

# Chapter 3

## Environmental Scanning & Industry Analysis

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# Societal Environment (PEST)

- Political-Legal
- Economic
- Sociocultural
- Technological



# Economic

- GDP trends
- Interest rates
- Inflation rates
- Unemployment levels
- Wage/price controls
- Devaluation
- Energy cost
- Government spending



# Technological

- Patent protection
- New products
- New developments from lab to markets
- Telecommunication infrastructure
- Internet
- Productivity improvement through automation



# Political-Legal

- Anti-monopoly laws
- Environmental laws
- Tax laws
- Special incentives
- Free trade regulations
- Employment laws
- Government stability

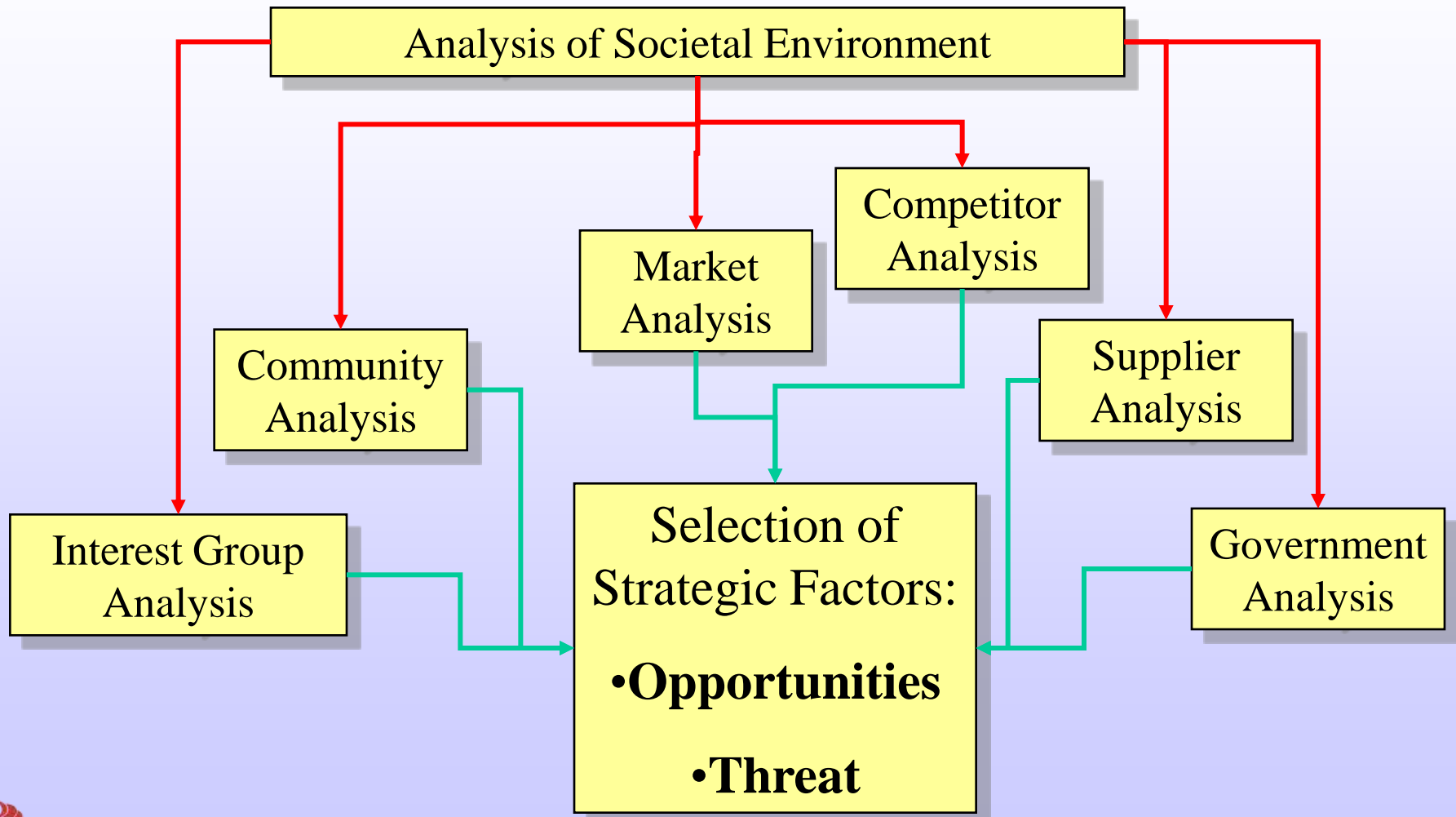


# Sociocultural

- Changes in lifestyle
- Consumer activism
- Rate of family formation
- Growth rate of population
- Regional shifts of population
- Age distribution
- Life expectancies



