UNIT 32 BUSINESS STRATEGY

P1 Applying appropriate frameworks analyse the impact and influence of the macro environment on a given organization and its strategies.

LESSONS 2 & 3 COURSE CONTENTS

The different types of frameworks and analysis of the macro environment

Analytical frameworks of the macro environment:

- **Stakeholder analysis**: stakeholder matrix, stakeholder mapping.
- **Environmental analysis**: PESTLE and Porter's Five Forces model.
- **Structure-conduct-performance model**
- **Strategic positioning**: Ansoff's growth vector matrix.
- **Organizational audit**: SWOT analysis, benchmarking indicators.

MACRO ENVIRONMENT

The macro environment in which a company or sector operates influences its performance, and the amount of the influence depends on how much of the company's business is dependent on the health of the overall economy. Cyclical industries, for example, are heavily influenced by the macro environment, while consumer staples are less influenced. The macro environment can also greatly affect consumers directly, affecting their ability and willingness to spend. Consumers' reactions to the broad macro environment are closely monitored by businesses and economists as a gauge for an economy's health.

- Cyclical industries: A cyclical industry is a type of industry that is sensitive to the business cycle, such that revenues generally are higher in periods of economic prosperity and expansion and are lower in periods of economic downturn and contraction
- Consumer Staples: Consumer staples are essential products, such as food, beverages, tobacco and household items. Consumer staples are goods that people are unable or unwilling to cut out of their budgets regardless of their financial situation.

MACRO ENVIRONMENT

Effects from some of the market's key factors influencing the macro environment (with examples specific to the US) include the following:

Employment

Employment levels in the United States are measured by the Bureau of Labor Statistics, which releases a monthly report on increases in business payrolls and the status of the unemployment rate. The U.S. unemployment rate is 4.1% as of March 15, 2018. The Federal Reserve also seeks to regulate employment levels through monetary policy stimulus and credit measures that can ease borrowing rates for businesses to help improve capital spending and business growth, also resulting in employment growth.

Monetary Policy

The Federal Reserve's monetary policy initiatives are a key factor influencing the macro environment in the United States. Monetary policy measures are typically centered around access to credit and federal interest rate limits, one of the main levers of the Federal Reserve's monetary policy tools. The Federal Reserve sets a federal funds rate for which federal banks borrow from each other, and this rate is used as a base rate for all credit rates in the broader market. The tightening of monetary policy indicates rates are rising, making credit borrowing less appealing.

MACRO ENVIRONMENT

Effects from some of the market's key factors influencing the macro environment (with examples specific to the US) include the following:

Gross Domestic Product

GDP is a measure of a country's output and production of goods and services. The Bureau of Economic Analysis releases a quarterly report on GDP growth that provides a broad overview of the output of goods and services across all sectors. GDP is often the lead influencing factor of corporate profits for the economy, which is another measure of an economy's comprehensive productivity.

Inflation

Inflation is a key factor watched by economists, investors and consumers. It affects the spending strength of the U.S. dollar and is a factor closely regulated through monetary policy by the Federal Reserve. The target rate for annual inflation from the Federal Reserve is 2%. Inflation higher than 2% significantly affects the purchasing power of the dollar, making each unit less valuable as inflation rises.

The major external and uncontrollable factors that influence an organization's decision making and affect its performance and strategies. These factors include the economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces.

Specific examples of macro environment influences include competitors, changes in interest rates, changes in cultural tastes, disastrous weather, or government regulations.

How do the below affect organization decision making?:

- economic factors; demographics; legal, political, and social conditions; technological changes; and natural forces

ENVIRONMENTAL ANALYSIS

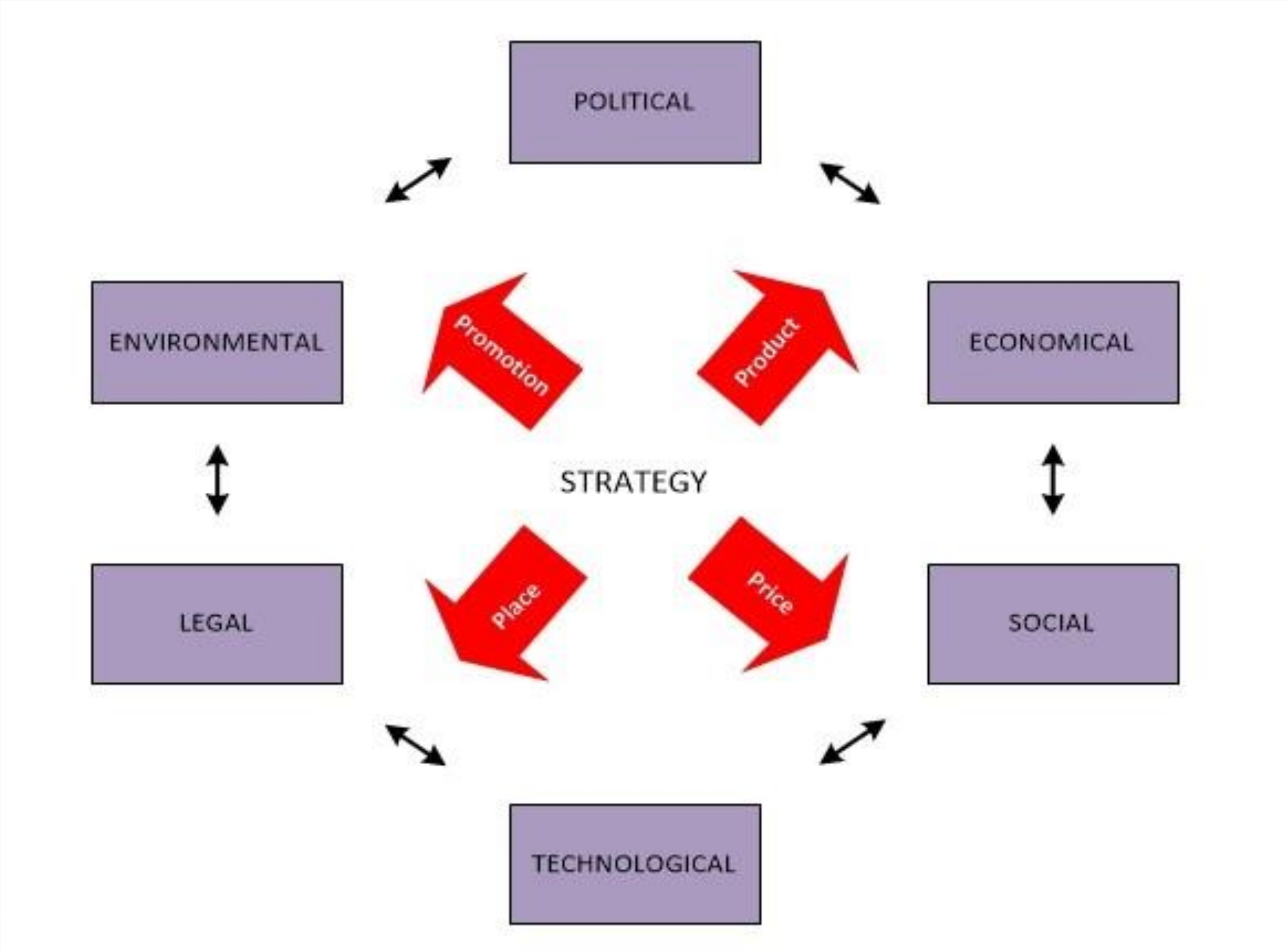
PESTLE

OVERVIEW

Pestle is a tool used to carry out business analysis with specific focus on how the following elements/forces in the macroenvironment of the business are impacting the business. The results of the PESTEL Study are used to carry out the SWOT Analysis to identify strengths, weaknesses, opportunities and threats in the business.

- Political
- Economy
- Social
- Technological
- Legal
- Environmental

PESTEL MODEL



THE FIVE COMPETITIVE FORCES THAT SHAPE STRATEGY

PORTER'S FIVE FORCES

Porter's Five Forces: Analyzing the Competition

Porter’s five forces analysis is a framework that helps analyzing the level of competition within a certain industry. It is especially useful when starting a new business or when entering a new industry sector. According to this framework, competitiveness does not only come from competitors.

Rather, the state of competition in an industry depends on five basic forces:

1. Threat of new entrants
2. Bargaining power of suppliers
3. Bargaining power of buyers
4. Threat of substitute products or services
5. Existing industry rivalry.

(Bruin et al., 2016)

FIVE FORCES MODEL

Porter's Five Forces: Analyzing the Competition

1. **Supplier power.** An assessment of how easy it is for suppliers to drive up prices.
2. **Buyer power.** An assessment of how easy it is for buyers to drive prices down.
3. **Competitive rivalry.** The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.
4. **Threat of substitution.** Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases.
5. **Threat of new entry.** Profitable markets attract new entrants, which erodes profitability.

(Dowding et al., 2016)

PORTER'S FIVE COMPETITIVE FORCES

An Interview with Michael E. Porter, Professor, Harvard University.

STAKEHOLDERS ANALYSIS

IMPACT ON THE BUSINESS STRATEGY

STAKEHOLDER MATRIX

Stakeholder Analysis is an important technique for stakeholder identification & analyzing their needs. It is used to identify all key stakeholders who have a vested interest in the issues with which the project is concerned.

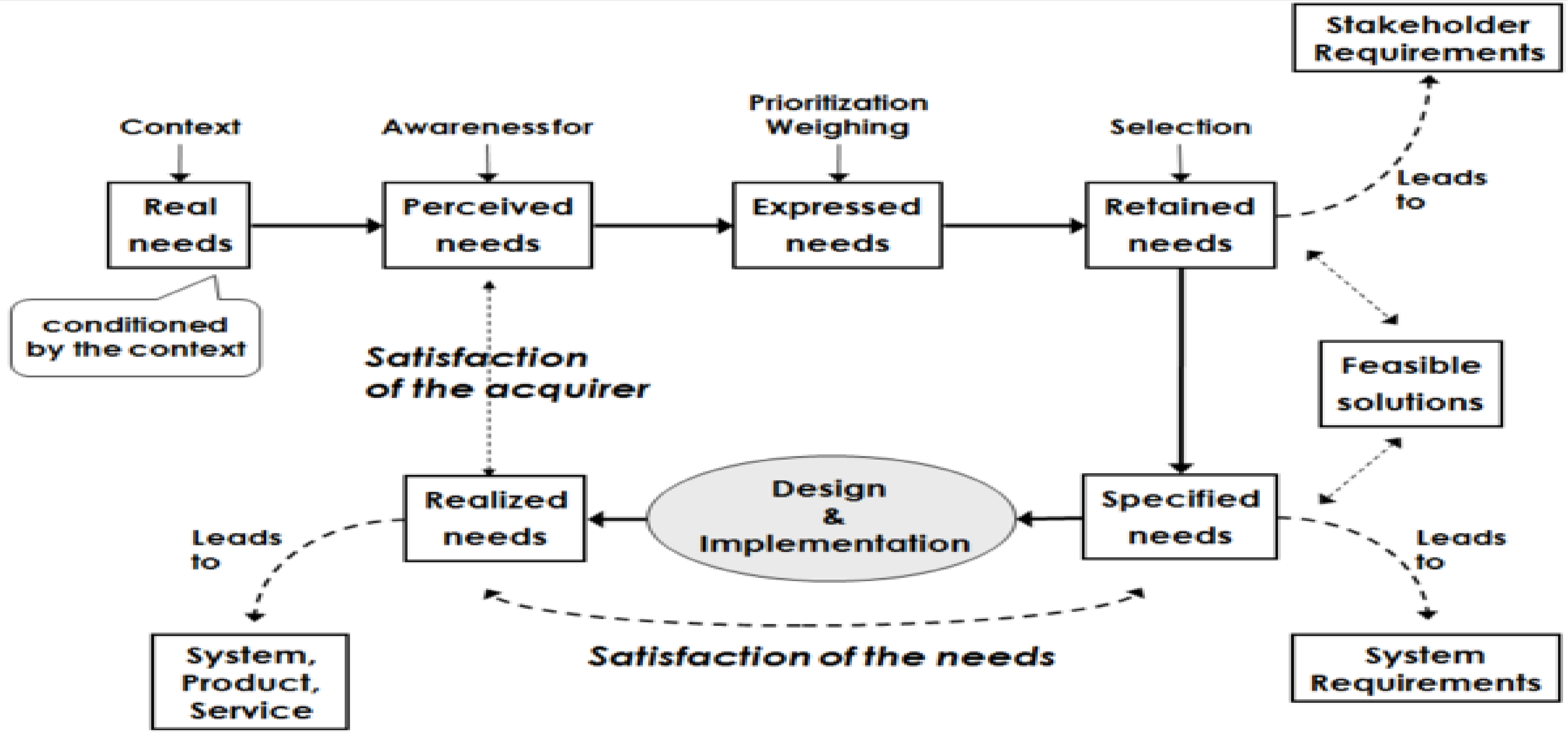
The aim of stakeholder analysis process is to develop a strategic view of the human and institutional landscape, and the relationships between the different stakeholders and the issues they care about most.

