

Lesson 5

Environmental Scanning, Industry and Market Analysis

Objectives of the lesson

At the end of the lesson, students will be able to:

- Understand the meaning, types, and process of environmental scanning,
- Describe meaning and components of SWOT analysis,
- Explain meaning and components of PESTLE analysis,
- Discuss important facets of industry and company analysis, and
- Describe reasons of failure of new businesses.

1.0 Introduction

In today's environment where competition requires business enterprises to be distinct and meet customer needs with better or newer products and organization becomes in critical necessity. Thus, entrepreneurs and enterprises are continuously creative and innovative to remain relevant to the customers, which is the purpose of every business. This requires studying the environment thoroughly and scan it from the viewpoint of stakeholders and customers in line with the strengths, opportunities, threats, etc.; so as to bring in the picture before any entrepreneurial activity is started with.

Environment Scanning is careful monitoring of an organization's internal and external environments for detecting early signs of opportunities and threats that may influence its current and future plans. Environmental scanning is a concept from business management by which businesses gather information from the environment, to better achieve a sustainable competitive advantage. To sustain competitive advantage, the company must also respond to the information gathered from environmental scanning by altering its strategies and plans when the need arises.

2.0 Types of Environmental Scanning

- **Active Scanning:** The components of active scanning are quite different from those of passive scanning. For example, the searching or screening process requires a much higher level of attention. The information resources scanned are specifically selected for their known or expected richness in the desired information. A dimension of scanning concerns the time element of the information source being scanned. Information sources are either already existing resources, such as "the literature," or continuing resources, which continue to come in, such as a magazine subscription. Active scanning involves the conscious selection of continuous resources and, from time to time, supplementing them with existing resources as needed.
- **Passive Scanning:** Everyone scans continually. Ongoing scanning at an almost unconscious level is passive scanning. No effort is made to select a particular information resource to scan. The criteria of passive scanning are obscure, unspecified, and often continuously changing. Only ad hoc decisions are made on the

results of this type of scanning. Passive scanning has traditionally been a major source of information about the external world for most entrepreneurs for decision making on the new product. The continuous scanning only helps them arrive at an innovative altogether new solution to business.

- **Directed Scanning:** The active scanning of an existing resource for a specific item is directed scanning. Usually, this scanning continues until the items are located, not necessarily until the resources are exhausted. As the specific desired item is known and the resource can be specified, the scanning committee can delegate whatever directed scanning is necessary. Whether it is about starting a new business or launching a new product, conducting a market assessment is essential to know whether there exists any demand to the idea. Knowing of the market's needs provides with key information that is essential in further moulding the idea and to develop the plan map. Too often, businesses spend thousands of dollars launching a "new" idea with a limited market because of competition. The owner is forced to re-evaluate his strategy and determine if there is room for another player.

3.0 Process of Environmental Scanning

Environmental scanning begins with gathering information about the internal and external environments. This information can be obtained from various sources, both internal and external to the organization. Scanning includes a broad range of activities. It is a process of screening a large body of information for some bit of information that meets certain screening criteria. This process has several distinct steps:

- Searching for information resources
- Selecting information resources to scan
- Identifying criteria by which to scan
- Scanning
- Determining special actions to take on the scanning results.

When entrepreneurship is taken into consideration; environment scanning is another important factor to be taken care of with regards to developing a new plan which comprises of innovative ideas and creative ends so that the same may be developed and offered in the market after a careful analysis for its possibility of acceptance, opportunity in the same, and prospective threats. Entrepreneurs need to carry out environmental scanning to anticipate and interpret the results that their business innovation would result in. The term environmental scanning refers to the screening of large amounts of information to detect emerging trends and to create a set of scenarios. Companies which scan their business environment are proven to achieve higher profits and revenue growth compared to companies which do not.

There are various techniques which may be used in environment scanning namely, (i) SWOT analysis, (ii) PESTEL Analysis, and (iii) Industry Analysis. Originated by Albert S Humphrey in the 1960s, SWOT Analysis is as useful now as it was then. SWOT is the analysis of a company's Strengths, Weaknesses, Opportunities, and Threats to identify a

strategic niche that the company could exploit. SWOT analysis merges the external factors (environment analysis, opportunities, and threats identification) with the internal factors (company's resources analysis, company's strengths, and weaknesses identification).

