CHAPTER EIGHT

# Principles of Management

## 8.1 What is strategic analysis, and why do firms need to analyze their competitive environment?

**Strategic analysis**: Companies periodically analyze their competitive situation, assessing what they’re best at, where they need to improve, and what threatens their success—internal and external factors both.

* Give an example of a metric that might be involved in a strategic analysis.

**From all sides**: Internal and external factors can affect a business.

* List an example of each type of factor and its potential effect.

## 8.2 What is a SWOT analysis, and what can it reveal about a firm?

**A SWOT analysis** examines a business’s strengths, weaknesses, opportunities, and threats.

* Why is it a good idea to look at both positives and negatives?
* Give some examples for each category.
  + Strengths:
  + Weaknesses:
  + Opportunities:
  + Threats:

**Limitations:** A SWOT analysis isn’t perfect however; every tool has its limitations.

* What are possible limitations of a SWOT analysis?

## 8.3 What makes up a firm’s external macro environment, and what tools do strategists use to understand it?

**A business’s external environment** is anything outside the company that can influence the marketplace, in two layers, the macro and micro environment. An individual business generally cannot change factors in the macro environment.

* Brainstorm an issue or event in each macro category:
  + Laws
  + Economy
  + Government
  + Globalization
  + Sociocultural trends
  + Demographics
  + Technology
  + Environment

**PESTEL:** Like SWOT, PESTEL is an analysis tool covering opportunities and threats in the marketplace, broken down into topic categories. Some issues or events can fit into more than one category.

* List an example opportunity and threat for a business in each category.
  + Political factors
  + Economic factors
  + Sociocultural factors
  + Technological factors
  + Environmental factors
  + Legal factors

## 8.4 What makes up a firm’s external micro environment, and what tools do strategists use to understand it?

**The external micro environment** also affects a company, but the company has more ability to affect it than at the macro level. A company’s industry has these external micro environment factors:

* + Competitors
  + Customers
  + Suppliers
  + Intermediaries
* How can a business affect external micro environment factors?

**Porter’s Five Forces** tool examines the potential effects of competitive forces on a business at an external micro environment level.

* Give an example of each of the categories of the tool and a way for a business to respond:
  + Industry rivalry
  + Threat of new entrants
  + Threat of substitutes
  + Supplier power
  + Buyer power

## 8.5 How and why do managers conduct an internal analysis of their firms?

**The internal environment** of a company is made up of owners, managers, employees, investors, and assets—including resources and capabilities.

* Define the following, in a business sense:
  + Resources:
  + Capabilities:
  + Value chain:
* A company’s business operations have more than one track. Define and give examples of
  + Primary activities
  + Support activities

**VRIO**: The internal environment of a company can benefit from analysis as well, to find its strengths and weaknesses in an effort to gain an edge over the competition.

* Discuss what questions should be asked for each of the categories of VRIO:
  + Value
  + Rarity
  + Imitation
  + Organization

## 8.6 What does it mean to compete with other firms in a business environment, what does it mean when a firm has a competitive advantage over its rivals, and what generic strategies can a firm implement to gain advantage over its rivals?

**Competition**: Every marketplace has competition. To be successful, a company has to have some kind of advantage to bring its customers to its product instead of rivals’ products.

* How do analyses help a company figure out how to gain a competitive advantage?

**Widely applicable**: Companies can employ different types of “generic” strategies to compete against others in the marketplace.

* Define and give an example of these strategies:
  + Cost-leadership strategy
  + Differentiation strategy
  + Focus
* Why does a business have to use either one or the other of the first two?

**Strategic groups**: Groups of like businesses that follow similar strategies are strategic groups, and competition is high within them.

* Give an example of businesses in a strategic group and how the actions by one member are responded to by another.

## 8.7 What elements go into determining a firm’s strategic position?

**Strategic positioning** is the way a company differentiates itself against rivals.

* How does a company keep its strategic position? What tools does it use?