

Strategic Management: Concepts and Cases

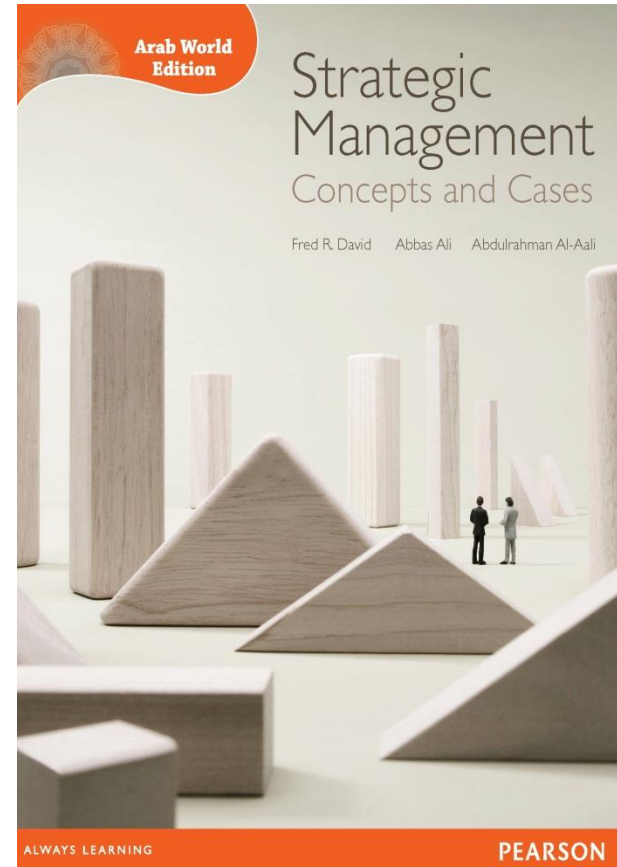
Arab World Edition

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Chapter 3: The External Assessment



Chapter Outline

- The Nature of the External Assessment
- The Industrial Organization (I/O) View
- Economic Forces and Social and Demographic Forces
- Political, Governmental, and Legal Forces
- Technological Forces
- Industry Forces
- Competitive Analysis: Porter's Five-Forces Model

Chapter Outline (cont'd)

- Operating Environment Forces
- Sources of External Information
- Forecasting Tools & Techniques
- Global Challenge
- Industry Analysis: The External Factor Evaluation (EFE) Matrix
- Competitive Profile Matrix (CPM)

External Assessment

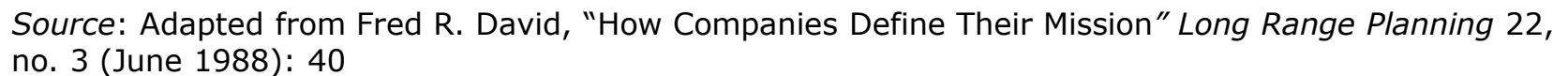
Every convenience brings its own inconvenience.

– Arab Saying

"To seize opportunities and overcome threats and difficulties, we have to actively confront changing conditions."

– Abdul Wahab Ben Naser Al Munthery, CEO, AlBatina Group, Oman

A Comprehensive Strategic-Management Model



External Assessment

- Environmental Scanning
- Industry Analysis

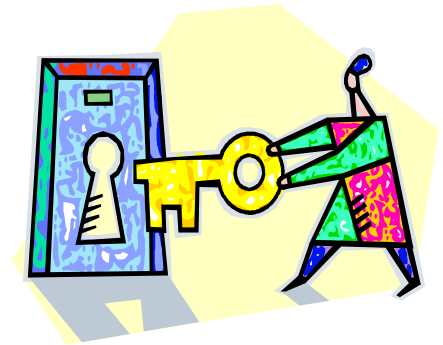
External Assessment

Identify & evaluate factors that are beyond the control of a single firm:

- Increased foreign competition
- Population shifts
- Aging society
- Fear of traveling
- Stock market volatility

External Assessment

The purpose of performing an external Assessment is to identify opportunities and threats.



External Assessment

Gather competitive intelligence and information:

- Economic
 - Social
 - Cultural
 - Demographic
 - Environmenta
 - Political
 - Governmental
 - Legal
 - Technological
 - Industry
- |

External Assessment

Sources of information include:

- Internet
- Libraries
- Suppliers
- Distributors
- Salespersons
- Customers
- Competitors

Performing External Assessment

Key Factors:

- Vary over time
- Vary by industry

Performing External Assessment Variables

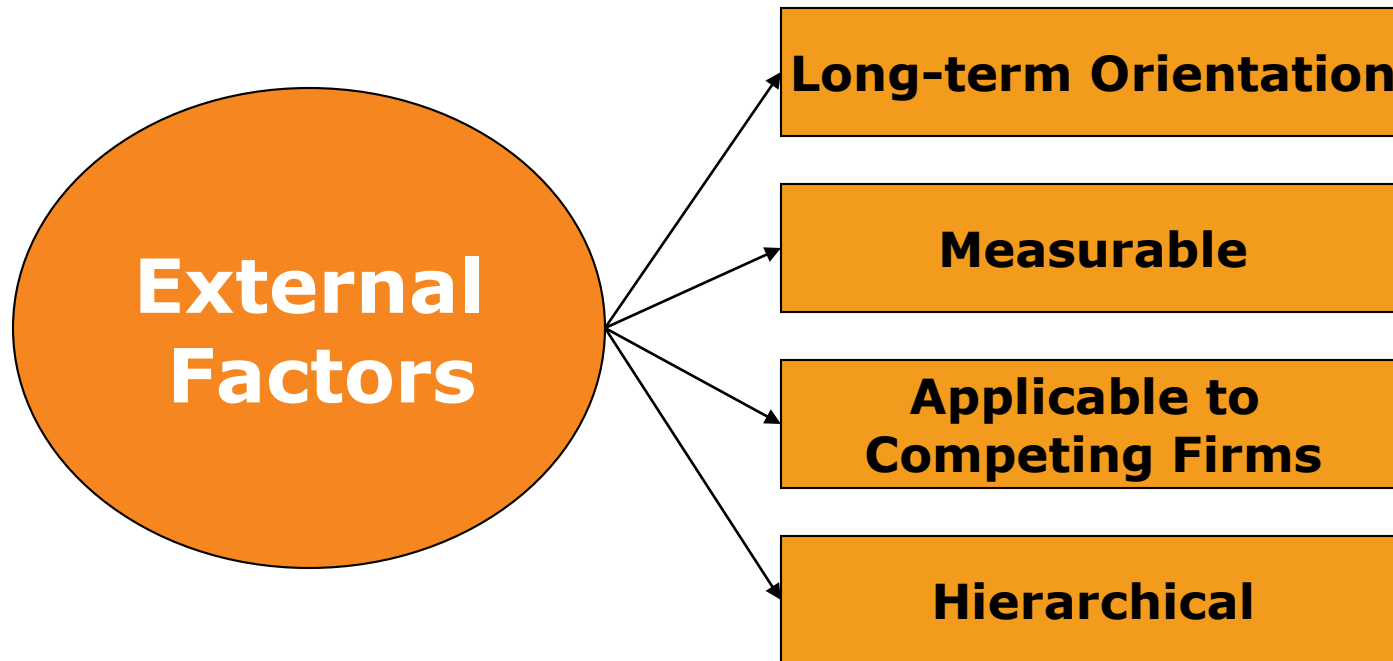
- Market share
- Breadth of competing products
- World economies
- Foreign affiliates
- Proprietary account advantages
- Price competitiveness

Performing External Assessment

Variables (cont'd)

- Interest rates
- Pollution abatement
 - Technological advancements
 - Population shifts
 - Interest rates
 - Pollution abatement

