

Analytical Methods of Business Environment

Analytical Methods of Internal Environment

8. lecture



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SCHOOL OF BUSINESS
ADMINISTRATION IN KARVINA

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BUSINESS ENVIRONMENT

Outline of the lecture

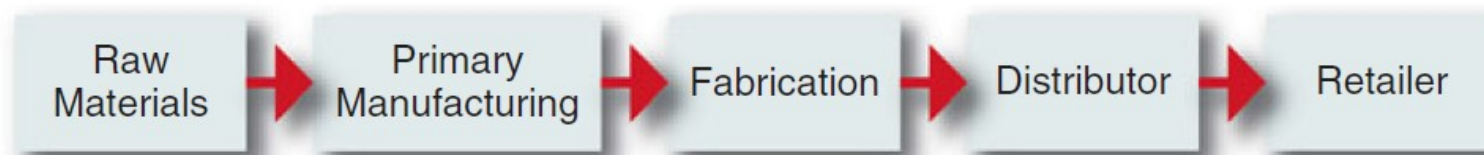


1. Value chain analysis
 2. VRIO analysis
 3. McKinsey 7S model
 4. Stakeholders analysis
 5. Portfolio analysis
 6. SWOT analysis
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- Internal business environment is constituted by the organization itself.
 - The analysis of internal business environment refers to the analysis of the business internal environment to assist business strategy and performance, the internal strengths and weaknesses of the organization.
 - Among the analyses of internal business environment the following methods can be ranked:
 - Porter Model of Value Chain Analysis;
 - McKinsey 7S;
 - VRIO method;
 - Stakeholders analysis;
 - Portfolio analyses – ABC method, BCG matrix, GE matrix.
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- A **value chain is a linked set of value-creating activities** that begin with basic raw materials coming from suppliers, moving on to a series of value-added activities involved in producing and marketing a product or service, and ending with distributors getting the final goods into the hands of the ultimate consumer.
- The focus of value-chain analysis is to examine the corporation in the context of the overall chain of value-creating activities, of which the firm may be only a small part.

