CHAPTER 2.ENVIRONMENTAL AND INTERNAL RESOURCE ANALYSIS

NEED FOR ENVIRINMENTAL ANALYSIS

Environment literally means the surroundings external objects, influences or circumstances under which someone or something exists. The environment of any organization is “the aggregate of all conditions, events and influences that surround and affect it.” Since the environment influences an organization in multitudinous ways, its understanding is of crucial importance. The concept of environment can be understood by looking at some of its characteristics which needs to be analyzed for formulation of business strategy. Environment can be classified into two – internal and external environment.

The internal environment refers to all factors within an organization that impact strengths or cause weaknesses of a strategic nature. The external environment includes all the factors outside the organization which provide opportunities or pose threats to the organization.

Hence, environmental analysis is a must for formulation of a right strategy for achievement of the corporate objectives.

Types of Diversification

Diversification is a strategic approach adopting different forms. Depending on the applied criteria, there are different classifications.

Depending on the direction of company diversification, the different types are:

Horizontal Diversification

acquiring or developing new products or offering new services that could appeal to the company´s current customer groups. In this case the company relies on sales and technological relations to the existing product lines. For example a dairy, producing cheese adds a new type of cheese to its products.

Vertical Diversification

occurs when the company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle - production of raw materials or distribution of the final product. For example, if you have a company that does reconstruction of houses and offices and you start selling paints and other construction materials for use in this business. This kind of diversification may also guarantee a regular supply of materials with better quality and lower prices.

Concentric Diversification

enlarging the production portfolio by adding new products with the aim of fully utilising the potential of the existing technologies and marketing system. The concentric diversification can be a lot more financially efficient as a strategy, since the business may benefit from some synergies in this diversification model. It may enforce some investments related to modernizing or upgrading the existing processes or systems. This type of diversification is often used by small producers of consumer goods, e.g. a bakery starts producing pastries or dough products.

Heterogeneous (conglomerate) diversification

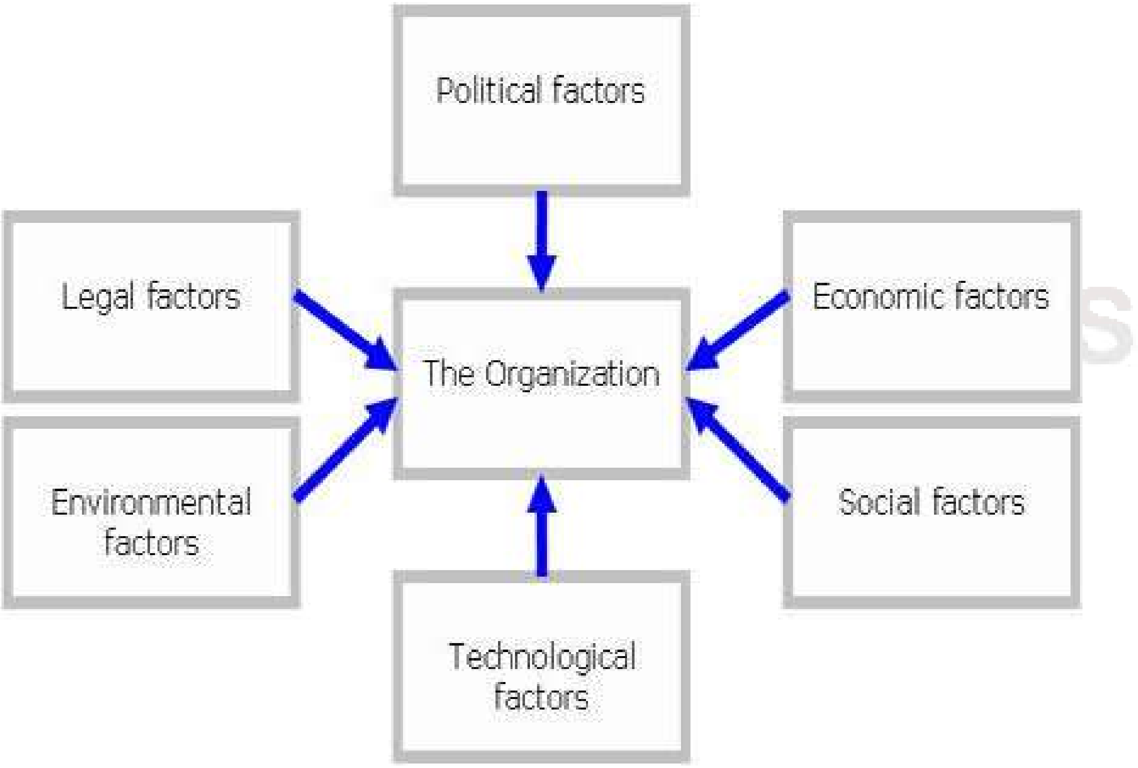
is moving to new products or services that have no technological or commercial relation with current products, equipment, distribution channels, but which may appeal to new groups of customers. The major motive behind this kind of diversification is the high return on investments in the new industry. Furthermore, the decision to go for this kind of diversification can lead to additional opportunities indirectly related to further developing the main company business - access to new technologies, opportunities for strategic partnerships, etc.

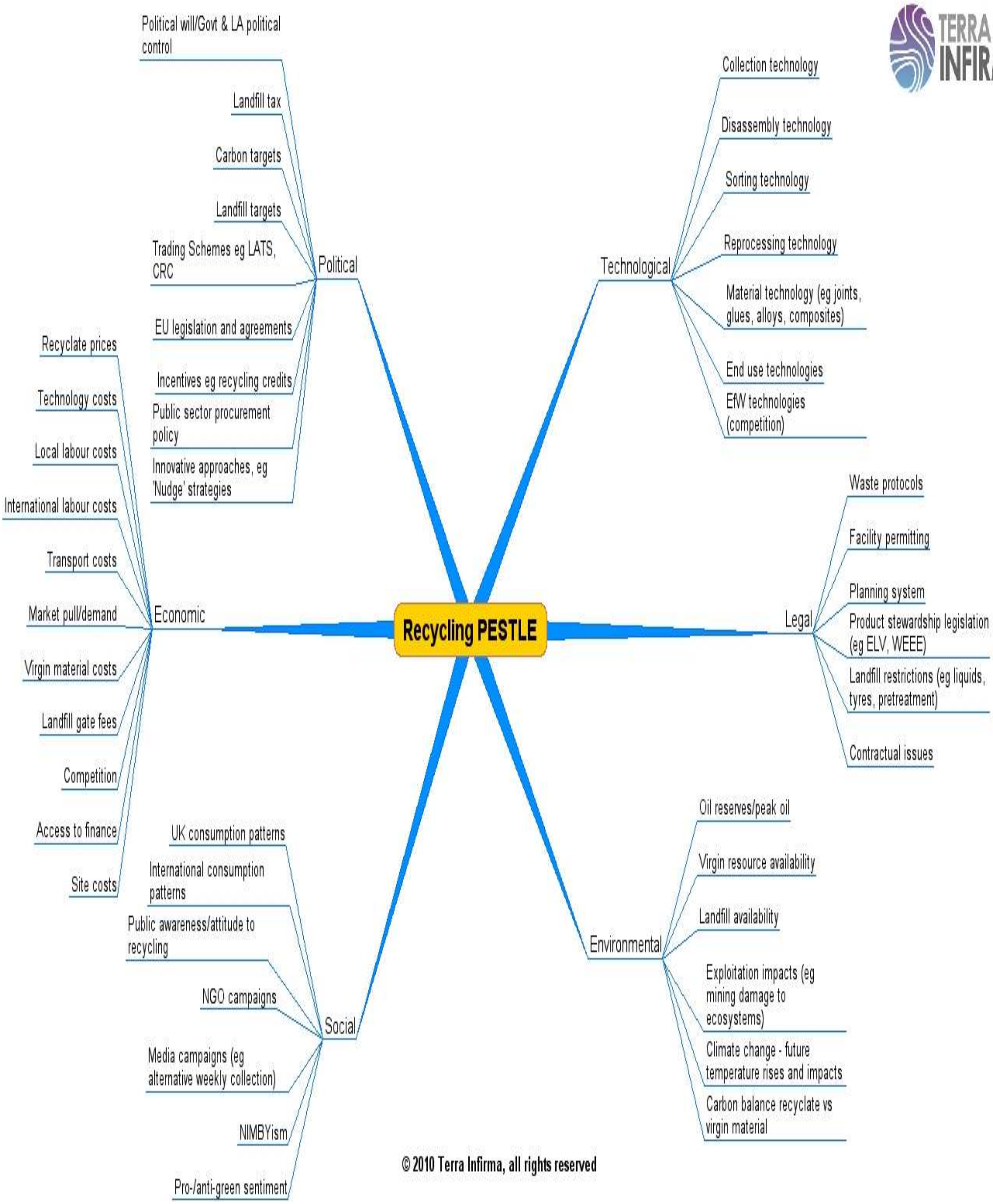
Business decisions are influences by two sets of factors viz internal factors (the internal environment) and external factors (external environment).

