

# Chapter 3

## The External Assessment

**Strategic Management:  
Concepts and Cases. 9<sup>th</sup> edition**  
Fred R. David

PowerPoint Slides by  
Anthony F. Chelte  
Western New England College

# Chapter Outline

- The Nature of an External Audit
- The Industrial Organization View
- Economic Forces
- Social, Cultural, Demographic, and Environmental Forces

# Chapter Outline

- Political, Governmental, and Legal Forces
- Technological Forces
- Competitive Forces

# The External Assessment

*Prediction is very difficult, especially  
about the future.*

-- Neils Bohr

# External Strategic Management Audit

Also called:

- Environmental scanning
- Industry analysis

# External Strategic Management Audit

## External Audit:

- Identification and evaluation of trends and events beyond control of single firm
  - Increased foreign competition
  - Populations shifts
  - Aging society
  - Information technology
  - Computer revolution

# The Industrial Organization (I/O) View

- The Industrial Organization (I/O) approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm achieving competitive advantage.

# Nature of External Audit

## Purpose:

- Development of Finite List:
  - Opportunities
  - Threats to be avoided

# Key External Forces

Five (5) broad categories:

1. Economic forces
2. Social, cultural, demographic, & environmental forces
3. Political, governmental, and legal forces
4. Technological factors
5. Competitive forces

# Relationships Between Key External Forces and an Organization



# Performing an External Audit

Gather competitive intelligence on factors:

- Social
- Cultural
- Demographic
- Environmental
- Economic
- Political, legal, governmental
- technological

# Performing an External Audit

## Key factors:

- Vary over time
- Vary by industry

# Performing an External Audit

Variables include:

- Market share
- Breadth of competing products
- World economies
- Foreign affiliates
- Proprietary account advantages
- Price competitiveness
- Technological advancements
- Interest rates
- Pollution abatement

# Economic Forces

## Monitor Key Economic Variables:

- Availability of credit
- Level of disposable income
- Interest rates
- Inflation rates
- Money market rates
- Federal government budget deficits
- Gross domestic product trend
- Consumption patterns

# Monitor Key Economic Variables:

- Unemployment trends
- Worker productivity levels
- Value of the dollar in world markets
- Stock market trends
- Foreign countries' economic conditions
- Import/export factors
- Demand shifts for goods/services
- Income differences by region/customer

# Monitor Key Economic Variables:

- Price fluctuations
- Exportation of labor & capital
- Monetary policies
- Fiscal policies
- Tax rates
- ECC policies
- OPEC policies
- LDC policies

# Social, Cultural, Demographic & Environmental Forces

Major impact on:

- Products
- Services
- Markets
- customers

# Social, Cultural, Demographic & Environmental Forces

- World population > 6 billion
- U.S. population < 300 million
  - Great potential for domestic production expansion to other markets
- Domestic only is a risky strategy

# Social, Cultural, Demographic & Environmental Forces

## Trends for the 2000's –

- More educated consumers
- Population aging
- Minorities more influential
- Local rather than federal solutions
- Fixation with youth decreasing
- Hispanics increase to 15% by 2021
- African Americans increase to 14% by 2021

# Social, Cultural, Demographic & Environmental Forces

## Key variables –

- Childbearing rates
- Number of special-interest groups
- Number of marriages
- Number of divorces
- Number of births
- Number of deaths
- Immigration & emigration rates

# Monitor Key Variables

- Life expectancy rates
- Per capita income
- Attitudes toward business
- Average disposable income
- Buying habits
- Ethical concerns
- Attitudes toward saving

# Monitor Key Variables

- Racial equality
- Average level of education
- Government regulation
- Attitudes toward customer service
- Attitudes toward product quality
- Energy conservation
- Social responsibility

# Monitor Key Variables

- Value placed on leisure time
- Recycling
- Waste management
- Air & water pollution
- Ozone depletion
- Endangered species

# Political, Govt., & Legal Forces

## Government Regulation

- Key opportunities & key threats
  - Antitrust legislation (Microsoft)
  - Tax rates
  - Lobbying efforts
  - Patent laws

# Political, Govt., & Legal Forces

## Increasing Global Interdependence

- Impact of political variables
  - Formulation of Strategies
  - Implementation of Strategies

# Political, Govt., & Legal Forces

## Increasing Global Interdependence

- Strategists in a global economy
  - Forecast political climates
  - Legalistic skills
  - Diverse world cultures

# Political, Govt., & Legal Forces

## Globalization of Industry

- Worldwide trend toward similar consumption patterns
- Global buyers & sellers
- E-commerce
- Instant transmission of money & information across continents

# Political, Govt., & Legal Forces

## Key Political, govt., & legal variables:

- Government regulation/deregulation
- Tax law changes
- Special tariffs
- Political Action Committees (PACs)
- Voter participation rates
- Number of patents
- Changes in patent laws

# Technological Forces

Internet changes the nature of opportunities and threats --

- Alters life cycle of products
- Increases speed of distribution
- Creates new products and services
- Eases limitations of geographic markets
- Alters economies of scale
- Changes entry barriers

# Technological Forces

## Capitalizing on Information Technology (IT)

- Chief Information Officer (CIO)
- Chief Technology Officer (CTO)

# Technological Forces

## Technology-based issues

- Underlie nearly every strategic decision

# Strategy and Future Forecast

- Linear regression is based on the assumption that the future will be just like the past.

# Competitive Forces

Collection and evaluation of information on competitors is essential for successful strategy formulation

# Competitive Forces

Competition in virtually all industries can be described as intense.

# Competitive Forces

## Identifying rival firms

- Strengths
- Weaknesses
- Capabilities
- Opportunities
- Threats
- Objectives
- Strategies

# Competitive Forces

## Key Questions About Competitors:

- Their strengths
- Their weaknesses
- Their objectives and strategies
- Their responses to all external variables (e.g. social, political, demographic, etc.)
- Their vulnerability to our alternative strategies

# Competitive Forces

## Key Questions About Competitors:

- Our vulnerability to successful strategic counterattack
- Our product and service positioning relative to competitors
- Entry and exit of firms in the industry
- Key factors for our current position in industry

# Competitive Forces

## Key Questions About Competitors:

- Sales and profit rankings of competitors over time
- Nature of supplier and distributor relationships
- The threat of substitute products or services

# Competitive Forces

## Sources of Corporate Information:

- *Moody's Manuals*
- *Standard Corporation Descriptions*
- *Value Line Investment Surveys*
- *Dun's Business Rankings*
- *Standard & Poor's Industry Surveys*
- *Industry Week*
- *Forbes, Fortune, Business Week*

# Competitive Forces

## Competitive Intelligence Programs:

- *Systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business' own goals.*

# Competitive Analysis: Porter's Five-Forces Model

