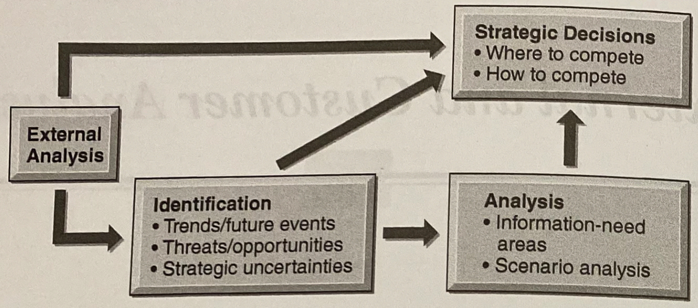

Figure 2.1 The Role of External Analysis

- What are the value propositions? What should they be?
- What assets and competencies should be created, enhanced, or maintained?
- What strategies and programs should be implemented in functional areas? What should be the positioning strategy, segmentation strategy, distribution strategy, brand-building strategy, manufacturing strategy, and so on?

Additional Analysis Objectives

Figure 2.1 also suggests that an external analysis can contribute to strategy indirectly by identifying the following:

- Significant trends and future events
- Threats and opportunities
- Strategic uncertainties that could affect strategy outcomes

A significant trend or event, such as concern about saturated fat or the emergence of a new competitor, can dramatically affect the evaluation of strategy options. A new technology, which can represent both a threat to an established firm and an opportunity to a prospective competitor, can signal new business arenas.

Strategic Uncertainties

Strategic uncertainty is a particularly useful concept in conducting an external analysis. If you could know the answer to one question prior to making a strategic commitment, what would that question be? If a property casualty insurance company were to consider whether to add earthquake insurance to its line, important strategy uncertainties might include the following:

- What will be the potential losses of a major earthquake?
- What will be the impact on the customer base of failing to offer coverage?
- Could coverage be provided in partnerships?

Strategic uncertainties focus on specific unknown elements that will affect the outcome of strategic decisions. "Should earthquake coverage be added?" is a strategic decision, whereas

Strategic Uncertainties	Strategic Decisions
• Will a major firm enter?	• Investment in a product market
• Will a tofu-based dessert product be accepted?	• Investment in a tofu-based product
• Will a technology be replaced?	• Investment in a technology
• Will the dollar strengthen against an offshore currency?	• Commitment to offshore manufacturing
• Will computer-based operations be feasible with current technology?	• Investment in a new system
• How sensitive is the market to price?	• A strategy of maintaining price parity

Strategic Uncertainties	Second-Level Strategic Uncertainties
• What will be the future demand of an ultrasound test?	• Performance improvements? • Competitive technological developments? • Financial capacity of healthcare industry?

Figure 2.2 Strategic Uncertainties

"What are the potential losses from a major earthquake?" is a strategic uncertainty. Most strategic decisions will be driven by a set of these uncertainties.

Figure 2.2 offers examples of strategic uncertainties and the strategic decisions to which they might relate. A single strategic uncertainty can often lead to additional sources of strategic uncertainty. One common strategic uncertainty shown there is what will be the future demand for a product (such as ultrasound diagnostic equipment). Asking, "On what does that depend?" will usually generate additional strategic uncertainties. One uncertainty might address technological improvements, whereas another might consider the technological development and cost/benefit levels achieved by competitive technologies. Still another might look into the financial capacity of the healthcare industry to continue capital improvements. Each of these strategic uncertainties can, in turn, generate still another level of strategic uncertainties.

Analysis

There are three ways of handling uncertainty. First, a strategic decision can be precipitated because the logic for a decision is compelling and/or because a delay would be costly or risky. Second, it may be worthwhile to attempt to reduce the uncertainty by information acquisition and analysis of an information-need area. The effort could range from a high-priority task force to a low-key monitoring effort. The level of resources expended will depend on the potential impact on strategy and its immediacy. Third, the uncertainty could be modeled by a scenario analysis.

A scenario is an alternative view of the future environment that is usually prompted by an alternative possible answer to a strategic uncertainty or by a prospective future event or trend. Is the current popularity of vitamin-enhanced waters a fad, or does it indicate a solid growth area? Such a question could be the basis for a positive and a negative scenario. Each could be associated with very different environmental profiles and strategy recommendations. In Chapter 5, information-need areas and scenario analysis are covered in more detail.