Table 2.1 The General Environment: Segments and Elements

Demographic segment	• Population size • Age structure • Geographic distribution	• Ethnic mix • Income distribution
Economic segment	• Inflation rates • Interest rates • Trade deficits or surpluses • Budget deficits or surpluses	• Personal savings rate • Business savings rates • Gross domestic product
Political/Legal segment	• Antitrust laws • Taxation laws • Deregulation philosophies	• Labor training laws • Educational philosophies and policies
Sociocultural segment	• Women in the workforce • Workforce diversity • Attitudes about the quality of work life	• Shifts in work and career preferences • Shifts in preferences regarding product and service characteristics
Technological segment	• Product innovations • Applications of knowledge	• Focus of private and government-supported R&D expenditures • New communication technologies
Global segment	• Important political events • Critical global markets	• Newly industrialized countries • Different cultural and institutional attributes
Sustainable physical environment segment	• Energy consumption • Practices used to develop energy sources • Renewable energy efforts • Minimizing a firm's environmental footprint	• Availability of water as a resource • Producing environmentally friendly products • Reacting to natural or man-made disasters

among competing firms.[10] In total, the interactions among these five factors determine an industry's profitability potential; in turn, the industry's profitability potential influences the choices each firm makes about its competitive actions and responses. The challenge for a firm is to locate a position within an industry where it can favorably influence the five factors or where it can successfully defend itself against their influence. The greater a firm's capacity to favorably influence its industry environment, the greater the likelihood it will earn above-average returns.

How companies gather and interpret information about their competitors is called **competitor analysis**. Understanding the firm's competitor environment complements the insights provided by studying the general and industry environments.[11] This means, for example, that McDonald's needs to do a better job of analyzing and understanding its general and industry environments.

An analysis of the general environment focuses on environmental trends and their implications, an analysis of the industry environment focuses on the factors and conditions influencing an industry's profitability potential, and an analysis of competitors is focused on predicting competitors' actions, responses, and intentions. In combination, the results of these three analyses influence the firm's vision, mission, choice of strategies, and the competitive actions and responses it will take to implement those strategies. Although we discuss each analysis separately, the firm can develop and implement a more effective strategy when it successfully integrates the insights provided by analyses of the general environment, the industry environment, and the competitor environment.

How companies gather and interpret information about their competitors is called **competitor analysis**.

2-2 External Environmental Analysis

Most firms face external environments that are turbulent, complex, and global—conditions that make interpreting those environments difficult.[12] To cope with often ambiguous and incomplete environmental data and to increase understanding of the general environment, firms complete an *external environmental analysis*. This analysis has four parts: scanning, monitoring, forecasting, and assessing (see Table 2.2).

Identifying opportunities and threats is an important objective of studying the general environment. An **opportunity** is a condition in the general environment that, if exploited effectively, helps a company reach strategic competitiveness. Most companies—and certainly large ones—continuously encounter multiple opportunities as well as threats.

In terms of possible opportunities, a combination of cultural, political, and economic factors is resulting in rapid retail growth in parts of Africa, Asia, and Latin America. Accordingly, Walmart, the world's largest retailer, and the next three largest global giants (France's Carrefour, UK–based Tesco, and Germany's Metro) are expanding in these regions. Walmart is expanding its number of retail units in Chile (404 units), India (20 units), and South Africa (360 units). Interestingly, Carrefour exited India after four years and in the same year that Tesco opened stores in India. While Metro closed its operations in Egypt, it has stores in China, Russia, Japan, Vietnam, and India in addition to many eastern European countries.[13]

A **threat** is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness.[14] Intellectual property protection has become a significant issue not only within a country but also across country borders. For example, in 2018 President Trump placed tariffs on goods exported from China into the United States. The primary reason given for the tariffs was the theft of U.S. firms' intellectual property by Chinese firms. As is common in these cases, China responded by placing tariffs on a large number of U.S. products exported to China, sparking fears of a potential trade war between the two countries with the largest economies in the world. This type of threat obviously deals with the political/legal segment.

Firms use multiple sources to analyze the general environment through scanning, monitoring, forecasting, and assessing. Examples of these sources include a wide variety of printed materials (such as trade publications, newspapers, business publications, and the results of academic research and public polls), trade shows, and suppliers, customers, and employees of public-sector organizations. Of course, the information available from Internet sources is of increasing importance to a firm's efforts to study the general environment.

2-2a Scanning

Scanning entails the study of all segments in the general environment. Although challenging, scanning is critically important to the firms' efforts to understand trends in the

Table 2.2 Parts of the External Environment Analysis

Scanning	• Identifying early signals of environmental changes and trends
Monitoring	• Detecting meaning through ongoing observations of environmental changes and trends
Forecasting	• Developing projections of anticipated outcomes based on monitored changes and trends
Assessing	• Determining the timing and importance of environmental changes and trends for firms' strategies and their management

An **opportunity** is a condition in the general environment that, if exploited effectively, helps a company reach strategic competitiveness.

A **threat** is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness.