. This can be done by pooling ideas from a number of sources and achieving a team consensus about the future and important issues.
3. Develop a customer orientation by recognising that strengths and weaknesses are largely irrelevant unless they are recognised and valued by customer. One of the ways in which this can be done is by applying McDonald's 'so what?' test in which the planner looks at each of the claimed benefits from the viewpoint of the consumer and by asking 'well so what?' tries to assess its true significance. By doing this, the planner is also likely to move away from the trap of making a series of so-called motherhood statements. A motherhood statement is warm, reassuring and difficult to argue against, the commonest of which is that "we are committed to the customer" while analysing strengths.
4. The strengths and weaknesses must always be viewed from the viewpoint of the customer so that the analysis of opportunities and threats must relate to the environment to the organisation's point of focus. Anything else simply leads to a generalised and pointless set of comments.
5. The final guideline is concerned with what Piercy refers to as structured strategy generation. This involves:
 - Matching strategies: Strengths must be matched to opportunities since strength without corresponding opportunity is of little strategic value.
 - Conversion strategies: These are designed to change weakness into strengths and threats into opportunities. For an example, growing competition could pose as a

serious threat. So by realising that a head-on-battle is likely to prove expensive and counter-productive, the emphasis might shift to developing strategic alliances, which could then provide both organisations with a greater combined strength, which in turn allows them to capitalise upon growing opportunities.

- Creative strategies: These are implemented for developing the business that emerges as the result of a detailed analytical process rather than the vague and unfocused lines of thought.
- Iteration: As the planner goes through the process of identifying hidden strengths, matching strengths to opportunities, converting weaknesses to strengths, and so on, there is a periodic need to go back to the beginning of the process in order to identify how the situation that is emerging changes the SWOT model and initial assumptions.

You can also enhance a SWOT analysis through surveys. You can learn more about your own as well as competitor sites and businesses. Areas you can research include

- 1) Customer awareness, interest, trial, and usage levels;
- 2) Brand, site, and/or company image;
- 3) Importance of different site or product attributes to your customers; and
- 4) Product and/or site performance.

Assessing the firm's strength and weaknesses in the different area of operations:

Under this task, a firm needs to analyse its capabilities in the various areas such as marketing, finance, human resource, operations, R&D and general management. While analysing each area several aspects have to be considered and both qualitative and quantitative analysis needs to be undertaken

Let us discuss more about the marketing area and what should be considered for the analysis of S-W.

a) Overall market growth: Under this head one needs to answer the following questions:

- What are the recent growth trends?
- What is the rate the recent periods?
- Are there any chances of stagnation?
- What are the underlying causes for these changes?

b) Firm's market share in the industry: What percentage of the share the firm has holding for four to five years and how consistent is the position? Does the firm find a place in the first three positions? How does the market share compare with that of the competition? Is the relative market share satisfactory?

c) Production capacity of the firm: Is the production capacity of the unit sufficient in relation to overall market growth, the firm's potential and its market share position? Considering the extent of contribution expected of the unit towards total corporate growth, should it plan for an expansion of capacity?

d) The life cycle stage of the various products: In this stage as firm has to analyse the product life cycle of each of the product offered in the market place.

e) Brand equity.

f) Product attributes.

g) Product mix synergy.