Performing External Assessment

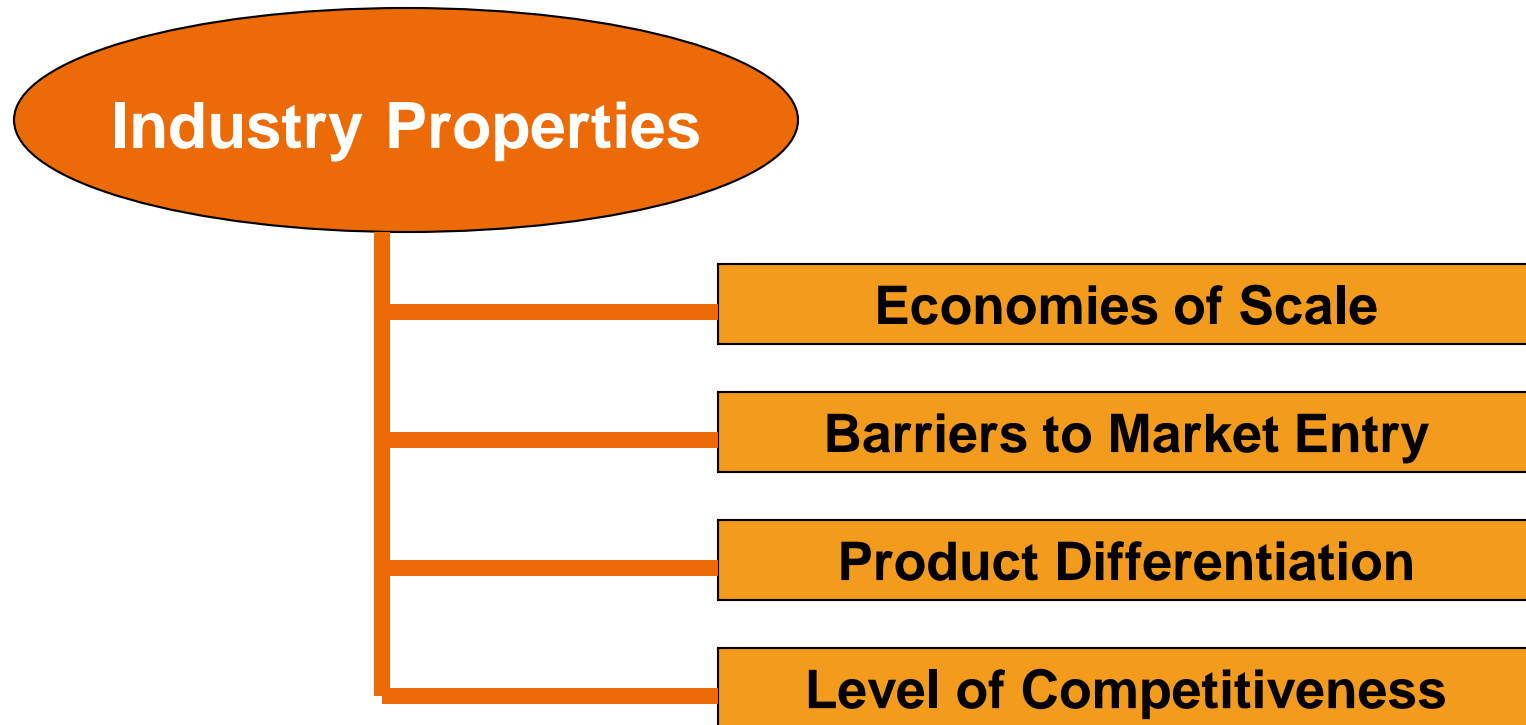


Industrial Organization (I/O) View

Industry factors are more important than internal factors as performance is determined by industry forces.

Research has found that approximately 20% of a firm's profitability can be explained by the industry, whereas 36% of the variance in profitability is attributed to the firm's internal factors.

