

Strategic Management for Competitive Advantage
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Lecture 03
Analysis of micro and macro environment - I

Welcome to the course, Strategic Management for Competitive Advantage. In the previous class, we covered module one, which is the Introduction to Strategic Management.

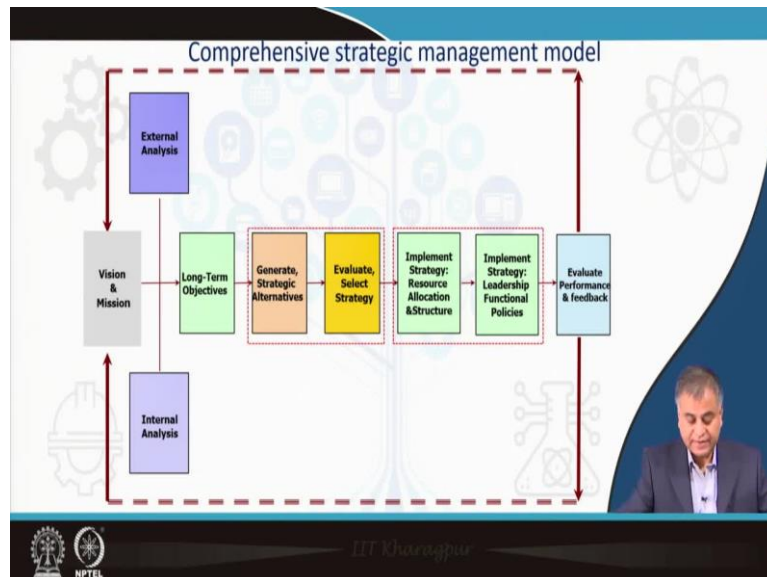
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Today we will be covering module 2, which is external environment analysis. So, we will be quickly going through it. The concepts that will be covered in today's lectures are as follows. We will be talking about, how to classify a firm's environment; then we will be going for the constituents of firms' macro environment, micro environment and relevant environment. You

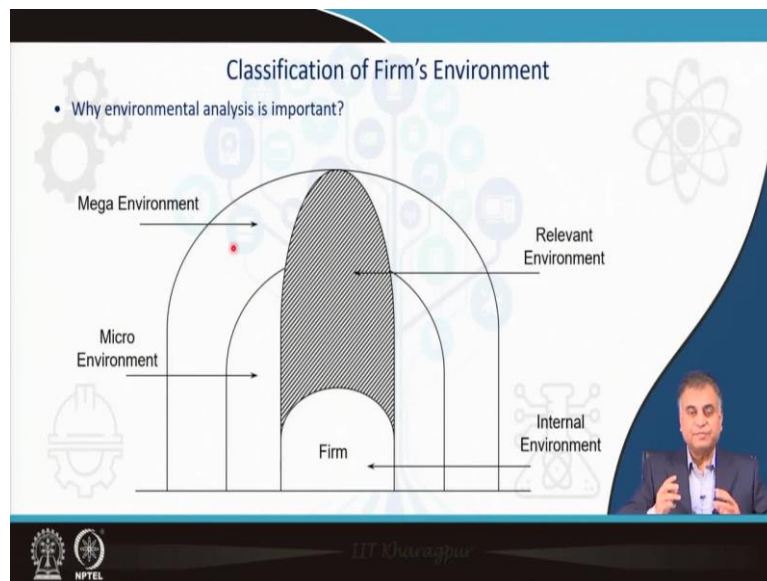
will also learn about PESTEL analysis, which is for the macro environment. To study the macro environment, we will also talk about some frameworks for assessing the impact of opportunities and threats that are pervasive in the external environment. We will be covering all these topics in today's lecture.

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To start with, all of you are very familiar with this diagram, which we have discussed in the previous lecture. All of you have seen the vision and mission statement that is given by the apex body of the organization. Based on that, we do situational analysis. One part of situational analysis is external analysis. Under external analysis, today we will be covering this box. Then subsequently we will be covering these different boxes as the course progresses. So, now, we will be doing this external environmental analysis.

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So, why do you need an environmental analysis and why it is so important? These are the basic questions that come to our minds. This is done because no organization operates in a vacuum, every organization exists within the external environment and its survival depends on the external environment.