(Campbell, 2018)

WHO ARE THE STAKEHOLDERS OF A BUSINESS

Employees
Customers
Shareholders
Managers and Leaders
Suppliers
Creditors
Government
Community

PERCEIVED STAKEHOLDER NEEDS AND REQUIREMENTS



WHY IS IT IMPORTANT TO CARRY-OUT STAKEHOLDERS ANALYSIS?

- Marketing Strategies- Conducting market research is an integral marketing technique you can use to learn about the needs and motives of target customers. Product development and promotions are largely influenced by your research findings if your business gives significant credence to customers in stakeholder analysis.
- Motivating Employees- Analyzing the role of employees in your company helps you optimize satisfaction and production. Key long-term considerations in employee assessment are turnover and morale. Understanding the needs and interests of your employees helps you set up a work environment that motivates them.

(Kokemuller, n.d.)

WHY IS IT IMPORTANT TO CARRY-OUT STAKEHOLDERS ANALYSIS?

- Corporate Citizenship- Balancing basic social and community responsibilities with profit is commonly expected in early 21st century companies. Community leaders expect that you operate with honesty and integrity. If you really want to impress your community and maintain a favorable image, philanthropy, including charitable giving to local nonprofits or schools, is important
- Forming Partnerships- Supply chain management has emerged as a significant business component. It is collaboration among manufacturers, distributors and retailers to deliver the best value to end customers. Partners generally expect that you operate with integrity and openness for the benefit of all involved.

(Kokemuller, n.d.)

BENEFITS

- You can identify the most powerful stakeholders and have them help shape your project in its early stages. This will ensure their buy-in, secure their support, not to mention the valuable input they could give.
- When you gain support from your most powerful stakeholders, you will win more resources – making your project more successful.
- Communicating frequently with your stakeholders will help them to fully understand what's going on with the project and how they can support you.
- A good stakeholder analysis will show you how people will react to changes due to your project and will guide you to win over difficult stakeholders.

(Neal, 2019)

Limitation

- Ideally, a Stakeholder Analysis should be performed regularly or even continuously, since the relevant stakeholders, their power and associations may change quickly.
- Note that the management of an organization has to assess the position of each stakeholder. It is the subjective perception of management that will ultimately decide the way in which the organization will act towards its stakeholders.
- It is normally impossible for management to satisfy all demands of all stakeholders completely. Therefore managing becomes a balancing act or even a reconciliation or synthesizing act, with the following options:
  - Focusing on one leading stakeholder group, and satisfying all others to the extent which is necessary or possible. The leading stakeholder group could be the owners or stockholders (Shareholder Value Perspective) or even the managers themselves.
  - Trying to balance or reconcile or synthesize all interests according to their weight, importance or urgency (Stakeholder Value Perspective).

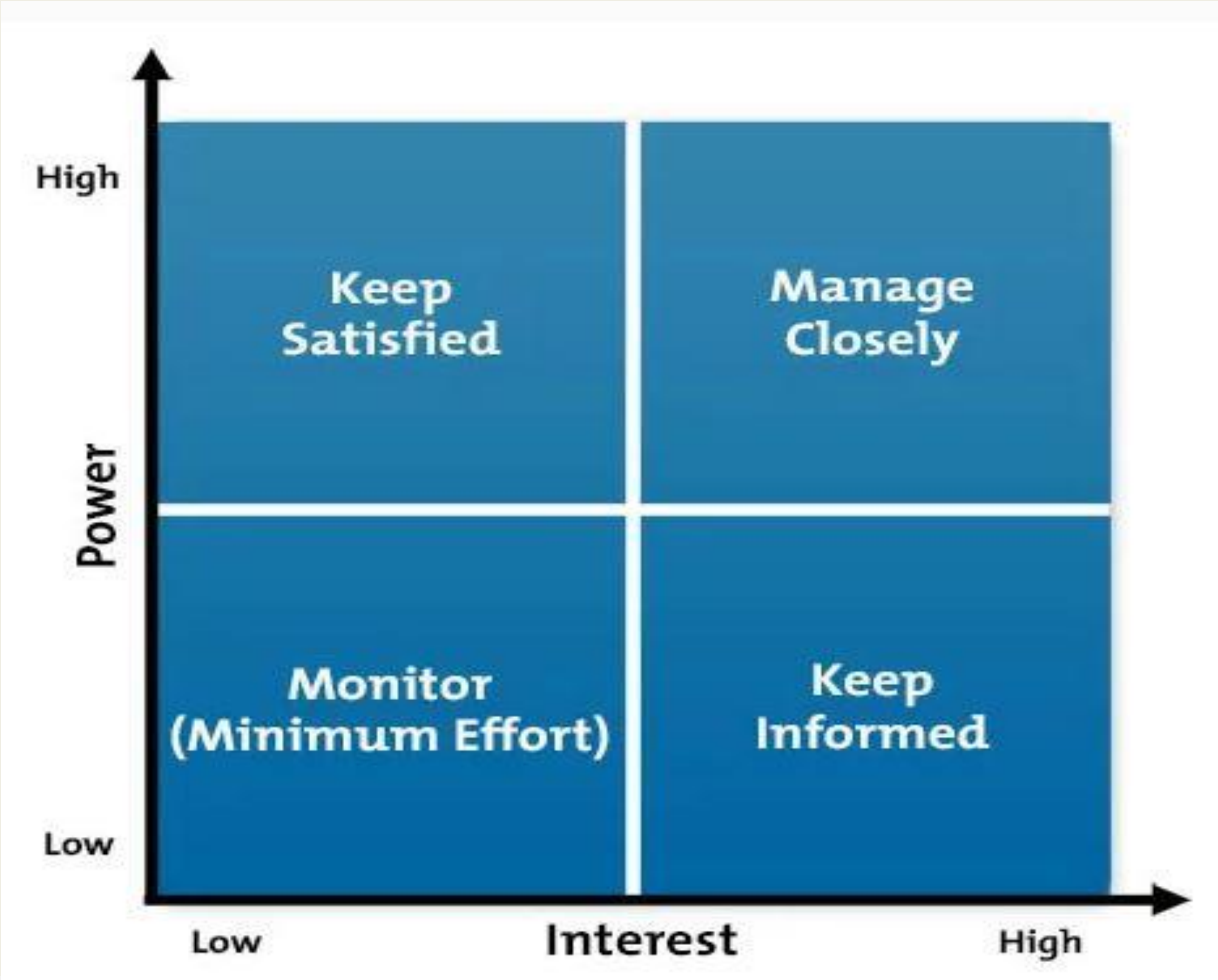
(12manage.com, 2019)

