

Analyzing the External and Internal Environment

Lesson 2

KEY CONCEPTS

■ Business Environment ■ External Environment ■ Internal Environment ■ Micro Environment ■ Macro Environment ■ Porter's Five Forces Model

Learning Objectives

To understand:

- The influences of environment on business
- The Characteristics and Components of Business Environment
- The External and Internal Environment
- Micro and Macro factors of External Environment
- Porter's five forces model- the tool to determine the intensity of competition in an industry and its profitability level

Lesson Outline

- Environmental Influences of Business
- Characteristics and Components of Business Environment
- External Environment
 - Micro Factors
 - Macro Factors
- Internal Environment
- Porter's Five Force Model
- Case Study
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
- Other References

ENVIRONMENTAL INFLUENCES OF BUSINESS

The term environment in context of business refers to all external forces or factors having a direct or indirect bearing on events related to functioning of business. Business helps a country to accomplish economic growth, generates employment opportunities and makes available various types of goods and services for human consumption. A business organisation does not exist in a vacuum but has to take into account external and internal environment. Business environment may offer opportunities for any firm or pose threats to the firm. A business firm is also affected by a number of internal factors, which are forces inside the business organisation. While the policy makers and the managers on the top are concerned with the external environment, the middle level and lower level management are more concerned with the internal environment.

Definition

According to Keith Davis, "Business environment is aggregate of all conditions, events and influences that surround and affect the business".

Bayard O. Wheeler defines business environment as "the total of all the things, external to a business firm, which affect the organisation and its operations".

As per Arthur M. Weimer, "Business environment encompasses the climate or set of conditions- economic, social, political, or institutional- in which business is conducted".

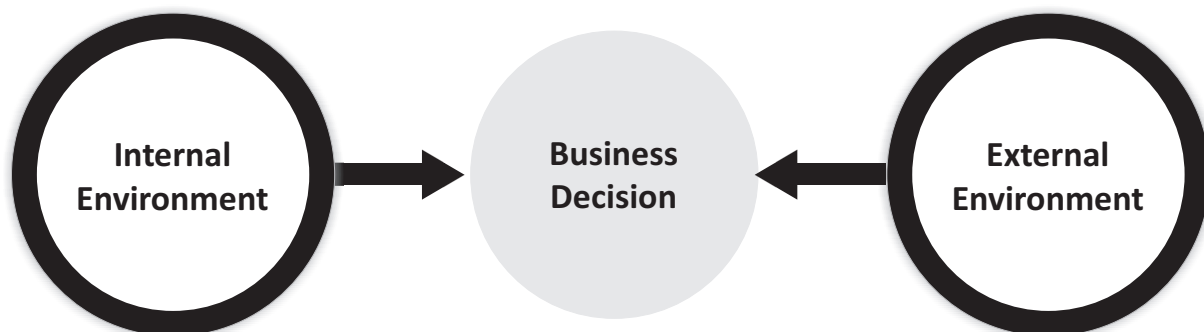
Therefore, business environment may be defined as:

"The sum total of all individuals, institutions and other forces that are outside the control of a business enterprise but the business still depends upon them as they affect the overall performance and sustainability of the business."

The forces which compose the business environment are its suppliers, competitors, consumers, government, bankers, customers, economic conditions, market conditions, investors, technologies, political parties, international institutions and multiple other institutions working externally of a business constitute its business environment. These forces influence the business even though they are outside the business boundaries.

For example, changes in income tax rate by the government while announcing the budget may make the customers reduce their consumption expenditure and reduce quantity of products purchased earlier from the company. Due to this macro level change, the business will need to re-work with its pricing policy to adapt to the tax rate change. Here, even though the business had no participation in initiating the tax rate change, still had to adapt to this change by re-working its pricing policy to maintain its previous profits.

In short, business decisions are influenced by, broadly, two sets of factors, viz., firm related factors (internal environment) and external influence (external environment).



Factors Influencing Business Decision

Importance of Environmental Study

The benefits of studying business environment are as follows:

- Development of strategies, long-term policies and objectives of the firm.
- Development of action plans to deal with changes in environment.
- To forecast the consequences of socio-economic changes at the national and global levels on the company's stability.
- Analysis of competitor's strategies and formulation of effectual counter measures.
- To keep the business dynamic and up-to-date.

CHARACTERISTICS AND COMPONENTS OF BUSINESS ENVIRONMENT

Characteristics of Business Environment

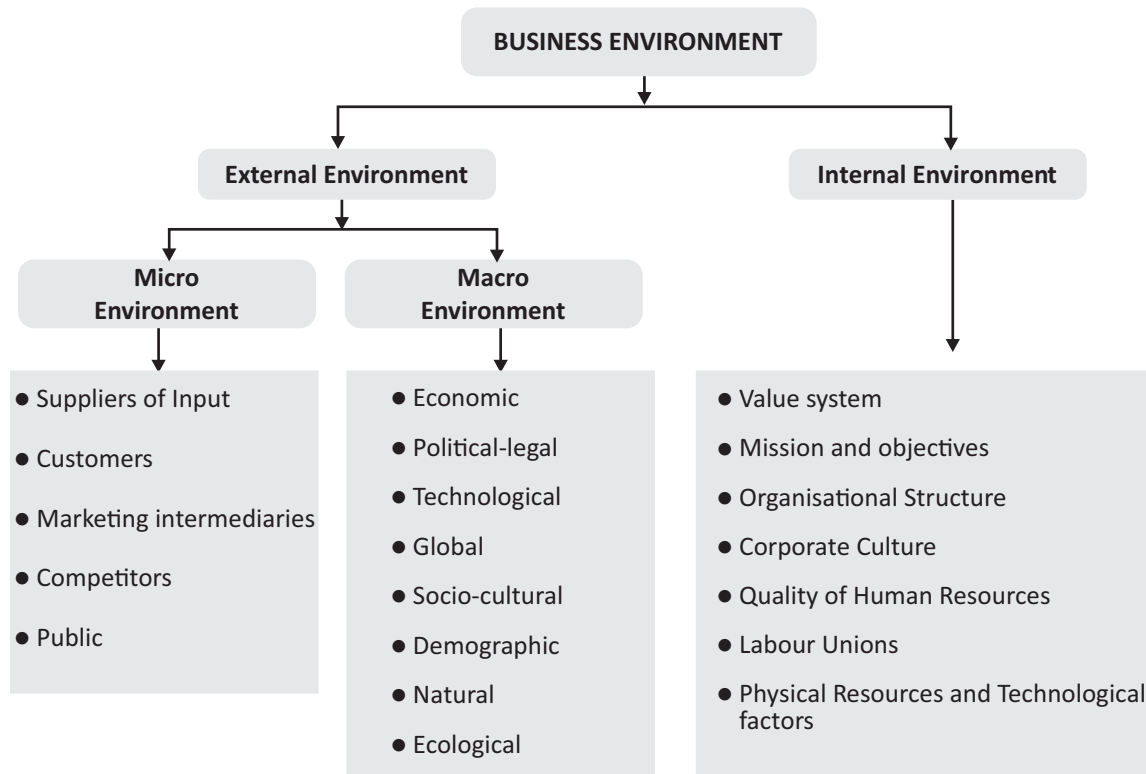
1. **Environment is dynamic in nature:** The environment keeps on changing as the changes occur. Frequently the environment changes, more frequently it will impact the business.
2. **It has direct and indirect impact:** Environment gives direct and sometimes indirect effect on the working of the business.
3. **Two types of factors:** Environment mainly consists of two type of factors namely internal and external environmental factors.
4. **Environment is integral part of business:** Without the support of either internal or external forces, the business can't run or operate.
5. **Impact on business decisions:** Due to environment, business can take proactive or reactive decisions in its operation to make operation more beneficial.
6. **Multi-dimensional:** This it always considers both aspects of a force i.e., its positive as well as negative impacts.

The various components of business environment are–

- (i) External Environment
- (ii) Internal Environment.

(i) External Environment

External environment consists of all those factors that affect a business enterprise from outside its boundaries. It consists of shareholders, legal, competitors, customers, society, government rules and regulations, policies and technology etc. These are uncontrollable factors and firms have to adapt to the components of this environment.



External environment can be sub-divided into micro environment and macro environment. Different players in the micro environment normally do not affect all firms of a particular industry equally. However, sometimes micro environment of the various businesses may remain more or less same.

A. External Micro Environment

The micro environment consists of factors in the company's immediate environment. Micro environment includes those players whose decisions and actions have a direct bearing on the company. Production and sale of goods are the two important aspects of modern business. The various constituents of micro environment are as under:

- (a) **Suppliers:** These supply of resources (finances, raw materials, fuel, power and other factors of production) and pave the way for smooth conduct of the business. Firms should keep themselves updated about the policies of suppliers as rise in the cost of inputs will influence their sales volume and profitability. The scarcity of inputs also has a bearing on the production schedules. For smooth production and sales, the business should have more than one supplier in their list to have an unhampered production schedules.
- (b) **Customers:** The people who buy and use products and services of business and are an important part of external micro environment. A business may have diverse customers such as households, producers, retailers, Government and foreign buyers on its portfolio. Since sales of a product or service is critical for a firm's survival and growth, it is necessary to keep the customers satisfied.
- (c) **Marketing intermediaries:** In the firm's external micro environment, marketing intermediaries play an essential role of selling and distributing its products to the final customers. They are the physical distribution firms (transport firm), service agencies (media firms), financial intermediaries (banks, insurance companies) etc. that assist in production, marketing and insurance of the goods against loss of theft, fire etc. Business has to maintain healthy relations with them to carry their activities smoothly.

All these factors are largely controllable by the firms but they operate in the larger macro environment beyond their control.

- (d) **Competitors:** Different firms in an industry compete with each other for sale of their products. This competition may be on the basis of pricing of their products and also non-price competition through competitive advertising such as sponsoring some events to promote the sale of different varieties and models of their products. They constantly watch competitors' policies and adjust their policies to gain customer confidence.
- (e) **Public:** Finally, public is an important force in external micro environment. Public, according to Philip Kotler, "is any group that has an actual or potential interest in or impact on the company's ability to achieve its objective." A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest. Environmentalists, media groups, women's associations, consumer protection groups, local groups, citizens association are some important examples of publics which have an important bearing on the business decisions of the firm. Companies observe the behaviour of these groups to make functional policies.

B. External Macro Environment

Apart from micro environment, business firms also come across some other external environmental forces which are beyond their control and operate at macro level. Because of the uncontrollable nature of such macro forces, a firm has to adjust or adapt itself to harness the opportunities thrown by such forces and mitigate the threats. These factors are:

- (a) **Economic Environment:** Economic environment includes all those forces which have an economic impact on business. Accordingly, total economic environment consists of agriculture, industrial production, infrastructure, and planning, basic economic philosophy, stages of economic development, trade cycles, national income, per capita income, savings, money supply, price level, fiscal and monetary policies and population.

The economic environment has definitely an impact on the activities of business enterprises. In the capitalist economies, the economic decisions concerning investment, production and sale are driven by profit motives. While in socialist economies, such decisions are taken by the public sector and driven by social welfare motive rather than profit maximisation. In a mixed economy, public and private sectors have a co-existence and they may individually or jointly own the factors of production.

Choice of alternatives regarding allocation of resources such as what to produce, how to produce and for whom to produce; nature of technology and the techniques of production, timing of production etc. will be different in capitalist, social and mixed economies, therefore, the business firm has to keep in mind the economic environment in which it operates.

Economic Factors

- Government Fiscal and tax policies
- General Economic Conditions
- Economic Systems
- Economic Policies
- Economic Growth
- Unemployment Rate
- Interest rates
- Currency exchange rates
- Taxes

- (b) **Political-legal Environment:** The political- legal environment includes the activities of three political institutions, namely, legislature, executive and judiciary which usually play a useful role in shaping, directing, developing and controlling business activities. In order to attain a meaningful business growth, a stable and dynamic political-legal environment is very important. Legal environment is also significant for functioning of the business as various laws are in force to regulate the operations of the business enterprises. They relate to standard of products, packaging, protection of environment and ecological balance, ban on advertisement of (alcohol and medicines), advertisement of certain products with statutory warning (cigarette) etc. Laws also exist to prevent restrictive trade practices (RTP) and monopoly.

Political Factors	Legal Factors
<ul style="list-style-type: none"> ● Political climate - amount of government activity ● Political stability and risk ● Government debt ● Budget deficit or surplus ● Corporate and personal tax rates ● Payroll taxes ● Import tariffs and quotas ● Export restrictions ● Restrictions on international financial flows. 	<ul style="list-style-type: none"> ● Minimum wage laws ● Environmental protection laws ● Worker safety laws ● Labour laws ● Copyright and patent laws ● Anti-monopoly laws ● Municipal licences ● Laws that favour business investment.

- (c) **Technological Environment:** Technology implies systematic application of scientific or other organised knowledge to practical tasks or activities. It includes innovations too. As technology is changing fast, businessmen should keep a close look on those technological changes for its adaptation in their business activities. Not adopting technological changes and imitating innovation is not possible as technical threats from external environment have to be converted into opportunities and gainfully employed in business operations.

Technology influences the way we live, we cook (electric cooker), we drink water (filtered and mineral water), communicate (telephone, fax, e-mail, videoconferencing, e-mail chatting, etc.), prepare for a class or a case, design or read a newspaper through the Internet, get marriage alliances (through the Internet), (computer aided), produce, sells (e-commerce), satellite networks electronic fund transfers, lasers, fibre optics, unmanned factories, miracle drugs, new diagnostic methods, new studies in technology like eye scanning for the password and using the remote for car has changed our lives.

Technological Environment Factors
<ul style="list-style-type: none"> ● Efficiency of infrastructure, including: roads, ports, airports, rolling stock, hospitals, education, healthcare, communication, etc. ● Industrial productivity ● New manufacturing processes ● New products and services of competitors ● New products and services of supply chain partners ● Any new technology that could impact the company ● Cost and accessibility of electrical power.

(d) **Global or International Environment:** The Global environment or 'border less world' plays an important role in shaping business activity. With the liberalisation and globalisation of the Indian economy in 1991, there have been significant economic and political changes and increasing role for the private sector to play since then. The global business environment is radically affected by the principles and agreements of World Trade Organisation (WTO) as it keeps a watch and regulates the business transacted in the international environment.

(e) **Socio-cultural Environment:** The social environment consists of the social values; concern for social problems like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism (indulging in fair trade practices) to satisfy human wants.

The cultural environment represents values and beliefs, norms and ethics of the society. The buying habits, buying capacities, tastes, preferences and many other factors are dependent on the cultural environment.

(f) **Demographic environment:** The demographic environment includes the gender ratio, size and growth of population, life expectancy of the people, rural-urban distribution of population, the technological skills and educational levels, language skills of labour force. All these demographic features have an important bearing on the functioning of business firms. For example, huge populated countries such as Indian and China can adopt labour-intensive technologies than capital intensive ones to give employment to its labour force. Similarly, the population of kids will decide product range and space for such products to be offered in a mall while planning logistics.

Social Cultural and Demographic Factors

- Birth and death rates
- Life expectancy rates
- Attitude towards work and organization
- Attitude towards government
- Attitude towards authority
- Ethical norms
- Value system
- Composition of work force
- Attitude towards income, savings and capital formation
- Social ethos towards work and organization.

(g) **Natural Environment:** The natural environment is the ultimate source of many inputs such as raw materials and energy, which firms use in their productive activity. The natural environment which includes geographical and ecological factors such as minerals and oil reserves, water and forest resources, weather and climatic conditions and port facilities are all highly significant for various business activities. For example, steel producing industries are set up near the coal mines to save cost of transportation to distant locations. The natural environment also affects the demand for goods. For example, places with hot temperatures will have high demand for air conditioners. Areas which are

highly polluted will have more scope of selling air-purifiers. Similarly, weather and climatic conditions influence the demand pattern for clothing, building materials for housing etc. Natural calamities like floods, droughts, earthquake etc. are devastating for business activities.

- (h) **Ecological environment:** Though natural resources such as air, water and solar energy can be replenished, yet, business organisations are polluting these resources by dumping chemical industrial wastes in water and affecting the ozone layer. The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations. Business enterprises should understand their social responsibility and use these resources meticulously. Legislative measures are also brought in by the Government (Pollution Control Board) to protect the natural environment. Even, as a part of self- accountability, the renewable resources should be used wisely so that rate of consumption does not exceed the rate of replenishment.

(ii) Internal Environment

Survival and growth of a business depends upon its strengths and adaptability to the external environment. The internal strengths represent its internal environment. These consist of financial, physical, human and technological resources. The factors in internal environment of business are to a certain extent controllable because the firm can change or modify these factors to improve its efficiency. However, the firm may not be able to transform all the factors. The various internal factors are:

- (a) **Value system :** The value system of an organisation means the ethical beliefs that guide the organisation in achieving its mission and objectives. The value system of a business organisation also determines its behaviour towards its employees, customers and society at large. The value system of a business organisation makes an important contribution to its success and its prestige in the world of business. For instance, the value system of J.R.D. Tata, the founder of Tata group of industries, was its self-imposed moral obligation to adopt morally just and fair business policies and practices which promote the interests of consumers, employees, shareholders and society at large. This value system of J.R.D. Tata was voluntarily incorporated in the articles of association of TISCO, a premier Tata company.

Infosys Technologies which won the first national corporate governance award in 1999 attributes its success to its high value system which guides its corporate culture. To quote one of its reports, “our corporate culture is to achieve our objectives in environment of fairness, honesty, transparency and courtesy towards our customers, employees, vendors and society at large” Thus value system of a business firm has an important bearing on its corporate culture and determines its behaviour towards its employees, shareholders and society as a whole.

- (b) **Mission and objectives:** The business domain of the company, direction of development, business philosophy, business policy etc. are guided by the mission and objectives of the company. The objective of all firms is assumed to be maximisation of profit. Mission is defined as the overall purpose or reason for its existence which guides and influences its business decision and economic activities. The Mission, vision and values of Reliance are as under:

Mission

- To provide the best and most value-adding advice within our advisory expertise areas.
- To be an independent sparring-partner and to provide excellent advice for our clients in connection within our advisory expertise areas.

Reliance's activities shall be of benefit for both our clients – first and foremost – and for our collaboration partners and employees.

Vision

- To be our clients' 'first call' and preferred collaboration partner within our business areas.
- To consistently exceed our clients' expectations for professional and value-adding advice.

Our objective is long- standing and trustful client relationships created via excellent advice and service.

Values

Reliance is governed by the following fundamental values:

- Quality: We do not compromise – we have a passion for the best quality
- Innovation: We are innovative and wish to enthuse our clients

- (c) **Organisation structure:** The organisational structure, the composition of the board of directors, the professionalism of management etc. are important factors influencing business decisions. An efficient working of a business organisation requires that the organisation structure should be conducive for quick decision- making. The board of directors is the highest decision-making body in a business organisation.

For efficient and transparent working of the board of directors in India it has been suggested that the number of independent directors be increased.

