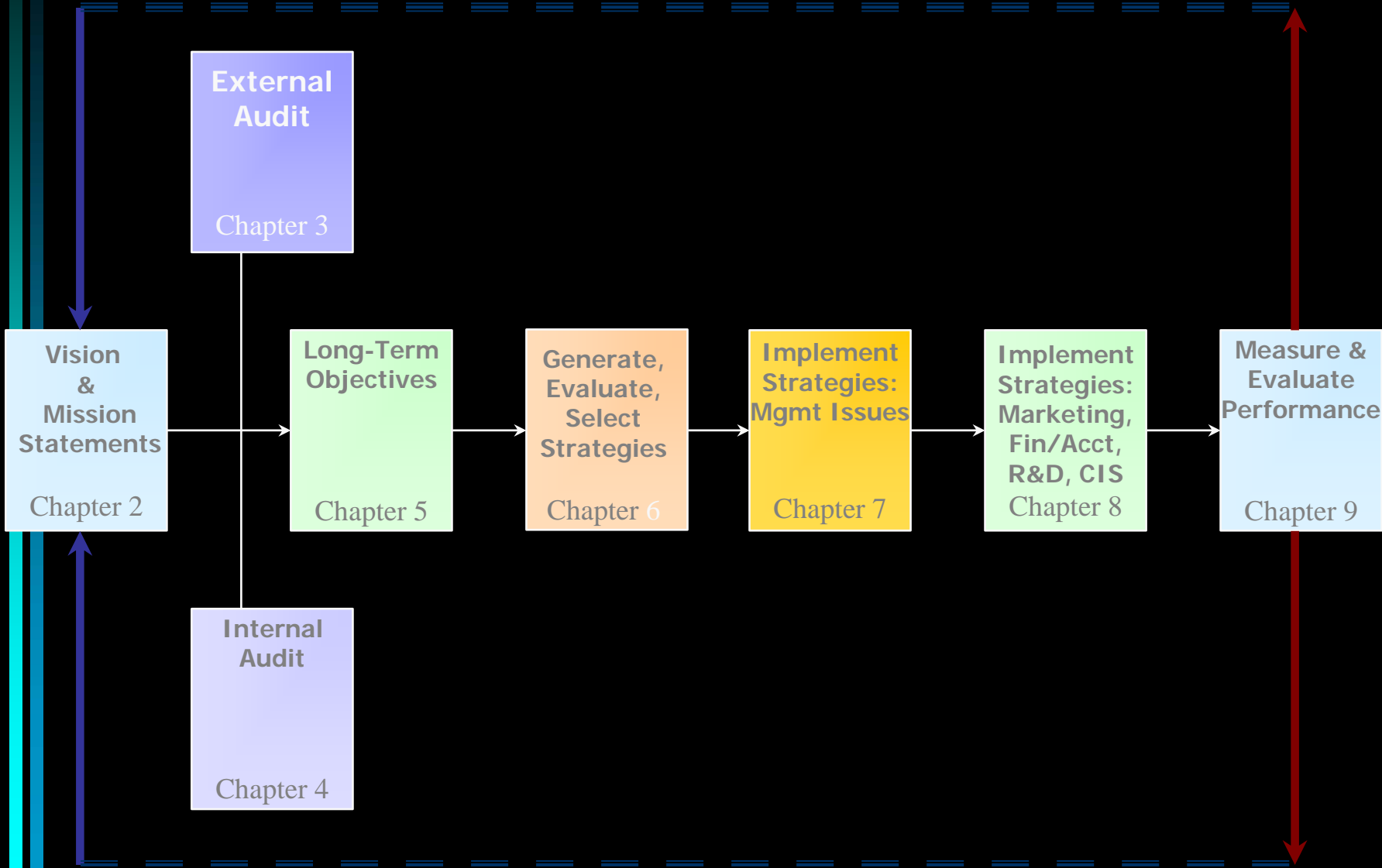


External Assessment

- *Chapter 3*



Comprehensive Strategic Management Model



External Assessment

“If you're not faster than your competitor, you're in a tenuous position, and if you're only half as fast, you're terminal.”

—George Salk—



External Assessment (Cont'd)

“The idea is to concentrate our strength against our competitor’s relative weakness.”