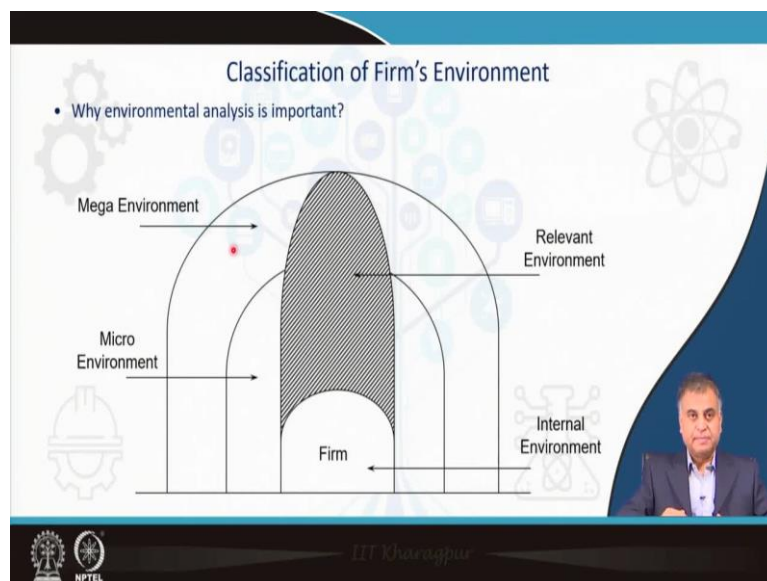
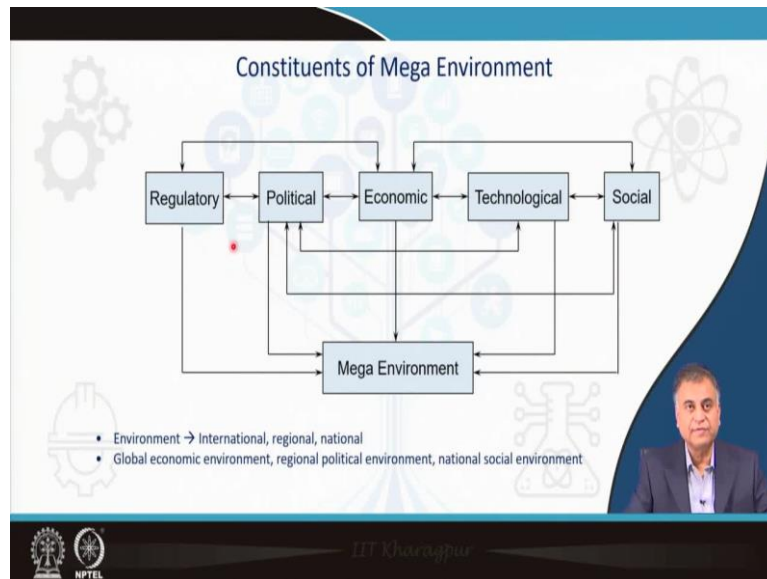
Therefore, to make a strategic plan, strategic objective or mission statement for an organization everything is dependent on this environment. Therefore, environmental analysis is required to identify the opportunities and the threats - organizations may face. So, if there is an opportunity, you try to grab that opportunity to get a competitive advantage and if there is a threat, you guard yourself against the threat i.e., from the risk. It is done in order to face an uncertain future in a better manner. So, this is why we need to identify opportunities and threats in the organization (and that's why we require environmental analysis).

