CHAPTER FIVE

Environmental and Strategic Analyses

I felt a great disturbance in the Force.
—*Obi Wan Kenobi, Star Wars*

You can't stop the waves, but you can learn to surf.
—*Jon Kabat-Zinn, MD, founder of Mindfulness-Based Stress Reduction*

Marketing without data is like driving with your eyes closed.
—*Dan Zarrella, social media scientist*

Thomson Corporation, in 1997, was a Toronto media company that owned 55 daily newspapers that were doing well.[1] CEO Richard Harrington, however, observed several trends in the environment that caused him to move the firm away from newspapers. He anticipated the Internet was going to undercut classified advertising and cable television and the Internet were going to steal readers. Despite the fact that the company was profitable, he made the rather dramatic decision to divest newspapers and to move the firm into delivering information and services online to the law, education, healthcare, and finance industries. That decision allowed Thomson to thrive today while other newspaper-based firms are struggling. The decision was based on projecting and acting on environmental trends.

The focus in this chapter changes from the market to the environment surrounding the market. Being attentive to these broader environmental trends can have a make-or-break effect on companies. The rapid rise of the App Store and mobile technologies was critical to the entry success of 2009 startup WhatsApp and set the stage for it to gain 500 million active users by 2014, ultimately resulting in its acquisition by Facebook for $19 billion.[2] On the other hand, a government regulation requiring new product labels can be the death knell for a small food company that must expend a large percentage of its profits to comply. External events can help or hurt companies of all sizes. The goal is to identify and evaluate trends and events that will affect strategy either. Getting in front of emerging trends also allows the firm to prepare strategies to defend itself against threats or, as Thomson did, to neutralize them.

This chapter begins by examining environmental analysis. This broad topic is also covered in other strategy and strategic planning courses. Therefore, the focus here will be on trends emerging from technology, culture, business, government, and the economy that have implications for the market. Given an understanding of trends, the firm can move into three types of analysis: (a) impact analysis, which will help assess the relative importance of threats facing the firm; (b) scenario analysis, which will help the firm assess the meaning and impact of different environmental events; and (c) SWOT analysis, which compares environmental threats and opportunities with firm strengths and weaknesses to derive strategic actions.

ENVIRONMENTAL ANALYSIS

Environmental analysis is by definition very broad and casts a wide net to catch different stakeholders and trends that may have implications for the firm. As a practical matter, the analysis requires discipline to make sure that it does not become an out-of-control fishing expedition that occupies time and generates reports, but provides little real insight and actionable information.

Although environmental analysis has no bounds with respect to subject matter, it is helpful to provide some structure in the form of five broad areas of inquiry that are often useful: demographics, culture, business and technology, government/policy, and economic trends. The exact areas that should be monitored will vary depending on the business. For example, monitoring science developments will be critical to a pharmaceutical company but not important to a home-delivery food service. Exactly which parts of the external environment should be monitored is the first decision a company makes, and it should be revisited as the business changes.

Customer Trends

Customer trends can present both threats and opportunities. They have helped create fortunes for those companies able to take advantage of these trends and driven out less the fortunate. These trends can emerge out of the sheer force of demographics or involve more profound cultural shifts. The following sections discuss recent demographic, cultural, and business and technology trends occurring in customer markets.

Demographic Trends

Demographic trends can be a powerful underlying force in a market and can be predictable. Among the influential demographic variables are age, income, education, geographic location, and ethnicity. Consider the demographic shifts described in Figure 5.1.

- ***Aging.*** The world population is aging more rapidly due to decreased fertility rates and people's tendency to live longer. In 2015, 8.5 percent of the world's population of 617 million people were aged 65 or older. The share of the population over age 65 is expected to continue to grow, hitting 12 percent in 2030 and 17 percent in 2050.[3] This effect is expected to be even more dramatic in the United States with 20 percent of the U.S. population expected to be older than 65 by 2030.[4]
- ***Changing Ethnic Mix.*** The United States is projected to become more racially and ethnically diverse in the coming decades due to both birth rate and immigration. Today, 14 percent of the U.S. population was born outside of the country, as opposed to merely 5 percent in 1965. By 2060, the non-Hispanic White

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