Typical Value Chain for a Manufactured Product

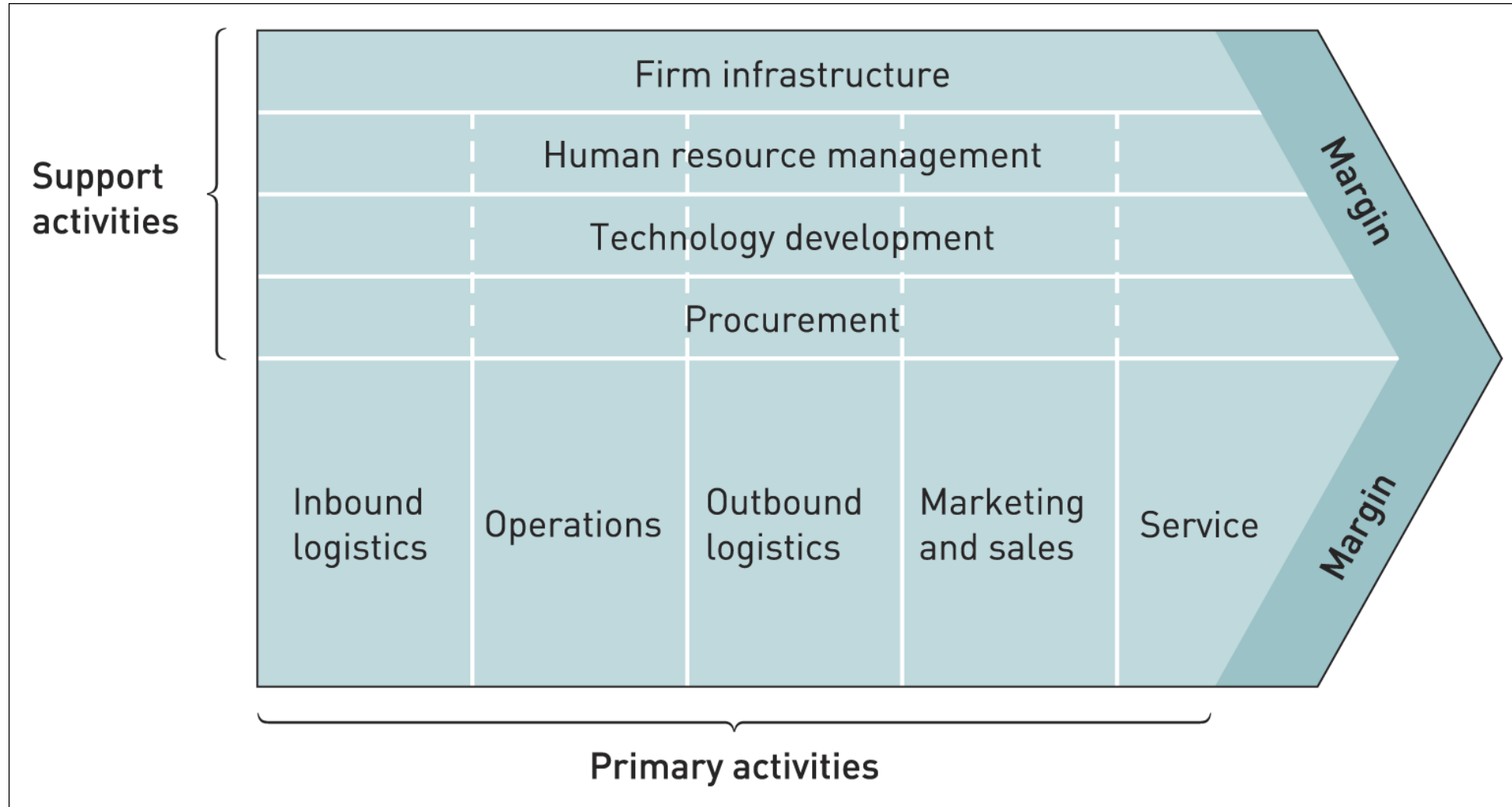


Porter's Model of Value Chain Analysis



- Value chain analysis proposes a system view of the organization composed of stages in a transformation process with inputs and outputs to each of the distinct stages.
 - Value, according to Michael Porter, is the price that a customer is prepared to pay for an offering. Profit is the difference between this value and total costs to the enterprise of providing that offering.
 - Value chain analysis divides an enterprise into a chain of activities and each element in the value chain delivers a part of the total value to the customer and contributes part of the total profit.
 - The purpose of value chain analysis is to measure the value delivered and the profit contributed by each link of the chain.
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Porter's Model of Value Chain Analysis