4.0 SWOT Analysis

SWOT analysis is very important. The entrepreneur is able to access the feasibility of his goals and objectives using the outcome of SWOT analysis and identification of the company's opportunities. The entrepreneur who has conceived an idea in his minds would then be able to evaluate whether such plans, mission and objectives are even close to realism or are in the wave of air only. If they are realistic, the entrepreneur can continue to formulate strategies. But if they are not realistic, the entrepreneur should amend and modify plans or discard the same to originate a new one which has more odds of the success.

This tool can use it in two ways - as a simple icebreaker helping entrepreneur to analyse the plan and judge the feasibility, or in a more sophisticated way as a serious strategy tool wherein the entrepreneur checks SWOT every stage of his formulating the plan and then put forward the idea as a business.

There are four components to this analysis. Strengths and weaknesses are often internal to your organization, while opportunities and threats generally relate to external factors. For this reason, the SWOT Analysis is sometimes called Internal-External Analysis and the SWOT Matrix is sometimes called an IE Matrix.

All four components cover certain basic questions that need to be answered. These are as follows:

Strengths

- What advantages does your idea have?
- How does it serve the society better than anyone else?
- How do you use unique or lowest-cost resources to your idea that others can't?
- What would be your strengths in the market ones this idea is materialized?
- What factors mean that you "get the sale"?
- What is your innovation's Unique Selling Proposition (USP)?

Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your prospective market.

Weaknesses

- What is the further scope of improvement?
- What are the things that need to be avoided?
- What are people in your market likely to see as weaknesses?
- What factors lose you sales?

Opportunities

- What good opportunities can you spot in relation to the innovative idea you have?
- What interesting trends are you aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to your field.
- Changes in social patterns, population profiles, lifestyle changes, and so on.
- Local events.

Threats

- What obstacles are likely to be faced?
- What are your competitors doing?
- Are quality standards or specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Could any of your weaknesses seriously threaten your business?

When looking at your strengths, think about them in relation to your competitors. For example, if all your competitors provide high quality products, then a high-quality production process is not strength in your organization's market, it's a necessity. A useful approach when looking at opportunities is to look at your strengths and ask yourself whether these open any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

When looking at opportunities and threats, PESTLE Analysis can also help to ensure that you do not overlook external factors, such as new government regulations, or technological changes in your industry. This is another technique of environment scanning.

5.0 PESTLE Analysis

PESTLE analysis stands for political, economic, sociological, technological, legal, and environmental scanning. PESTLE analysis is in fact, an audit of environmental influences on the business idea with the purpose of using this information to pre-ascertain the factors affecting the likely project and thereby guide strategic decision-making in accordance. The assumption is that if the entrepreneur can audit his influencing environment and assess potential threats to his project, it will be better placed in the market, and be able to accommodate the influencing factors.

PESTLE analysis is a useful tool for understanding the 'big picture' of the environment in which an entrepreneur is planning to operate. Specifically, a PESTLE analysis is a useful tool for understanding risks associated with several forms of markets, growth, or decline, and as such the position, potential and direction for an individual business or Organisation. This is often used as a generic 'orientation' tool, which finds out the stand of the prospective business plan of the entrepreneur in the external environment in terms of the components so mentioned that will at some point affect the internal

environment of the business ones it is set up. The six elements form a framework for reviewing a situation and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

It is important to clearly identify the subject of a PESTLE analysis (that is a clear goal or output requirement), because an analysis of this type is multi-faceted in relation to a particular business unit or proposition – if the focus is diluted as to what is exactly required from the technique, the picture so produced would be unclear and ambiguous. A scan of the external macro-environment which are likely to influence the business idea can be expressed in terms of certain factors which include: political factors, economic factors, social factors, technological factors, legal factors, and environmental factors.

Political Factors

- Tax policy
- Employment laws
- Environmental regulations
- Trade restrictions and tariffs
- Political stability
- Government type and stability
- Freedom of press, rule of law and levels of bureaucracy and corruption
- Regulation and de-regulation trends
- Environmental and consumer-protection legislation

Economic Factors

- Current and projected economic growth, inflation, and interest rates
- Exchange rates
- Stage of business cycle
- Unemployment and labour supply
- Labour costs
- Levels of disposable income and income distribution
- Impact of globalization
- Impact of technological or other change on the economy

Social Factors

- Health awareness
- Population growth rate
- Age distribution
- Career attitudes
- Emphasis on safety
- Population health, education and social mobility, and attitudes
- Population employment patterns, job market freedom and attitudes to work.
- Press attitudes, public opinion, social attitudes, and social taboos.