STAKEHOLDER MAPPING

This is the visual representation of a stakeholder analysis, organizing those people according to the key criteria with which you will be managing them during the project. Some of those criteria may include:

- Interest
- Influence
- financial stake
- emotional stake
- those on the periphery who are still important enough to keep in the loop, etc

POWER/INTEREST GRID



STRUCTURE-CONDUCT-PERFORMANCE MODEL

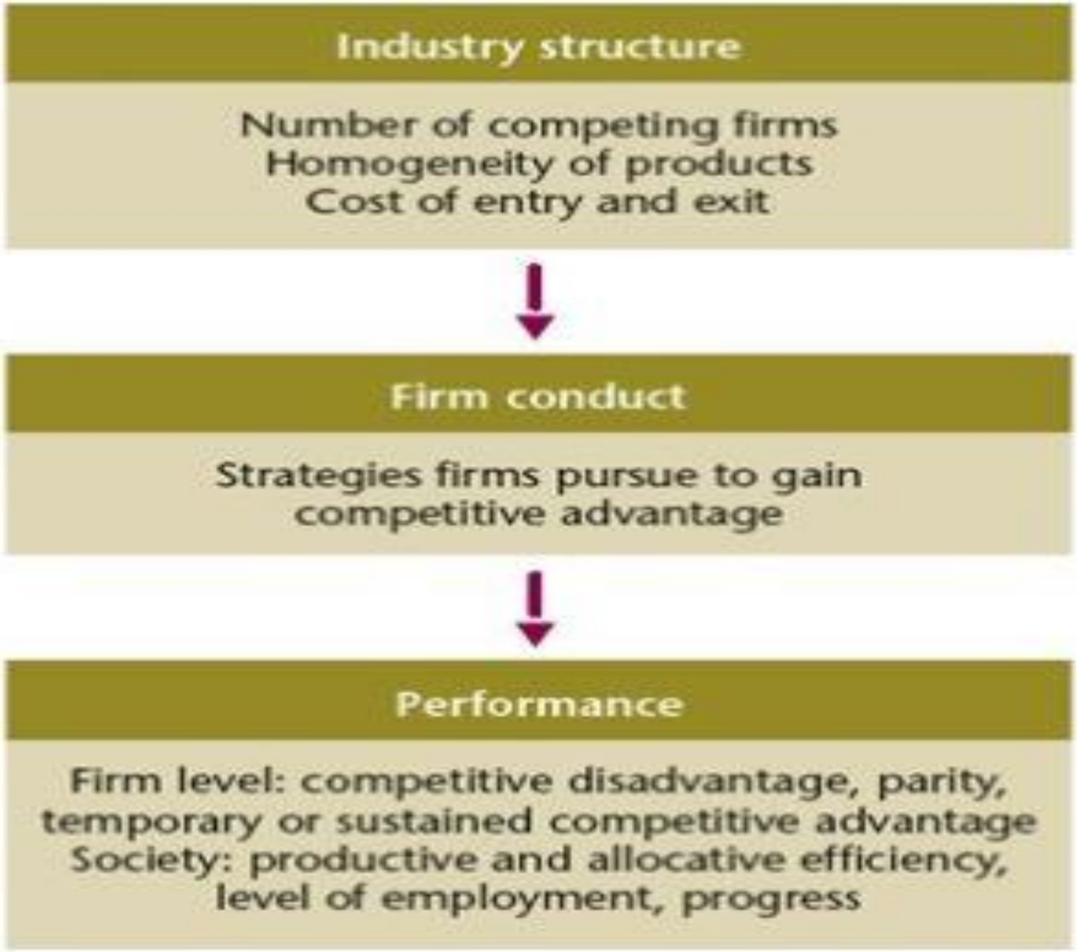
The structure-conduct-performance (SCP) paradigm asserts that conditions of supply and demand in an industry determine its structure.