- (d) **Corporate culture:** Corporate culture and style of functioning of top managers is important factor for determining the internal environment of a company. Corporate culture is an important factor for determining the internal environment of any company. In a closed and threatening type of corporate culture the business decisions are taken by top level managers while the middle level and lower-level managers have no say in business decision making. This leads to lack of trust and confidence among subordinate officials of the company. In an open and participating culture, business decisions are taken by the lower- level managers and top management has a high degree of confidence in the subordinates. Free communication between the top- level management and lower-level managers is the rule in this open and participatory type of corporate culture.
- (e) **Quality of human resources:** Quality of employees that is of human resources of a firm is an important factor of internal environment of a firm. The characteristics of the human resources like skill, quality, capabilities, attitude and commitment of its employees etc. could contribute to the strength and weaknesses of an organisation. It is difficult for the top management to deal directly with all the employees of the business firm. Therefore, for efficient management of human resources, employees are divided into different groups. The manager may pay little attention to the technical details of the job done by a group and encourage group cooperation in the interests of a company.
- (f) **Labour unions:** Labour unions collectively bargains with the managers for better wages and better working conditions of the different categories of workers etc. For the smooth working of a business firm good relations between management and labour unions is required.
- (g) **Physical resources and technological capabilities:** Physical resources such as plant and equipment and technological capabilities of a firm determine its competitive strength which is an important factor for determining its efficiency and unit cost of production. Research and development capabilities of a company determine its ability to introduce innovations which enhances productivity of workers.

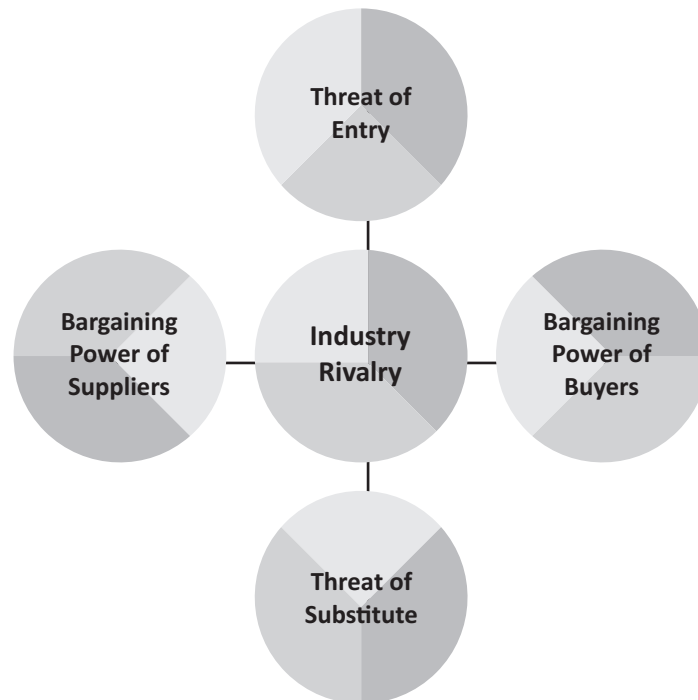
PORTER'S FIVE FORCES MODEL

Definition

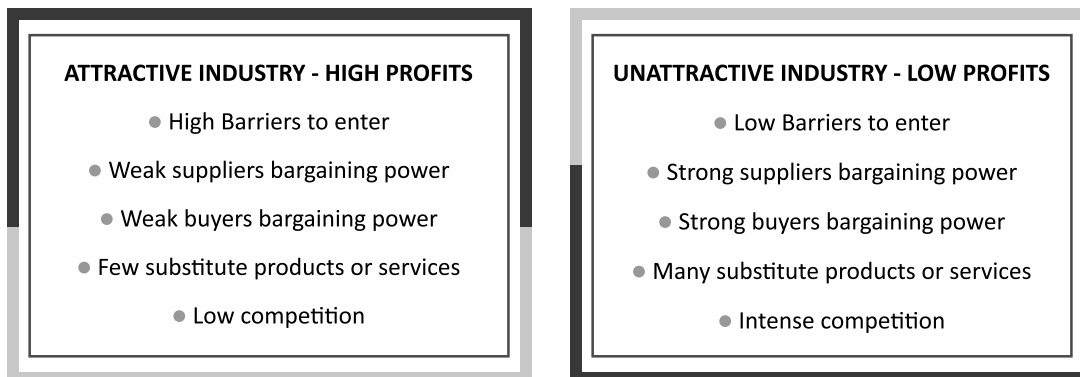
The tool was created by Harvard Business School professor Michael Porter. Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level. Since its publication in 1979, it has turned into one of the most popular and highly regarded business strategy tools.

Porter was of the firm viewpoint that the organizations should keep a close watch on their rivals, but he also encouraged them to go beyond the boundaries of their competitors and make an assessment of other factors impacting the business environment. In this process, he identified five forces that build competitive environment, and have a take away its profitability.

The five forces identified are:



These five forces establish an industry structure and the level of competition in that industry. The stronger the competitive forces are in the industry, the less profitable it becomes ultimately. An industry with low barriers to enter, having not many buyers and suppliers but many substitute products and competitors will be viewed as highly competitive and thus, lesser attractive due to its low profitability.



It is every strategic leader's job to make an assessment of company's competitive position in the industry and to identify its strengths or weaknesses to make stronger that position. The model is very valuable in formulating firm's strategy as it reveals the strength of each of these five key forces.