I/O Perspective Firm Performance



Economic Forces

- Two-income households in the Arab world
- Uncertainties and fluctuations in oil prices
- Trends in the dollar's value
- High worldwide demand for oil
- Resource-poor, labor-abundant countries in the region

TABLE 3-1 Key Economic Variables to Be Monitored

| | |
|--|---|
| Fluctuations in oil prices | Import/export factors |
| Energy demand | Demand shifts for different categories of goods and services |
| Availability of credit | Income differences by countries and consumer groups in the region |
| Level of disposable income | Price fluctuations |
| Propensity of people to spend | Export of labor and capital from the Arab world |
| Interest rates | Monetary policies |
| Inflation rates | Fiscal policies |
| Money market rates | Tax rates |
| Government budget deficits | European Economic Community (EEC) policies |
| Trend in gross domestic product | Organization of Petroleum Exporting Countries (OPEC) policies |
| Consumption patterns | Coalitions of Lesser Developed Countries (LDC) policies |
| Unemployment trends | |
| Worker productivity levels | |
| Value of the dollar in world markets | |
| Stock-market trends | |
| Foreign countries' economic conditions | |
| Emerging economies | |

Social and Demographic Forces

Social and demographic forces have a major impact on:

- Products
- Services
- Markets
- Customers

Social and Demographic Forces

Arab World Facts

- High rate of birth
- Youth segment is one of the largest and fastest-growing
- 60 % of the population is under 25 years of age
- Life expectancy has advanced substantially
- Widening gap between rich & poor
- 2050 = 25% population > 60 years or older

TABLE 3-2 Population aged 60 years and older in Arab Countries in 2000 and 2050

| Population Aged 60 years and Older (% of total population) | | |
|--|------|------|
| Country or Territory | 2000 | 2050 |
| Algeria | 6.0 | 22.2 |
| Bahrain | 4.7 | 24.9 |
| Comoros | 4.2 | 12.2 |
| Djibouti | 5.5 | 5.8 |
| Egypt | 6.3 | 20.8 |
| Iraq | 4.6 | 15.1 |
| Jordan | 4.5 | 15.6 |
| Kuwait | 4.4 | 25.7 |
| Lebanon | 8.5 | 25.4 |
| Libyan Arab Jamahiriya | 5.5 | 21.1 |
| Mauritania | 4.7 | 8.9 |
| Morocco | 6.4 | 20.6 |
| Palestine | 4.9 | 9.9 |
| Oman | 4.2 | 10.5 |
| Qatar | 3.1 | 20.7 |
| Saudi Arabia | 4.8 | 12.9 |
| Somalia | 3.9 | 5.7 |
| Sudan | 5.5 | 14.4 |
| Syrian Arab Republic | 4.7 | 18.0 |
| Tunisia | 8.4 | 24.6 |
| UAE | 5.1 | 26.7 |
| Yemen | 3.6 | 5.3 |

Source: Based on *World Population Ageing 1950-2050* (United Nations, New York, 2002).

Social and Demographic Forces

Facts

- 2012 - World population approaching 7 billion
- 2012 – Arab world population 300 million
- 2050 - World population estimated 9 billion
- 2000 – Spending on domestic and international travel by Gulf nationals was estimated to total US\$34 billion

Social and Demographic Forces

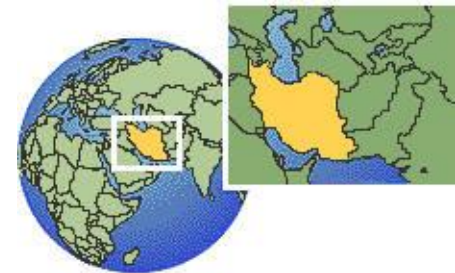
Trends in the Arab World

- More Arab households with people living in urban areas and away from the birthplaces of their parents or grandparents
- Increasing number of Arabs are entering colleges and universities
- Many Arabs are traveling abroad

Social and Demographic Forces

Global trends

- The world's longest-living people are the Japanese
- Japanese women living to 86.3 years and men living to 80.1 years on average



Natural Environment Perspective

Business Leaders and Climate Change

- Arab countries are among the most vulnerable in the world to the potential impacts of climate change
- The impacted areas:
 1. Water resources
 2. Sea-level rise
 3. Human health
 4. Food production
 5. Tourism
 6. Biodiversity
 7. Land-use and urban planning