The competitive conditions that result from this industry structure influence the behaviour of companies and in turn dictate the performance of the industry (Smit and Trigeorgis, 2004: 40).

The concept explores the relationship between organisational environment, behaviour and performance.

(Montgomery et al., 1999)

STRUCTURE-CONDUCT-PERFORMANCE MODEL



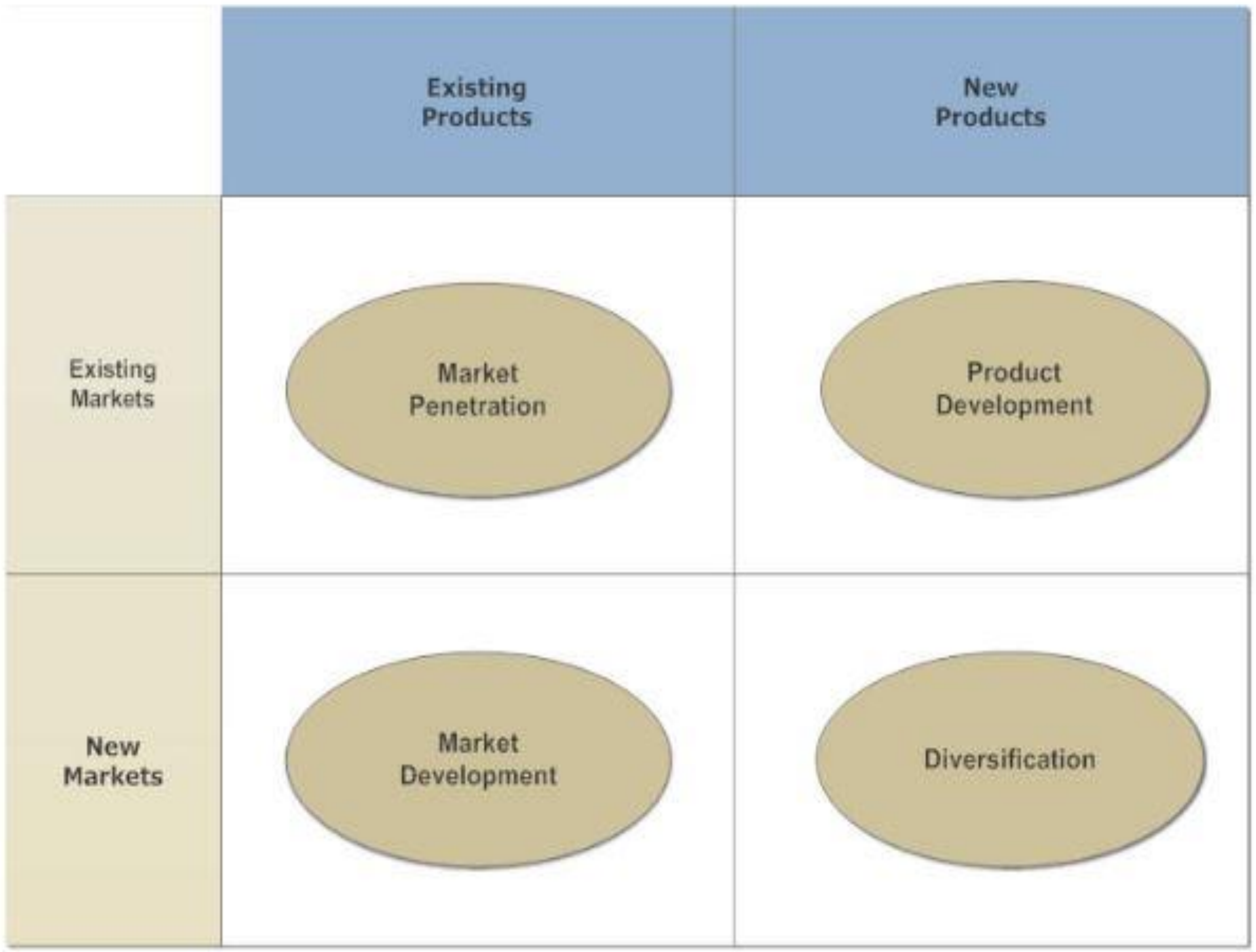
ANSOFF'S GROWTH VECTOR MATRIX

The Ansoff Matrix, also called the Product/Market Expansion Grid, is a tool used by firms to analyze and plan their strategies for growth.

The matrix shows four strategies that can be used to help a firm grow and also analyzes risk associated with each strategy.

1. Market Penetration
2. Product Development
3. Market Development
4. Diversification

(Trinidad Jr., Wyman and Zhao, 2017)



ANSOFF MATRIX

REFERENCES

- 12manage.com. (2019). *Stakeholder Analysis: Summary and Forum*. [online] Available at: https://www.12manage.com/methods_stakeholder_analysis.html [Accessed 3 Oct. 2019].
- Bruin, L., Marques, M., Kanani, P. and Roekel, M. (2016). *Porter's Five Forces EXPLAINED with EXAMPLES | B2U*. [online] B2U - Business-to-you.com. Available at: https://www.business-to-you.com/porters-five-forces/ [Accessed 20 Sep. 2019].
- Campbell, A. (2018). *What is Stakeholder Analysis?*. [online] Project-Management.com. Available at: https://project-management.com/what-is-stakeholder-analysis/ [Accessed 3 Oct. 2019].