- **Threat of new entrants:** This force determines the ease of new entrants to enter a particular industry. If an industry is profitable and there are hardly any barriers to enter, competition intensifies rapidly. Therefore, with the entry of more rivals, firms begin to compete for the fixed market share, profits start to decline. Hence, it is critical for existing organizations in the industry to build high barriers to enter to discourage new entrants. Threat of new entrants is high when:
 - Smaller capital is required to make an entry;
 - Existing companies are not influential/dominant to prevent new entrants;
 - Existing firms do not have patents, trademarks or do not strong brand value;
 - There is no/little government regulation;
 - Customer switching costs are low;
 - There is low customer loyalty;
 - Products are not being able to be differentiated; and
 - Economies of scale can be effortlessly acquired.
- **Bargaining power of suppliers:** This is determined by the power of the suppliers to raise their prices. It is also determined by the volume of potential suppliers in case existing supplier increase the price. Bargaining power will also be lower in case suppliers are not supplying identical product/service but a unique one. And the cost of switching from one supplier to another. Suppliers have dominant bargaining power when:
 - There are a small number of suppliers but plenty of buyers;
 - Suppliers are large in number and pose a threat to forward integrate;
 - There are not many substitutes of raw materials;
 - Suppliers hold scarce/unique resources;
 - Cost of switching supplier is relatively high.
- **Bargaining power of buyers:** Bargaining power of the buyers would depend on the number of the buyers and the volume of their order. It would also be a product of the cost of switching from company's products and services to products/services of the competitors. Buyers exert strong bargaining power when:
 - They buy in high volumes or control many access points to the final customer;
 - There are only few buyers in the market;
 - Switching costs to competitors are low;
 - They threaten to backward integrate;
 - There are many close substitutes;
 - Buyers are price sensitive.
- **Threat of substitutes:** This force is especially threatening when buyers can easily find substitute products with attractive prices or better quality and when buyers can switch from one product or service to another with little cost. For example, if a company supplies a unique software product that automates data related to human resource records, the buyer/client may substitute the software either by making the process manual or outsourcing it.

- **Rivalry among existing competitors:** It refers to the number and strength of competitors in the industry. How does the quality of their products and services compare with the company? Where rivalry is intense, companies can attract customers with aggressive price cuts and high-impact marketing campaigns. On the other hand, where competitive rivalry is minimal, and the product is differentiated, there will be high monopoly and steady profits for the company. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits. Rivalry among competitors is intense when:
 - There are several competitors;
 - Exit barriers are high;
 - Industry of growth is slow or negative;
 - Products are not differentiated
 - Products can be easily substituted;
 - Low customer loyalty.

Although, Porter originally introduced five forces affecting an industry, scholars have suggested including the sixth force: complements. Complements increase the demand of the primary product with which they are used, thus, increasing firm's and industry's profit potential. For example, Amazon Prime complements Amazon and Jio TV complements Jio telecom business. As a result, the sale of both products shot up as compared to competitors.

Implementing the model

The following steps are to be followed to implement the Porter's Model:

- Step 1. Gather the information on each of the five forces.
- Step 2. Analyze the results and display them on a diagram.
- Step 3. Formulate strategies based on the conclusions.

Step 1. Gather the information on each of the five forces. What managers should do during this step is to gather information about their industry and to check it against each of the factors (such as "number of competitors in the industry") influencing the force. We have already identified the most important factors in the table below.

Porter's Five Forces Factors

Buyer power	Supplier power
<ul style="list-style-type: none"> ● Number of buyers ● Size of buyers ● Size of each order ● Buyers' cost of switching suppliers ● There are many substitutes ● Price sensitivity ● Threat of integrating backward 	<ul style="list-style-type: none"> ● Number of suppliers ● Suppliers' size ● Ability to find substitute materials ● Materials scarcity ● Cost of switching to alternative materials ● Threat of integrating forward

Threat of new entry	Rivalry among existing competitors
<ul style="list-style-type: none"> ● Amount of capital required ● Retaliation by existing companies ● Legal barriers (patents, copyrights, etc.) ● Brand reputation ● Product differentiation ● Access to suppliers and distributors ● Economies of scale ● Sunk costs ● Government regulation 	<ul style="list-style-type: none"> ● Number of competitors ● Cost of leaving an industry ● Industry growth rate and size ● Product differentiation ● Competitors' size ● Customer loyalty ● Threat of horizontal integration ● Level of advertising expense

Threat of substitutes

- Number of substitutes
- Performance of substitutes
- Cost of changing

Step 2. Analyze the results and display them on a diagram. After gathering all the information, you should analyze it and determine how each force is affecting an industry. For example, if there are many companies of equal size operating in the slow growth industry, it means that rivalry between existing companies is strong. Remember that five forces affect different industries differently so do not use the same results of analysis for even similar industries.

Step 3. Formulate strategies based on the conclusions. At this stage, managers should formulate firm's strategies using the results of the analysis. For example, if it is hard to achieve economies of scale in the market, the company should pursue cost leadership strategy. Product development strategy should be used if the current market growth is slow and the market is saturated.

