

Strategists generally distinguish between two parts of the external environment. The first part is called the general environment. It refers to elements of the environment that tend to affect all firms regardless of their industries. The second part is called the competitive environment. It is comprised of firms and individuals that can alter the firm's revenues and costs. Strategists must understand and evaluate the environment as it is well as try and predict changes that could affect the firm. This is a [video overview](#) of the topic that can help you.

1. GE: The General Environment and its Analysis (GE) -*GD*Pest:

The purpose of the general environment analysis is to identify forces and trends in the general environment that could affect positively or negatively your firm. Once these are identified, you need to figure out how to capitalize on the trends or survive them. One way to describe the general environment is to use GDpest. GDpest helps obtain the most thorough depiction of the general environment. G stands for Global or the global forces that could affect the business. For example, anti-globalization sentiments and the rise of nationalism are global trends that affect many firms. This has led a number of companies to consider numerous regional operations rather than fewer global subsidiaries. D is for the region or country's demographics. For example, some countries like Japan have decreasing numbers of youth while others like Egypt have a large population of youth. These trends affect everything from demand for appliances to zippers. P focuses on the political environment of firms. For example, national and local politics and change in elected officials often have a major impact on firms. E addresses the economic environment of firms. Periods of growth or recession are only two of many dimensions of the economy that can change the fate of firms. S stands for sociocultural trends. Increasing interest in sustainability and the environment for example has changed and still changing how many companies do business. Finally, T is about technological trends. The ongoing digital revolution globally is still affecting how firms do business. For example, many are still trying how to use potential customer data, sell effectively online, and move part or their structure into the cloud.

Please also [read the following and watch the linked video](#) for further information. The video talks about PEST, others also use PESTLE. I prefer GDpest as it is more comprehensive so there is less of a chance of missing something important.

Are you trying to do a GDpest? Here are the important questions you need to ask (You can fill this information in a spreadsheet to help you be more systematic)

Questions to ask	Global	Demographics	Political (includes legal)	Economic	Sociocultural	Technological
Prevalent Factors	What are prevalent Global Factors?	What are prevalent Economic Issues?	What are prevalent political and regulatory	What are prevalent Economic Factors?		

		Decline in birth rate? Aging population..	issues that can affect my industry and firm? [Think policies related to FDI/Tax/Investments/Labor Laws/Property Rights.)	Growth/Inflation/Interest Rates/Exchange Rates..		
Emerging Factors	What are emerging Global Trends?	What are emerging Demographic Issues? Sudden influx of immigrants,	How could the political situation and policy/regulation change?	What are emerging Economic Issues?		
Change/Risks	How are these forces changing?	How are these forces changing?	How are these forces changing?	How are these forces changing?	How are these forces changing?	How are these forces changing?
Potential Consequences on my industry?						
How could my firm capitalize on the above?						

2. CE: The Competitive Environment and its Analysis (CE)- 5-Forces Analysis:

Most of you already know about Michael Porter's Five Forces or Industry Analysis. You likely studied it in a cursory manner and used to understand how profitable an industry is, and the key success factors in an industry. Here are two videos to watch that review the basics. They overlap but have different styles.

David Kriscynski - [Industry Analysis](#).

Edspira - [Industry Analysis](#)

Knowing how competitive an industry though is not enough. You also need to understand what drives each of the 5 forces. Once you do, you can devise a strategy to counteract that force if it is against you, or capitalize on it. For example, knowing that rivalry is high is useful but doesn't guide you as to the

next step you need to take. But if you know that rivalry is high because there is high overcapacity in the industry you have more useful information. You could address this by closing manufacturing capacity or stores or buying competitors and shutting them down. This strategy would be of little help if rivalry is high because your and many other company's product are homogenous (think white flour for example). If rivalry is high because of high product homogeneity, you might try to differentiate your product (think of King Arthur's flour: "Try it once and you'll like it always" slogan).

So how can you determine what the drivers of the 5 forces are? These drivers are listed in details in the lecture on power point I shared with you. I also gave you an example of how to collect data on them. These videos also do a great job laying out all the drivers of each force. Please watch them:

Edspira - [Rivalry among existing firms \(aka incumbents\)](#)

Edspira - [Bargaining power of buyers](#)

Edspira- [Bargaining power of suppliers](#)

Edspira - [Threat of new entry](#)

Edspira - [Threat of substitutes](#)

Remember that the objectives of an industry analysis are to:

- 1) Determine whether an industry is attractive or not.
- 2) Assess the state of each of the 5 forces.
- 3) Determine the underlying drivers of each force.
- 4) Identify the key success factors in this industry (or what it would take to succeed in this industry - FOR ANY GENERIC firm -bearing in mind that there may be more than one formula for success in an industry. Think for example specialised and differentiated grocers like Wild Fork in Miami, or low cost hispanic grocers like Sedano and Tropical, or natural and organic sellers like Whole Foods).

Once you have completed the above you then turn to the firm of interest and see how your work can help it improve its strategy.

You can use [this spreadsheet](#) to help you collect the information needed in a more systematic way.