EXTERNAL AND INTERNAL ANALYSIS

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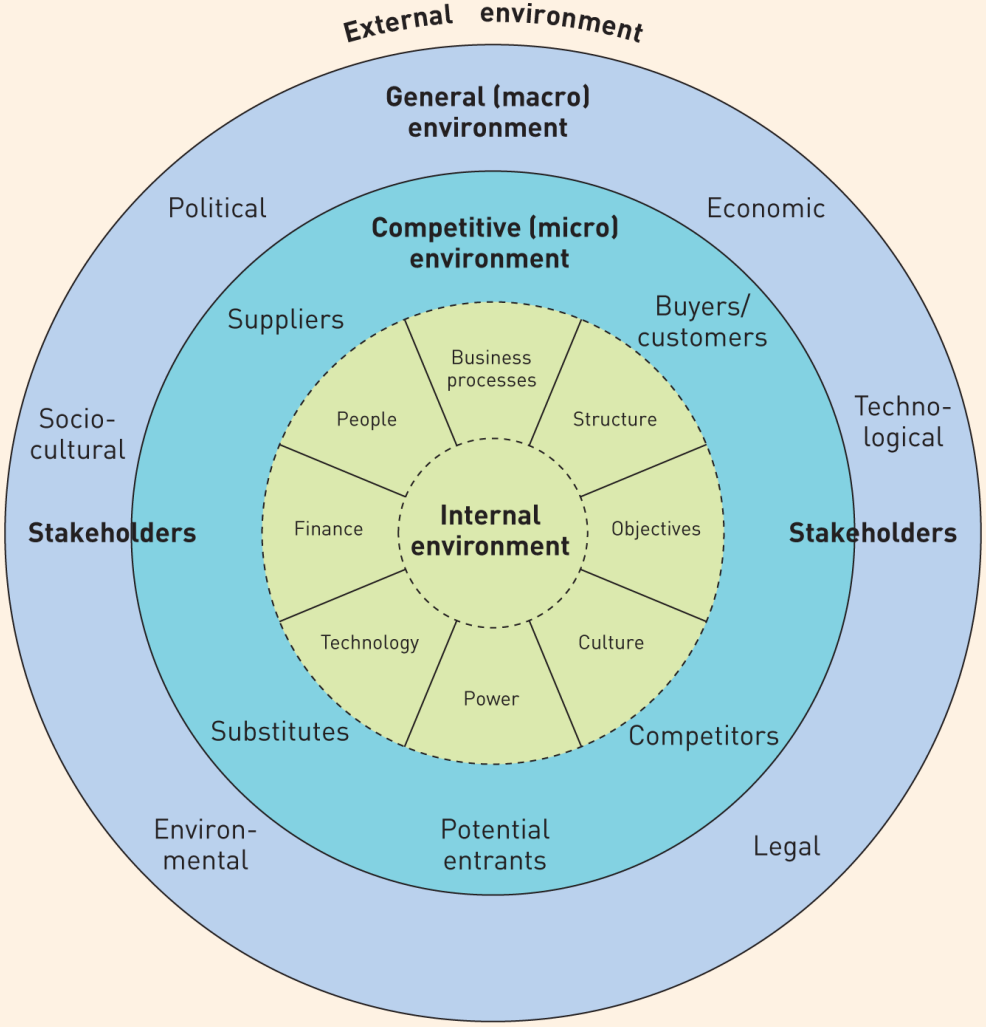
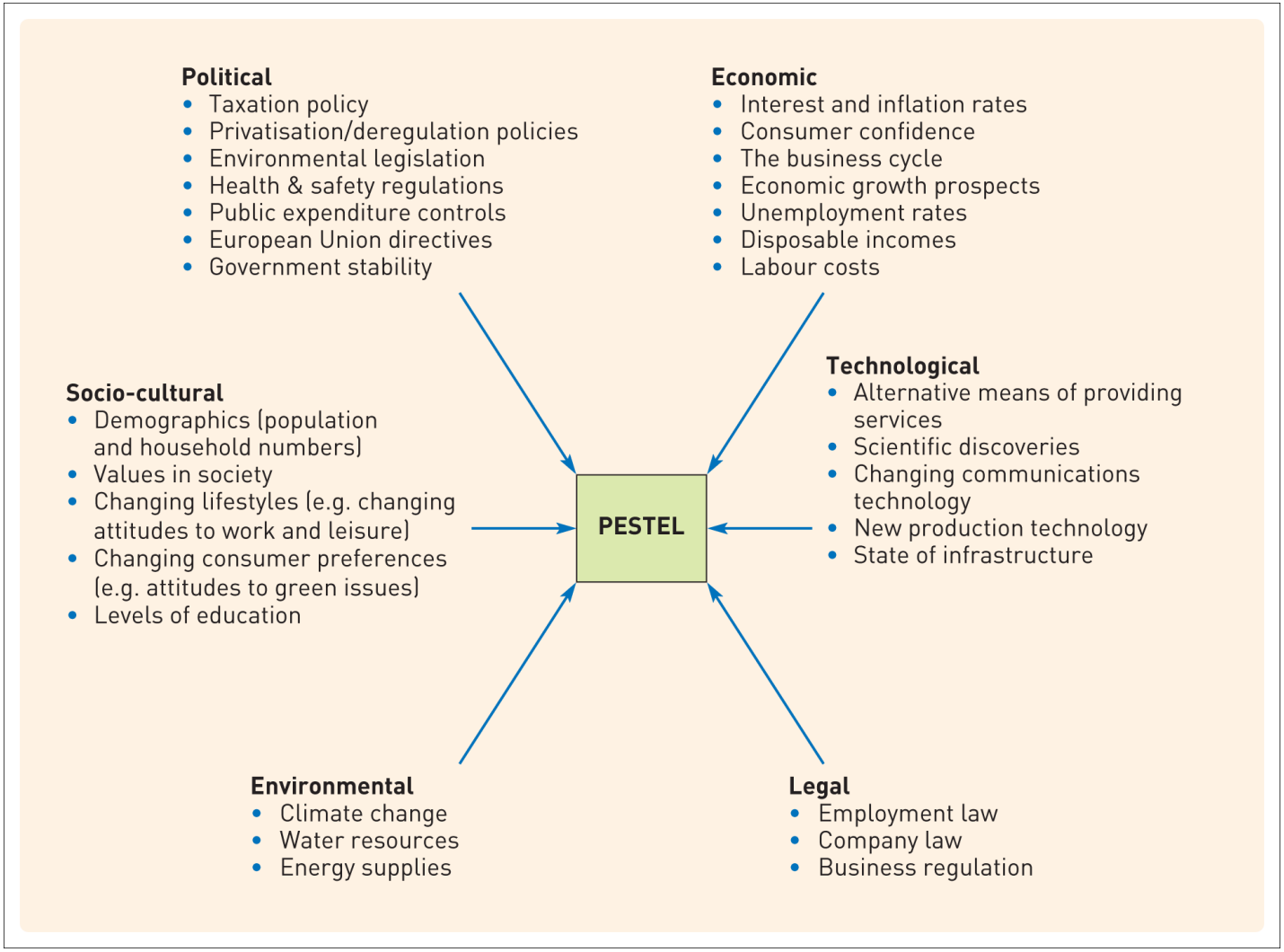
Donata Vianelli