—Bruce Henderson—

External Assessment (Cont'd)

External Strategic-Management Audit

- *Industry analysis*
- *Environmental scanning*

External Assessment (Cont'd)

External audit:

Focuses on identifying & evaluating events beyond the immediate control of the firm

External Assessment (Cont'd)

External audit focuses on:

- ✓ Increased foreign competition
- ✓ Population shifts
- ✓ Demographics (e.g., aging population)
- ✓ Information technology

External Assessment (Cont'd)

External audit reveals:

- Key opportunities
- Key threats

Managers then formulate strategies:

- Take advantage of opportunities
- Avoid/reduce impact of threats

External Assessment (Cont'd)

Key External Forces

Five (5) broad categories:

- Economic forces
- Social, cultural, demographic, & environmental forces

External Assessment (Cont'd)

External Force Categories (Cont'd)

- Political, governmental, & legal forces
- Technological forces
- Competitive forces

External Assessment (Cont'd)

1. Economic
2. Social, Cultural etc.
3. Political, Legal etc.
4. Technological
5. Competitive

Competitors
Suppliers
Distributors
Creditors
Customers
Employees
Communities
Managers
Stockholders
Labor Unions
Special Interest Groups
Products
Services

Opportunities
&
Threats

External Assessment (Cont'd)

Process of External Audit:

- Involve as many managers & employees as possible
- Gather competitive intelligence
- Information about social, demographic, cultural, environmental, etc.
- Monitor sources of information (key magazines, articles, etc.)
- Utilization of Internet
- Suppliers, distributors, customers as sources of information

External Assessment (Cont'd)

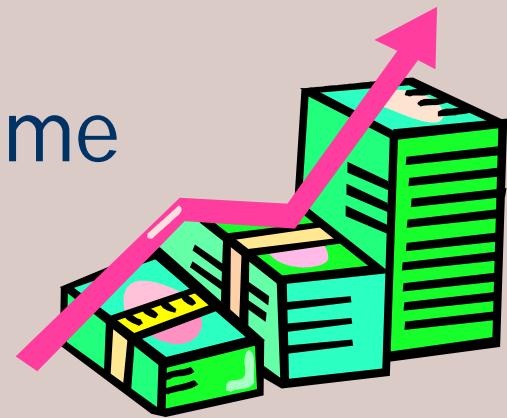
Examples of Key External Factors:

- Market share
- Breadth of competing products
- World economies
- Price competitiveness
- Technological advancements
- Interest rates

Economic Forces

Monitor Key Economic Variables:

- Availability of credit
- Level of disposable income
- Interest rates
- Inflation rates
- Federal government budget deficits
- Consumption patterns



Economic Forces (Cont'd)

Monitor Key Economic Variables: (Cont'd)

- Unemployment trends
- Worker productivity levels
- Stock market trends
- Foreign countries' economic conditions
- Income differences by region/customer
- Tax rates
- ECC policies
- OPEC policies

Social & Environmental Forces

- Social, cultural, demographic, and environmental changes:

Major impact on:

- Products
- Services
- Markets
- Customers

Social & Environmental Forces (Cont'd)

Country	1998	2050	% Increase
Asia	3.6 b	5.3 b	47.22
Africa	749 m	1.8 b	140.32
Latin America	504 m	809 m	60.52
Europe	628 m	729 m	16.08
North America	305 m	392 m	28.52
Oceania	30 m	46 m	53.33

Social & Environmental Forces (Cont'd)

Key social, cultural, demographic, & environmental variables: (Cont'd)

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

Social & Environmental Forces (Cont'd)

Key social, cultural, demographic, & environmental variables: (Cont'd)

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

Social & Environmental Forces (Cont'd)

Key social, cultural, demographic, & environmental variables: (Cont'd)

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

Political, Govt., & Legal Forces (Cont'd)

Increasing Global Interdependence

- Impact of political variables
 - Formulation of strategies
 - Implementation of strategies

Political, Govt., & Legal Forces (Cont'd)

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 (Cont'd)

- **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

Political, Govt., & Legal Forces (Cont'd)

- Key Political, govt., & legal variables: (Cont'd)
 - Environmental protection laws
 - Equal employment legislation
 - Level of government subsidies
 - Antitrust legislation/enforcement

Technological Forces

Technological Change

- Dramatic effect on business
 - Fiber optics
 - Computer engineering
 - Superconductivity advancements

Technological Forces (Cont'd)

Internet impact on opportunities & threats:

- Altering life cycles of products
- Increasing speed of distribution
- Creating new products & services
- Erasing limitations of traditional geographic markets

Technological Forces (Cont'd)

Internet impact on opportunities & threats: (Cont'd)

- Altering economies of scale
- Changing entry barriers
- Redefining relationships
 - Industries & suppliers, creditors, customers, and competitors

Technological Forces (Cont'd)

Capitalizing on Information Technology (IT)

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

Competitive Forces

External Audit & Competing Firms

- Identifying rival firms
 - Strengths
 - Weaknesses
 - Capabilities
 - Opportunities
 - Threats
 - Objectives
 - Strategies

Competitive Forces (Cont'd)

Competitor Information

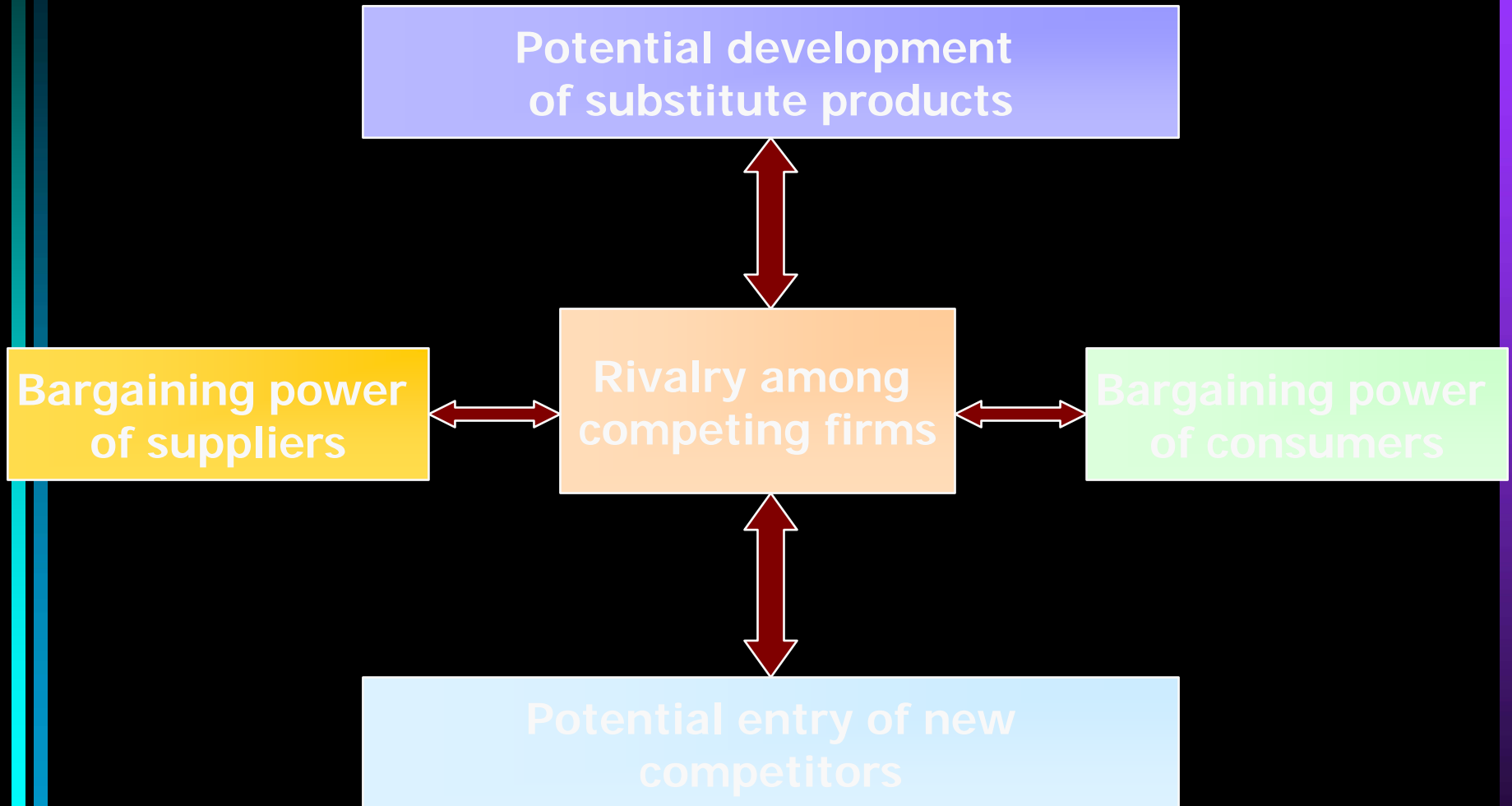
- Sources:
 - *Moody's Manuals*
 - *Standard Corporation Descriptions*
 - *Value Line Investment Surveys*
 - *Dun's Business Rankings*
 - *Standard & Poor's Industry Surveys*
 - *Industry Week*
 - *Forbes, Fortune, Business Week*