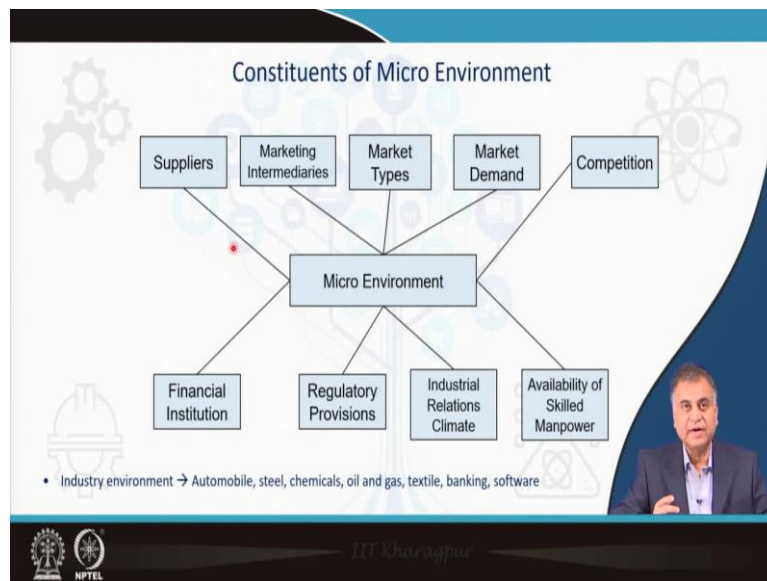
Now, (so), what do we study in this environmental analysis? So, a firm's environment can be classified as a mega environment, a micro environment and a relevant environment. Besides that, there is an internal environment of an organization. So, we will be discussing today all 3 components - mega environment, micro environment and relevant environment. What are mega? First, we go for the mega environment, what is the mega environment?

External mega environments are such as, say, political environment of the country or of the region, the economic environment, the social environment, the technological environment, and the regulatory environment, all of these affect organizations and this mega environment is generally required for long run. This trend of mega environments is particularly important

to the corporate strategists to know the long-term implications of their business and their industry. Soon I will be coming to what are the different constituents of the mega environment.

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So, these are the constituents of the mega environment i.e., economic, political, social, technological and regulatory. Anyway, I will be coming to it later on. First, we talk about what is a micro environment? Micro environment, in other words, economists term it as industry environment, it also has many constituents, those constituents are the suppliers, your marketing intermediaries, market types, market demand, competition, availability of skilled manpower, industrial relations, industrial relation climate, regulatory provision, financial institution. We will discuss it in detail after some time. These micro environments are usually the industry environment like it may be automobile industry, steel industry, chemical industry, software industry, banking industry, then chemical industry, oil and gas industry, or textile industry.

So, these have a specific environment. The micro environment deals considerably with the current situation, and current business positions. So, the micro environment attracts most of the top management time because it is the current businesses and all. So, it attracts much attention from the top management.

Now going to the relevant environment, what is the relevant environment? A relevant environment is like a company is a part of this mega environment which is huge, and no single firm, no single organization is affected by all the components of the mega environment. It may happen, they will take particular issues, one company cannot take the opportunities or threats for the entire mega environment or entire micro environment.

So, they will pick up their particular specific issues or a specific part. So, you can see - this is relevant environment, it is a part of the mega environment which is specific to that

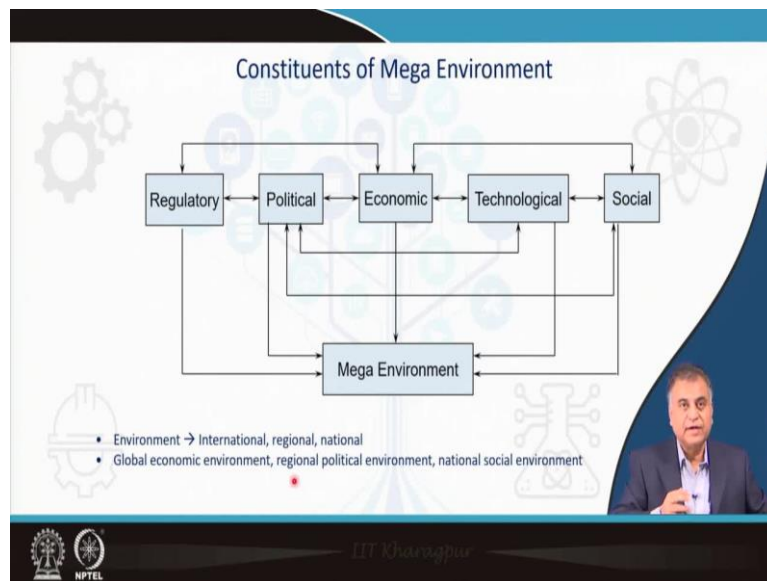
organization. Similarly, the relevant environment is part of some micro environments of their industry. Now, take the case of diversified organizations such as ITC and Reliance. ITC is in which business? They have a diversified business portfolio like they are in the tobacco, they are in paper and pulp business, they are in the hospitality business i.e., hotel chains, they are in FMCG or the food industry business. So, these are the different industry sectors.