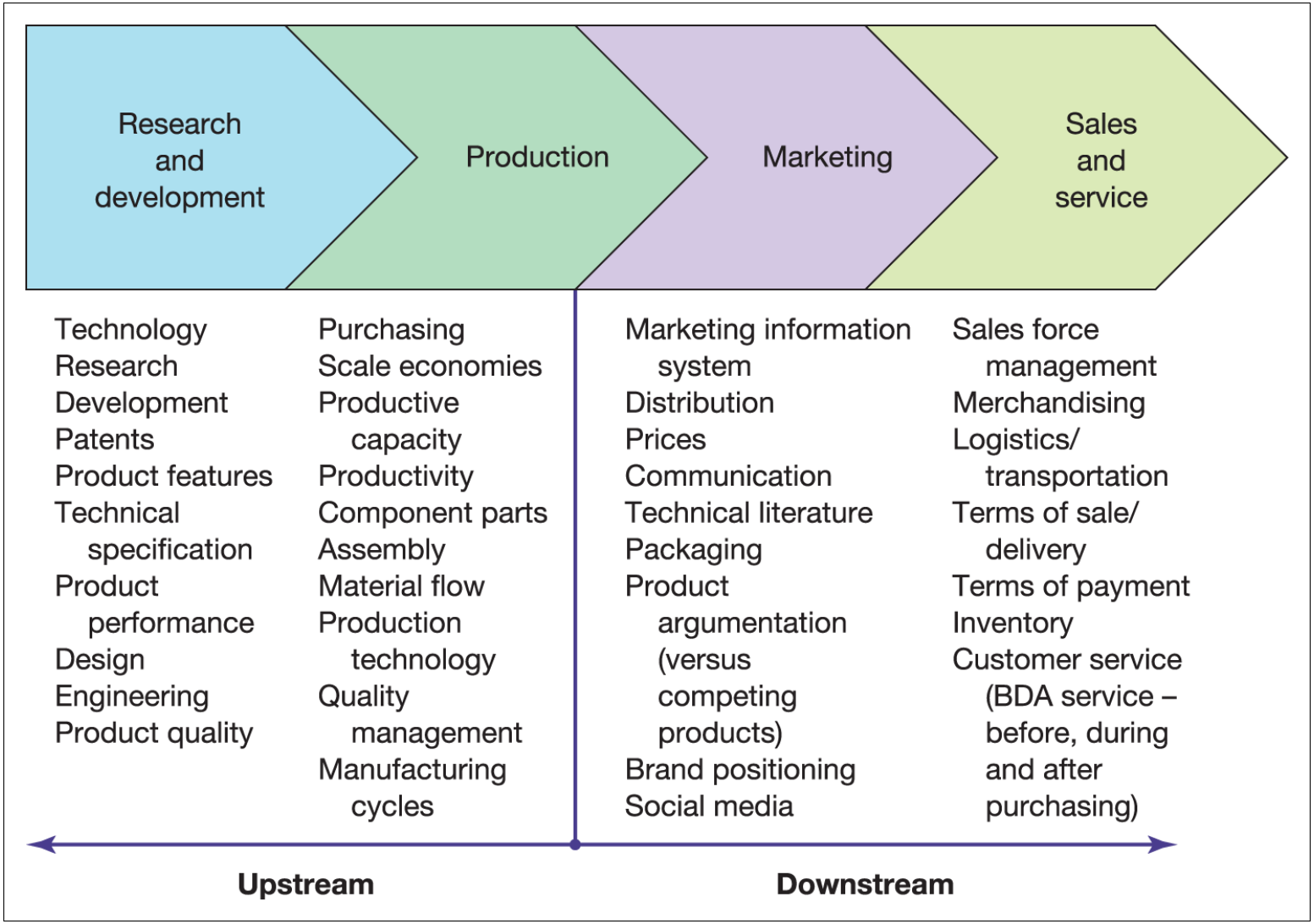
The External Environment



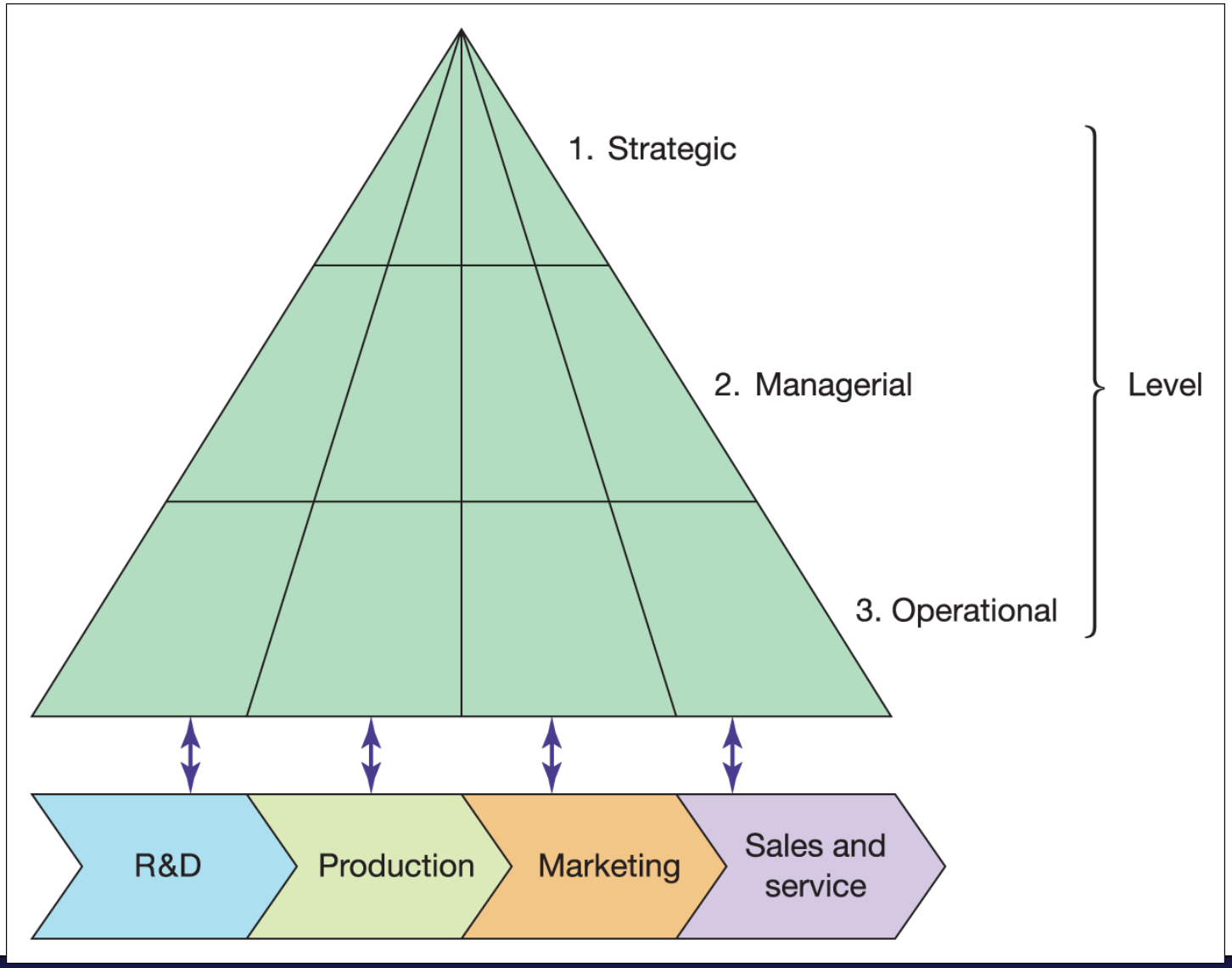
PEST(EL) ANALYSIS



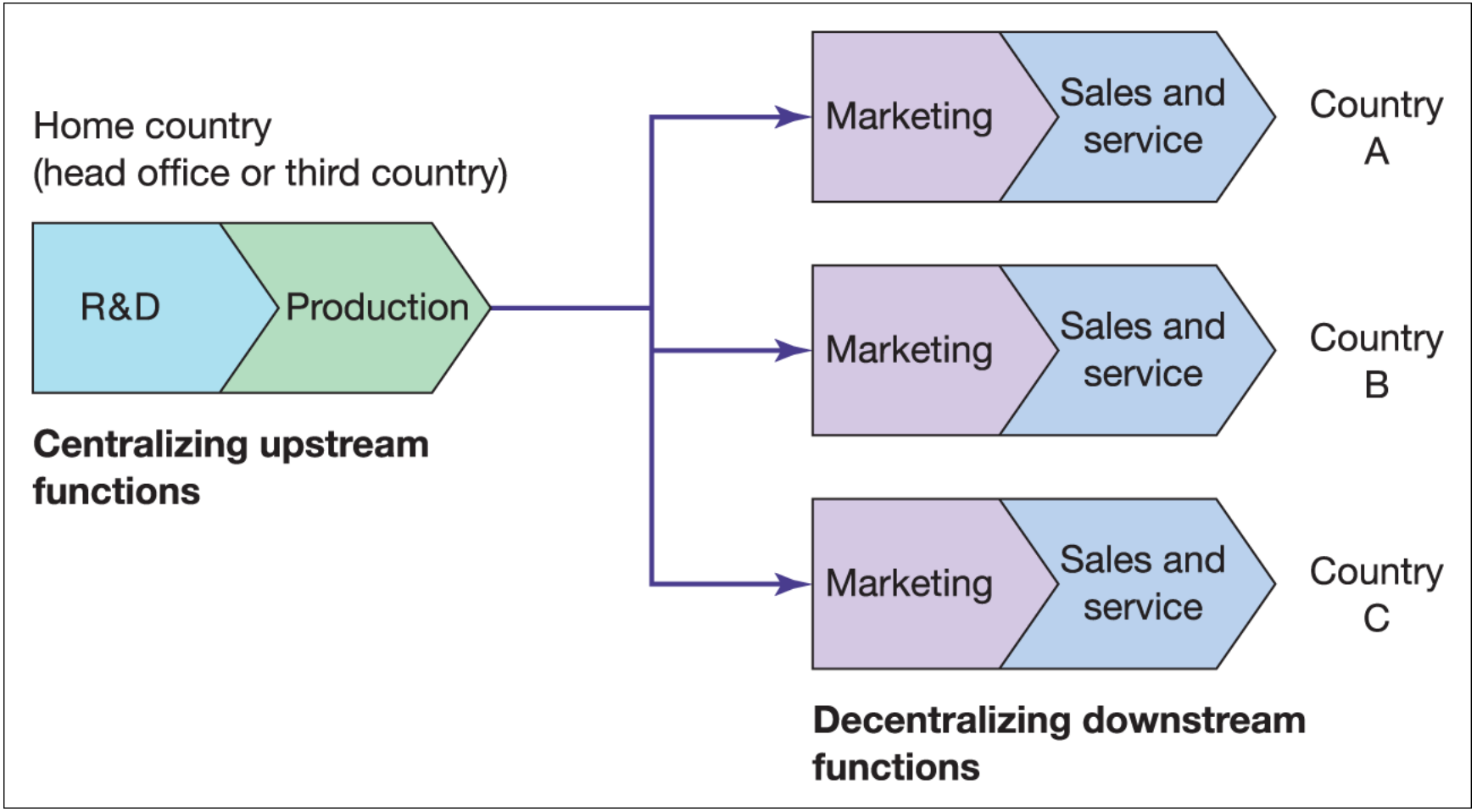
The internal analysis: The VALUE CHAIN



