

Strategic Management for Competitive Advantage
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Lecture 04
Analysis of micro and macro environment - 2

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The slide is a title slide for an NPTEL online certification course. It features a blue and white color scheme with geometric shapes. At the top, there are two logos: the Indian Institute of Technology Kharagpur logo and the NPTEL logo. Below the logos, the text reads "NPTEL ONLINE CERTIFICATION COURSES". The main title is "Strategic Management for Competitive Advantage" by Prof. Sanjib Chowdhury, Vinod Gupta School of Management, IIT KHARAGPUR. The module is "Module 02: External Environmental Analysis" and the lecture is "Lecture 04 : Analysis of micro and macro environment - II".

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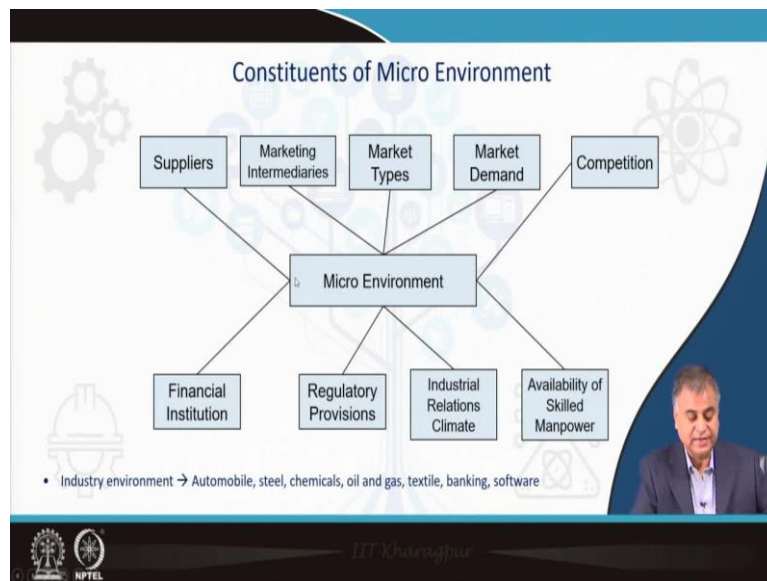
Module 02: External Environmental Analysis
Lecture 04 : Analysis of micro and macro environment - II

CONCEPTS COVERED

- Classification of Firm's environment
- Constituents of Firm's macro, micro and relevant environment
- PESTLE analysis
- Framework for assessing impact of opportunities and threats

Welcome to lecture 4. So, in the previous class, we discussed external environment analysis. So, in continuation, today we will be doing part two of this external environmental analysis. What we have done last time? You know - discussed all these classifications of the firm's environment (macro). Now, we will be doing constituents of the firm's micro environment. We will also talk about the framework for assessing the impact of opportunities and threats in this class.

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So, to start with, we were covering this slide - which are constituents of the micro environment, in the last class. We have completed the 'suppliers', and 'marketing intermediaries' and just started what are the different market types? So, in different market types, we talked about the consumer market. What is consumer market? The consumer market is the individual buyers and household buyers. So, these are the consumer market i.e., B2C.

So, there may be an industrial market like organizations buying products from some other organizations. Those are the industrial market like Maruti, Honda car making companies may buy tires from the tire making company say JK tire, Apollo tire, MRF. So, this business from organization to organization is called an industrial type market.

There may be the institutional market like some organizational buyers can buy for their own use, as well can also sell it to others. So, these other companies or parties are called the institutional market. Then there is an international market, an international market is where buyers are foreigners i.e., foreign buyers. So, these are the international market. Then there are resellers markets, under the resellers market, the organizations may buy and can resell those products.

So, these are the different market types available in the micro environment. Thereafter, another constituent of the microenvironment is 'market demand'. Market demand is a very big subject, it is a subject by itself, it involves demand fluctuations, how to forecast the correct demand, how to regulate or smoothen the fluctuations of demand etc.

So, in this market demand, what do we look at? We look at 3 aspects, one is the quantum of the demand. What does the quantum of the demand mean? It is your total aggregated demand, into (multiply) the unit price that gives - volume into (multiply) the price, which will give you the quantum. Then another one is the behavior of the demand. The behavior of the demand is the trend of the demand.

The demand may be cyclic demand, seasonal demand, and steady demand. Different products and industries have different types of demand. So, it is important to know the market demand pertaining to your industry and to your sector.

Then another one is the competition. What is this competition? That means the competitors' analysis. This itself is a big chapter we will be covering this competition or the competitors' analysis in the next module. The constituents of the micro environment are the availability of skilled labor. Certain types of industries prosper in certain areas due to the availability of skilled manpower.