Social and Demographic Forces

TABLE 3-4 Key Social, Cultural, Demographic, and Environmental Variables

| | |
|---|---|
| Childbearing rates | Attitudes toward retirement |
| Number of marriages | Attitudes toward leisure time |
| Number of divorces | Attitudes toward product quality |
| Number of domestic servants | Attitudes toward foreign workers |
| Number of births | Attitudes toward customer service |
| Number of deaths | Pollution control |
| Immigration and emigration rates | Attitudes toward foreign peoples |
| Social security programs | Energy conservation |
| Life expectancy rates | Social programs |
| Per-capita income | Religious affiliation |
| Location of retailing, manufacturing, and service businesses | Tribal affiliation |
| Attitudes toward business | Attitudes toward human security |
| Attitudes toward primary groups | Social responsibility |
| Attitudes toward birth control | Attitudes toward careers |
| Attitudes toward income inequality | Population changes by race, age, sex, and level of affluence |
| Lifestyles | Attitudes toward authority |
| Traffic congestion | Attitudes toward early marriage |
| Inner-city environments | Attitudes toward caring centers for senior citizens |
| Average disposable income | Population changes by city, county, state, region, and country |

Social and Demographic Forces

TABLE 3-4 Key Social, Cultural, Demographic, and Environmental Variables—continued

| | |
|-----------------------------|--|
| Trust in government | Attitudes toward nepotism |
| Attitudes toward government | Value placed on leisure time |
| Attitudes toward work | Regional changes in tastes and preferences |
| Buying habits | Number of women and minority workers |
| Ethical concerns | Number of high-school and college graduates by geographic area |
| Attitudes toward saving | Recycling |
| Domestic disputes | Waste management |
| Attitudes toward investing | Air pollution |
| Racial equality | Water pollution |
| Use of birth control | Ozone depletion |
| Average level of education | Endangered species |
| Government regulation | |

Political, Governmental, and Legal Forces

Government Regulation

Key opportunities & threats include:

- Antitrust legislation
- Tax rates
- Lobbying efforts
- Patent laws

Political, Governmental, and Legal Forces

Increasing Global Interdependence

Political variables impact:

- Formulation of competitive strategies
- Implementation of competitive strategies

Political, Governmental, and Legal Forces

Globalization of Industry

- Worldwide trend toward similar consumption patterns
- Global buyers and sellers
- E-commerce
- Technology for instant currency transfers

TABLE 3-3 **Some Political, Governmental, and Legal Variables**

| | |
|---|--|
| Government regulations or deregulations | Sino-Arab relationships |
| Changes in tax laws | Arab-American relationships |
| Special tariffs | Indian-Arab relationships |
| Political action committees | European-Arab relationships |
| Voter participation rates | African-Arab relationships |
| Number, severity, and location of government protests | Import–export regulations |
| Number of patents | Government fiscal and monetary policy changes |
| Changes in patent laws | Political conditions in foreign countries |
| Environmental protection laws | Special local, regional, and central government laws |
| Level of defense expenditures | Lobbying activities |
| Legislation on equal employment | Size of government budgets |
| Level of government subsidies | World oil, currency, and labor markets |
| Antitrust legislation | Location and severity of terrorist activities |
| | Local and national elections |

Technological Forces

Technological forces have a major impact:

- Internet
- Communications
- Electronics
- Aeronautics
- Pharmaceutical

Technological Forces

Roles related to Information Technology

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

Industry Forces

- Collecting and evaluating information on competitors is essential for successful strategy formulation.
- Competition on virtually all industries can be described as intense, and sometimes as cutthroat.

Industry Forces

Identifying Rival Firms

Need to look at:

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

Key Questions Concerning Competitors

- What are their strengths?
- What are their weaknesses?
- What are their objectives and strategies?
- What is their responses to external variables?
- What is their vulnerability to our alternative strategies?
- What is our vulnerability to strategic counterattack?
- What is our product/service positioning?