Porter's Model of Value Chain Analysis



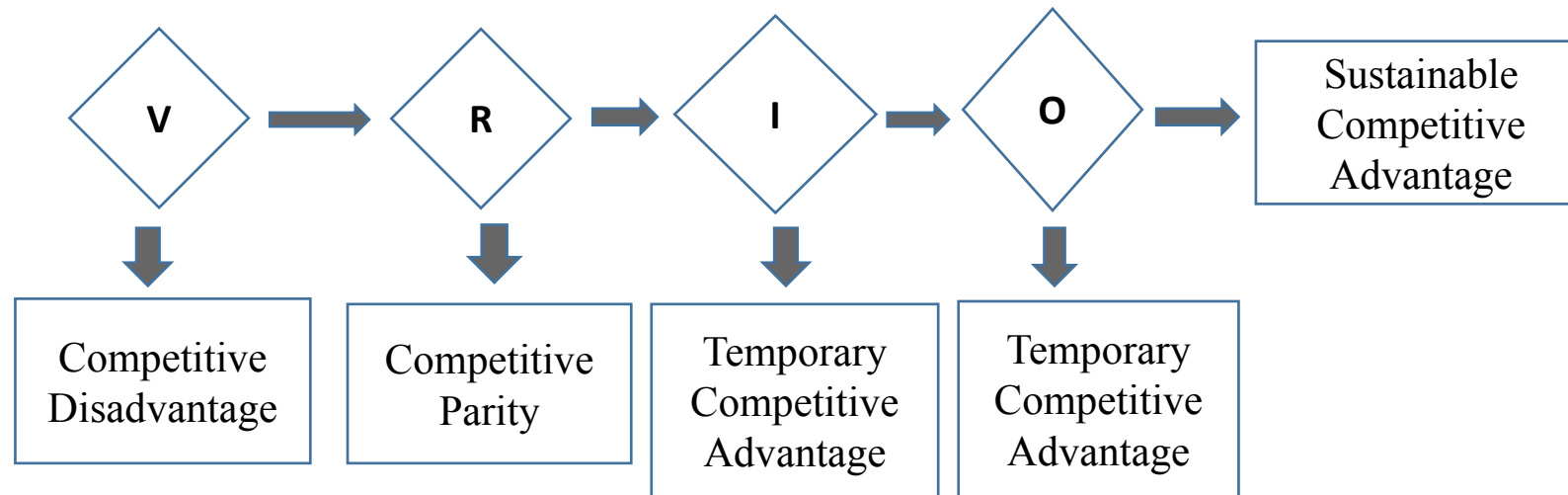
- Porter's value chain model describes five values that are generating primary activities and support activities.
 - ***Primary activities:***
 - Inbound logistics;
 - Operations;
 - Outbound logistics;
 - Marketing and sales;
 - Service.
 - ***Support activities:***
 - Procurement;
 - Technology development;
 - Human resource management;
 - Firm infrastructure.
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- **Value chain analysis** involves the following three steps:
 1. **Examine each product line's value chain in terms of the various activities** involved in producing that product or service.
 2. **Examine the "linkages" within each product line's value chain:** Linkages are the connections between the way one value activity (for example, marketing) is performed and the cost of performance of another activity (for example, quality control).
 3. **Examine the potential synergies among the value chains of different product lines or business units:** Each value element, such as advertising or manufacturing, has an inherent economy of scale in which activities are conducted at their lowest possible cost per unit of output. If a particular product is not being produced at a high enough level to reach economies of scale in distribution, another product could be used to share the same distribution channel.
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- VRIO analysis was developed by Barney (1995) to identify strategically valuable resources. The analysis builds on the basic ideas of the resource-based view RBV.
 - Resources that are subjects of VRIO analysis are:
 - Tangible (physical) and intangible;
 - Human;
 - Financial.
 - The term VRIO stands for the initials of four questions that can be asked whether the resource is:
 - Valuable?
 - Rare?
 - Imitable?
 - Organised for usage?
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Applying the VRIO



Prostor pro doplňující informace, poznámky

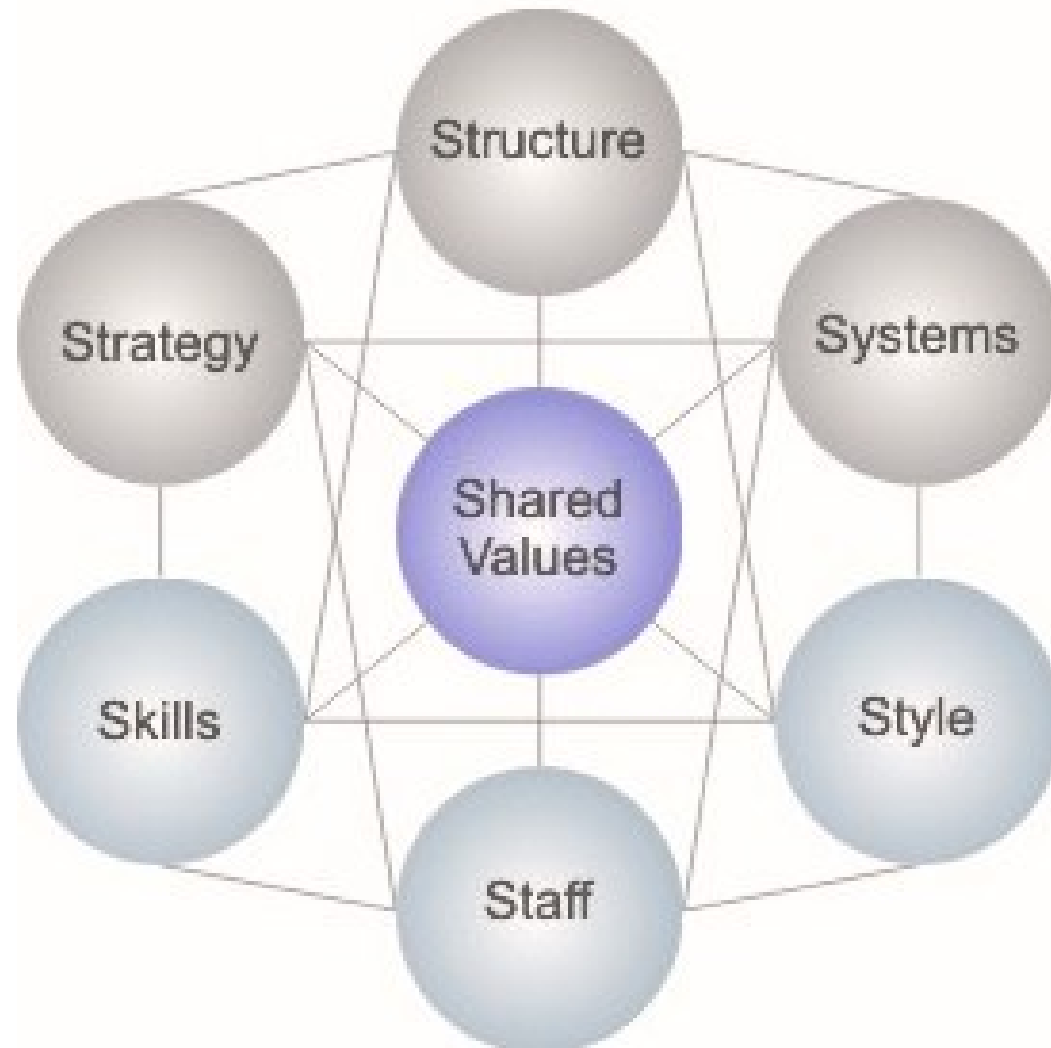


- The McKinsey 7S framework was first published by Waterman and others in 1980. The McKinsey consultants argue that in looking at an organization as a whole, seven variables are important, but the essential thing about them is that they are inter-linked.
 - The model can be used in a wide variety of situations where an alignment perspective is useful to help organizations:
 - Improve the performance of a organization;
 - Examine the likely effects of future changes within a organization;
 - Align departments and processes during a merger or acquisition;
 - Determine how best to implement a proposed strategy.
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McKinsey 7S Model



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- The McKinsey 7S model involves seven interdependent factors which are categorized as either hard or soft elements.
 - ***Hard elements*** – are easier to define or identify and management can directly influence them. These are:
 - Strategy;
 - Structure;
 - Systems.
 - ***Soft elements*** – can be more difficult to describe and are less tangible and more influenced by culture. These are:
 - Shared values;
 - Skills;
 - Style;
 - Staff.
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Stakeholders Analysis



- Stakeholder is any individual or group that is affected by business decision. Stakeholders have the capacity to affect business performance through their decisions and behavior.
 - ***Internal stakeholders*** are all internal members of a organization:
 - Employees;
 - Directors;
 - Shareholders.
 - ***External stakeholders*** include:
 - Customers;
 - Suppliers;
 - Competitors;
 - Politicians;
 - Policy-makers;
 - Community;
 - General public
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- In terms of environmental analysis, organizations need to have an understanding of steps in analysis:
 - Who are stakeholders of the organization;
 - Identification nature of interests of stakeholders;
 - Nature and level of their interest in the organization;
 - Consider whether there are any conflicts between the interests of different stakeholders;
 - Power of stakeholders to exert influence – consider in what way and to what extent, each stakeholder exercises power of influence.
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Portfolio Analysis

