

Analysing the effects of environment factors on imax



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1. 0 INTRODUCTION

This assignment revolves around the external environment factors of the case study IMAX (Image Maximum) that affects their internal choices of decisions using the tool PEST analysis (Political, Economic, Social and Technological) and SCP model (Structure Conduct Performance).

Kotler, (1998) defines “ PEST analysis as a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations”. Furthermore,

Evans Carl & Richardson, Mark (2007) explains “ the PESTEL framework, when combined with a competitor analysis, provides a useful structure to assess the environment”.

1. 1PEST FACTORS AFFECTING INTERNAL STRATEGIC CHOICES OF IMAX

Political Factors: Johnson & Scholes (2001) “ Political factor is otherwise known as a legal factor and has a great impact upon Government regulation and policy on businesses as well as the economy, consumer’s protection, legal issues which defines formal and informal rules firms must operate”. The legal structure of IMAX business environment supports the technological advancement of IMAX by allowing the firm to own patent rights for all its research success. Piracy was a big problem in the economy IMAX operated but they had the support of the Government by working in collaboration with them to fight piracy. That shows the rate of Government intervention in an economy and encouragement on technological creativity.

Economic Factors: Johnson & Scholes (2001) “ an industry can be influenced on how it operates and make decisions through these factors: disposable income, unemployment, exchange rates , inflation, industries economic growth trends (various countries), interest rates, taxation, government spending levels and money supply”. Over the past decade the film industry has been faced with several financial challenges. Also in the 1990s several theatre owners had to declare bankruptcy as a result of the over-expansion within the industry. This almost led to the demise of IMAX as it also experienced “ receivable problems” as majority of its debtors defaulted. IMAX had to improve the business cost efficiency and turnover. Also, in the past two years the global economic recession has had a negative impact on the film industry.

Social Factors: Trends affect the demand for an industries product and how they operate in the market. Companies create various management strategies to adapt to a countries social trend. Johnson & Scholes (2001) explains these factors which are “ demographics which could be segmented into the young or the elderly, male or female, African or non-African, lifestyle changes, consumerism, education, trends, language diversity, immigration/emigration, living standards, fashion, and attitudes to work, leisure and attitude to foreign products and services due to the countries culture”. IMAX had to cease screening its movie Volcanoes of the Deep Sea in some parts of the United States as certain religious groups were offended by its position and depiction of evolution e. g. concerns about violence and sex and vulgar language found in popular media generated considerable efforts to organize and lobby political action to regulate the industry. In the

society IMAX operated there was a quest for learning; children were taken to watch educational films because of the belief that it makes them more intelligent.

Technological Factors: Johnson & Scholes (2001) “ Government spending on research, new discoveries and development, research and development, and rates of technological obsolescence”. The fast-changing technological environment influences the strategic decision making of the firm. Also in Canada, IMAX got grants from the Ontario Technological Fund. Technological advancement also brings along its disadvantage for IMAX

It has reduced the amount of people that watch film in theatres because you can stay at home and get a theatre experience,

Technology development such as a cheaper high definition camera, proliferation of new distribution channels as allowed other firms break into the industry.

(599)

TASK 1B

Strategy comes from the conduct of the firm in the market which is their behaviour and this determines how it would be structured in the market and the outcome of the performance. SCP tool- Structure Conduct Performance is used for the analysis of the immediate market of IMAX's external environment.

{{11 Grundy, Tony 1999}} defined strategic behaviour “ as the cognitive, emotional and territorial interplay of managers within (or between) groups

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when the agenda relates to strategic issues". An organisation's strategic behaviour influences the performance and market structure. Thus, the Business Performance includes the industries costs efficiency, and profits. The strategic behaviours of firms hasten their creativity and their way forward into technology. IMAX spends its profits i. e. \$12. 6 million on its R&D which involved 50 of its staffs and the outcome of this research has allowed IMAX to hold 46 patents rights. IMAX committed a lot of money in research which led to their technological breakthrough, e. g. they developed a light camera that weighed 90 pounds compared to their former cameras that weighed 228 pounds. IMAX had an edge over its competitor by delivering a superior value through technology. Another result from their strategic performance was the development of a way of converting 35mm to large screen IMAX format, this would give the capability to screen more films in IMAX format, increase turnover and may be market share. The way a market is structured affects the degree of market competition.

The Structure of a firm, includes

The details on its suppliers or competitors

Market shares/concentration

Barriers to entry

How a firm conducts itself within its market includes:

Price Competition/behaviour

Non-price competition

One of the behaviour of a firm is to compete using cost, i. e. economies of scale are a way of competing using cost. George J. Stigler (1958) explains “ the theory of the economies of scale as the theory of the relationship between the scale of use of a properly chosen combination of all productive services and the rate of output of the enterprise” In IMAX, the lowering of the conversion costs of a standard two dimensional films and 3-D film to IMAX format, for the fact that IMAX has been able to lower its cost, potential entrants would be discouraged because they might not be able to compete with IMAX.