The methods and techniques employed by an organization to monitor the environment and to gather data to decisive information about the opportunities and threats that affect their business and the process by which organizations monitor their environment is known as environmental analysis.

Environmental analysis is defined as the process by which strategic managers monitor economic, governmental, legal, market, technological, demographic and social settings to determine opportunities and threats to their firms.

PESTLE ANALYSIS:Key external Variable factors




Recycling PESTLE
Political
Political will/Govt & LA political control
Landfill tax
Carbon targets
Landfill targets
Trading Schemes eg LATS, CRC
EU legislation and agreements
Incentives eg recycling credits
Public sector procurement policy
Innovative approaches, eg 'Nudge' strategies
Technological
Collection technology
Disassembly technology
Sorting technology
Reprocessing technology
Material technology (eg joints, glues, alloys, composites)
End use technologies
EfW technologies (competition)
Economic
Recyclate prices
Technology costs
Local labour costs
International labour costs
Transport costs
Market pull/demand
Virgin material costs
Landfill gate fees
Competition
Access to finance
Site costs
Legal
Waste protocols
Facility permitting
Planning system
Product stewardship legislation (eg ELV, WEEE)
Landfill restrictions (eg liquids, tyres, pretreatment)
Contractual issues
Social
UK consumption patterns
International consumption patterns
Public awareness/attitude to recycling
NGO campaigns
Media campaigns (eg alternative weekly collection)
NIMBYism
Pro-/anti-green sentiment
Environmental
Oil reserves/peak oil
Virgin resource availability
Landfill availability
Exploitation impacts (eg mining damage to ecosystems)
Climate change - future temperature rises and impacts
Carbon balance recyclate vs virgin material

Political Environment:

Government policies also impact the business climate of a country. The recent policy of Globalization of the Indian economy, liberalization etc has created a good climate for private sector investment in the country several laws are enacted to protect companies from each other by preventing unfair competition. Some laws are intended to protect workers, consumers and communities from business firms.

The political atmosphere of the country is significantly relevant to business organizations. No business can think of expanding a diversifying its activity if the political atmosphere is unstable and in turmoil.

Economic Environment:

In recent years, the degree of competition in the world has increased tremendously. Costs controlled are profits earned. Market share of the competitors, pricing of product general level of profits are factors that affect a company's product / service. In analyzing the competitive environment, it should be the prime concern of the management to find out if there is a minimum market share of its product in relation to its competitors.

Social environment:

Demographic factors like the size of the population, age composition, sex composition, educational levels, language, caste, and religion etc are all factors which are relevant to business. E.g., a rapidly increasing population indicates a growing demand for many products.

The social changes occur gradually. The social environment consists for factors related to the consumption habits of the people, customs and traditions, tastes, preferences. People of varied culture use products in different ways. E.g.: Rice, wheat, etc are consumed by people by cooking it in different methods etc. Hence the buying and consumption habits differ from culture to culture.

Natural Environment:

Geographical and ecological factors such as natural resources weather and climatic location are all relevant to business. Climate and weather conditions affect the location of certain industries.

