EXTERNAL AND INTERNAL ANALYSIS
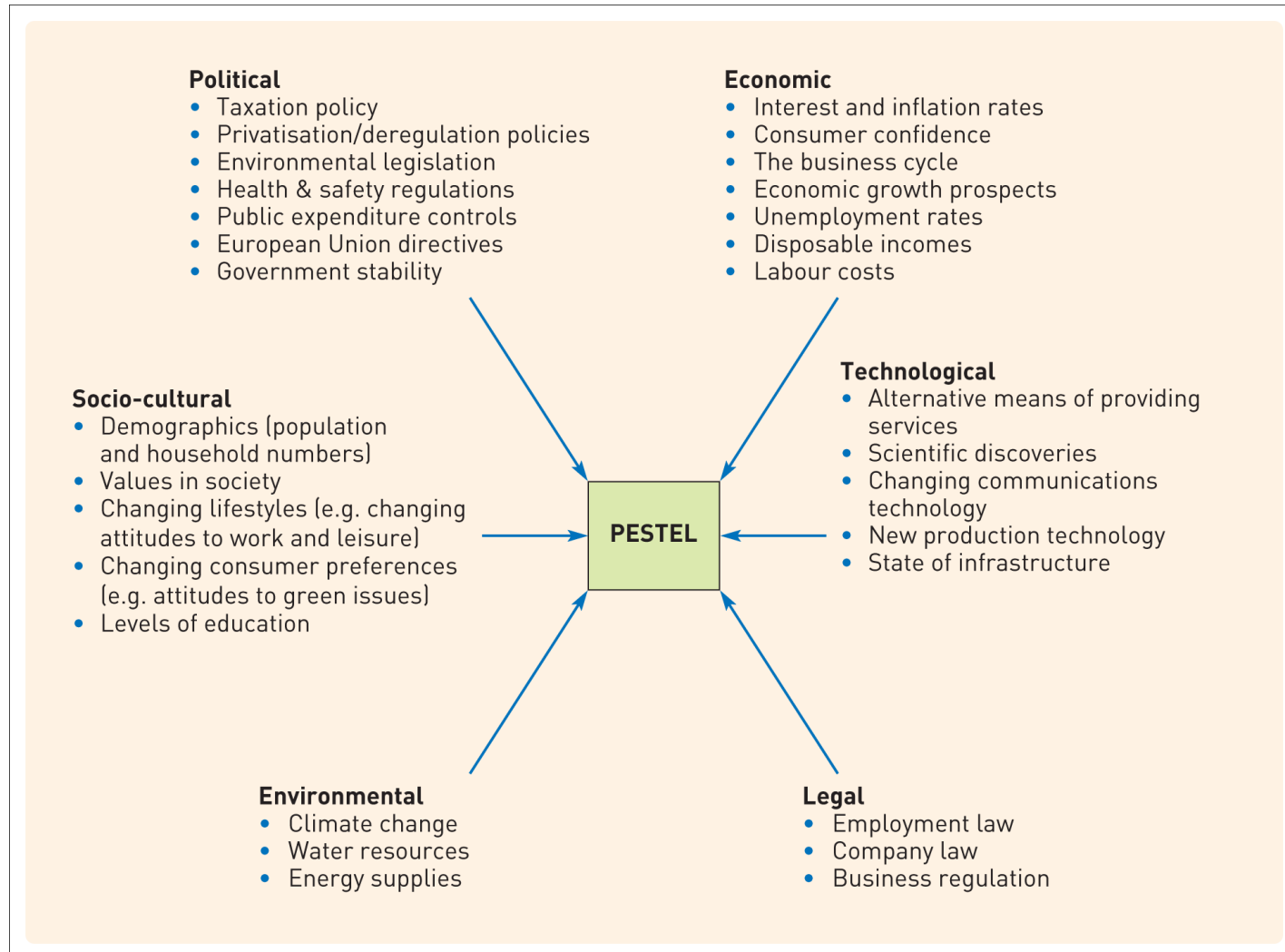
Donata Vianelli

The External Environment

PEST(EL) ANALYSIS

Political
- Taxation policy
- Privatisation/deregulation policies
- Environmental legislation
- Health & safety regulations
- Public expenditure controls
- European Union directives
- Government stability

Economic
- Interest and inflation rates
- Consumer confidence
- The business cycle
- Economic growth prospects
- Unemployment rates
- Disposable incomes
- Labour costs

Socio-cultural
- Demographics (population and household numbers)
- Values in society
- Changing lifestyles (e.g. changing attitudes to work and leisure)
- Changing consumer preferences (e.g. attitudes to green issues)
- Levels of education