Firms merge, integrate and acquire other firms all for the purpose of gaining more market share and also control its input. IMAX acquired a 51% stake in a company that influenced its production, this is a good way of making entry unattractive because potential competitors would not easily be able to source inputs such as sound into their production. IMAX and other players had also been able to integrate forward; IMAX had distribution rights to its films so as other players in the industry. They did so by acquiring distribution firms. All this actions has its impact on the market structure because it would have also raised barriers to entry into the market.

Part of firm’s non price competitive behaviour is R&D; IMAX R&D had given it ability to hold patent rights to its technological achievement. The patent right held by IMAX can give IMAX competitive advantage in the market it operated and this raised barrier to entry, e. g. potential entrants would be discouraged by the legislation protecting IMAX.

(554)

TASK 2

A successful company is required to have skills of generating competitive advantage. James Brian Quinn (1980) defines strategy as “ the pattern or plan that integrates an organization’s major goals, policies and action sequences into a cohesive whole”. Thus, IMAX Corporation (Image Maximum) is used as the case study with the aid of the Porter’s five forces model that shape strategy to identify the attractiveness of the industry and how it shapes competition in the industry. Robert Grant (2005) explains that “ there are two major sources of superior profitability: industry attractiveness and competitive advantage”. Porter’s (1980) five forces model suggests that “ firms can sustain advantages by the selection of industries and the way they position themselves within industries”. This emphasizes what triggers their strategic decisions which are:

As at present the three main significant factors that could reduce the attractiveness of the film industry include-

Threat of new entrants – Over the years, entry into the film industry had not been easily accessible, because new entrants disrupt the market. Though firms in the film industry have tried by raising the barrier to entry in the film industry by integrations, merger etc, technological advancement has given rise to some niche players like Pixar in the industry which have directly or indirectly stolen market share and on the long run reduce attractiveness of the industry.

Rivalry Among Existing Competitors – IMAX faces direct competition from rival studios like Disney/Pixar and theatre chain such as regal entertainment,
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the competitors every firm has to compete against shapes the strategic choices the organisation has to take Michal Porter (2008) states that “ High rivalry limits the profitability of an industry”. IMAX would have to do everything it can to gain sustained competitive advantage over these competitors.

Threat of substitutes product and services- Firms now have to consider substitute products or services to what they offer in other to be able to strategize well, IMAX would have to put into consideration other substitute activities that fulfil the same purpose of entertainment. Porter, Michael E. (2008) “ If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability and often growth potential”.

After looking at the attractiveness of the industry IMAX operates, IMAX source of competitive advantage would be identified using Porters generic strategies, Powell (2001) “ States that competitive advantage is generally conceptualized as the implementation of a strategy not currently being implemented by other firms that facilitates the reduction of costs, the exploitation of market opportunities”. These sources are:

Cost leadership

Differentiation

This means competition entails competing through cost, efficiency, firms within an industry would compete using lower cost of production to gain competitive advantage over competitors. A company needs to meet up to its

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expectant customers needs by standing out amongst its competitors in the industry. Robert M. Grant (2005: 275) “ Differentiation is concerned with how a firm competes, the way in which it can offer uniqueness to customers which relate to consistency, reliability, status, quality, and innovation”. The core strengths of IMAX were its R&D which results into its Differentiation has a source of competitive advantage. The nature of differentiation is divided into:

Tangible Differentiation

Intangible Differentiation

What distinguish IMAX are its physical features that attracts its customers, Grant (2005: 274) explains “ tangible differentiation involves observable characteristics of a product e. g. size, shape, colour, weight, design and technology”. IMAX films were produced in large format to project images on-screen that were bigger, brighter, sharper than other multiplexes, also the technology behind their great sound quality differentiates them from their other players in the film industry. Porter (1985) “ introduced the concept of Value chain to assist managers in isolating potential resource based advantages for their firms”. Furthermore, in analyzing strategy of IMAX, Value Chain would be used to identify the capabilities IMAX posses.

That a company has capabilities in various fields does not necessarily mean it has competitive advantage over its competitors and if a company capabilities are below that of its direct competitors it is a sign of weakness.

Powell (2001: 877) “ states it seem unreasonable to expect competitive advantage to imply superior performance no matter what else a firm may be
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doing wrong”. This means it is both the combination of its strength and weakness that would have effect on the performance.

IMAX had strict control of input in its production process that means it could be said that IMAX inbound logistics was functional, The Operational capability of IMAX was also functional because its end products were also of strict quality, For the fact that it carried out after sales service for its customers points out the functionality of its service capabilities. But all these capabilities do not necessarily mean IMAX had gained competitive advantage over its competitors unless if all or any of these capabilities is better than that of the competitors. Collis, David J. (2008) “ Unfortunately core competence should not be an internal assessment of which activity of all its activities the company performs best. It should be a harsh external assessment of what it does better than competitors”.

After identifying the capabilities of IMAX, Resources that could give IMAX competitive advantage would also be identified. Grant. M (2005: 138) states “ Resources are the productive assets owned by a firm” and are divided into three which are:

Tangible resource 2. Intangible resource 3. Human resources

Grant. M (2005: 139) Tangible resources is seen and valued in a firm’s financial statements tangible which includes

Financial resources IMAX generated 59. 12million in 2007 from the sale of its theatre operations.