So, when the ITC top management is going to make a corporate strategy what they will consider? They have to consider these different micro environments like these different industry environments where it is hospitality, hotel, FMCG, tobacco, paper and pulp, then it may be food.

So, among all these combinations, ITC will pick up certain portions of these industries which are pertinent to them. That is why it is a relevant environment. Similar is the case of Reliance, Reliance has a diversified portfolio of businesses like it is in oil and gas, it is in upstream, it is in Downstream, it is in petrochemicals, and then it is in Reliance Jio i.e., telecommunication, then Reliance retails, Reliance Infrastructure. So, these are in different industries and microenvironments.

So, for a corporate strategy of reliance, what will the top management do? They will take the pertinent environment that is the relevant environment. Besides that, we have these firms' internal environments, which we will be covering in the next modules. These are the classifications of firms' environments.

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Now, we will be going for the constituents of this mega environment. We have already talked about these components, now, which (one) component do you think has the most powerful impact on an organization and is most powerful in the pattern that moves very fast and which one moves very slowly?

So, with this, you can find that technology moves very fast, very rapid and its impact is very deep. Technology can provide new businesses and new opportunities. It has a very powerful impact on generating new opportunities for organizations. Also at the same time, it reduces opportunities i.e., if you cannot modernize or adapt to itself. If a country does not have the technological infrastructure, say, internet connectivity, transportation, communication and the computer infrastructure, capable people.

So, if these things are not there, then you cannot expect your business climate to improve that way. You have seen in the recent past like in 80s the computerization took place in many sectors, before that it was all manual system. So, when computer came if you see the banking industry has changed from manual to computerized

Nowadays, you do not have to visit the bank, you can get your money transferred, you can take your money sitting at home with Internet Banking. Again, you can go to the ATM to withdraw the cash. No one visits the bank nowadays for these purposes. Similarly, when Internet came in late 1990s, it has changed the landscape of the business.

There are so many opportunities that have come and it moved so fast. Nowadays SAP is performing many ERP applications. All these things are creating new opportunities. Now, if

these opportunities an organization cannot foresee or if they cannot modernize themselves to get it, they obliterate. It reduces opportunities for some people like if you see, textile industries in the 80s you will find those textile mills mostly located in western India i.e., Gujarat, Maharashtra where lakhs of laborers used to work. But they could not keep up with the modernization and these mills specifically these textile industries had shrunk. So, these are the importance of technological trends.

Then the social trends, social things move very slowly, it cannot change overnight or within a year or two, it takes time. What are the components of these social trends? The components of social trends are the population, belief, culture, attitude, ethical standards, demographic population, and demography. If there are a greater number of young people it can lead to an increase in products and opportunities. So, these are social, which we will come up later on followed by the economic constituents of the mega environment.

This economic constituent is the country's economic robustness, and strength, which is measured, as what is the GDP of the country? What is the GDP growth rate of the country? What is the purchasing power? What is the per capita income of the population and what is the growth rate of per capita income? What is the monetary system? Whether it is an export or import-oriented economy? What is the balance of payment? What is the wholesale price index? How it is moving? What is the consumer price index? How it is moving? What is the inflation rate? All these things determine the economic trends of the country, which is a part of the mega environment.