Key Questions Concerning Competitors (cont'd)

- Entry and exit of firms in the industry?
- What are the key factors for our current position in the industry?
- What are the sales/profit rankings of competitors over time?
- What is the nature of supplier & distributor relationships?
- What is the threat of substitute products/services?
- Should we keep our strategies secret from employees and stakeholders?

Industry Forces

7 Characteristics of Most Competitive U.S. Firms:

1. Market share matters
2. Understand what business you are in
3. Broke or not, fix it
4. Innovate or evaporate
5. Acquisition is essential to growth
6. People make a difference
7. No substitute for quality

The Five-Forces Model of Competition

FIGURE 3-3

The Five-Forces Model of Competition



Steps to Determine if an Acceptable Profit Can Be Earned

1. Identify key aspects or elements of each competitive force
2. Evaluate how strong and important each element is for the firm
3. Decide whether the collective strength of the elements is worth the firm entering or staying in the industry

The Five-Forces Model

Rivalry Among Competing Firms

- Most powerful of the five forces
- Focus on competitive advantage of strategies

The Five-Forces Model

Potential Entry of New Competitors

- Barriers to entry are important
- Quality, pricing, and marketing can overcome barriers

The Five-Forces Model

Potential Development of Substitute Products

- Pressures increase when consumers' switching costs decrease
- Firm's plans for increased capacity & market penetration

The Five-Forces Model

Bargaining Power of Suppliers

- Large number of suppliers & few substitutes affects intensity of competition
- Backward integration can gain control or ownership of suppliers

The Five-Forces Model

Bargaining Power of Consumers

- Customers concentrated or buying in volume affects intensity of competition
- Consumer power is higher where products are standard or undifferentiated

Conditions Where Consumers Gain Bargaining Power

- If they can inexpensively switch
- If they are particularly important
- If sellers are struggling in the face of falling consumer demand
- If they are informed about sellers' products, prices, and costs
- If they have discretion in whether and when they purchase the product

Operating Environment Forces

- Customers
- Creditors
- Suppliers
- Labor market
- Competitors

- In the Arab world, these forces are not generally identified and classified

Forecasting Tools and Techniques

Forecasts are educated assumptions about future trends and events

- Quantitative techniques (most appropriate when historical data is available and there is a constant relationship)
- Qualitative techniques

The Global Challenge

Challenges faced by Arab corporations:

- Gain & maintain exports to other nations
- Defend domestic markets against imported goods

Global Perspective

Shiotsu Autotrade Japan – President's Blog

- 49% of all trucks sold 2008 by Japanese truck makers were sold in export markets
- Japanese auto makers are focusing to capture larger shares of the Indian and Chinese car and truck market

The Global Challenge

Multinational Corporations (MNCs)

Simultaneously globally competitive & nationally responsive

The Global Challenge

Globalization

Is the worldwide integration of:

- Strategy formulation
- Strategy implementation
- Strategy evaluation

The Global Challenge

Globalization of Industries

- Similar consumption patterns
- Global buyers and sellers
- E-commerce
- Instant transmission of money & information

Industry Analysis: The External Factor Evaluation (EFE) Matrix

Summarize & Evaluate

| | | |
|----------|---------------------|---------------|
| Economic | Demographic | Governmental |
| Social | Environmental | Technological |
| Cultural | Political and legal | Competitive |

