CHAPTER 3: EXTERNAL ANALYSIS, ENVIRONMENT.

Concept.

The **Environment** (envirimint as Jordi Balleste and the professor say it) is everything that is external to the company, it has changes and is dynamic.

We use different methods to study **Porter Analysis, SWOT Analysis, PESTLE Analysis.**

Types.

There are two types:

a. **General:** Any factor that we cannot control but that has an influence on my firm. **Ex.:** Pandemic, recovery of the economy…
   - **PESTLE:** Is the analysis used in order to study the general environment.
   - **Can't be influenced:** Our company as an individual can NOT do anything to change the general environment.

b. **Industry:** When is the set of firms that are competing in the same market as well as anyone solving the same problem, now or in the future. Also, customers, suppliers. **Ex.:** All the competitors, potential competitors…
   - **Porter:** Is the analysis used in order to study the industry.
   - **Can be influenced:** Our company as an individual, if it has some competitive advantage or size can influence the Industry. **Ex.:** Destroying a competitor.

Note.

The SWOT analysis is also influence by the environment through the Opportunities and Threats, but it is actually used more for its internal study of the company.

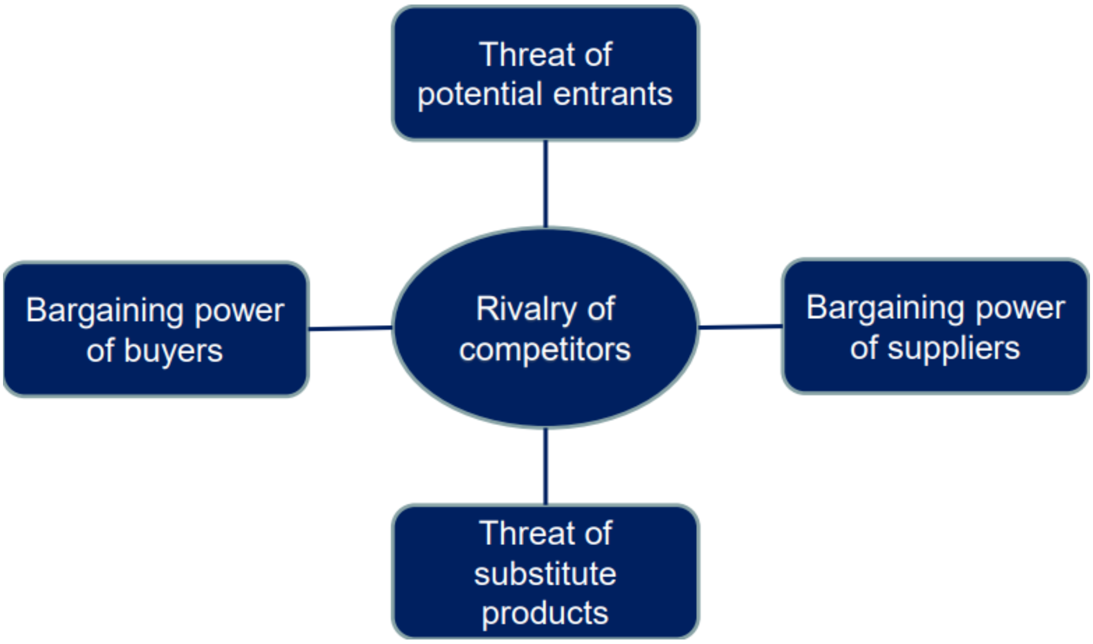
PESTLE Analysis.

- **Political:** Situation of politics in the country or ubication. **Ex.:** If there are socialist, more social cost are expected… (do not want to get political here).
- **Economic:** The tendency of the ubication's economy. **Ex.:** Increase in the demand and wealth of the country.
- **Society:** Level of intellectual and capacity of that society, as well as traditions and culture. **Ex.:** Muslim countries do not eat pork.
- **Technology:** Level of technology available in the country. **Ex.:** Kenya do not have the adequate equipment to manufacture rocket ships.
- **Legal:** Laws which rule the country where we are trying to stablish. **Ex.:** Social protection need to be given in Spain.
- **Environment:** Level of concern and policies towards the protection of the environment, green environment. **Ex.:** There is a limit of fish that can be capture by the Spanish fisherman in the European coast.

Porter's analysis.

The Porter's analysis is useful for any company which want to study a potential entry in another industry and want to know if its characteristics make worth it the investment or not. It is divided in **5 different parts.**

1. **Rivalry among Competitors.**
2. **Bargaining power of Customers.**
3. **Bargaining power of Suppliers.**
4. **Threats of potential Entrants.**
5. **Threats of substitute Products.**



Rivalry among Competitors.

We are one of the players (Matteo Tresserras definition in class), this area helps us define how much is the rivalry between competitors, if there is too many, it is not interesting for the company to invest in the industry. The rivalry depends on:

- **Number and size of competitors:** We need to know if there is an **oligopoly** or a **perfect competition.** Oligopoly would be the best in order for wars between competitors not to happen.
- **Industry growth and product life cycle:** In order to know if we are going to get any return and if we would need to fight to get a piece.
- **Type of product:** If we are a **differentiate** product, which would make it worth it for our company as we will sell thanks to our product characteristics, not out efficiency, as happens with the **commodity.**
- **Fixed cost and use of capacity:** How much is need it to invest in order to compete. Also the capacity need it for the investment to be worth.