- Lifestyle choices and attitudes

Technological Factors

- R&D activity
- Impact of emerging technologies and research & Development activity
- Impact of internet, reduction in communications costs and increased remote working.
- Impact of technology transfer

Legal Factors

- Licensing framework
- Employment laws
- Competition laws
- Foreign transaction laws
- Taxation laws

Environmental Factors

- Environmental impact
- Environmental legislation
- Energy available and costs
- Waste disposal

This checklist of the factors is inclusive in nature. Other related aspects that have a bearing in respective factor may also be considered based on the stance of the idea that is being converted into business.

6.0 Industry Analysis

An important tool for environment scanning is to conduct industry analysis which is to take a survey of the existing industry if any, before setting up an entrepreneurial endeavour. An entrepreneur is most concerned with the intensity of competition to which his idea is exposed. The level of this intensity may be determined by basic competitive forces. In scanning the industry, the entrepreneur must assess the importance to its success of each of the five forces.

The Porter's Five Forces tool is a simple but powerful tool to evaluate the power of business. This is useful, because it helps to understand both the strength of current competitive position, and the strength of the position moving into. With a clear knowledge of where power lies, fair advantage can be taken in case of situation of strength, and contrarily improve a situation of weakness, and avoid taking wrong steps. This forms an important part of planning toolkit of business endeavour.

Conventionally, the tool is used to identify whether new products, services or businesses have the potential to be profitable. However, it can be very illuminating when used to understand the balance of power in other situations.

Porter's Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation. These are:

- **Supplier Power:** This assesses how easily suppliers may drive up prices. This in lieu depends upon the number of suppliers of each key input. The uniqueness of their product or service, their strength and control over the entrepreneur's cost of switching from one to another, and so on are significant factors to measure suppliers' powers. The fewer the supplier choices, and the more is the need of suppliers' help, the more powerful suppliers become.
- **Buyer Power:** This evaluates how easy it is for buyers to drive prices down. Again, this is driven by the number of buyers, the demand for the new product or service. The importance of each individual buyer to business, the cost to them for accepting the new product launched, and so on are influencing factors to know how much buyers can affect the success of business plan.
- **Competitive Rivalry:** What is important here is the number and capability of competitors. If there are many competitors to the new product, who offer equally attractive products and services, then the product will most likely have little power in the situation, because suppliers and buyers will have alternate choices to make in case, they do not get a good deal. On the other hand, if no-one else can do what you do, then you can often have tremendous strength.
- **Threat of Substitution:** This is affected by the ability of your customers to find a different way of doing what you do – for example, if you supply a unique software product that automates an important process, people may substitute by doing the process manually or by outsourcing it. If substitution is easy and substitution is viable, then this weakens your power.
- **Threat of New Entry:** Power is also affected by the ability of people to enter your market. If it costs little in time or money to enter your market and compete effectively, if there are few economies of scale in place, or if you have little protection for your key technologies, then new competitors can quickly enter your market and weaken your position. If you have strong and durable barriers to entry, then you can preserve a favourable position and take fair advantage of it.

7.0 Market Analysis

The fostering entrepreneurship and business growth is clearly important for economic development. When a planned economy transforms to free-market system, the importance of entrepreneurship is emphasized, since such a tradition did not previously exist in the business culture. In most cases, the transformation includes privatization of publicly owned property and therefore, changes in ownership structure in the economy. Several challenges exist in changing ownership structures in an optimal fashion. Appropriate physical and institutional infrastructure will be needed to attract private investment, and well-designed strategies and policies should be introduced to provide a

welcoming environment for businesses. As transformation is much more than an economic process.

Conducting a market assessment helps to prepare to enter a new market, launch a new product/service, and start a new business. The marketing assessment process can be laid down into six steps, namely, (i) defining the problem, (ii) analysis of the situation, (iii) obtaining data that is specific to the problem, (iv) analysis and interpreting the data, (v) fostering ideas and problem solving, (vi) designing a plan.

