# ENVIRONMENTAL SCANNING AND INDUSTRY ANALYSIS

## Aspects of Environmental Scanning

Environmental scanning refers to an in-depth examination of key factors that influence the business operations of a corporation. According to Bamford, Hoffman, Hunger, and Wheelen (2018), the natural, societal, and task environments must be monitored to examine the strategic factors that have a strong impact on corporate success or failure. Significant changes in the natural environment tend to impact the societal environment of the business, and the task environment impacts the growth or decline of whole industries (Bamford et al., 2018). In undertaking environmental scanning, strategic managers must first be aware of the variables that may affect a corporation's short-term and long-term decisions as follows:

- **Natural environment.** It includes physical resources, wildlife, and climate that are an inherent part of existence on Earth. These factors form an ecological system of interrelated life. Bamford et al. (2018) cited that a business must scan the natural environment for factors that might previously have been taken for granted, such as the availability of fresh water and clean air. Moreover, management must scan not only the natural environment for possible strategic factors, but also include in its strategic decision-making processes the impact of its activities upon the natural environment (Bamford et al., 2018). For instance, a company could measure and reduce its carbon footprint or the amount of greenhouse gases it is emitting into the air, considering the rising concerns about climate change.

- **Societal environment.** It is mankind's social system that includes general forces that do not directly affect the short-run activities of the organization but can influence its long-term decisions. These forces are as follows:
  1. **Economic forces.** These regulate the exchange of materials, money, energy, and information.
  2. **Technological forces.** These generate problem-solving inventions.
  3. **Political-legal forces.** These allocate power and constrain and protect laws and regulations.
  4. **Sociocultural forces.** These regulate the values, morals, and customs of society.

- **Task environment.** It includes elements or groups that directly affect a corporation. These are governments, local communities, suppliers, competitors, customers, creditors, employees/labor unions, special-interest groups, and trade associations. A corporation's task environment is typically focused on the industry within which the firm operates.

## Industry Analysis: Analyzing the Task Environment

An industry is a group of firms that produces a similar product or service. Part of the industry analysis is an examination of the important stakeholder groups, like suppliers and customers, in a particular corporation's task environment. The following are the common methods used by corporations in conducting industry analysis:

- **SWOT Matrix.** It is a framework used to evaluate a company's competitive position. SWOT analysis assesses internal, external, current, and future potential factors that may affect the market position of a particular organization. The following are the components of SWOT Matrix:

1. **Strengths.** These are the internal areas where an organization excels and factors which separate an organization from its competitors. These include a strong brand image, loyal customer base, a strong balance sheet, and unique technology, among others.
   EXAMPLE: McDonald's has the following strengths: distribution potential, world-class facilities, strong brand image, and standardized processes (Greenspan, 2017).

2. **Weaknesses.** These are the internal areas that hinder an organization from performing at its optimum level. These are areas where the business needs to make some improvements to remain competitive. These include a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital, among others.
   EXAMPLE: McDonald's has the following weaknesses: limited food options and low process flexibility due to standardization (Greenspan, 2017).

3. **Opportunities.** These are favorable external factors that could give an organization a competitive advantage. For instance, if a country cuts tariffs, a car manufacturer can export its cars into a new market, which will lead to increased sales and larger market share.
   EXAMPLE: McDonald's has the following opportunities: development of innovative and healthier menu, partnership with other brands, and expansion on emerging markets.

4. **Threats.** These are the factors that may pose potential harm to an organization. For instance, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include rising costs for materials, increasing competition, tight labor supply, and disruption through emerging technologies that may drive products or services obsolete.
   EXAMPLE: McDonald's faces the following threats: changing customer preferences in terms of healthy food consumption, economic downturn, and strong competition.

- **PESTEL Analysis.** It is a tool used to identify the external forces that may affect an organization positively and negatively. This tool is composed of the following factors:

1. **Political.** These factors determine the impact of government and government policy on a particular organization or a specific industry. It includes trade, fiscal, and taxation policies, among others.
   EXAMPLE: McDonald's may capitalize on the opportunity for increased international trade agreements because it enables easier business expansion to foreign countries. The company also needs to consider governmental guidelines for diet and health and evolving public health policies as an opportunity to innovate their products or as a threat if they fail to innovate.

2. **Economic.** These factors determine the impact of the economy and its performance, to an organization and its profitability. These include interest rates, employment or unemployment rates, raw material costs, and foreign exchange rates, among others.
   EXAMPLE: McDonald's may capitalize on the opportunity for slow but stable growth of developed countries and rapid growth of developing countries.

3. **Social.** These factors determine the impact of social environment and emerging trends to business profitability of an organization. These also help marketers to further understand the changing preferences of the customers. These include changing family demographics, education levels, cultural trends, attitude changes, and changes in lifestyles, among others.
   EXAMPLE: McDonald's may capitalize on the opportunity for rising disposable incomes and busy lifestyles in urban communities since it will increase their sales growth. On the other hand, the company needs to consider increasing cultural diversity and healthy lifestyle trend as both an opportunity and threat.

4. **Technological.** These factors determine the impact of technological innovation and development on a particular market or industry. These include changes in digital or mobile technology, automation, research, and development. Moreover, these also include technological influence on methods of distribution, manufacturing, and logistics.
   EXAMPLE: McDonald's may capitalize on the opportunity for increasing business automation and increasing customer preferences on ordering food using their mobile devices.