Although, Porter's five forces is a valuable tool to analyze industry's structure and to formulate firm's strategy, it has its limitations and requires supplementary analysis to be done, such as SWOT, PEST or Value Chain analysis.

CASE STUDY – PIZZA HUT

Porter's Five Forces Model – Pizza Hut Case Study

Pizza Hut is world famous multinational fast food chain. It is a subsidiary of Yum! Brands (a Fortune 300 company), the world's largest restaurant company. It is an American restaurant chain with more than 6,000 Pizza Hut restaurants in the United States, and more than 5,600 store locations in 94 other countries and territories around the world. It offers a range of different styles of pizza along with other dishes such as salads, pastas, buffalo wings/potato rings, breadsticks, and garlic breads. It entered India in 1996, with its first branch in Bangalore and expanding all over thereafter, creating a large customer base for itself. The five forces model for Pizza Hut may be drawn as under:

Competitive Rivalry (Very High)

- Pizza Hut competes with some other large global pizza chains, Domino's Pizza, and Papa John. They all are similar in many respects such as deal in many countries across Globe, fast food offerings, dine-in and delivery service, creating intense competition.

- Ferocious price discounting and coupons by these all rivals which creates intense competition.
- Except for those pizza companies, Pizza Inn competes with some small local pizza restaurants as well. They offer low price products and faster service, taking the competitive advantages of Pizza Inn.
- The pizza segment is made more challenging for traditional restaurants by other close substitutions, including supermarkets, which not only sell frozen pizzas, but ready to bake pizza, and warehouse clubs sell large size pizzas.

Threat of New Entrants (Low)

- Pizza chains are juggling with the side-effects of a deep recession, because of higher ingredient prices, the thin margins and elevated competition from non-traditional channels.
- Existing competitors keep lowering prices and discounting discounts, and expanding distribution channels creating barriers to new entrants.
- Existing competitors have first-mover advantages such as mature technology in specialty production, and a healthy relationship with distribution channels, therefore, second mover can hardly survive without innovation in the industry.

Threat of Substitutes (High)

- Pizza is a fast food product having plenty of substitutes.
- Competition from other fast food chains such as sandwich chains, chicken fast food chains, family owned local restaurants etc.
- Traditional food chains Bikano, Haldiram etc. offer customers' fast, convenient and cheap products and services that cater to Indian taste as well.
- Substitutes make price elasticity high since customers have more alternatives.

Power of Customers (Medium/Low)

- Being a large population fan of fast food, this makes bargaining power of customers.
- Every single customer is unlikely to purchase a large quantity of product, and it's not likely that each of them contributes a large proportion of sales.
- Fast food chains are in high demand in shopping centers, malls, residential areas, college campuses and offices. In addition, customers are fragmented, with no particular effect on product or price.
- Therefore, they will not be hurt by losing a petite number of customers.
- In the industry, customers are less sensitive to price fluctuations, which is relatively inelastic, so that providers have large price controlling power.

Power of Suppliers (Low)

- The major suppliers of the fast food industry are raw material suppliers. As raw material is common and available in plenty such as flour, cheese, vegetables, therefore, bargaining power of suppliers is low.
- Raw material is perishable and can't be stored for long.
- The industry is labor intensive. Labor is in abundant in India.
- Suppliers tend to keep a long term relationship with the concentrated purchasers.

- Many big fast food chain companies are vertically integrated with the suppliers in order to maintain low costs and high quality products.

Apple in the Marketplace from a five forces perspective

Through its Macintosh computers and operating system, the iPad, iPhone, and other products, Apple, Inc. (NASDAQ: AAPL) has achieved massive success as a company despite going through a number of up and down cycles since its founding in 1976. In 2018, Apple achieved the notable distinction of being the first U.S. company to ever attain a market capitalization greater than \$1 trillion.

Apple's success is attributed largely to its ability to innovate and bring unique products to market that have engendered substantial brand loyalty. Its product development and marketing strategies reveal an awareness of the need to deal with the major marketplace forces that can impact Apple's market share and profitability.

A Five Forces analysis of Apple's position in the technology sector shows industry competition and the bargaining power of buyers as the two strongest marketplace forces that can impact Apple's profitability. The bargaining power of suppliers, the threat of buyers opting for substitute products, and the threat of new entrants to the marketplace are all weaker elements among the key industry forces.

Industry Competition

The level of competition among the major companies that compete directly with Apple in the technology sector is high. Apple is in direct competition with companies such as Google, Inc., the Hewlett-Packard Company, Samsung Electronics Co., Ltd., and Amazon, Inc. All of these companies expend significant capital on research and development (R&D) and marketing, just like Apple. Thus, the competitive force within the industry is strong.

One thing that makes the industry so highly competitive is the relatively low switching cost. It does not require a substantial investment for a consumer to ditch Apple's iPad for an Amazon Kindle or other tablet computers. The threat of marketplace competition is a key consideration for Apple, which it has dealt with primarily through continually developing new and unique products to increase and strengthen its market share position.