Take the case of Jaipur, Jaipur is very famous for its handicrafts, fabrics, jewelry, and paintings. All these things are possible because they have the skilled manpower to do this. That is why those (handicrafts) are thriving there. Similarly, if you see Bangalore, Pune, and Hyderabad, software industries are thriving, because they have skilled technological staff, skilled manpower, and English-speaking people who can be absorbed in the software industries, are readily available there. Similarly, if you see say Agra, it is skilled manpower for shoes and upper soles. So, these are the different types of skilled manpower available in different regions and have prospered for it.

Similarly, another micro environment constituent is the industrial relations climate - these climates make or break a business. Like in Gujarat, Tamil Nadu, and Karnataka, the growth rate of industrial businesses is thriving since they have conducive industrial relations climate. On the contrary, if you see some of the states like West Bengal and Kerala, industries are not thriving that much because of it is poor industrial relations climate.

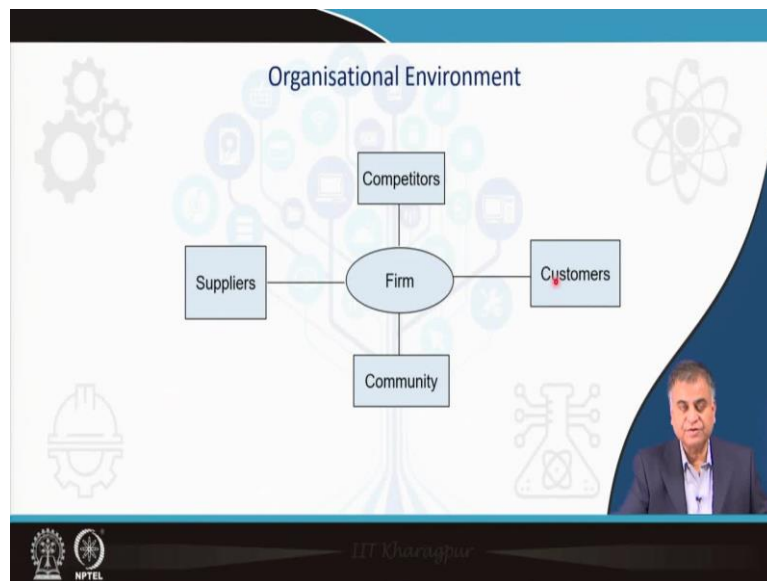
In fact, in the late 1960s, West Bengal was one of the leading industrial states, but hostile industrial relations have contributed to the flight of industries, flight of capital from that state. So, it has a declining state of affairs as far as industry is concerned. So, industrial relations can make or break industries' growth.

Then, other things are regulatory provisions; these regulatory provisions are said Special Economic Zone (SEZ). There are SEZs in different parts of the country. So, it boosts the business and investment in those areas. The government sometimes encourage giving tax holiday in certain remote areas so as to improve the industries' presence there. So, some areas are tax haven. In order to attract investments, many regulatory provisions can be introduced.

The last one is the financial climate or financial institution. This is like some government or local government or the country's government may give easy provision for an easy term loan, and financial assistance for working capital. The provision may take other forms like tax incentives and all. So, these are the role played by the government in giving a conducive or encouraging financial climate. All these are the constituents of the micro environment of a particular industry.

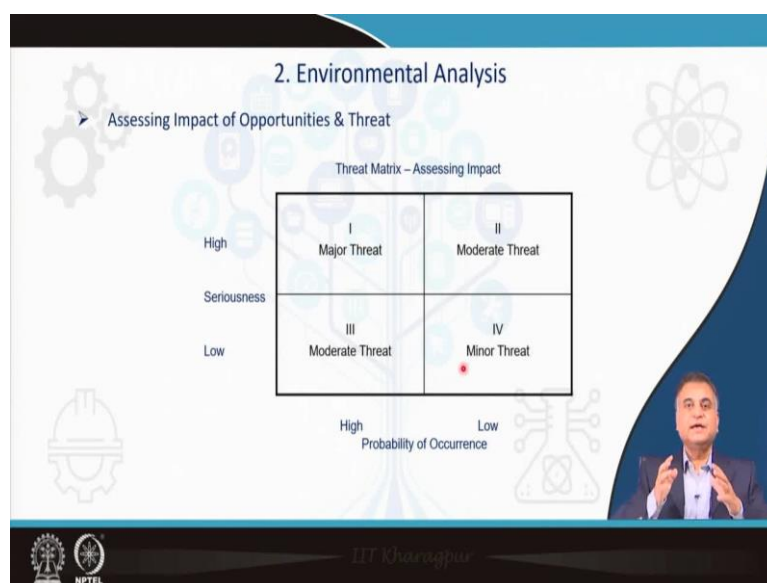
So, these have a considerable impact on the current business of the organization. This is all about the micro environment. Now, we have talked about the mega environment, we have talked about the micro environment and also we have talked about the relevant environment.

