Your job in the crucial early phases of building and evaluating a strategic proposal is to look ahead and to evaluate the fit of your strategy with a changing environment which includes existing and potential competitors, suppliers, and customers, as well as macroeconomic trends that may impact your firm’s strategy and its performance.

Chapter 5
Environment Analysis: The Strategy–Environment Linkage

CONDUCTING ENVIRONMENT ANALYSIS

The primary obstacle that you will face is the sheer complexity of the forces at work and their interaction and change over time. To cut through this complexity, we have set out a series of procedural steps (see Figure 5.1) that will help you to focus your analysis on the critical environmental forces and to make more robust predictions about the success of the strategy under study. The steps tie directly into the broader processes of strategic analysis and the Diamond-E framework that we described in Chapter 3, and the tools for environment analysis presented in Chapter 4. However, as we have noted before, procedural steps are not intended to lock you into a rigid approach; they are created for clarity of exposition and to represent a general progression of analysis. Your actual analysis will undoubtedly be much more spontaneous and iterative.

Our discussion of the strategy–environment linkage will follow the proposed analytic steps. The first task is one of preparation, of isolating the questions and the forces that are of greatest importance and of doing the background work on this subset of variables to ensure that you understand their implications. The analysis then moves into a second phase of increasingly rigorous tests of the strategy and to forecasts of firm performance if the strategy is adopted. The final step is one of deciding whether there is justification to carry forward the proposal, as now understood, to further phases of the Diamond-E analysis.

STEP 1: FOCUS THE ENVIRONMENT ANALYSIS

In Chapter 4 we presented many tools for environment analysis. While you are not expected to apply all of these tools, we suggested that you can use them as a mental checklist to identify those tools that are particularly salient to your situation. The initial challenge in environment analysis is to identify the major forces that will affect the
Step 1: Focus the Environment Analysis
Work from the strategic proposal to define the boundaries of the relevant environment, highlight the questions that need to be asked about demand, supply, competition, and government. Establish a time horizon for analysis.

Step 2: Test the Strategy-Environment Linkage
How well does the strategic proposal anticipate the opportunities and challenges in demand, supply, competition, and government? For serious misfits, recycle to develop a more attractive proposal.

Step 3: Forecast Performance
Decide if the strategic proposal, implemented as planned, will meet its goals. For clearly failing proposals, recycle to develop a more attractive proposal.

Step 4: Rank Against Other Proposals
Consider the strategic proposal in the light of alternative proposals. If it is competitive, proceed with the Diamond-E analysis. If not, consider dropping it and recycle to develop a more attractive proposal.

Step 5: Move to Next Step in Diamond-E Analysis
Assess the strategy-resource linkage.

**Figure 5.1 Environment Analysis**

success of your strategic proposal. This begins by establishing the rough boundaries of the targeted environment (e.g., the industry or market segments); these boundaries represent what we call the relevant environment for the strategic proposal. Then, within this limited environment, you will need to establish a time horizon for analysis and to isolate the specific forces of demand, supply, competition, and government policy that have the greatest impact on the strategy under consideration.

Focus is critical to understanding the prospects of a strategy. Without focus it is all too easy to get lost in reams of data and long lists of possibilities, and then to become frustrated because your observations turn out to be of little use. Naturally, there is a risk that the pursuit of focus can go too far, to the point where you might miss important external facts and forces. But we believe that this is an acceptable risk, provided you are sensitive to it and employ the safeguards that we suggest for avoiding too limited an analysis.

Three tools will be particularly useful in achieving a focused and properly timed environment analysis: your assessment of the performance of the business, the strategic proposal itself, and the business (profit) model underlying the business and the specific proposal. These tools overlap in their application, in the sense that performance
assessment links to strategic goals and the profit model links to core activities, but each can make a distinct contribution to the process of focusing your analysis. We will discuss them in turn below.

**Performance Assessment as a Focusing Tool**

As we discussed earlier, the ongoing performance of a business sets a general context for the process of strategic analysis. As a focusing tool, your performance assessment can help you to set an appropriate time horizon for environment analysis and to indicate the range, detail, and depth of study that suits the situation at hand. Consider, for example, the differences in focus implied for a base case analysis of the strategy of a healthy business versus the strategy of one in crisis.

The first task in the base case analysis (see Chapter 3 for a description of base case analysis) of a healthy business is one of projecting how long you expect the good times to last. A strong performance record suggests a good fit between strategy and environment. The forecasts of future performance will likely have to stretch well into the future and uncover and examine very fundamental trends. You need to be deeply aware of your strategy and then look as far as possible toward the horizon to identify anything that could take you off track. If you were involved in a base case study of the drug giant Pfizer, for example, an appreciation of the company’s impressive financial performance would prompt you to look well down the road for potential opportunities in its new drug pipeline and for potential challenges, such as the revenue impact from the expiry of patent protection on its blockbuster drugs such as Lipitor, and the downward pressure on prices from generic intruders and government drug price controls. This analysis would tie naturally into an equivalently long-term exploration of strategic intentions, such as Pfizer’s use of acquisitions to replace revenue lost due to the expiry of patent protection. Here the healthy past performance of Pfizer would give you some confidence that the company knows what it needs to do and help you to focus your analysis on their chances of doing it successfully.

