

Strategic management: external analysis (slp)

Business



Strategic Management: External Analysis External analysis refers to the scanning of the external strategic environment of a firm to establish opportunities and threats facing the firm. This environment is made up of the general (societal) and industry (task) environment. The general (macro) environment is made up of such factors as:

- a) Political and legal factors such as government regulations, stability and environment.
- b) economic factors such as inflation, gross domestic product, exchange rates and interest rates, taxes and unemployment
- c) socio-cultural factors such as demographics, traditions, values and beliefs
- d) technological factors such as innovations, productivity, research and development, and new products

The industry (micro) environment is largely made up of competitive factors which could be current or projected. Considered an expert in the field of strategic management, Michael Porter identified five factors under this category. They are: threat of new competitors, rivalry among existing firms, threat of substitute products, power of buyers, and power of suppliers.

Another expert, Freeman added a sixth factor, the power of other industry stakeholders such as unions, environmentalists, communities, financial institutions among others (Dobni, 2002)..

Primarily, industry analysis is very useful in analyzing industry structures which will help a firm to identify opportunities for maximizing profit and suitable position strategy. I will now spend sometime to consider the case of the leading car manufacturer, Toyota and see how they have done their external analysis using tools such as the SWOT (an acronym for strengths, weaknesses, opportunities and threats) analysis. I will also try to show how <https://assignbuster.com/strategic-management-external-analysis-slp/>

the foregoing factors have been considered in that analysis (Hill & Westbrook, 1997).

According to Davenport et al., (2007), the automobile industry is full of opportunities and threats. Toyota has had its share of problems which can be seen as threats since they emanate from outside the company. Recently, Toyota had problems with recalls and pending litigation which seriously damaged its brand image and a decline in consumer confidence particularly in North America, Japan and Europe. Cut throat competition from other car manufacturers such as the General Motors has also compounded their problems.

There are also numerous opportunities for Toyota and they can take full advantage of innovations to stay ahead of their competitors. They can also think of exploring emerging markets in Africa, Asia, Central and South America. According to the 2009 Annual report of the company, the company president talked of the need to implement a stronger product-oriented management model focused on making better cars, and redoubling the company's commitment to the customer first (Hill & Westbrook, 1997).

Toyota can make use of Porter's five forces model to develop a competitive edge over its rivals and gain a better understanding of the industry context in which it operates. Let's look at each of these forces in relation to Toyota:

a) Rivalry-Toyota strives for a competitive advantage over its rivals and has managed to achieve that through changing prices to gain a temporary advantage. The company has also continued to concentrate on product differentiation by increasing the number of hybrid cars and those with added features.

b) Threat of substitutes-substitutes refers to products in other industries.

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Toyota faces relatively low threats in this area especially from companies which manufacture locomotives and airplanes.

c) Buyer power-this refers to the impact that customers have on a producing industry. Toyota sells most of its cars in U. S. A and Europe and the consumers there yield a lot of influence. Therefore, the products have to be tailored to suit their unique needs or else they lose them.

d) Supplier power-Toyota requires raw materials, labour and other supplies which create a relationship with suppliers. Suppliers can be very powerful if they threaten forward integration, they are concentrated or there are significant costs in switching suppliers.

e) Threat of new entrants and entry barriers-Toyota needs to be wary of new entrants into the automobile industry. Many entry barriers do exist especially in new markets or in expanding existing ones.

Conclusion

Lee and Ko (2000) raise the following pertinent questions to reveal external opportunities: (a) Where and what are the attractive opportunities available in your targeted market? (b) Are the opportunities in the market emerging as new trends? (c) What does your organization predict in the future that may depict new opportunities?

They also suggest the following questions to explore the external threats: (a) What is your competition doing that suppresses your organizational development? (b) Are there any changes in consumer demand, which call for new requirements of your products or services? (c) Is the changing technology hurting your organization's position within the marketplace?

Therefore, It is important to carry out an external analysis because it is indispensable to any company which values its survival. The SWOT analysis <https://assignbuster.com/strategic-management-external-analysis-slp/>

is among the tools used to conduct an external analysis.

References

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