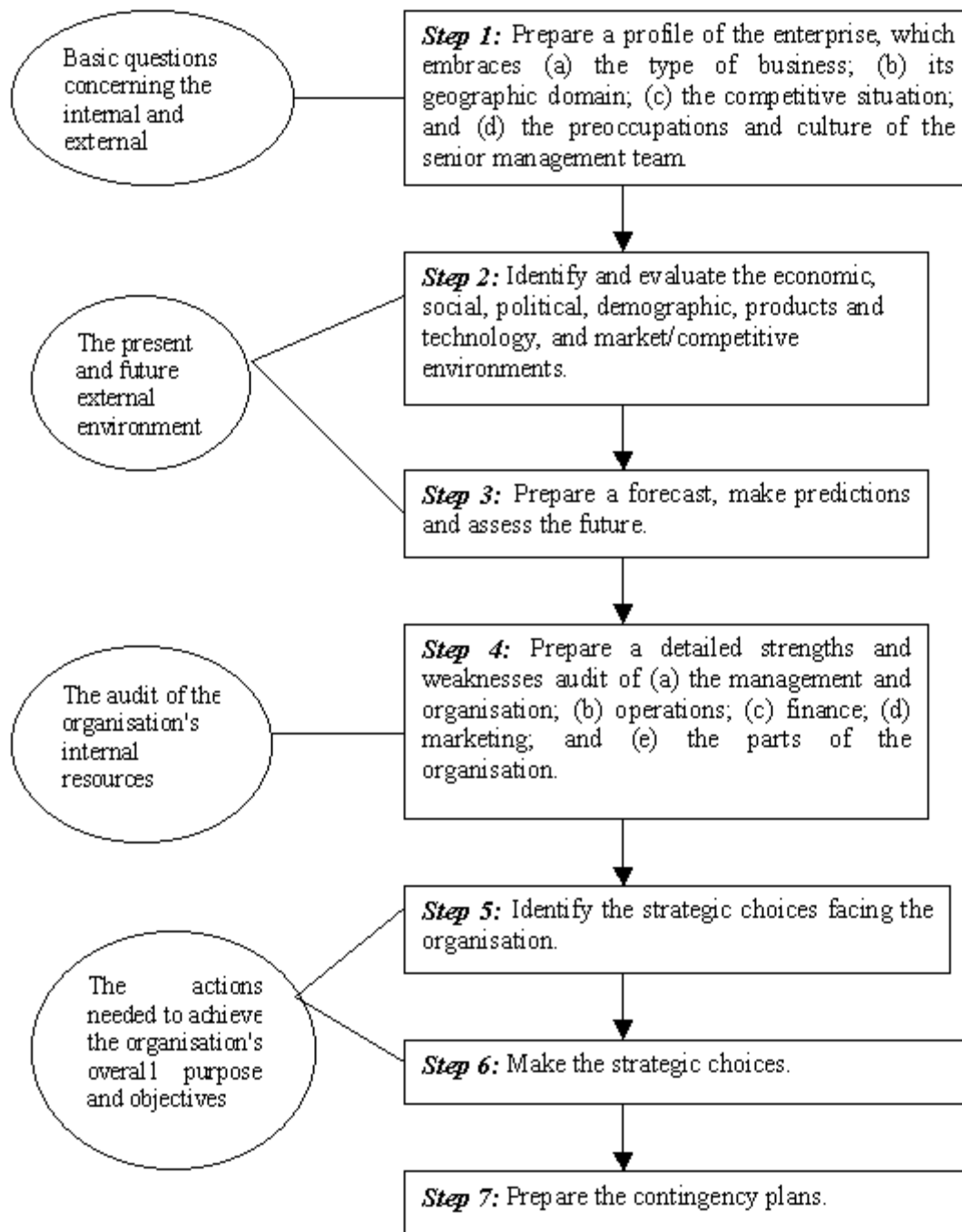
h) Customer perception/satisfaction.

i) Overall marketing capability.

Techniques used for the analysis of S-W: There are many techniques available for the analysis of the S-W; some of them are mentioned as below:

- Marketing audit
- Market share analysis
- Cost volume profit analysis
- Marketing cost analysis
- Product line profit analysis
- Sales force productivity analysis
- Consumer satisfaction index
- Brand monitoring survey
- Perception mapping and multi-dimensional scaling

Like Piercy, Wehrich also criticised SWOT model since according to him, having conducted the analysis, managers frequently fail to come to terms with the strategic choices that the outcomes demand. In order to overcome this, he argues for TOWS matrix, which while making use of the same inputs of Threats, Opportunities, Weaknesses and Strengths reorganises them and integrates them more fully into the strategic planning process in following 7 steps.



The TOWS matrix is given below.

The TOWS matrix

Internal elements External elements	Organizational strengths	Organizational weaknesses
Strategic options		
Environmental opportunities (and risks)	SO: Strengths can be used to capitalize or build upon existing or emerging opportunities	WO: The strategies developed need to overcome organizational weaknesses if existing or emerging opportunities are to be exploited
Environmental threats	ST: Strengths in the organization can be used to minimize existing or emerging threats	WT: The strategies pursued must minimize or overcome weaknesses and, as far as possible, cope with threats



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