- **Defining the Problem:** Defining the problem is crucial to conducting a successful marketing analysis. This may require a great deal of time, but it is well worth the time and energy employed. Defining the objectives is defining the problem which is tantamount to a successful marketing campaign. Many entrepreneurs tend to waste valuable time performing good research on the wrong problem.
- **Analysing the Situation:** An analysis of the situation is an informal survey of what information is available in the problem area. The analysis will help define the problem and ascertain the need for additional information. This process entails informal talks with informed people. Informed individuals can be others in the company or outsiders with knowledge about the industry or product. In some instances, customers are contacted to provide information. When the marketing manager is unfamiliar with the situation, the analysis step is of primary importance. It is important to understand the problem area - including the nature of the target market, competition, the marketing mix, and the external environment. The analysis should focus on both primary and secondary research. Primary research is research that is proactively created for a specific purpose. Primary research may include focus groups, qualitative surveys, and phone interviews. In contrast, secondary research is research that has already been conducted for other purposes. From its valuable information can be gleaned. Secondary research can be found in libraries, online, through periodicals, books, etc. Once all the information required is known, make sure market should be receptive to the product or service. The widget might be the most innovative on the market, but if the target market does not think so, it leads to nowhere zone. Thus, a comprehensive primary market research study is essential.
- **Obtaining Data Specific to the Problem:** The next step requires gathering primary research and performing a formal research project. Many approaches can be used to collect primary data. The purpose is for the research to identify customer's behaviour patterns in response to product good or any idea. Research can be done in person or through a survey. Questioning can be qualitative or quantitative. Another research option is to use observation of customers and their purchases or utilization of a product or service.
- **Data Analysis and Interpretation:** Data analysis and interpretation is critical in analysing the market. By merely conducting the research work and collating the data is of no help unless analysed. The data needs to be used in a constructive way to define the problem and then establish a plan. In quantitative research, this step most

often involves statistics. Marketing managers must be able to draw valid and solid conclusions from the conducted study. Despite use of the correct statistical tool and accurate calculations, the interpretation could be wrong. It is therefore required that the analysis be done in the support of experts and right results are crafted.

- **Fostering Ideas and Problem Solving:** At this step, the research results are used to make marketing decisions. The findings should be applied in marketing planning. If the research does not provide the information necessary to make these decisions, the company, whether small or large, has wasted its time, money and manpower on unnecessary data. The final step must be anticipated throughout the entire process.
- **Marketing Plan:** This six-step process of market analysis is critical in designing a marketing plan that is tailored to the product or service. The process can be extremely helpful in disclosing a significant but previously unrecognized problem. By finding and focusing on the real problem, the researcher and business owner can move quickly to a useful solution. A marketing plan shows the specifics of how the entrepreneur will market or attempt to sell his product or service.

8.0 Reasons of Failure of New Businesses

While startup life seems glamorous at best when it comes to dizzying valuations and unsustainable bubbles that help to prop up newly-formed businesses in the hottest sectors, the truth of the matter remains that 70 percent of all businesses with employees fail within 10 years. According to the Bureau of Labor Statistics, this has less to do with the economic climate, but numbers do vary according to different industries. If you're an entrepreneur who's knee-deep in the trenches battling it out, or you're simply someone looking to enter the startup fray, then the looming prospect of failure is ever-present and always there to catch you when you're slipping. With so much demanding our time as business owners, it is easy to be caught off guard. If you are not prepared for those often-occurring trials and tribulations, you could easily find yourself on the streets of failure.

Now, if you are looking to avoid business failure, there are some things you should be doing, and other things that you should not be doing. Take heed of these 10 recurring reasons for why most businesses fail and do your best to ensure that you address these before they address you. Some might be easy to overlook. Others are usually rather obvious. Regardless of your situation, find a good mentor who can help you navigate the stormy waters of any business in the current climate.

It is not easy by any measure to build a substantial business. If it were, everyone would be doing it. But wouldn't you prefer to spend a few years of your life like most people won't enjoy the rest of your life like most people cannot? Sure, you would. Focus on the long term. Do your best today while keeping your eye on the proverbial prize.

- **Failure to deliver real value:** At the heart of any business is value. The world's most successful businesses deliver the most value. Plain and simple. Find a way that you can under-promise but over-deliver. Always over-deliver. No matter what the

situation. If you're looking for a fast buck or to get rich quick, you'll quickly find yourself at a dead end. Instead, focus on the real value proposition. If you're not adding as much (if not more) value as your competitors, then you need to rethink your approach.