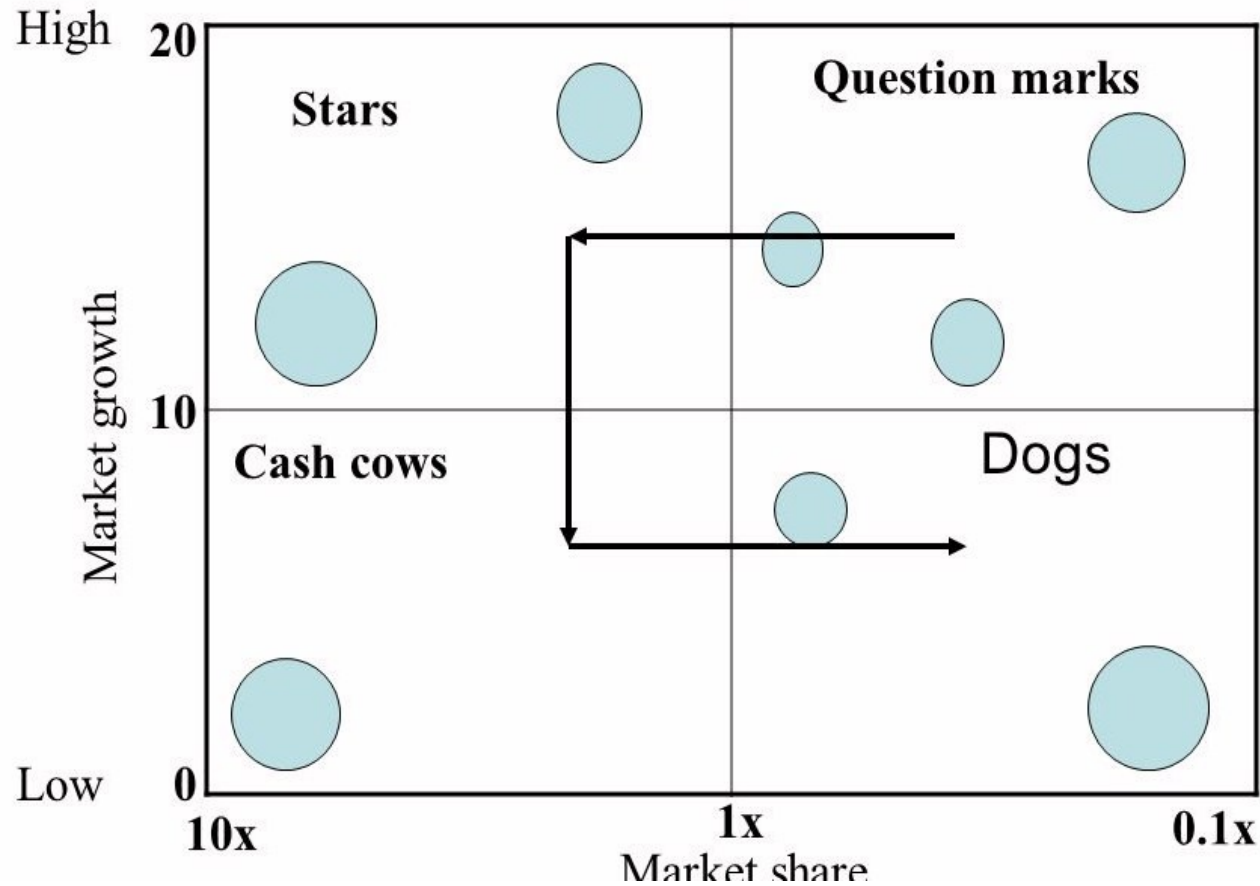


- Portfolio analysis could be defined as a set of techniques that help strategists in taking strategic decisions with regard to individual products or business in a organization s portfolio.
 - The objective of the analysis is to determine how to allocate resources to each of the product or business in the organization s portfolio.
 - It is primarily used for competitive analysis and corporate strategic planning in multiproduct and multi-business organizations.
 - The analysis of products or business can be performed by using these methods:
 - Boston Consulting Group Matrix BCG matrix;
 - General Electric Matrix GE matrix.
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BCG matrix

- Boston Consulting Group matrix BCG matrix provides a graphic representation for a organization to examine the different businesses in a organization s portfolio on the basis of their relative market shares and industry growth rates.
 - Vertical axis denotes the rate of growth in sales, in percentage, for a particular industry.
 - Horizontal axis represents the relative market share, which is the ratio of organization s sales to the sales of the industry s largest competitor or market leader.
 - The result of combining the industry growth rate and the relative market share in a four-cell matrix.
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BCG matrix



Market growth is expressed in percentage terms.