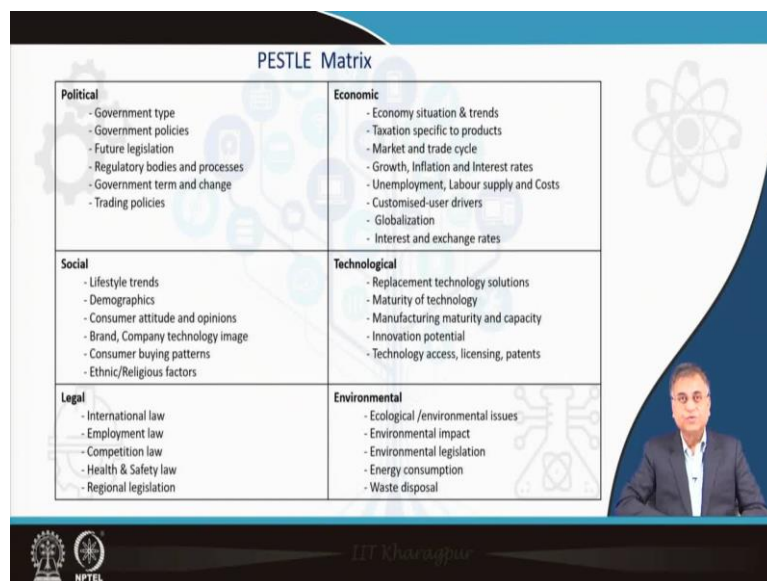
Then comes the political environment, every business grows in a stable political system. If a country does not have political stability, no one would prefer to invest there, because when people are investing in a business, they want stability, they want long-term growth, long-term return on their investment. So, they first look at political stability and if it is a democratic country likelihood of stability increases. Whereas if the country is run by a dictator or with some vested interest the likelihood of revolution or instability may be higher.

So, businessmen will be shaky to invest there. So, it also shows political stability determines industries' long-term trends and implications. Another one is the regulatory; regulatory is like what are the rules, regulations, laws, and employment. What is the employment law? Some countries prefer that you have to give the job to the son of the soil. What is the pollution law? Whether it is very stringent or not? What are the labor laws? How are financial institutions like SEBI and all those organizations act? These also determine the part of the constituent

mega environment. The mega environment can also be classified as international environment, regional environment or national environment.

The international environment like the global economic environment, regional, regional political environment, and national social environment can also be classified in three ways. So, these are all for the constituents of the mega environment. In essence, mega environments are important for the corporate strategist to see the long-term implications of the business in that country or in that region. So, these are all for the constituents of the mega environment.

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Now, we will be coming to the Pestle matrix. Pestle stands for political, environmental, social, technological, legal, economic and environmental. So, PESTLE metrics namely, political factors that I have already discussed (previously). Again, I will go for these, just for illustrations, what are the government type, government policies, future of legislations, governance terms and changes, and trading policies.

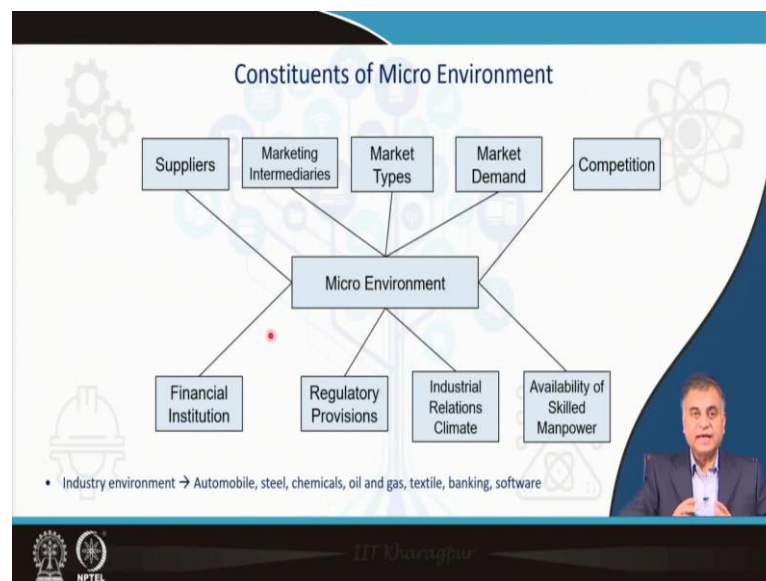
So, these are some of the political facts that are considered. Similarly, under economic factors, we have economic situations and trends, tax-specific corporation products, market and trade cycle, growth, inflation, interest rates, unemployment, labour supply and costs, globalization, customer user drivers, and interest and exchange rates. Similarly, social, which we have already talked about moves very slowly, and some of the parameters are lifestyle trends, demographic, consumer attitudes and opinions, brand, company technology and images, consumer buying patterns, and ethnic and religious factors.