The value chain in relation to the strategic pyramid



The value chain in international markets: centralization versus decentralization



The traditional value chain versus the service value chain

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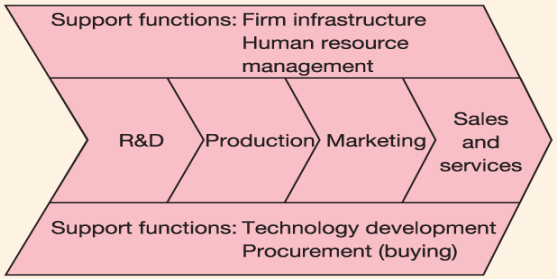
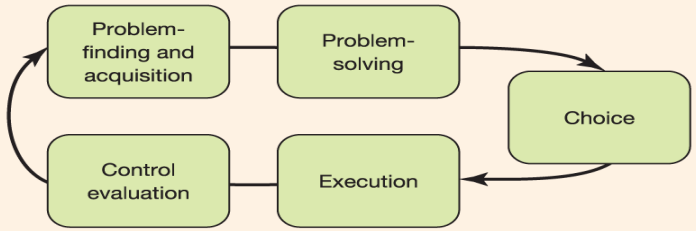
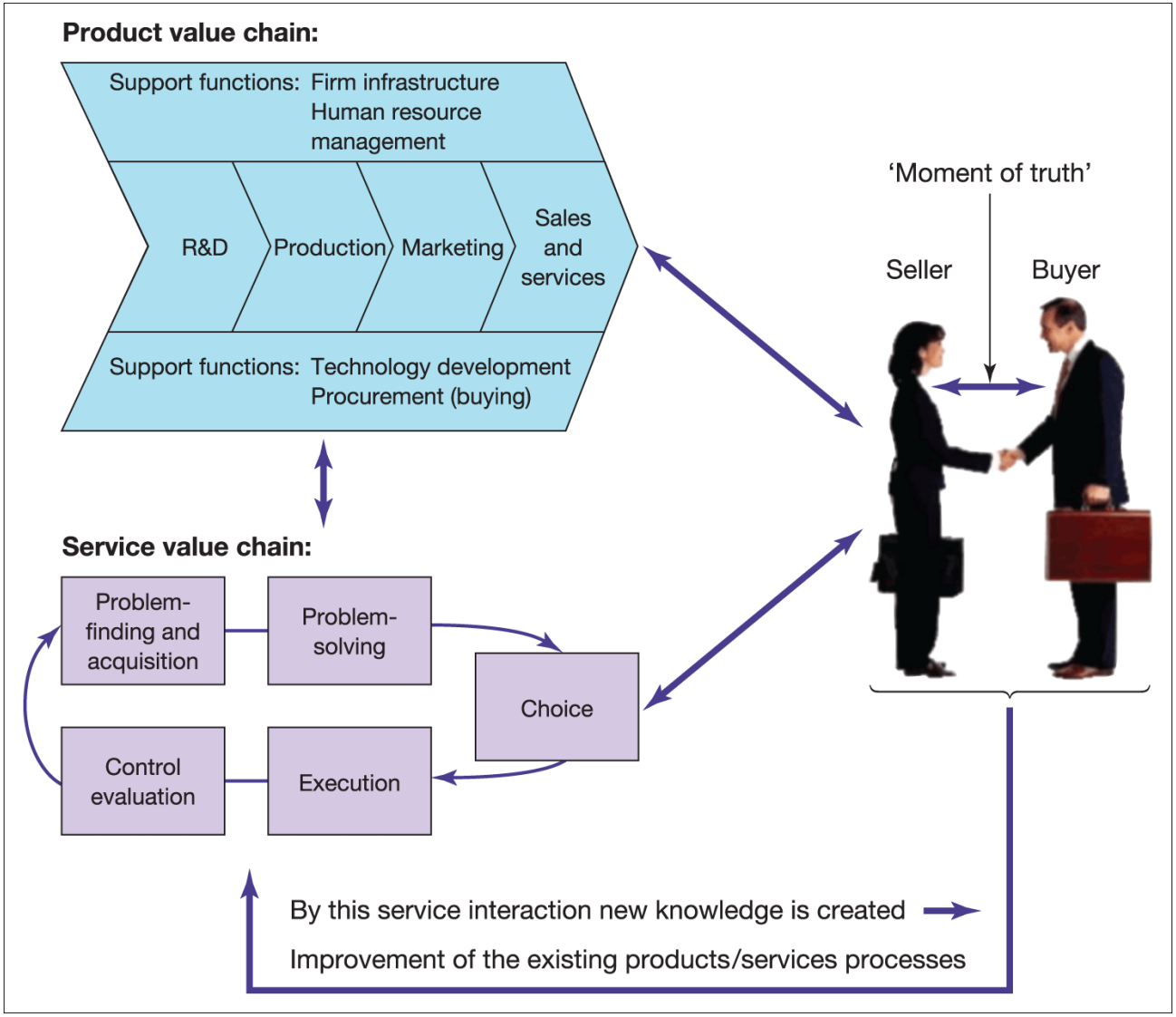
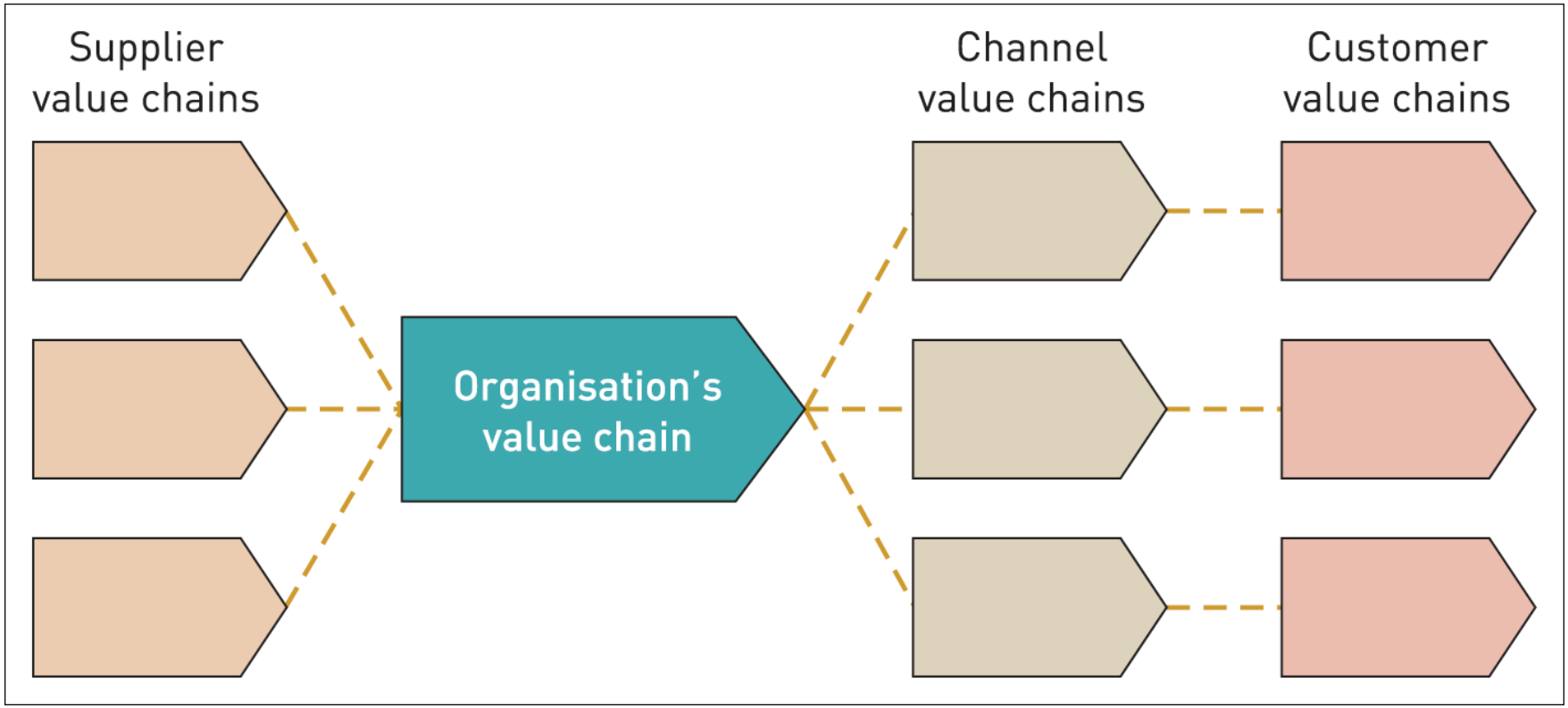
Traditional value chain model	Service value chain ('value shop') model
Value creation through transformation of inputs (raw material and components) to products.	Value creation through customer problem-solving. Value is created by mobilizing resources and activities to resolve a particular and unique customer problem. Customer value is not related to the solution itself but to the value of solving the problem.
Sequential process ('first we develop the product, then we produce it, and finally we sell it')	Cyclical and iterative process.
	