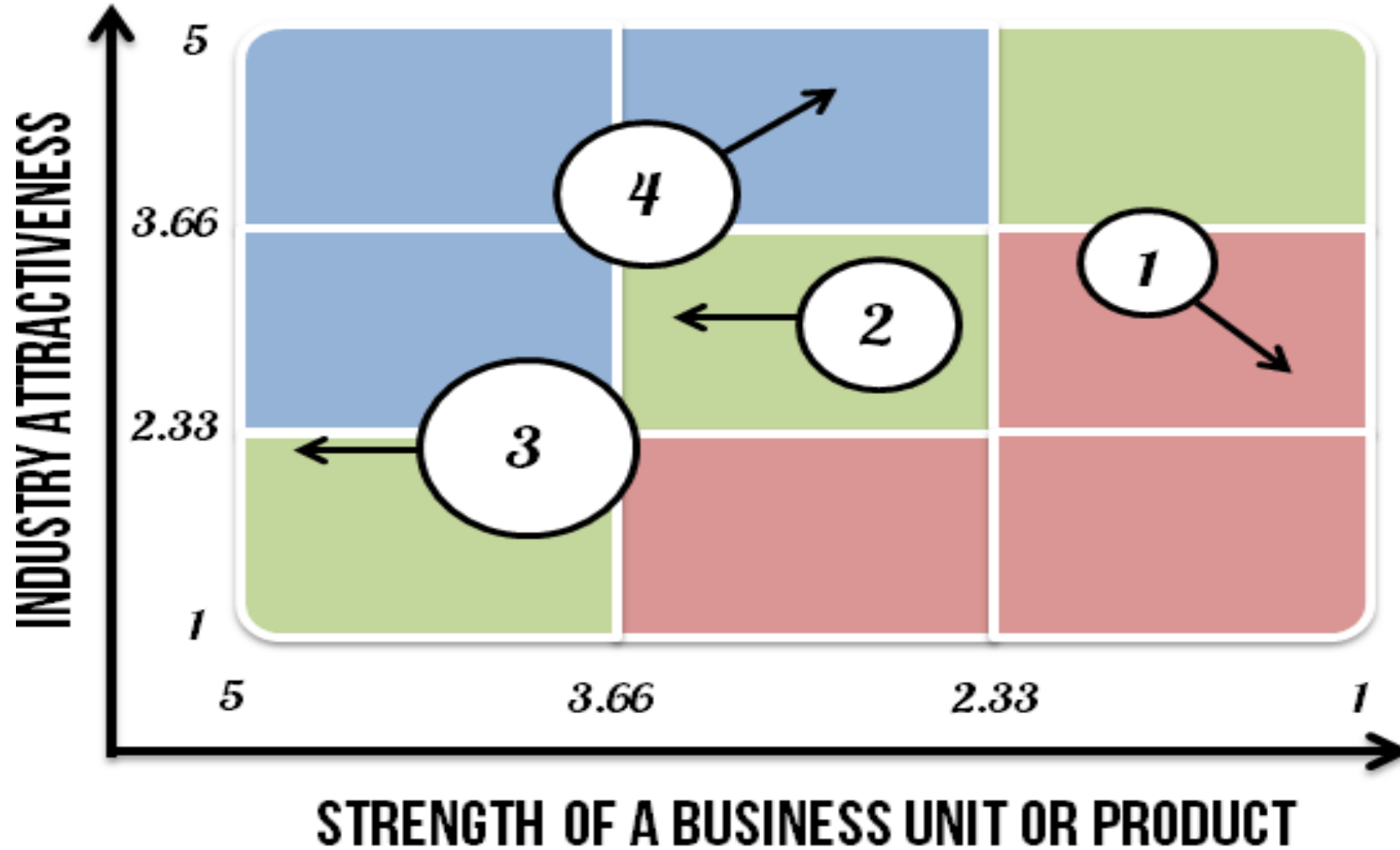
BCG matrix

- **Question marks** (problem children) – businesses with high industry growth but low market share for a organization. They are usually new products which have a good commercial potential.
 - **Stars** – are businesses with high industry growth and high market share for a organization. A organization generally pursues an expansion strategy to establish a strong competitive position with regard to a star business.
 - **Cash cows** – are businesses which generate high market share but their rate of market growth is slow as cash cow businesses lose their attractiveness and tend towards a decline.
 - **Dogs** – are businesses with related slow industry growth and have a low relative market share. They neither generate nor require large amount of cash.
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GE McKinsey matrix