Similarly, technology, which we have already discussed, moves very fast and has the highest, very swift impact. There are - replacement of technology solutions, maturity of technology, technology infrastructure, invention potential, and technological access. All these are some of the technological factors.

Then legal is the international law, employment law, environmental law, competition law, health and safety law, and regional legislation. Every company is bound (by it) for legal compliances. The environmental factors are ecological and environmental issues, environmental impact, environmental legislation, energy consumption, waste disposal, and determining any stringent or laxity.

So, you see these are some of the factors indicated, those are generally considered for PESTLE Matrix. Now, note that many of these factors may be overlapping like socio-political, economic-legal, environmental-legal, and social-economic. So, whichever is appropriate, you do it accordingly, as per the need of your organization or the industry because this mega trend will help you to have a long-term strategic direction.

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Now, we will be coming to, what are the constituents of the micro environment. So, as we have already talked about micro environments are pertaining to different industries - the industry environment. Under this industry environment, we talked about the automobile industry, steel industry, chemical industry, and oil and gas industry. Every industry has its own specific environment, opportunities, threats and all you have to look for it.

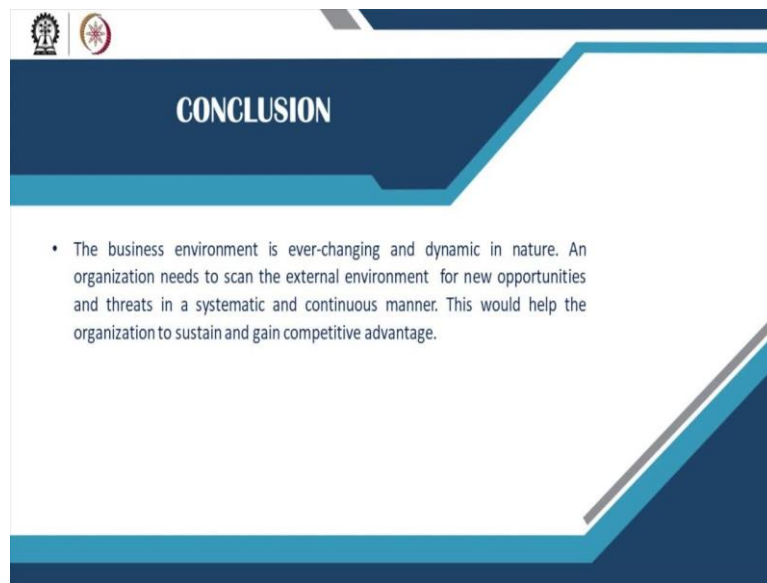
Now, what are the components of micro environment? Suppliers? Who are the suppliers? Suppliers are the raw material suppliers, component suppliers, spare parts suppliers, specialized services, supply of the expert, supply of fuel, electricity, utility and others. You also know the importance of suppliers in an industry. When you are working, you will be knowing whether there are too many suppliers or few suppliers, too many suppliers mean you can have better choices and can have an upper hand, whereas if you have only few suppliers or sole supplier, then you are vulnerable and cannot dictate terms, quality or the price and all. So, this is the importance of suppliers.

Then, come to the marketing intermediaries, what are the marketing intermediaries? Marketing intermediaries are actually the distribution channels. It includes transporters or logistics providers or it may be an advertising agency, market research agencies, or market intelligence agencies. These are the market intermediaries or the middlemen.

With the improvement of technology and B2B business, the roles of intermediaries are shrinking day-by-day. So, nowadays an organization directly can outsource or can contact other businesses-providers or other organizations. So, the role of these marketing intermediaries is shrinking nowadays. The research firms are now also the marketing intermediaries.

Now, there are market types, what are the different market types? Different market types say it may be the consumer market, industrial market, institutional market, foreign or international market, or reseller's market. We will discuss it furthermore in the next lecture.

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So, to summarize today's lecture, what we have seen is that business environment is dynamic and ever changing. So, naturally, organizations need to continuously scan the external environment for finding out new opportunities and threats, and this has to be done in a systematic and continuous manner. And following this, organizations will be in an advantageous position to gain and sustain competitive advantage. Now, we just started the micro environment and we will be further going for this micro environment in the next lecture. Thank you very much.