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Now, after doing all these constituents of mega environment, micro environment and relevant environment, then there is - organizations environment. What is an organization environment? These are the constituents of firm's immediate interface i.e., their suppliers, the customers and the competitors. Your competitors may be sometimes your complementors and also be your competitors. Constituent of organizational environment also includes the community i.e., where the firm is situated, whom you are serving. So, these are the firm's organizational environments, in which they operate, which we will be talking about more during the internal corporate analysis.

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Thereafter, after knowing all these, as a strategist, you have done the analysis of the mega environment, you have done the analysis of the micro environment, and you have done the relevant environment analysis. What do you do after this? What do you do after knowing all these? You have to assess. You first have to identify what are your opportunities, what are your threats, and then you have to assess the impact of the opportunities or the impact of your threat. Unless you assess that, you are not doing much of the work after that environmental scanning. So, for that, you require a systematic way of going forward.

So, you require a framework to assess the impact of the threat or assess the impact of the opportunities. So, I am showing you an illustrative framework - this is just an illustrative and you have to prepare your own industry's assessment framework, it is just an indicative one. So, here you can see it is a 2 by 2 matrix like one side of the metrics is the probability of occurrence (of the happening) and if it happens, what is the impact. Suppose this is a threat metrics, what we are doing, we are assessing the impact of the threat metrics. So, we divide the impact into high impact, and low impact and the probability of happening that may be high or may be low. So, if it is a high probability and high impact, it is a major threat for your organization and if it is low impact, low probability of occurrence, it is a minor threat.

So, if the probability of occurrence is moderate and the probability of occurrence is low, but the impact is high, it is a moderate threat. Similarly, low impact and high probability is also moderate threat. So, you have to place the identified threat in one of these quadrants where it fits depending on your judgment and on your experience, because you know what is best suited for your organization's industry types, what are the threats, what are opportunities, and you are the best person to judge that. So, you place it in one of the quadrants and proceed.

So, suppose take the case of the steel industry or processing industry or aluminum industry, which consumes huge power or electricity and requires a continuous supply of electricity. Suppose, if you are going to construct your steel industry or steel plant or aluminum plant or heavy engineering plant in an area where uninterrupted power supply is not there, followed by frequent power cuts and higher electricity costs.

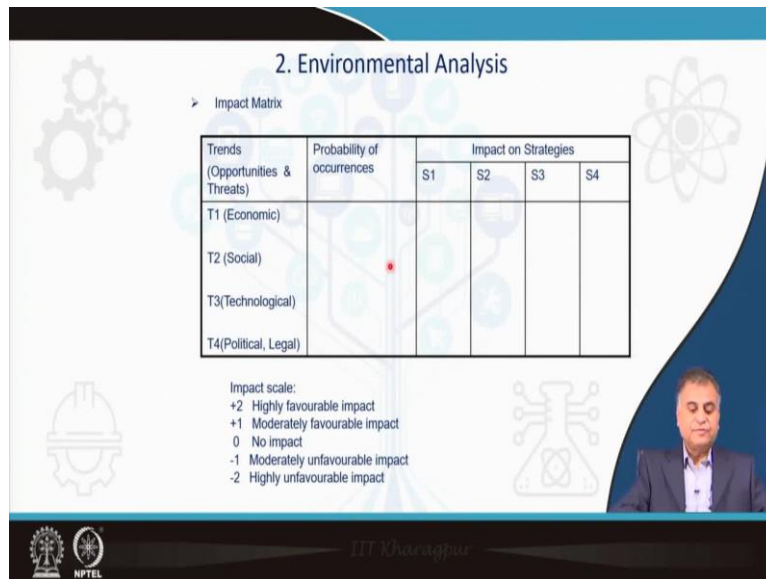
So, in those regions, if you set up a plant, it is a major threat. So, for backup or an alternative, what you will do? You may go for a captive power plant or you may say, this region is not suitable for a steel plant or aluminum plant. So, it may be a major threat there. Similarly, for any industry say for handicraft industry or the small-scale industries, there you may not require that power supply in a very continuous way. So, for them, it will be a minor threat.

