

External environmental analysis



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In this paper we have been asked to accomplish an external environment analysis of the California Pizza Kitchen. In the introduction section, the purpose, the outcomes, and the methodology adopted have been mentioned.

. As part of the research for this paper, a PEST analysis was accomplished as well as looking at the Porter's Five Forces Analysis. (QuickMBA, 2007; Value Based Management, 2009) As part of the PEST analysis, the California Pizza Kitchen has to abide by numerous government regulations (federal and state), but it has not reflected negatively on the profits. The California Pizza Kitchen company will more than likely face some economic constraints in terms of costs of the supplies, expansion plans, credit supply, and insurance costs as it continues to move forward as a company. The California Pizza Kitchen is currently working through postings of the company's possible sale again and may have to deal with negative impact on its future profits and EPS because of its lack of control on franchising and licensing partners.

The company's profitability is also being affected by the current economic downturn with consumers being more conservative with their spending and consumer preferences about the current menu offerings will change especially in terms of nutrition and health related issues. The California Pizza Kitchen is abreast with technological advancements in the industry. As part of the review of the Five Forces Analysis, one of the key points of the analysis is that bargaining power of suppliers is quite low as the nature of supplies is generic and easily available. The threat of new entrants to the pizza industry is very high, which can be attributed to very low entry barriers in the restaurant industry.

The bargaining power of buyers is moderate as consumers are generally loyal as far as they get value for money. Threat of substitutes is again moderate as the company is already producing frozen pizza, and other products which can be the main substitutes, as the economy is still reeling under the recession, and most consumers do not have much disposable income, so they can opt for home cooked food instead. The competition is very fierce in the industry with innumerable restaurants present across the country and the key players are quite well-established. Going forward, the California Pizza Kitchen should look forward to consolidate its current position by keep on differentiating its offerings rather than look for expansion in such liquidity crunching times. Read which one of these does not pose a risk to security at a government facility

IntroductionThe purpose of this paper is to analyze the external environment of California Pizza Kitchen in a strategic manner. Through this, various opportunities and threats based on a variety of factors, which the company is facing currently will be unearthed. This will be quite helpful for the California Pizza Kitchen in making strategically sound decisions. To attain this, analysis of the political, economic, social, and technological factors (Value Based Management, 2009) will be conducted in conjunction with Five Forces analysis. (Henry, 2008).

PEST Analysis of California Pizza KitchenA PEST analysis is the external environment analysis in which the political, economic, social, and technological factors, which affect an organization are analyzed to understand the opportunities and threats which a firm is facing (Henry, 2008).

Political Factors - California Pizza Kitchen follows numerous regulations and has to get required licenses regarding health, hygiene, security, fire extinguishing standards, and food and liquor from the designated authorities of both the state as well the local level. The California Pizza Kitchen needs to abide by numerous federal and state regulations regarding new construction, franchising, employee matters, and environmental matters; but it has not experienced any negative impact or capital expenses because of these regulations (California Pizza Kitchen Website, 2009).

Economic Factors - The California Pizza Kitchen is facing economic risks due to a number of reasons for instance consumer spending is reduced because of present economic crisis conditions and turbulent financial markets, and potential increase in the food and supply costs due to inflation, governmental policies, etc. The California Pizza Kitchen has 88 restaurants in California alone, which makes it vulnerable to negative economic conditions in California. The California Pizza Kitchen needs to satisfy a number of conditions like credit worthiness, if it continues with its current credit facility along with the likelihood of additional financing. The company does not have direct control over its franchising and licensing partners who contribute to the profits and royalties, and therefore, it affects their profits.

Existing economic conditions makes it difficult for the company to pursue its growth plans of expansion. (California pizza kitchen 2009 annual report) 2010).

Social Factors - The California Pizza Kitchen sells pizzas, pastas, salads, etc. and the ambience of the restaurants is quite informal and homely.

Its primary key to its success has been that they were the first pizza restaurant that offered fresh and non-traditional ingredients for its pizzas. On a whole, the American consumer base is traditionally not very nutritional conscience when it comes to dining out. Regionally, the consumer preferences are suiting the business model of the company in most areas; however changes in the consumer preferences and public disclosure of information about diet and health issues can change the consumers' preferences (California pizza kitchen 2009 annual report). Technological Factors - In the restaurant business, as well as most business, there has been technological advancements like point-of-sale system, employee scheduling and management system, inventory analysis system, online ordering, sales performance reporting system (California pizza kitchen 2009 annual report). These technological tools assist in the overall management business operations effectively, and in maintaining a competitive advantage (Bensoussan, B.

E., & Fleisher, C. S, 2008). The California Pizza Kitchen has readily utilizes all available technology advancements and they continually review and update these technologies to stay abreast and competitive. Five Forces Analysis of California Pizza KitchenA Five Forces Analysis is an analysis of a firm's competitive environment.

There are five forces, which pose a challenge to a firm namely bargaining power of suppliers, bargaining power of buyers, threat of new entrants, threat of substitutes, and competition among existing rivals (Grant, 2005).

Bargaining Power of Suppliers - The bargaining power of the suppliers is quite low since the supplies are readily available in the market and the

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differentiation of the supplies is insignificant (Allen, 2001). Threat of New Entrants – It is also quite high since barriers to entry are not stiff in restaurant business but the failure rate of new restaurants is quite high as especially in these trying economic times. The capital required to start a restaurant business is not too high depending on the region that you are in.

Bargaining Power of Buyers – Although the consumers in the past were willing to pay higher prices for the food at a California Pizza Kitchen because of the trust and ambience; but they have reasonably high bargaining power in case the prices go up since they can easily switch over to a competitor and the current shift in the economy (Allen, 2001). Threat of Substitutes – Is moderate as a consumer can switch to home cooked food. Some of the rationale can be attributed to reasons like reduced consumer spending due to prevailing economic conditions. There is the threat of frozen pizza was also there for California Pizza Kitchen, but it had eliminated this threat by entering into a contract with Kraft Pizza Company in 1997(California pizza kitchen 2009 annual report).