Technological
- Alternative means of providing services
- Scientific discoveries
- Changing communications technology
- New production technology
- State of infrastructure

PESTEL

Environmental
- Climate change
- Water resources
- Energy supplies

Legal
- Employment law
- Company law
- Business regulation

The internal analysis: The VALUE CHAIN

Research and development	Production	Marketing	Sales and service
Technology	Purchasing	Marketing information system	Sales force management
Research	Scale economies	Distribution	Merchandising
Development	Productive capacity	Prices	Logistics/ transportation
Patents	Productivity	Communication	Terms of sale/ delivery
Product features	Component parts	Technical literature	Terms of payment
Technical specification	Assembly	Packaging	Inventory
Product performance	Material flow	Product argumentation (versus competing products)	Customer service (BDA service – before, during and after purchasing)
Design	Production technology	Brand positioning	
Engineering	Quality management	Social media	
Product quality	Manufacturing cycles		

← Upstream | **Downstream →**

The value chain in international markets: centralization versus decentralization

Home country (head office or third country)

R&D Production

Centralizing upstream functions

Marketing | Sales and service — Country A

Marketing | Sales and service — Country B

Marketing | Sales and service — Country C

Decentralizing downstream functions
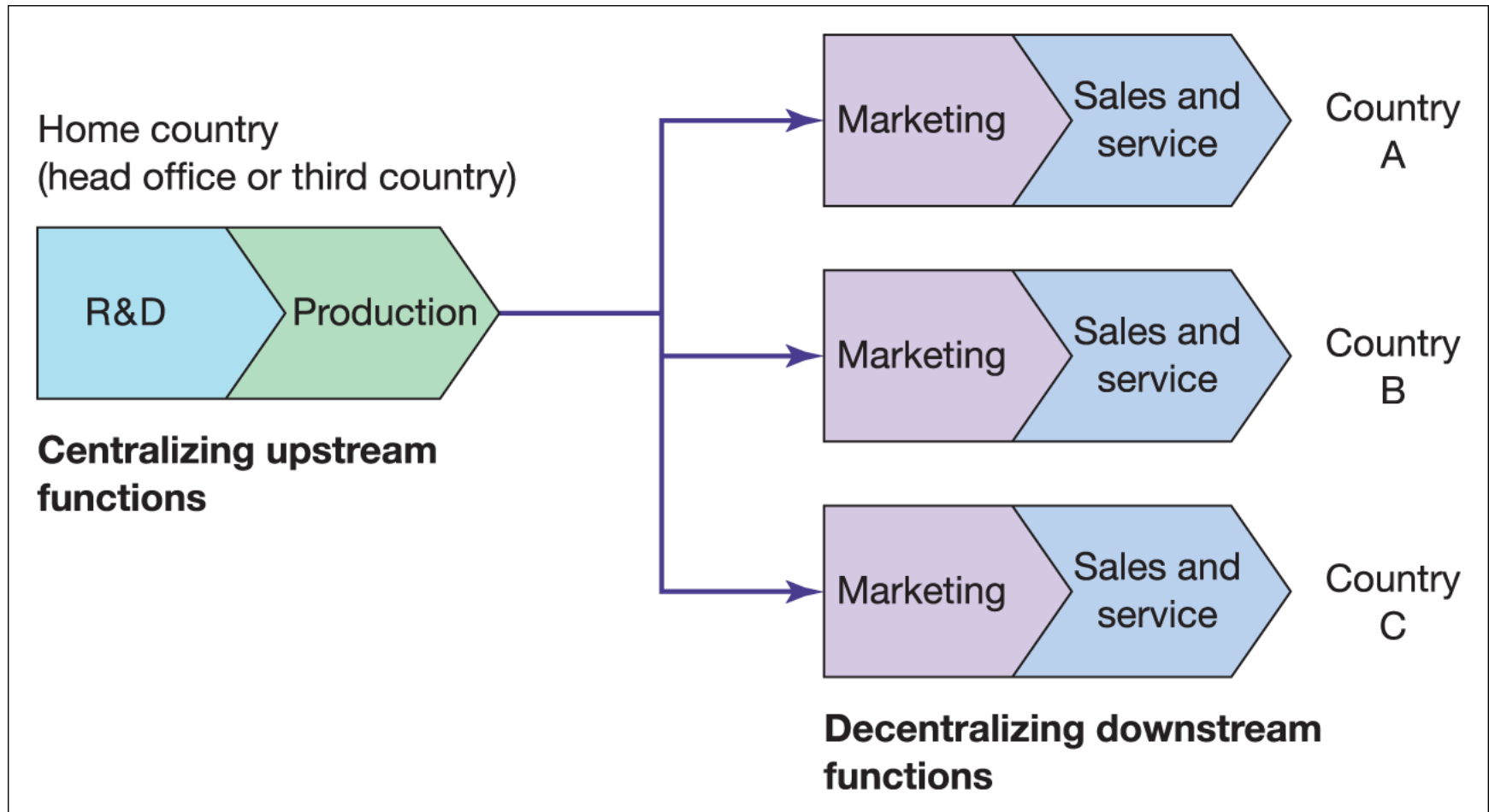
The traditional value chain versus the service value chain