- Dowding, M., Jackson, K., Mugridge, T., Swift, C., Bell, S., Hancock, J., Bishop, L., Hughes, M. and Robinson, R. (2016). *Porter's Five Forces: - Understanding Competitive Forces to Maximize Profitability*. [online] Mindtools.com. Available at: https://www.mindtools.com/pages/article/newTMC_08.htm [Accessed 3 Oct. 2019].
- Kokemuller, N. (n.d.). *Importance of Stakeholder Analysis in Management Plans*. [online] Smallbusiness.chron.com. Available at: https://smallbusiness.chron.com/importance-stakeholder-analysis-management-plans-61850.html [Accessed 3 Oct. 2019].

REFERENCES

- Montgomery, C., Campbell, A., Lieberthal, K., Palepu, K., Evans, P., Shulman, L., Goold, M., Alexander, M., Collis, D., Goold, M., Hart, S., Khanna, T. and Stalk, G. (1999). *Harvard business review on corporate strategy*. [Boston]: Harvard Business School Press.
- Neal, N. (2019). What is Stakeholder Analysis and Why it Helps Six Sigma Projects?. [Blog] *Master of Project*. Available at: https://blog.masterofproject.com/stakeholder-analysis/ [Accessed 3 Oct. 2019].
- Smit, H. and Trigeorgis, L. (2004). *Strategic investment*. Princeton: Princeton University Press.
- Trinidad Jr., C., Wyman, C. and Zhao, Y. (2017). *Ansoff Matrix - Overview, Strategies and Practical Examples*. [online] Corporate Finance Institute. Available at: https://corporatefinanceinstitute.com/resources/knowledge/strategy/ansoff-matrix/ [Accessed 3 Oct. 2019].