- General Electric McKinsey matrix is very similar to BCG matrix. GE matrix is used to analyze organization's product or business unit portfolio and facilitate the investment decisions.
 - GE matrix is a nine cell matrix. It is a more sophisticated business portfolio framework than the BCG matrix – the matrix has multicriterial character.
 - The organization's products or business units are evaluated on two axes:
 - Industry attractiveness;
 - Competitive strength.
 - There are three groups of boxes (three fields) in GE matrix:
 - Investment/growth;
 - Selectivity/earnings;
 - Harvest/divest boxes.
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GE McKinsey matrix



GE McKinsey matrix

- **Industry attractiveness** indicates how hard or easy it will be for a organization to compete in the market and earn profit.
 - Industry attractiveness consists of many factors that collectively determine the competition level in it. There s no definite list of which factors should be included to determine industry attractiveness, but the following are the most common:
 - Long run growth rate;
 - Industry size;
 - Industry profitability (entry barriers, exit barriers etc.);
 - Industry structure;
 - Product life cycle changes;
 - Changes in demand;
 - Trend of prices;
 - Macro environment factors;
 - Seasonality;
 - Availability of labor;
 - Market segmentation.
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GE McKinsey matrix

- **Competitive strength** measures how strong, in terms of competition, a particular business unit (or product) is against its rivals. Managers try to determine whether a business unit has a sustainable competitive advantage.
 - The following factors determine the competitive strength of a business unit:
 - Total market share;
 - Market share growth compared to rivals;
 - Brand strength;
 - Profitability of the organization;
 - Customer loyalty;
 - Resources or capabilities;
 - Business unit strength in meeting industry's critical success factors;
 - Strength of a value chain;
 - Level of product differentiation;
 - Production flexibility.
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GE McKinsey matrix: Steps for performing of GE matrix

- Determine industry attractiveness of each business unit
 - Make a list of factors, assign weights, rate the factors, calculate the total scores.
 - Determine the competitive strength of each business unit
 - Make a list of factors, assign weights, rate the factors, calculate the total scores.
 - Plot the business units on a matrix
 - Analyze the information
 - Invest/grow box – organizations should invest into the business units that fall into these boxes.
 - Selectivity/earning box – manager should invest into these business units only if manager has the money left over the investments in invest/grow business units group.
 - Harvest/divest box – business unit that are operating in unattractive industries.
 - Identify the future direction of each business unit
 - Prioritize investments
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GE McKinsey matrix: Advantages and disadvantages of GE matrix

- Advantages
 - Helps to prioritize the limited resources in order to achieve the best returns.
 - Managers become more aware of how their products or business units perform.
 - Identifies the strategic steps the organization needs to make to improve the performance of its business portfolio.
 - Disadvantages
 - Requires a consultant or a highly experienced person to determine industry's attractiveness and business unit strength as accurately as possible.
 - It is costly to conduct.
 - It doesn't take into account the synergies that could exist between two or more business units.
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SWOT Analysis

- SWOT analysis combines internal and external analyses – the Strengths and Weaknesses of the organizations coupled with the Opportunities and Threats in the external business environment.
- Benefits of SWOT analysis
 - Simplicity;
 - Lower costs;
 - Flexibility;
 - Integration and synthesis;
 - Collaboration.
- Criticisms against SWOT analysis:
 - It allows companies to create lists without serious consideration of the issues;
 - It often becomes a sterile academic exercise of classifying data and information.

SWOT Analysis



	Strengths	Weaknesses
Opportunities	S-O strategy maxi – maxi Aggressive strategy	W-O strategy mini – maxi Turnaround strategy
Threats	S-T strategy maxi – mini Diversification strategy	W-T strategy mini – mini Defensive strategy