TABLE 3-8 EFE Matrix for a Local Ten-Theatre Cinema Complex

| Key External Factors | Weight | Rating | Weighted Score |
|---|-------------|--------|----------------|
| Opportunities | | | |
| 1. Deira District is growing 8% annually in population | 0.05 | 3 | 0.15 |
| 2. TDB University is expanding 6% annually | 0.08 | 4 | 0.32 |
| 3. Major competitor across town recently ceased operations | 0.08 | 3 | 0.24 |
| 4. Demand for going to cinema growing 10% annually | 0.07 | 2 | 0.14 |
| 5. Two new neighborhoods being developed within 3 miles | 0.09 | 1 | 0.09 |
| 6. Disposable income among citizens grew 5% in prior year | 0.06 | 3 | 0.18 |
| 7. Unemployment rate in county declined to 3.1% | 0.03 | 2 | 0.06 |
| Threats | | | |
| 8. Trend toward healthy eating eroding concession sales | 0.12 | 4 | 0.48 |
| 9. Demand for online movies and DVDs growing 10% annually | 0.06 | 2 | 0.12 |
| 10. Commercial property adjacent to cinemas for sale | 0.06 | 3 | 0.18 |
| 11. TDB University installing an on-campus movie theatre | 0.04 | 3 | 0.12 |
| 12. County and city property taxes increasing 25% this year | 0.08 | 2 | 0.16 |
| 13. Local religious groups object to R-rated movies being shown | 0.04 | 3 | 0.12 |
| 14. Movies rented from local Blockbuster store up 12% | 0.08 | 2 | 0.16 |
| 15. Movies rented last quarter from Time Warner up 15% | 0.06 | 1 | 0.06 |
| Total | 1.00 | | 2.58 |

Industry Analysis EFE

Total weighted score of 4.0

- Organization response is outstanding to threats and weaknesses

Total weighted score of 1.0

- Firm's strategies not capitalizing on opportunities or avoiding threats

Industry Analysis EFE

Important

Understanding the factors used in the EFE Matrix is more important than the actual weights and ratings assigned.

Industry Analysis: Competitive Profile Matrix (CPM)

Competitive Profile Matrix (CPM)

Identifies firm's major competitors and their strengths & weaknesses in relation to a sample firm's strategic positions.

TABLE 3-9 An Example of a CPM

| Critical Success Factors | Company 1 | | | Company 2 | | Company 3 | |
|--------------------------|-------------|--------|-------------|-----------|-------------|-----------|-------------|
| | Weight | Rating | Score | Rating | Score | Rating | Score |
| Advertising | 0.20 | 1 | 0.20 | 4 | 0.80 | 3 | 0.60 |
| Product Quality | 0.10 | 4 | 0.40 | 3 | 0.30 | 2 | 0.20 |
| Price Competitiveness | 0.10 | 3 | 0.30 | 2 | 0.20 | 4 | 0.40 |
| Management | 0.10 | 4 | 0.40 | 3 | 0.20 | 3 | 0.30 |
| Financial Position | 0.15 | 4 | 0.60 | 2 | 0.30 | 3 | 0.45 |
| Customer Loyalty | 0.10 | 4 | 0.40 | 3 | 0.30 | 2 | 0.20 |
| Global Expansion | 0.20 | 4 | 0.80 | 1 | 0.20 | 2 | 0.40 |
| Market Share | 0.05 | 1 | 0.05 | 4 | 0.20 | 3 | 0.15 |
| Total | 1.00 | | 3.15 | | 2.50 | | 2.70 |

Note: (1) The ratings values are as follows: 1=major weakness, 2=minor weakness, 3=minor strength, 4=major strength. (2) As indicated by the total weighted score of 2.50, Company 2 is weakest. (3) Only eight critical success factors are included for simplicity; this is too few in actuality.

Industry Analysis CPM

Important

Just because one firm receives a 3.2 rating and another receives a 2.8 rating, it does not follow that the first firm is 20 percent better than the second.

For Review (Chapter 3)

Key Terms & Concepts

**Chief Information Officer
(CIO)**

**Competitive Profile Matrix
(CPM)**

**Chief Technology Officer
(CTO)**

**Director of Competitive
Analysis**

Competitive Analysis

Environmental Scanning

**Competitive Intelligence
(CI)**

External Audit

For Review (Chapter 3)

Key Terms & Concepts

**External Factor Evaluation
Matrix (EFE)**

**Information Technology
(IT)**

External Forces

Internet

**Industry/Organizational
(I/O)**

Learning from Partner

Industry Analysis

Linear Regression

For Review (Chapter 3)

Key Terms & Concepts

Market Commonality

Resource Similarity

**Porter's Five Forces
Model**

Tax Harmonization

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