Joke.

- Why don't they play poker in the jungle?
- Too many **cheetahs.**

Bargaining power of Customers.

The bargaining power is the power which determines **who sets the price.** If the power is for the customers, obviously it will not be worth for the company to enter that market. **Ex.:** Mercadona has the power over all of its suppliers, like ruffles. This power depends on:

- **Number and size of customers:** The less there are, the more power each will have over the company.
- **Group:** If the customers buy together, then they will have even a higher power.
- **Type of product:** If it is a **commodity**, there will be other products which will solve the solution in a similar way. If the product is **differential**, is going to be difficult.
- **Loyalty and switching cost:** When a customer is loyal, it can set the prices as the company needs them, but if they have **switching cost** to change to another company, then they have no power.
- **Upstream vertical integrates:** This happens when the customer can produce the product itself, so the original supplier can't stablish a huge price as it might be rentable for the seller to produce it itself. **Ex.:** The face mask can be produced at home.

Bargaining power of Suppliers.

The suppliers have the same characteristics of the customers with the difference that they should have the opposite result for us, the company studying, to be interested in the industry. As it is obvious, if they have the power, they will set the price.

Also, is crucial to know if there are any **substitute products** which could affect our solution.

- **Downstream vertical integrates:** We need to be careful that the supplier does not thing it needs us in order to sell to the final customer. It is the opposite of upstream. It is from the manufacture to the retail.

Threat of potential Entrants.

This section describes which are the barriers other entrants and ourselves will have to overcome in order to enter the industry.

- **Access to raw materials and distribution channels:** Sometimes the raw materials are limited and controlled, as well as the distribution channels, so if we can't reach them, it is not worth it. But if others can't reach them, it is worth it.
- **Resources or capabilities required:** The economic barriers as well as other barriers.
- **History of aggressive responses by incumbent companies:** This affects the history of how the companies react in front of new entrants or potential enters. Basically, the policies they stablish against others. **Ex.:** Lower the prices of oil so is not rentable for the USA companies.
- **First mover advantages:** Which are the advantages of being the first one in the market. If you are not first, you won't succeed. **Ex.:** Experience, costs, consumer loyalty…
- **Scale economies:** What is the minimum size need it in order to develop the activities.
- **Product differentiation:** If we have a differentiate product is going to be difficult for entrants to copy.
- **Government regulations:** Patents and laws.
- **Cost advantages:** This is linked with the scale economies.

Definition of attractive industry and non-attractive.

All the players are making money or otherwise if they are not making money. The industry will be attractive if there is no rivalry, no substitute, no barriers and low bargain powers from buyers and suppliers.

The Porters' analysis will help us to determine that as well as looking at:

Industry attractiveness.

- **Criterion to assess attractiveness:** Profits.
- **Financial Information:** If we do not have it available, do a Porter's analysis.
- **Entry or exit decisions:** Porter's analysis.
- **Unit of analysis:** Business line, not legal entry, study through Porter's analysis.

Key Success Factor (KSF).

It is applied to **industries** not firms.

We define it as the **necessary** and **sufficient** conditions for success in an industry. So, the criteria to either be a winner or a loser.

In order to know where we at now in respect to others we need a **competitive analysis.**

Competitive Analysis.

- Identify your **direct** and **indirect competitors.**
- Identify their **strategies** and **goals.**
- Identify their **managers believes** about the industry and the KFS need it.
- Identify their **resources** and **capabilities.**

Segmentation.

On the other part, we need to do a segmentation so we target the right customers.

- ✓ **Based on customers:** Those are the ones we need to target.
- ✓ **How many customers can we serve at once:** It depends on the KSF, resources, capabilities…
- ✓ **Can we move from one segment to another:** Yes or no.

Also we could target niches, which are fewer in customers, units and competitors, but with a higher willingness to pay and margin.

Strategy groups.

These are for groups of competitors with a similar positioning and strategy.

We could develop a **positioning map** in order to see if there is any quadrant where we could fit. As well as knowing if we can move from one quadrant to the other.

All this just to identify the situation in the industry and make decisions on it.

Vocabulary

Hybrid organizations: Companies which are solving a social problems at the same time they profit. The only way to success is to achieve the financial goal (profits) and the social goal (environmental crisis). **Ex.:** Patagonia, they need it to increase through other companies customers as they encourage theirs to buy less but in a higher quality (rising the willingness to pay and with that the price).

Switching Costs: It is the cost that a customer has to undergo in order to change from a company to another. It can be monetary cost or different. **Ex.:** The banks costs are obvious.

That is, it (One of the funniest I have seen).

CHAPTER 2 CHAPTER 4

https://youtu.be/inoSdkPsR1I