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.
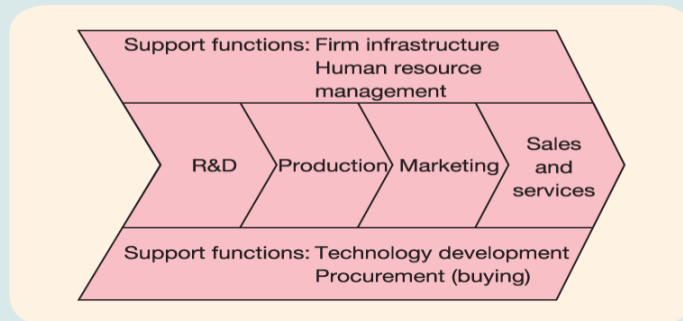
The traditional value chain consists of primary and support activities. **Primary activities** are directly involved in creating and bringing value to customers: upstream (product development and production) and downstream activities (marketing and sales and service). **Support activities** enable and 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
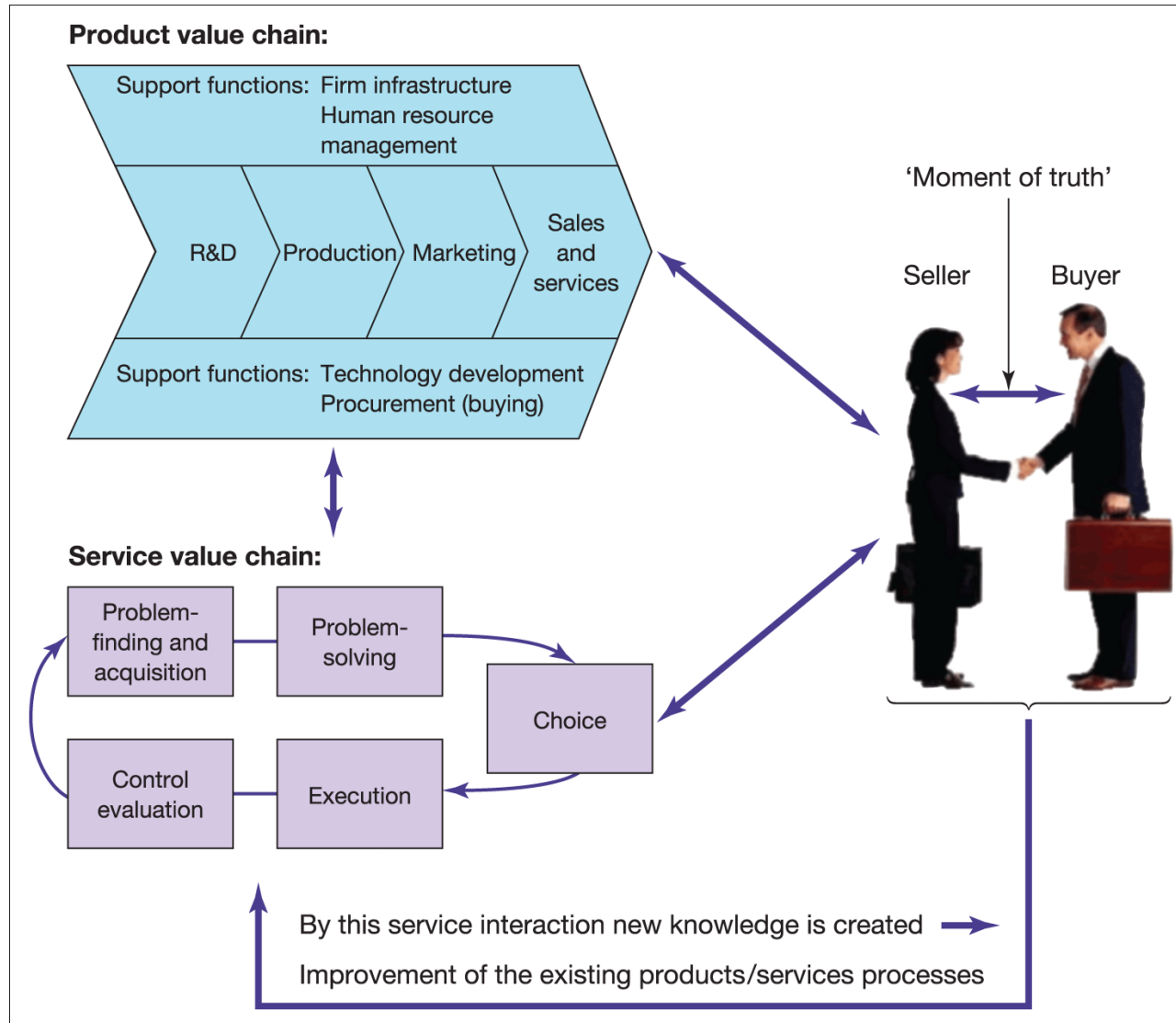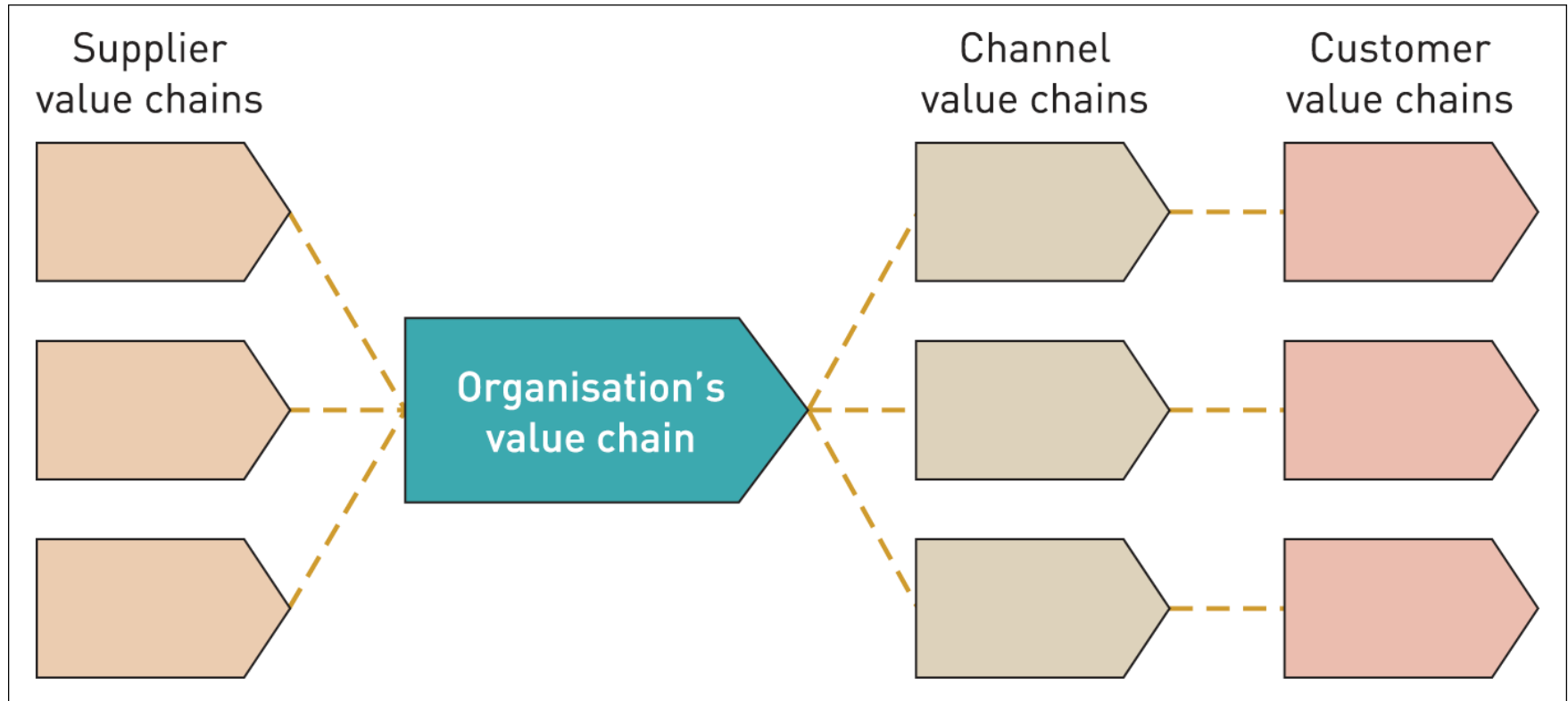
Supplier value chains: for example, steel suppliers in the car industry