The traditional value chain consists of primary and support activities. **Primary activities** are directly involved in creating and bringing value to customers: upstream (product development and production) and downstream activities (marketing and sales and service). **Support activities** enable and improve the performance of the primary activities, e.g. procurement, technology development, human resource management and firm infrastructure.	The **primary activities** of a value shop are: 1. ***Problem-finding***: activities associated with the recording, reviewing and formulating of the problem to be solved and choosing the overall approach to solving the problem. 2. ***Problem-solving***: activities associated with generating and evaluating alternative solutions. 3. ***Choice***: activities associated with choosing among alternative problem solutions. 4. ***Execution***: activities associated with communicating, organizing and implementing the chosen solution. 5. ***Control and evaluation***: activities associated with measuring and evaluating to what extent implementation has solved the initial statement.
Examples: production and sales of furniture, consumer food products, electronic products and other mass products.	*Examples*: banks, hospitals, insurance companies, business consulting services and telecommunications companies.

Combining the traditional value chain and the service value chain



The value network



Supplier value chains: for example, steel suppliers in the car industry

Channel value chain: for example, the value chain of a distributor / wholesaler

Customer value chain: for example, the value chain of a retailer (such as Carrefour)

Source: Adapted from *Competitive Advantage: Creating and Sustaining Superior Performance* (Michael E. Porter 1998) with the permission of The Free Press, a Division of Simon & Schuster Adult Publishing Group, Copyright © 1985, 1998 by Michael E. Porter. All rights reserved

SWOT analysis

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Potential strengths	*Potential weaknesses*
Core skills	Lack of strategic direction
Financial capacity	Obsolete plant
Good customer perceptions	Weak IT systems
High market share	Weak control systems
High productivity	Lack of finance
High service/product quality	Lack of management skills
Low production costs	Weak marketing skills
Superior R&D	Lack of access to raw materials
High innovation record	Poor access to distribution
Good top management	High costs
Proprietary technology	Poor product quality
Access to distribution	Poor innovation record
Political protection	
Potential opportunities	*Potential threats*
Entry to new markets/segments	New low-cost competitors
Diversification to new activities	Technological substitutes
Vertical integration	Slow growth
High growth prospects	New regulatory requirements
Export markets	Bargaining power of customers/suppliers
Weak competitors	Adverse demographic shifts
Government contracts	Vulnerability to recession
Deregulation	Changing customer needs

Figure 1.9 SWOT analysis: potential elements for inclusion

Internal Assessment (S&W)

- Management and organization
- Operations
- Finance
- Other factors

External Assessment (0&T)

- Societal changes
- Governmental changes
- Economic changes
- Competitive changes
- Supplier changes
- Market changes