So, those industries can thrive in those areas. So, this way you assess the impact of the threat. In a similar way, you can go for the opportunity matrix, here also you have a 2 by 2 matrix, and you assess the impact of the opportunity and probability of occurrence, opportunity is attractiveness. Like if you have a high attractiveness, high impact and high probability of occurrence this will be very attractive, and, with low probability and low attractiveness, it will be less attractive these two are similar and moderately attractive.

Now take the case of Toyota or any other reputed automobile company say Maruti. Toyota is in the commercial vehicle manufacturing segment like they have the sedan, high-end luxury car, and economic car and they are very competent, similarly is Maruti. Now, if the Toyota or the Maruti management think they should go for a passenger car or the trucks and buses. So, for them, it may be an attractive proposition because they have the related skills, and technical skills, have related marketing experience and hence it may be an attractive business to them.

Similarly, suppose an IT company, if they are going for new software development and related IT enable services, which may be an attractive proposition or business for them. Again, the IT Company may go for IT-enabled services businesses. So, you assess and put your proposed business in one of the quadrants accordingly you judge and assess the impact of those opportunities. So, this way you can find out the impact of the opportunities. These are just some frameworks, these are just indicative ones, you have to develop your own framework pertaining to your industry and that way you can assess your opportunity and the threat impact. Now, we have done the assessment of the impact of opportunities and threats.

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2. Environmental Analysis

➤ Impact Matrix

Trends (Opportunities & Threats)	Probability of occurrences	Impact on Strategies			
		S1	S2	S3	S4
T1 (Economic)					
T2 (Social)					
T3 (Technological)					
T4 (Political, Legal)					

Impact scale:
+2 Highly favourable impact
+1 Moderately favourable impact
0 No impact
-1 Moderately unfavourable impact
-2 Highly unfavourable impact

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Now, I will show one more thing, this is also an impact matrix. What is this impact matrix? This is another framework, you can find these are the trends i.e., opportunities and threats are the trends. T1, T2, T3, and T4 are nothing but mega-environment trends. We have seen the mega environment constituents i.e., economic, social, technological, political and legal. So, looking at these trends, how will these impact your organization's strategies? Suppose if your organization have a number of strategies S1, S2, S3, and S4 and suppose S1 may be your production strategy, it may be your operation strategy, it may be your supply chain management strategy, your logistics strategy, and your marketing strategy, these are the different strategies.

Now, you are finding the impact metrics. So, you have to read this impact, say the trend of economic one and for that you have a 5-point scale, say plus 2 is the highly favorite impact and minus 2 is highly unfavorable impact. Similarly, plus 1 is moderately favorable impact, minus 1 is moderately unfavorable impact and 0 is no impact. So, you read the impact of each of these trends also you have to assign that probability of occurrences and fill up this probability of occurrences for economic trend, social trend, technological trend and all.

With this, you can evaluate different strategies, and how they will impact your different strategies, you rate them and come to a composite figure of economic trends, social trends, and technological trends and how they will impact your strategy. So, these ways you can find out the impact metrics and develop for your organization. These are indicators that you can do it in your own way. This is called finding out the impact metrics for your mega trends and different trends that can impact your strategies. Now, we will move to the next slide. After

doing all these trends and finding out the impact, as a strategy how you will do it? You have to get the information.

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2. Environmental Analysis

Some useful Sources of Information on Indian Business Environment

- Related to a Company**
 - Annual Reports
 - Chairman's speeches
 - Company's advertisement
 - Company's house journals
 - Company's executives
 - NSE, BSE – the relevant volumes
- Related to the environment**
 - Annual issues of leading commercial periodicals
 - Competition Act, 2002 related Publications
 - Articles published in leading newspapers, journals related to the industry of the company under study
 - Hindu Annual Review
- Related to the environment (contd.)**
 - Times of India Directory
 - Reserve Bank's Annual Reports
 - Publications of Chamber of Commerce, trade associations and export councils
 - Commerce Annual on public sector undertakings
 - The Economic Scene published by TECES
 - Data India
 - Business India, India Today, Business World
 - Journals like Commerce, Economic & Political Weekly, Journal of Industry and Trade, Industrial Times, etc.
 - Guidelines to industries
 - Newspapers like Economic Times, Financial Express, etc.

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First thing is that you must get the information, how do you get that information? For environmental strategies i.e., for environmental analysis say for finding out the opportunities, finding the threats, you must get the information. Where from you get the information? So, here I will show you some useful sources of information. This is in the context of the Indian business environment; you can get it also for the related global environment - which are also available. This information will be helpful to scan the environment.

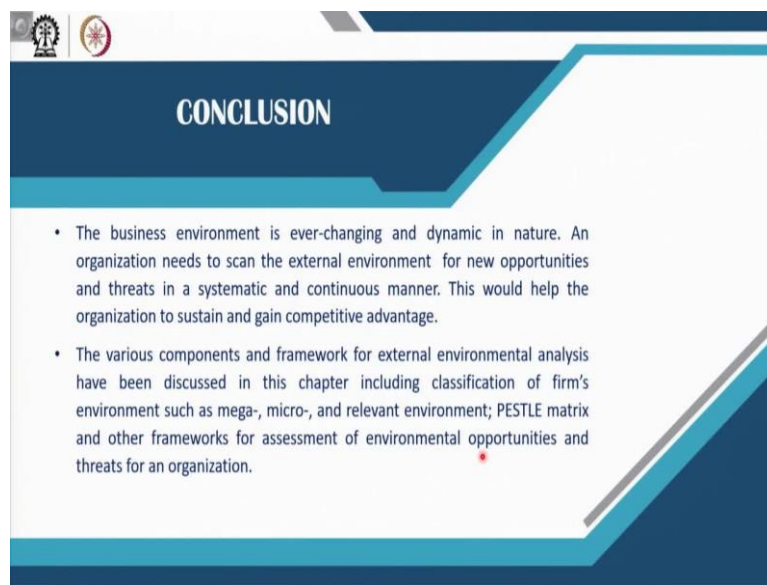
So, for information related to a company - the annual reports of the company, chairman's speech, company's advertisement appearing in the media, company's house journal, company's executives, national stock exchange, Bombay stock exchange, and various reports. So, you can go for the relevant volumes pertaining to those industries and companies. So, these are some of the sources.

Also, in order to find information related to the environment, you can go to the annual issues of leading commercial periodicals, Competition Act and related publications, articles published in leading newspapers, journals related to the industry of the company, Hindu annual review. These are some of the sources of environmental information.

Also, environmental information can be sourced from the Times of India which also brings out some directory, Reserve bank's Annual Report, publications of the different chamber of commerce, trade associations, export councils, commerce annual on public sector

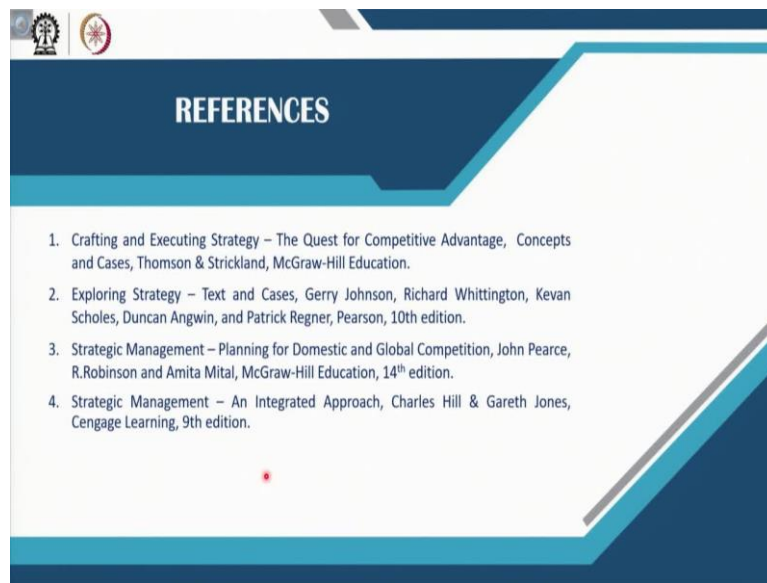
undertaking, economics published by the government of India, data India, Business India, the business world. There are some powerful sources - journals like commerce, economic and political weekly, Journal of Industry and Trade industrial times. Information can also be sourced from guidelines to industries, leading financial newspapers like Economic Times, Financial Express, etc. These are some of the useful sources of information that one can look for. Also, for the global environment, you can do similar sort of things to find out and access that. Now, we will be almost completing this environmental analysis chapter.

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So, we will summarize this chapter. We have already talked about it partly in our last lecture. In this part, we have covered the constituents of the micro environment, and we have talked about various frameworks for the assessment of environmental opportunities and threats for an organization. We have seen, how that assessment impact matrix is developed, how the opportunities and threats can be determined and also the impact metrics. Also, we have discussed what are useful sources for getting information from different areas, periodicals and sources.

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So, all these we have discussed today. I will show you some of the references, these are some of the books you can refer to and these books will also be helpful to you. The first book is by Thomson and Strickland, Crafting and Executing Strategy. The second book is Exploring Strategy. You can refer to these books to further improve your knowledge. Thank you very much for attending this lecture.