"PESTLE ANALYSIS"

POLITICAL ☐ Regulatory bodies and processes ☐ Government policies ☐ Government term and change ☐ Trading policies ☐ Funding, grants and initiatives ☐ Home market lobbying/pressure groups ☐ International pressure groups ☐ Wars and conflicts/terrorism.	ECONOMIC ☐ Home economy situation/Growth ☐ Home economy trends ☐ Overseas economies and trends ☐ General taxation issues ☐ Level of savings ☐ Industry properties ☐ Taxation specific to product/services ☐ Market and trade cycles ☐ Specific industry factors ☐ Market routes and distribution trends ☐ Customer/end-user drivers ☐ Interest and exchange rates
SOCIAL ☐ Lifestyle trends ☐ Demographics ☐ Consumer attitudes and opinions ☐ Media views ☐ Brand, company, technology image ☐ Consumer buying patterns ☐ Fashion and role models ☐ Major events and influences ☐ Buying access and trends ☐ Ethnic/religious factors ☐ Advertising and publicity	TECHNOLOGICAL ☐ Competing technology development ☐ Research funding ☐ Associated/dependent technologies ☐ Replacement technology/solutions ☐ Maturity of technology ☐ Manufacturing maturity and capacity ☐ Information and communications ☐ Consumer buying mechanisms/technology ☐ Innovation potential ☐ Global communications
LEGAL ☐ Current legislation home market ☐ Future legislation ☐ International legislation ☐ Law changes affecting social factors ☐ Technology legislation ☐ Technology access, licensing, patents ☐ Intellectual property issues	ECOLOGICAL ☐ Weather/climate ☐ Sustainability? ☐ Ecological/environmental issues ☐ Ethical issues

OPPORTUNITIES AND THREATS

"SWOT ANALYSIS"

SWOT is an acronym for the internal ***strengths*** and ***weaknesses*** of business and environmental ***opportunities*** and ***threats*** facing that business. SWOT analysis is a systematic identification of the factors and the strategy that reflects the best match between them. It is based on the logic that an effective strategy maximizes the business's strengths and opportunities but at the same time minimizes its weaknesses threats.

<u>Strengths</u> Strength is a resource, skill or other advantage relative to competitor's and the needs of the markets and organization serves or anticipates serving. Strength is a distinctive competence that gives leadership, and buyer-supplier relations are examples.

<u>Weaknesses</u> A weakness is a limitation or deficiency in resources, skills, and capabilities that serious impedes effective performance. Facilities, financial resources, management capabilities, marketing skills and brand image could be sources of weaknesses. Understanding the key strengths and weaknesses of an organization in narrowing the choice of alternatives and selective a strategy. Distinct competence and critical weakness are identified in relation to key determinants of successes for different market segments; this provides a useful framework for making the best strategic choice.

<u>Opportunities</u> An opportunity is a major favorable situation in an organization's environment. Identification of a previously over looked marketing segment, changes in competitive or regulatory circumstances, technological changes, and improved buyer or supplies relationships could represent major opportunities

<u>Threats</u> A threat is a major unfavorable situation in an organization's environment. The entrance of a new competitor, slow market, growth, increased bargaining power of key buyers or suppliers, major technological change, and changing regulations could represent major threats to an organization's success.

STRENGTHS	WEAKNESS
☐ Strong brand image	☐ Poor brand image
☐ Strong distribution network	☐ Weak distribution network
☐ Deep product mix	☐ Narrow product mix
☐ High quality product	☐ Low product quality
OPPORTUNITIES	**THREATS**
☐ Large and growing market	☐ Fierce international competition
☐ Delicensing and import liberalization	☐ Prices down, cost of production up
☐ Advantage of a good product range	☐ High job attrition(employees leaving) rates
☐ Economic boom	☐ Political instability
☐ Fast increase in income of people	☐ Economic recession

S W O T analysis studies important factor that affects the performance of the company is the forces that constitute the company's immediate environment. They include some factors like:

Physical assets and facilities: Like capital equipment production capacity, technology, logistics etc

R & D and technological capabilities: Like ability to innovate and compete.
Marketing Resources: like brand, image, good distribution network etc.
Financial factors: like financial policies, financial position, capital structure etc.
Human Resources: like skill, morale, attitude, commitment etc.
Finance:

1.High credit rating	1. Low credit rating
Large amount of internally accrued money	2. Poor receivables management

Production:

1.State of the art of technology	1. Obsolete technology
2. Strong R & D support	2.No R & D support
3.Efficient inventory management	3. Poor inventory management

Personnel:

1.Qualified and experienced human resource	1.Unqualified & inexperienced work force
2. Good industrial relations	2. Poor industrial relations
3. Motivated Human resources.	3. Low morale work force.

Organization:

1. Efficient Board of directors	1. Inefficient board of directors
2. Efficient and motivated managers	2. Conflict between managers.