SWOT analysis in different organizational levels

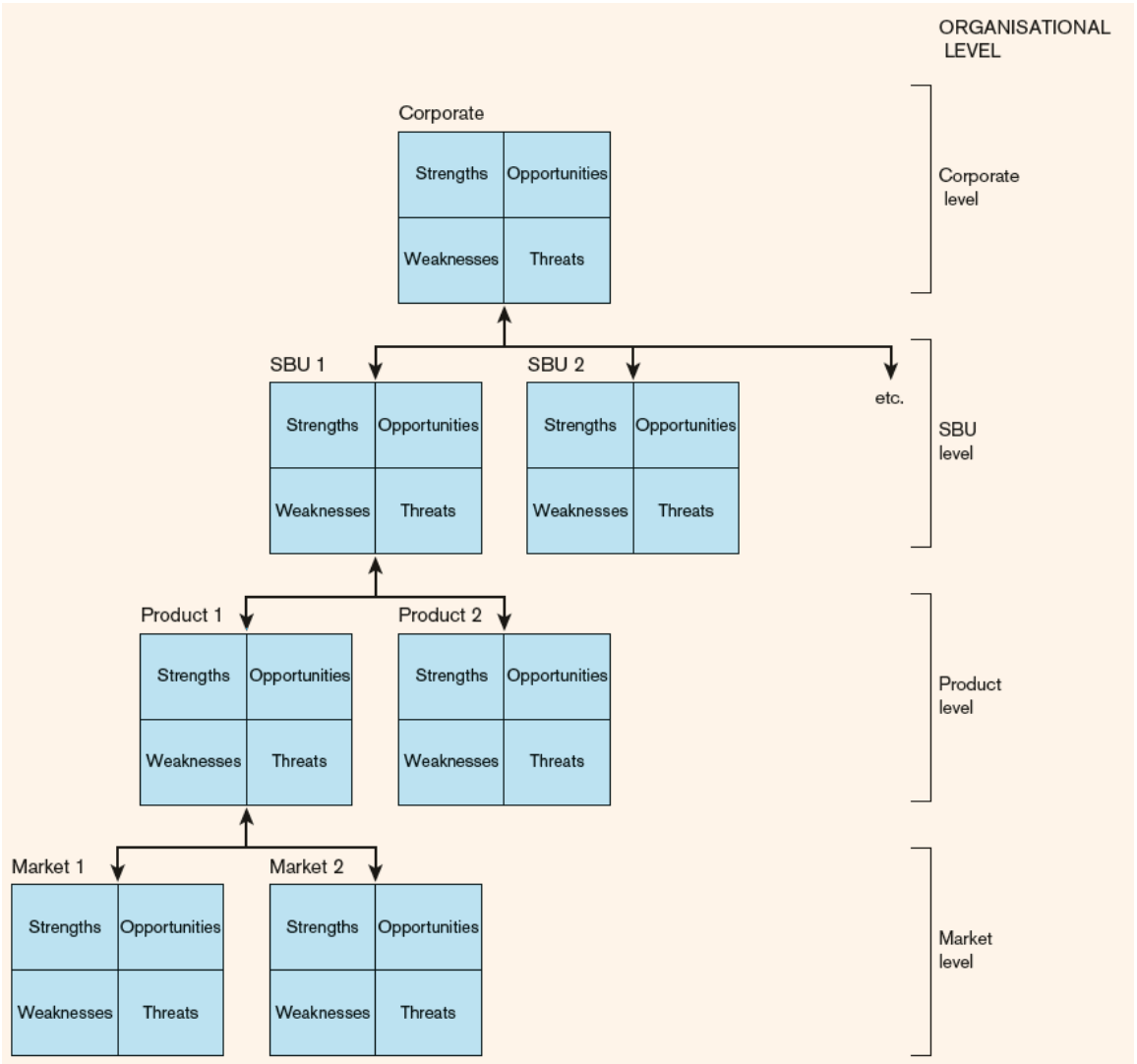

Figure 7.1 The link between SWOT analyses and different organisational levels

An example for:
www.unilever.com

Corporate Level:
- Unilever

SBU (Strategic Business Unit) Level:
- Food
- Personal care products
- Home care products

Product Level
- Frozen food
- Ice cream
- cheese

Market / Brand Level
- Viennetta
- Magnum
- Eskimo – Germany
- Algida - Italy

Strategic Links in the SWOT analysis

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		Internal factors	
		Strengths (S)	Weaknesses (W)
External factors	Opportunities (O)	**SO Strategic options** Generate options here that use srengths to take advantage of opportunities	**WO Strategic options** Generate options here that take advantage of opportunities by overcoming weaknesses
	Threats (T)	**ST Strategic options** Generate options here that use srengths to avoid threats	**WT Strategic options** Generate options here that minimise weaknesses and avoid threats

Thank you

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CORE CONCEPTS:

1)PEST ANALYSIS

2)SWOT ANALYSIS

3)TRADITIONAL VALUE CHAIN

4)SERVICE VALUE CHAIN