Competitive Forces (Cont'd)

Most competitive firms in America

- Seven Characteristics
 - Market share matters
 - Understand what business you are in
 - Broke or not, fix it
 - Innovate or evaporate
 - Acquisition is essential to growth
 - People make a difference
 - No substitute for quality

Competitive Analysis: Porter's Five-Forces Model



Global Challenge

Difficulties Facing MNCs

- Affect strategic management:
 - Language
 - Culture
 - Politics
 - Economy
 - Government interference
 - Labor relations
 - Trade barriers

Industry Analysis (EFE)

External Factor Evaluation Matrix

Summarize & evaluate:

Economic

Social

Cultural

Demographic

Environmental

Political

Governmental

Technological

Competitive

Industry Analysis (EFE) (Cont'd)

Five-Step process:

- List key external factors (10-20)
 - Opportunities & threats
- Assign weight to each (0 to 1.0)
 - Sum of all weights = 1.0
- Assign 1-4 rating to each factor
 - Firm's current strategies response to the factor

Industry Analysis (EFE) (Cont'd)

Five-step process:

- Multiply each factor's weight by its rating
 - Produces a weighted score
- Sum the weighted scores for each
 - Determines the total weighted score for the organization.
- Highest possible weighted score for the organization is 4.0; the lowest, 1.0. Average = 2.5

UST—Key External Factors <i>Opportunities</i>	Weight	Rating	Weighted score
Global markets untapped	.15	1	.15
Increased demand	.05	3	.15
Astronomical Internet growth	.05	1	.05
Pinkerton leader in discount market	.15	4	.60
More social pressure to quit smoking	.10	3	.30
<i>Threats</i>			
Legislation against the tobacco industry	.10	2	.20
Production limits on tobacco	.05	3	.15
Smokeless market SE region U.S.	.05	2	.10
Bad media exposure from FDA	.10	2	.20
Clinton Administration	.20	1	.20
TOTAL	1.00		2.10

Industry Analysis (EFE) (Cont'd)

Total weighted score of 4.0 =

Organization response is outstanding to threats & weaknesses

Total weighted score of 1.0 =

Firm's strategies not capitalizing on opportunities or avoiding threats

Industry Analysis (EFE) (Cont'd)

UST (in the previous example), has a total weighted score of 2.10 indicating that the firm is below average in its effort to pursue strategies that capitalize on external opportunities and avoid threats.

Important

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

Industry Analysis (CPM)

Competitive Profile Matrix

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

(CPM)

Avon

L'Oreal

Procter
& Gamble

Critical Success Factor	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	4	0.40	3	0.30
Price Competition	0.10	3	0.30	3	0.30	4	0.40
Management	0.10	4	0.40	3	0.30	3	0.30
Financial Position	0.15	4	0.60	3	0.45	3	0.45
Customer Loyalty	0.10	4	0.40	4	0.40	2	0.20
Global Expansion	0.20	4	0.80	2	0.40	2	0.40
Market Share	0.05	1	0.05	4	0.20	3	0.15
Total	1.00		3.15		3.25		2.80