# External Environment Scanning



# Which Issues Are Important?

Issue X

Probable Impact on Company

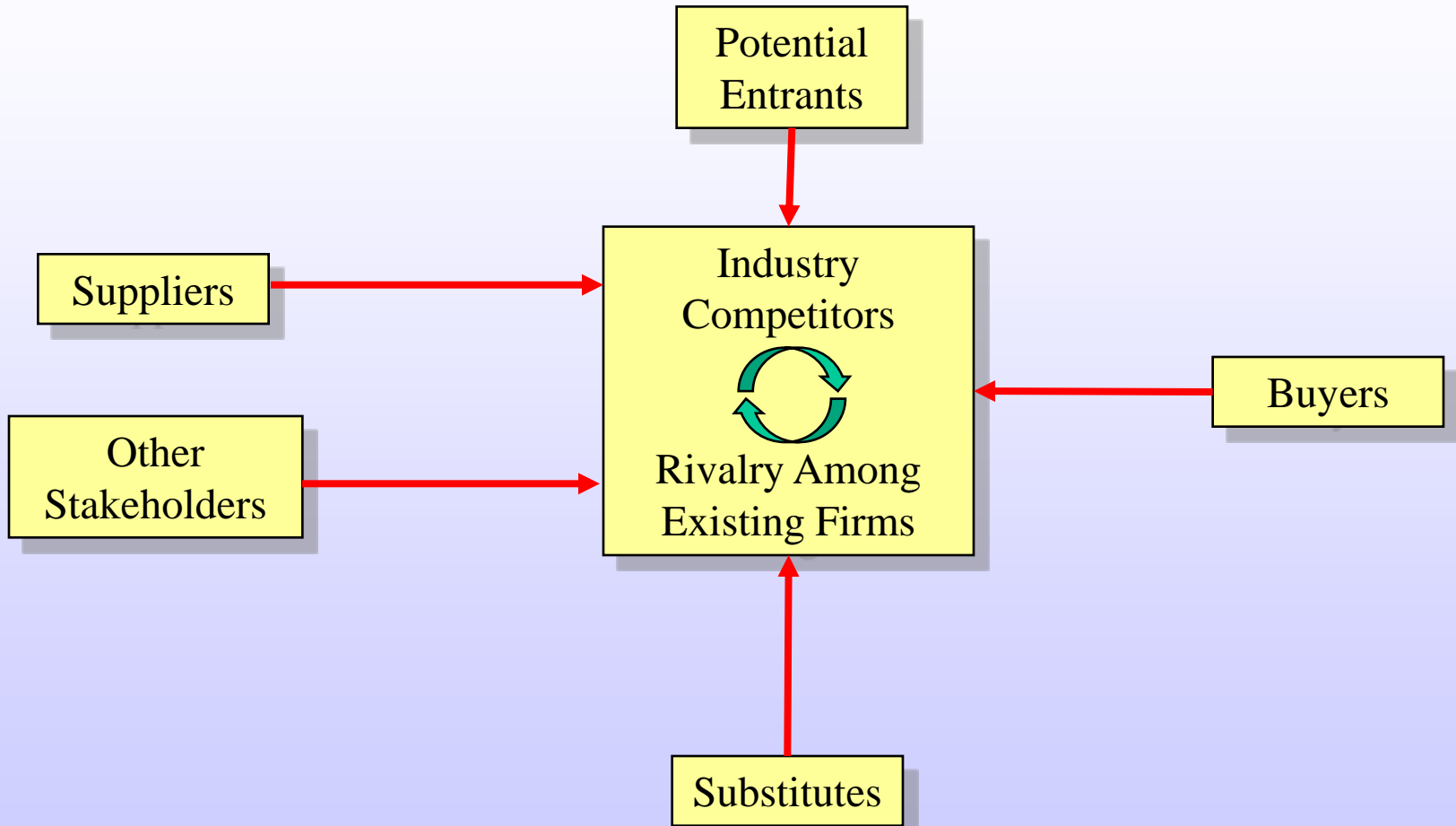
Probability of Occurrence

	High	Medium	Low
High	High Priority	High Priority	Medium Priority
Medium	High Priority	Medium Priority	Low Priority
Low	Medium Priority	Low Priority	Low Priority





# Porter's Competitive Forces



# Barriers for New Entrants

- Economies of scale
- Product differentiations
- Capital requirements
- Switching cost



# Factors contributing to intense rivalry

- Number of competitors
- Rate of industry growth
- Product characteristics
- Amount of fixed cost
- High exit barrier



# Bargaining Power of Buyers

- A buyer purchases a large portion of seller's product
- A buyer has the chance for backward integration
- Low switching cost
- Commodity products
- Buyer has a very low profits, therefore sensitive to price changes