Physical assets which are size, location, technical sophistication.
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Grant. M (2005: 140) Intangible resources are invisible and they include:

Technological resources e. g. patent portfolio, copyright, resource for innovation, research facilities, technical and scientific employees. IMAX had 46 patent rights because of its Research & Development.

Reputation of a firm's products and services for quality and reliability through its brand recognition. IMAX had a reputation of quality and innovation which cannot be bought by its competitors.

Human resources involve education, experiences, and trainings of employees would determine skills that would add value to a firm. E. g. technical and professional qualifications acquired. IMAX R&D programme evolved around training 50 employees.

Barney (1991) explains “ the four attributes of the how heterogeneous or immobile a firm's resources are and how useful resources are for generating sustained competitive advantage”.

V – Valuable Resources: Barney (1991). A firm's source of competitive advantage could be valuable only when they neutralize threats from the industry. IMAX tangible and intangible resources were valuable, from its financial resource to brand and technological were all valuable.

R – Rare Resources: Barney (1991) explains that firms must stand out amongst its current and potential competitors. If a firm has a valuable resource it can only be a source of competitive advantage if the resource is rare, IMAX technological resources were rare and that it a sign that it could

build competitive advantage. Hirshleifer (1980) “ If firms that possess a
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particular valuable resource is less than the number of firms needed to generate perfect competition dynamics in an industry, that resource has the potential of generating a competitive advantage”.

I – Imperfectly Imitable Resources: Barney (1991) explains that firms with valuable and rare organizational resources are called strategic innovators due to their innovations e. g. IMAX technology behind its sound and the quality of its cameras.

Lippman & Rumelt (1982) and Barney (1986a, 1986b) firms resources can be imperfectly imitable for the below listed reasons:

The ability of a firm to obtain a resource is dependent upon unique historical conditions. Since IMAX resources were R&D, it would be difficult for competitors to copy because the innovations cannot be bought, any competitor that wants to leverage these has to take on R&D programme before it can copy this resources.

The link between resources possessed by a firm and a firm’s sustained competitive advantage is casually ambiguous. This means if a firm’s resource for sustained competitive advantage is not clear to its competitors it makes imitation of the resource very difficult. E. g. many big airlines have wondered why low cost airlines are successful in short haul flight services and they are not. This kind of ambiguity might be traced to the organisations culture, IMAX had a culture of carrying out research and development by dedicating a lot of money and developing its staff also.

S – Substitutability: Barney (1991) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare nor imperfectly imitable.

RECOMMENDATIONS

Despite IMAX resources, the firm has not been able to make profit. Grant M (2010) “ Strategy is simply about competing for tomorrow”. The recommendations would try to suggest strategic actions IMAX can take that are appropriate in moving forward and to increase its economic performance

Helfat and Peteraf (2003) discussed “ how firms resources and capabilities have a life cycle, suggests firms must change resources over time as their products grow, mature, rejuvenate, or phase out, entrants into markets, increasing product differentiation, improving cost efficiencies, or changing the nature of an industry”. In this age and time, IMAX should always undergo continuous change i. e. upgrading its innovations annually in order to continue to sustain competitive advantage in the industry.

Chakravorti (2010) “ Periods of extreme adversity foster innovation and the building of companies, innovation is a key driver of sustained competitive advantage and sustainable business growth”. IMAX should not wait till it goes bankruptcy but should focus more on how to improve on its performance.

(1, 587)

TASK 3

The limitation of the tool, PEST factors in a remote environment: George Burt (2006) “ The taxonomic classifications of PEST and its derivatives are of limited help to an organization in exploring and understanding its environment, because they are too generic, fail in delivering understanding of the interrelationships and interdependences among variables, and do not produce a clear understanding of the (potential) external drivers of change”.

The limitation of this tool, Structure Conduct Performance: focuses on firms cost efficiency and profits only and failed in emphasizing on the weakness of a firm. McWilliams & Smart . L (1993) explains these weaknesses which include: (1) The wrong level of analysis, (2) the use of static analysis, and (3) a reliance on barriers to entry as the determinant of profitability

The limitations of Porter’s five forces framework: lays too much emphasis on macro analysis, Therefore it is not a total tool for analysis because it is not specific. Porters five forces fail to prescribe to managers on how they could enact more influence on their industry, the porters five forces is static and is not dynamic to meet the challenge of a present day business. The Porters five forces are too much labelled with economic terms that might be very hard to use for a practicing manager.

The limitations of the concept Value Chain Analysis: Svensson (2003) explains that “ the value for the final customer is the value only in its theoretical context and not practical terms” This can be experienced by

consumers only when they have received the product then, it would be appreciated.

The limitations of the technique Resource Based View: (Peteraf, 1993) “ Last step in an imitation procedure includes first the identification of what to imitate, second, the inclination and willingness to imitate. Limitations to imitability arising from these two latter factors, identification and willingness, are more closely related to behavioural aspects of imitability rather than failures in resource markets that have earlier been suggested to limit imitability”.

(327)