- **Failure to connect with the target audience:** If you cannot connect with your target audience, your business will fail. An inability to connect with your demographic means that not only are you unaware of your potential consumer's wants and needs, but you are also oblivious to how you can best help them. What do they want? Not just what they need. But who are they and what do they really want? Is it to invoke a certain emotion? To attain a certain status. How is your product or service going to help them solve their problems? Really and truly, if you are not addressing the consumer's pain points, you probably do not understand the consumer very much. And if that is the case, then you have no business selling until you do really understand them. Use focus groups, market surveys, email ask-campaigns, or straight-up phone calls, to understand and connect with your target audience better. Discover who they are right down to the most minute detail. That is one way you'll avoid business failure.
- **Failure to optimize conversions:** Most entrepreneurs have so much that they need to deal with that they forget to address the absolute heart of any business. Without optimizing conversions, no matter what a business does, especially if it raises money and has a high burn rate, it'll be futile trying to survive when the money runs dry. Address the conversions early on to ensure that there is a positive ROI on any ad spends. Then you know you have a sustainable business. You cannot solely rely on organic traffic methods like search engine optimization. Without conversion optimization, any business is wasting their time. Even long-shot unicorns need to focus on income-producing, conversion-optimizing activities, even while building up a customer base. Without it, it's merely a matter of time until the money runs out and executives are scrambling to keep the doors open.
- **Failure to create an effective sales funnel:** Building an effective sales funnel should be one of the primary goals of any founder. These automated selling machines help to reduce friction in making the sale and help to put many of the functions of running a business on autopilot, allowing founders to grow things like traffic sources or to educate consumers through webinars and so on. Sales funnels also help to build a relationship with the consumer through email warming campaigns. The truth is that it is hard to sell anything to straight cold traffic. Sure, you can. You will need some pre-existing proof and customer testimonials to do it. But bigger brands that have been around and are trusted will achieve that much easier than newcomers will. The sales funnel will create that relationship with the consumer, relate your story and journey, while also pitching the product or service. It's more of a soft sell that's veiled in real value-added prose. That is where the magic happens.

- Lack of authenticity and transparency: Businesses that lack authenticity and transparency will fail. Maybe not today or tomorrow, but one day soon. Without the customer's needs in sight, and a focus on the wrong things, businesses could easily lose the consumer's trust. Rather than risk that from happening, focus on being authentic, transparent, and finding ways that you can give more rather than take. It's a rare commodity in business, but one necessary if it's going to survive for the long term.
- Unable to compete against market leaders: Staying afloat is exponentially harder when competition is fierce and smaller businesses have a bull's eye on their backs, especially true in lucrative markets where the stakes are high. If smaller businesses can't compete against their larger counterparts, they need to find ways to pivot and stay in business. To do that takes a keen business sense and true guts.
- Inability to control expenses: It is easy to spend when the coffers are full. But having an acute sense to control the company's expenses is imperative. Much of this comes back to the founder's personal money habits. Are they millionaire habits? Or are they detrimental? When the expenses spiral out of control, or a founder uses much of the company's money for personal or frivolous expenses, it's impossible for the business to survive.
- Lack of strategic and effective leadership: Most businesses lack strategic and effective leadership. Without real experience in the business world, most newcomers to the entrepreneurial fray struggle with the overwhelming number of demands placed on them. When problems do arise, which they often do, navigating those murky waters becomes an impossible task. That is why businesses, big or small, need to build up their board of seasoned advisors, and founders need to find trusted mentors, if they are serious about longevity.
- Failure to build an employee tribe: Your employee tribe and culture is crucial for long-term success. Most businesses will fail because they forget about their employees. When it becomes an us-versus-them scenario between executives and employees, a downward spiral begins to occur. That spiral might not happen overnight. It might take years to occur. But it does happen. And when the opportunity is right, the best employees jump ship to go somewhere they're well appreciated.
- Failure to create the proper business systems: Sales funnels aren't the only automation required to run a successful business that's built for the long term. Other proper business systems need to be put in place. CRMs need to be implemented and customized. Policies need to be enacted. Financial audits and tracking procedures need to be created. And so on. Without a good deal of systems and automation, the amount of work becomes overwhelming and the details can easily be overlooked.

Summary

Every organization has an internal and external environment. In order for the organization to be successful, it is important that it scans its environment regularly to assess its developments and understand factors that can contribute to its success. Environmental scanning is a process used by organizations to monitor their external and internal environments. The purpose of the scan is the identification of opportunities and threats affecting the business for making strategic business decisions. As a part of the environmental scanning process, the organization collects information regarding its environment and analyses it to forecast the impact of changes in the environment. This eventually helps the management team to make informed decisions. Environmental scanning should primarily identify opportunities and threats in the organization's environment. Once these are identified, the organization can create a strategy which helps in maximizing the opportunities and minimizing the threats.

Self-check Questions

1. What is business opportunity analysis? Discuss important considerations in opportunity analysis.
2. What do you mean by environmental scanning? Discuss its process and various tools commonly used for economy and industry analysis.
3. Discuss key dimensions of SWOT analysis in reference to economy analysis.
4. What do you mean by PESTLE analysis? Clearly explain components of focus areas in PESTLE analysis.
5. Write a detailed note on Porter's approach to Industry analysis.
6. Explain clearly important causes of business failure. Also discuss possible remedies to resolve them.