## External and Internal Analysis

The external factors facing the company can be broadly classified as factors related to the macro-environment and factors related to the industry. The macro environment can be analyzed using the PESTLE framework, which will be discussed in more detail in Module 2. PESTLE includes Political, Economic, Social, Technological, Legal and Environmental factors. Let us look at a couple of these factors that may have a bearing on the strategic decisions that we are looking at. Economic factors include those related to the economy such as GDP growth rate and per capita income. A booming economy implies that there are opportunities for growth for multiple competitors and the threat posed by a large foreign giant can be managed, other things being equal.Low per capita income may imply that any foreign retailer that targets high-end goods will only see a limited growth potential. Further, a domestic company that targets goods consumed by the masses is unlikely to be threatened by a foreign player, given that a foreign player is very likely to have higher costs compared to the domestic incumbent.

Industry level factors include rivalry, entry barriers, threat of substitutes and so on. Again, these will be discussed in much greater detail in Module 2. Let us discuss one of these – the threat of substitutes. One of the biggest threats that the grocery retail business is facing now is e-commerce. (Is this a threat or an opportunity? Interesting question but we will not go there). If you conclude that grocery retail is going to move online and you do not have the capabilities to become an e-commerce player yourself, then selling out may be a better option. So, you can see that the macro-environment and the more proximate industry pose opportunities and threats. And these opportunities and threats not only throw up options, but also help in evaluating the options that we are considering.

Let us now move to internal factors and the SW part of SWOT Analysis. Your firm may have several strengths and weaknesses that can affect your strategic choices. These strengths and weaknesses have to be evaluated in comparison to those of your key competitors. In doing so, it is useful to think in terms of a firm's resources and capabilities. The role that resources and capabilities play in helping a firm achieve superior performance will be discussed in greater detail in Module 3. Your strengths may include resources and capabilities such as your strong relationships with suppliers, and established supply-chain network, a brand that is recognized in the domestic market, and valuable retail locations. Your weaknesses may include lack of financial resources – both in terms of raising share capital as well as lack of borrowing capacity- that may inhibit growth. You may not have the capabilities of managing a logistics network that a global player may have. If your weaknesses outweigh your strengths, you may conclude that it is better to sell out.

On the contrary, if your strengths outweigh your weaknesses, you may decide to stay and fight it out with the new entrants. Your strengths and weaknesses can also affect how you choose to compete. For example, you may have insights into the local market that a global player might not possess. In such a case, differentiation based on local knowledge of consumers and market conditions may be an effective way to compete against global giants.

Beyond SWOT analysis, are there other factors that determine which decision is taken? Yes! The mission and objectives of the company also have an important role to play in making decisions on what a firm will do as well as what it will not do. A firm's mission states the organization's purpose why the organization exists? While the organization's mission is a broad statement of what it intends to achieve, objectives are the actionable and measurable goals. While there has been some debate on the value added by mission statements, some companies do have very famous and effective mission statements

Google's mission statement being a famous example. To go back to the example that we have been looking at, your firm's mission and objectives can affect the decision on whether you want to sell out or stay on in the grocery business and compete against new entrants. For example, if you as the head of the grocery retail business have a strongly held ambition such as being in the top 3 industry or leading the grocery revolution in your country. Selling out to a global player may not be a preferred option.