# Bargaining Powers of Suppliers

- Supplier dominated by few, but sells to many
- Suppliers may integrate forward
- Has high switching cost
- Buyer only buys a tiny fraction of supplier's products, thus seen as unimportant

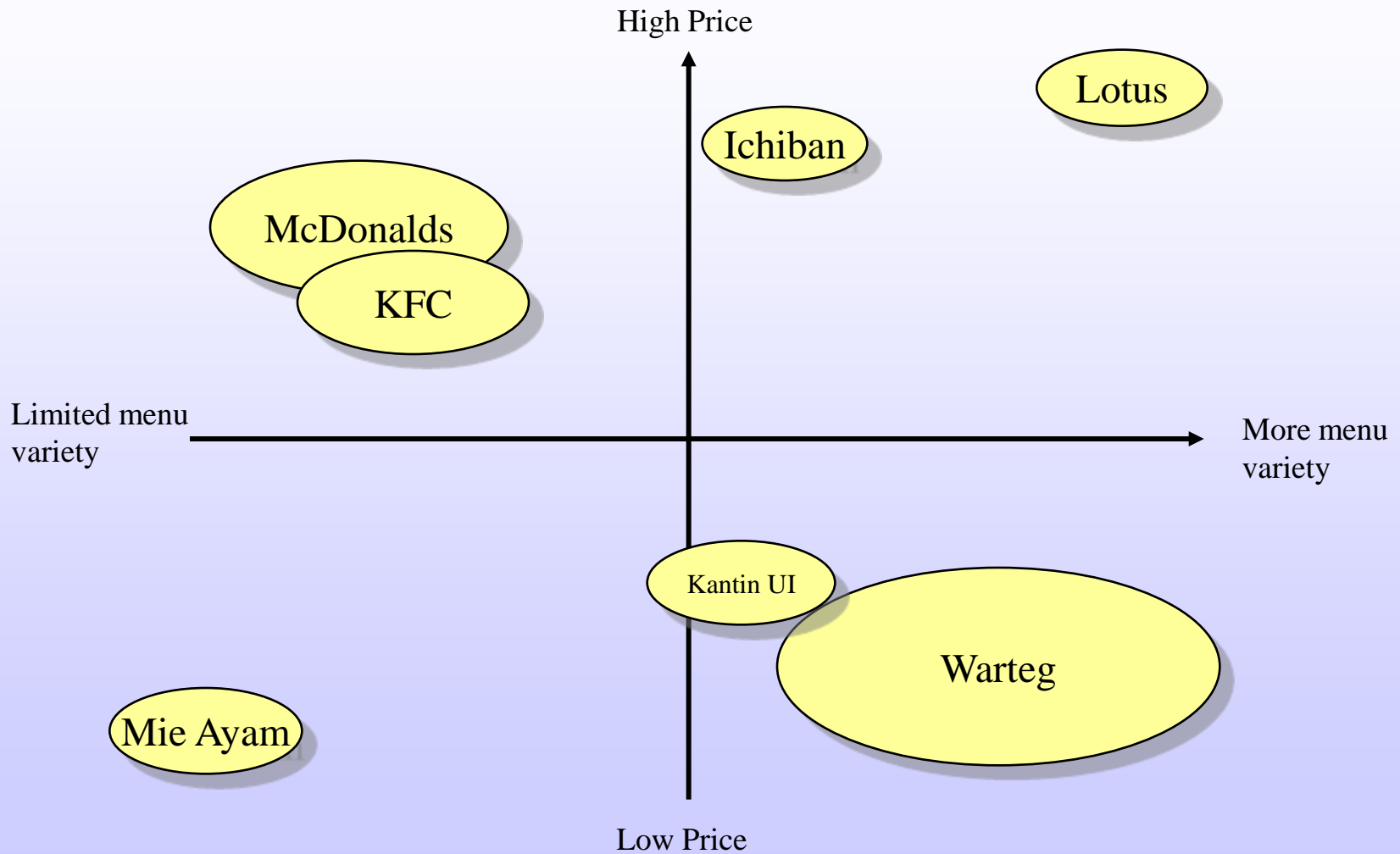


# Strategic Groups

- Set of business units / company that pursue similar strategies with similar resource
- Usefull to understand competitive position
- How to plot:
  - Select 2 broad characteristics
  - Plot the firms using the 2 characteristics as the dimensions
  - Draw circles of each company proportional to the group's share of the market



# Example: Price vs Product-Line



# Strategic Types (Miles & Snow)

- Defenders
  - Focus on improving efficiency of their existing operations
- Prospectors
  - Focus on product innovation & market opportunities
- Analyzers
  - Operates in 1 stable (efficient) and 1 variable (innovate)
- Reactors
  - Lack of consistent strategy – structure – culture

