



What's Happening Outside?

Did everyone have a good time at the APEX show in Vegas? I hope you came home with some PCB market information and not just a hangover. Now that everybody has finished the homework I assigned last month and written a mission statement and established company goals, it is time to conduct an external environmental analysis. This analysis is needed to develop a business strategy that will allow your company to gain a competitive advantage. It requires you to look outside of your organization into the market place in which you intend to compete. For obvious reasons, you want your business strategy to be developed based on facts rather than anecdotal evidence (i.e. stories from vendors, customers, former employees, etc.).

An external environmental analysis helps companies identify opportunities and threats in the marketplace and strengths and weaknesses of their organization as they relate to the mar-



ketplace. There are many methods that can be used to perform an environmental analysis. One popular method, known by the acronym PEST, breaks the analysis into four categories: political, economic, social and technological. This method only looks at external factors that influence the market and that you have no control over. Another popular method examines three interrelated subcategories: Remote Environment, Industry Environment, and Operating Environment.(1) I prefer this method because it analyzes both external and internal forces impacting a business' position in the marketplace and categorizes these forces by the amount of influence an individual business can exert over them.

The **Remote Environment** analysis examines factors external to your business that you can't control, but that can affect your business. The Remote Environment is comprised of five factors, which can originate on a state, federal, and/or global level: political, economic, social, technological, and ecological. Political fac-

tors include laws, regulations, and governmental programs and policies that affect your industry. Economic factors include local, national, and international market conditions, unemployment rates, and interest rates. Social factors include values, beliefs, and lifestyle choices that impact the market. Technological factors include new processes and products. Ecological factors include concerns with air and water quality, global warming, and conservation efforts. Although you can't control these forces, they do impact the market in which your business operates. For example, in the 1990's, environmental concerns (social and ecological factors) led to regulations (political factors) that included tighter and stricter limits on the amount of lead allowed in the waste stream. Astute owners were aware of the external environment in which they operated and made plans to efficiently and consistently deal with these new regulations. In other words, they recognized the threat and took actions to minimize its impact on their business. Those owners who either found out late or chose not to act until the last minute, were forced into an expensive game of catch up. A thorough analysis of these five factors will help you identify the opportunities and threats confronting your business that need to be taken into consideration when formulating a strategic plan.

The **Industry Environment** analysis examines the nature and degree of competition in a given industry. It looks at both external and internal factors over which an individual business has some, but not complete, control. A popular method of analyzing the industry environment, which I often utilize, examines five basic forces that affect the degree of competition or price pressure in your industry.(2) Since I discussed these five forces in my February, "Work Smarter not Harder," Circuitree article that focused on competitive advantage, I will not repeat them in this article.(3) The Industry Environment analysis also includes what many strategists refer to as a "market analysis" that includes determining factors such as actual and potential market size, market profitability, cost structure, distribution systems, and trends and developments. Businesses that understand the nature of their industry can use this knowledge to position their business to minimize the effect of these competitive forces.

The **Operating Environment** analysis is the third and final step of the environmental analysis. It examines the internal resources and capabilities of your company that relate to the marketplace. In particular, it looks at those factors that contribute to a company's ease of acquiring resources (e.g. materials, supplies, and labor) or profitability in marketing its goods and services. The more important factors include a company's competitive position, makeup of customer base, relationships with vendors, sources of funding, and the ability to attract good employees. A company can typically control and influence these factors and deal with them in a proactive manner. An example of how a company can influence

its operating environment is the choice of where to locate its business. Are your suppliers nearby so you can quickly get materials and supplies? Is there a good local labor pool so you can easily hire talented personnel? How about your customer base; are there many board users nearby?

A comprehensive external analysis will help you understand the forces both inside and outside your company that affect your company's current and future position in the marketplace. This knowledge is crucial to the development of a business strategy. The business strategy you develop should attempt to leverage your internal strengths to take advantage of the opportunities you expect to meet in the marketplace. In addition, your business strategy should include plans to convert weaknesses into strengths, and threats into opportunities, or, if that's not possible, to minimize or avoid any threats



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that are likely in the future. If you don't think this is important, remember Polaroid Corporation, the instant photography giant. Back in the 90's, the company once revered by shutterbugs everywhere, missed the boat when it came to the new digital technology that was looming

on the horizon. Once consumers got a taste of this new technology, demand for instant photography disappeared in, well, an instant—oh, how the mighty have fallen.

Next month we will continue our discussion with a look at internal analysis and identifying your company's strengths and weaknesses. □

Footnotes:

1. John Pearce and Richard Robinson: Strategic Management: formulation, implementation, and control (Richard D. Irwin 1994)
2. Michael Porter: Competitive Strategy (Free Press 1980)
3. Paul Emello: Circuitree (February 2010)

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