5. **Environmental.** These factors determine the influence of the surrounding environment and the impact of ecological aspects to a market or industry. These include climate, recycling procedures, carbon footprint, waste disposal, and sustainability.
   EXAMPLE: McDonald's may capitalize on the opportunity for increasing emphasis on sustainable business strategies while considering the threat of changes in climate conditions in some regions where their business operates.

6. **Legal.** These factors determine the importance of understanding legal laws and procedures on a given territory where a business operates. These include employment legislation, consumer law, health and safety, international as well as trade regulation and restrictions.
   EXAMPLE: McDonald's needs to review the threat brought by increasing health regulations in workplaces and schools and rising legal minimum wages imposed by some countries where their business operates.

- **Porter's Five (5) Forces.** It is developed by Michael E. Porter as a framework for assessing and evaluating the competitive strength and position of a business organization. The following are the components of this tool:

  1. **Supplier power.** This force analyzes how suppliers can easily influence price increases. This is driven by the following factors: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.
     EXAMPLE: According to Gregory (2018), the bargaining power of suppliers in the case of McDonald's is weak based on the large number of suppliers and the high overall supply of raw materials.

  2. **Buyer power.** This force analyzes how buyers can easily influence price decreases. This is driven by the number of buyers in the market, the importance of each buyer to the organization, and

cost to the buyer of switching from one supplier to another. For instance, a few powerful buyers of a business are often able to dictate terms.
EXAMPLE: According to Gregory (2018), McDonald's must address the power of their customers on business performance since they have a strong bargaining power based on low switching costs, large number of providers, and high availability of substitutes.

3. **Competitive rivalry.** This force examines the intensity of competition in the market place. This is driven by the number and capability of competitors in the market. Rivalry competition is high when there are few businesses equally selling a product or service, when the industry is growing, and when consumers can easily switch to a competitor's product for a cheaper cost. When rivalry among competitors is high, advertising and price wars can ensue, which can pose a negative impact on the business in the long run.
EXAMPLE: According to Gregory (2018), McDonald's faces tough competition because the fast food restaurant market is saturated. The strong force of competitive rivalry is influenced by the high number of firms, high aggressiveness of firms, and low switching costs.

4. **Threat of substitution.** This force is threatening when buyers can easily find substitute products with attractive prices or better quality, and when buyers can switch from one product or service to another with little cost. For example, switching from coffee to tea does not cost anything, unlike switching from car to bicycle.
EXAMPLE: Gregory (2018) stated that the high substitute availability and the low switching costs make the threat of substitution a strong force in the case of McDonald's.

5. **Threat of new entrants.** This force determines how easy or difficult it is to enter a particular industry. If an industry is profitable and there are few barriers to enter, rivalry soon intensifies. When more organizations compete for the same market share, profits start to fall. It is essential for existing organizations to create high barriers to enter to deter new entrants.
EXAMPLE: Gregory (2018) stated that the moderate threat of new entrants in the case of McDonald's is based on the low switching costs (strong force), highly variable capital cost (moderate force), and high cost of brand development (weak force).

- **Ecosystem Assessment Tool.** The business ecosystem is demonstrated by a network composing four (4) types of players in the industry: customers, suppliers, competitors, and complementors. The term "ecosystem" is derived from the concept of the biological system in the environment. According to Hayes (2018), the connection of these players demonstrates a constantly evolving relationship in which each entity must be flexible and adaptable to survive, similar to the biological system. Moreover, each player in the business ecosystem offers opportunities for cooperation with a particular company, including the competitors. Bradenburger & Nalebuff (1996) summarizes the components of this tool:

1. **Customers.** These are the people or parties that buy products and services of an organization. Additional customers mean more revenue, which in turn lead to a larger market share. Customers can be end-consumers or other companies that will eventually take the products to the consumer market.

2. **Suppliers.** These are the parties that provide the resources needed to produce or sell finished products or services. They are classified as external factors, which may affect an organization since suppliers have the potential to raise prices and/or reduce the quality of the purchased inputs or raw materials. It is therefore important to keep a good and meaningful relationship with the suppliers or spread risk by having multiple options for them.

3. **Competitors.** These are the parties that fight over the market share of an organization by offering similar products or services and targeting similar customers. However, companies often view competition way too narrow, thereby failing to foresee upcoming threats. For instance, most people would agree that two (2) airline companies with the same destinations are considered competitors. Railroad companies with international high-speed trains, on the other hand, are often not included in the competitor analysis even though they fulfill the same customer need: traveling. Although competitors are often seen as parties to fight over market share with, it is also possible to collaborate with them as well. On the supplier side, competitors could combine forces when purchasing similar raw materials to lower the overall cost per unit. On the customer side, companies in the automotive industry like Nissan and Renault combined their complementary capabilities to produce high-quality vehicles, which they sell in different geographical markets.

4. **Complementors.** These are the organizations that offer complementary or harmonizing products or services that could work well together with a company's products to make the end result more attractive to consumers. For instance, software and hardware companies work together to enhance the user experience for computers. Other examples are the airline and tourism industries. When consumers head to a tourist destination, they often get there on an airplane. Similarly, whenever consumers travel on an airplane, they are likely visiting a destination which is a part of the tourism industry, such as a hotel, camping, or a rental car agency. The government in general and government regulatory agencies relevant to the company's industry can also be part of complementors.

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