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)

SWOT analysis

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 (O&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
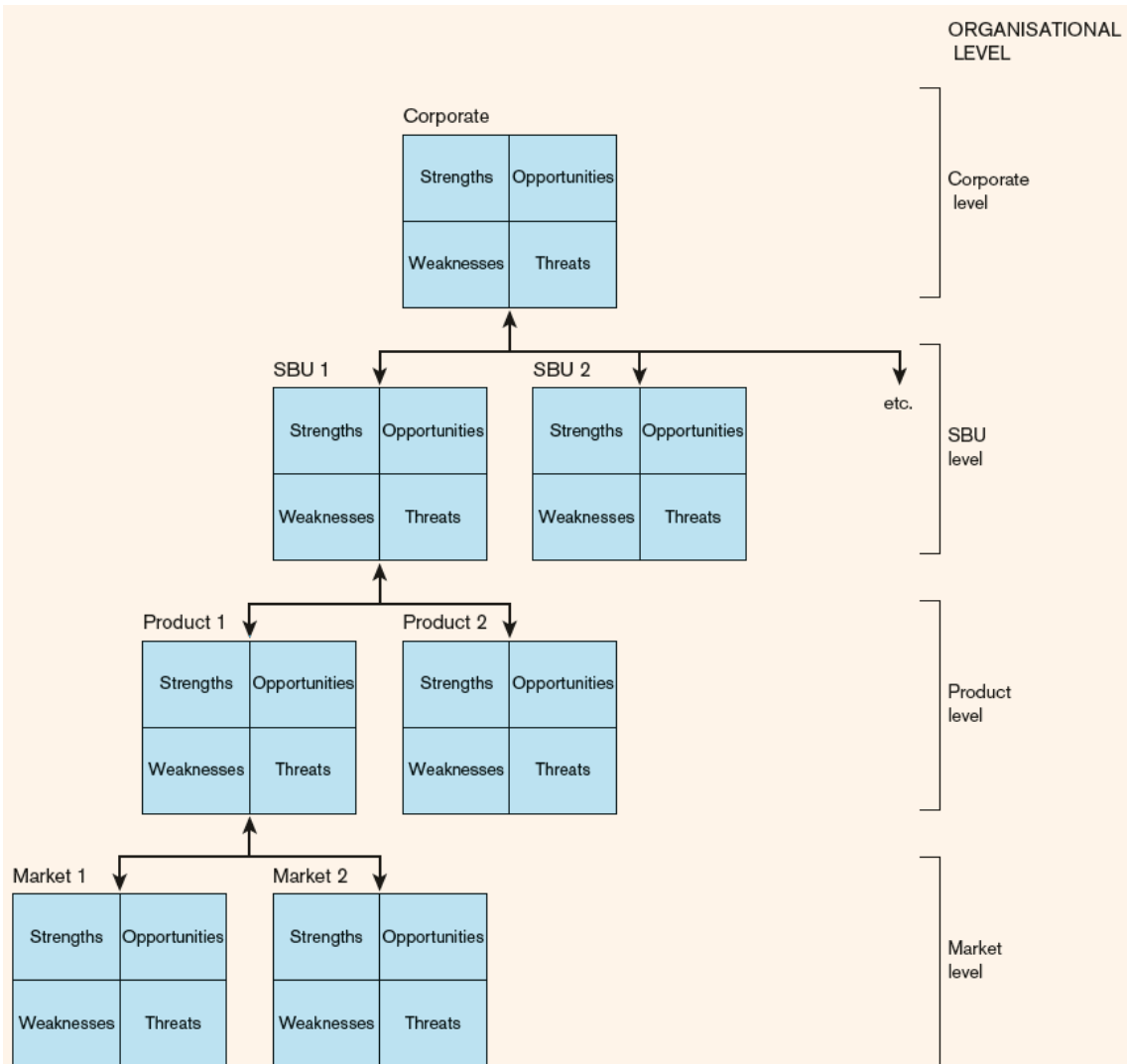
An example for:
www.unilever.com

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

		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

CORE CONCEPTS:

1)PEST ANALYSIS

2)SWOT ANALYSIS

3)TRADITIONAL VALUE CHAIN

4)SERVICE VALUE CHAIN