Bargaining Power of Buyers

The element of low switching cost referred to above strengthens the bargaining power of buyers as a key force for Apple to consider. There are essentially two points of further analysis within this force: the individual bargaining power of buyers and their collective bargaining power. For Apple, individual bargaining power is a weak force, since the loss of any one customer represents a negligible amount of revenue for Apple.

However, the collective marketplace bargaining power of customers, the possibility of mass customer defections to a competitor is a strong force.

Apple counters this strong force by continuing to make substantial capital expenditures in R&D, enabling it to keep developing new and unique products such as the AirPods and the Apple Watch, and by building significant brand loyalty. Apple has been very successful in this area of competition, establishing a large customer base that, basically, would not consider abandoning its iPhones in favor of another smartphone competitor.

The Threat of New Entrants to the Marketplace

The threat of a new entrant to the marketplace that could seriously threaten Apple's market share is relatively low. This is primarily due to two factors: the extremely high cost of establishing a company within the industry and the additional high cost of establishing brand name recognition.

Any new entrant to the marketplace of personal computing or smartphones needs to have a massive amount of capital just to spend on R&D and manufacturing to develop and produce its own product portfolio prior to ever bringing its products to market and beginning to generate revenue. Such an entrant faces the already identified strong competition within the industry that exists between Apple and its major competitors, all of which are large, well-established firms.

The secondary challenge is establishing brand name recognition within an industry that already has several companies, such as Apple, Google, and Amazon, with very strong brand recognition.

Although it is possible some new company (perhaps a Chinese firm with financial backing from the government), might eventually challenge Apple's position within the industry, for the immediate future, the likelihood of such a challenger arising is remote.

Nonetheless, it is important for Apple to continue strengthening its competitive position through new product development and building brand loyalty to place any potential new entrants to the industry at a larger competitive disadvantage.

Bargaining Power of Suppliers

The bargaining power of suppliers is a relatively weak force in the marketplace for Apple's products. The bargaining position of suppliers is weakened by the high number of potential suppliers for Apple and the ample amount of supply. Apple is free to choose from among a large number of potential suppliers for component parts for its products. The industries of its parts suppliers, such as the manufacturers of computer processors, are themselves highly competitive.

The switching cost for Apple to exchange one supplier for another is relatively low and not a significant obstacle. Plus, Apple is a major customer for most of its parts suppliers, and, therefore, its suppliers are very reluctant to risk losing the company's business. This strengthens Apple's position in negotiating with suppliers, while conversely weakening their positions. The bargaining power of component parts suppliers is not a major consideration for either Apple or its major competitors.

The Threat of Buyers Opting for Substitute Products

Substitute products, within the framework of Porter's Five Forces Model, are not products that directly compete with a company's products but possible substitutes for them. In the case of Apple, an example of a substitute product is a landline telephone that might be a substitute for owning an iPhone.

This market force is relatively low for Apple due to the fact that most potential substitute products have limited capabilities compared to Apple's products, as in the example of a landline telephone compared to an iPhone that has the capability to do much more than just make telephone calls.

The Case Study on McDonald Corporation to understand the competitive forces in prevailing Burger Market is given in Lesson 6 of this Study.

LESSON ROUND-UP

- Strategic Management is a discipline that deals with long-term development of an organization with a clear-cut vision about organizational purpose, scope of activities and objectives.
- The strategic management process is defined as the process by which the managers'/decision makers' are able to make a choice of a set of strategies for the organization that will enable it to accomplish improved performance. There are four indispensable phases of every strategic management process.

- Strategic leadership refers to a manager's potential to articulate the strategic vision for the organization, and to motivate, guide and influence his subordinates to attain the objectives of that vision.
- The internal strengths represent its internal environment. These consist of financial, physical, human and technological resources.
- Porter's five forces model is an analysis tool that uses five industry forces to determine the intensity of competition in an industry and its profitability level.

GLOSSARY

Cross-functional: A process or activity that includes portions of the process or activity from two or more functions within an organization.

External analyses: An examination of the dimensions of an organization's external environment, including the close scrutiny of those trends, events, that are having, or might have an impact on the performance capabilities of the management, resources, structure, processes, and operation of an organization.

Globalization: A process of interaction and integration among the people, companies, and governments of different nations, driven by international trade and investment and aided by information technology. This process also impacts the environment, culture, political systems, economic development and prosperity, and human well-being in societies around the world. It includes investing, managing, organizing, and operating on a world-wide scale, i.e., across national boundaries and in different cultures and societies.

Strategic Initiative: Strategic initiative is a collective endeavor, with a defined beginning and end, to reduce performance gaps and help accomplish strategic objectives.

Internal analyses: Critical examination of the internal dimensions and performance capabilities of the management, resources, structure, processes, and operation of an organization.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. Define strategic management.
2. Discuss four phases of strategic management process.
3. What is the concept of Strategic Leadership?
4. What are functions and importance of a Strategic Leader?
5. What are the functions and importance of strategic management for professionals like Company Secretaries?
6. What are environmental influences of business?
7. What are components of Business Environment?
8. What is Porter's Five Forces Model?