A business in crisis, on the other hand, is on a very short fuse. The base case questions go to the feasibility of a rescue effort. How much time do you have? What are the most significant problems that you have to resolve right away? Your environment analysis will have to be as immediate, tangible, and detailed as possible. For example, BP, the international oil and gas company, found the events surrounding the 2010 Deepwater Horizon oil spill in the Gulf of Mexico were quickly getting out of control. What had started out as a serious accident with a relatively small spill and a controllable situation spiralled out of control into one of the largest oil spills to date. The spill gained the potential to cause massive environmental damage. The financial and public relationship costs threatened the very existence of BP as an independent company. Quick decisions were required on how to manage the spill and relationships with various stakeholders, including the public and federal and local government entities. The required environment analysis was immediate and to the point. How could BP support the local communities that had suffered economic and environmental losses due to the spill? What could be done to minimize the
environmental impact of the spill? How would competitors react to BP’s recently weakened state? Would customers boycott its products? How would large shareholders, such as pension funds, react to the possibility of dividend cuts required to fund the costs of the cleanup? Time horizons were short and the priority for analysis was on isolating the most immediate and critical environmental forces.

The Strategic Proposal as a Focusing Tool

By its very nature, the strategic proposal that you are considering helps to identify the relevant business environment and the specific conditions on which the analysis should focus. Each of the strategy components we described in Chapter 2 has a role to play in this process:

1. Strategic goals establish the performance priorities and expectations that need to be evaluated in your environment analysis. The implications of high-revenue growth targets, for example, are that you would have to ask pointed questions about the growth potential in the server market and the possibilities of increasing market share. Alternatively, a commitment to high, short-term profits would direct your attention to equivalently short-term market conditions and possibilities.

2. Product market focus sets up a bounded environment for the analysis of demand, competition, and so on. A proposal to enter a new geographic territory, for example, gives you a specific target area for pursuing questions of demand and competition.

3. A proposal’s value proposition—the very core of strategy—defines a tangible benchmark for testing customer appeal and competitive differentiation. If your business chooses to emphasize price, for example, you would have to estimate the price sensitivity in the market and the capability and willingness of competitors to match or better your pricing initiatives.

4. The nature and structure of a proposal’s core activities provide a basis for identifying the cost, control, and flexibility trade-offs that would be sensitive to external trends and developments. If your proposal is based on a fully integrated activity system, for example, you will have to examine the potential for demand surges or setbacks carefully since these will have a major impact on the economics of the system.

The short case study of Jantzen Technologies that follows illustrates further the role of the strategic proposal in focusing the strategy–environment analysis. Please follow this example carefully, as we will be returning to it throughout this chapter and in later parts of the book.

Jantzen Technologies: A Case Study

Jantzen Technologies is a major supplier of an important component system to personal computer manufacturers. Harry Jantzen, an electronics engineer, started the company in the mid-1980s. Jantzen had worked for several years for a large computer company, but
had become disenchanted by large company procedures and decided to strike out on his own. He had always thought there were opportunities for small companies to do a better job by out-servicing their larger rivals, and from the beginning he focused his new business on building very close technical relationships with customers, followed up by continually developing new product features. The company had grown rapidly and now had production facilities in the United States, Taiwan, and Ireland to serve customers based in these areas.

By staying at the forefront of product development in a market with fast-changing requirements, and by meeting the sometimes-idiosyncratic demands of its customers, Jantzen had historically enjoyed reasonable flexibility in pricing and very good profit margins. In recent months, however, negotiations with customers had become increasingly difficult. Price was becoming a much bigger factor, to the point where a major order had just been lost to an emerging competitor. There were clearly some significant changes taking place in Jantzen’s business environment.

The strategic goals for Jantzen Technologies were very much a reflection of Harry Jantzen, although ownership was now substantially dispersed to the public market and employees. Growth and comfortable profit margins were paramount, not just as a matter of financial return, but to keep up the level of excitement in the company and provide the funds for continuing product development. Harry Jantzen was well known for his commitment to innovative design and for making sure that the company took care of its development engineering staff. The emerging question was whether these goals were sustainable into the future.

Jantzen Technologies had taken a very deliberate approach to its product market opportunities. It had focused on a single component system, although it had always been willing to modify it or add custom features as requested by customers. On the customer side, Jantzen had always concentrated on direct sales to, what Harry Jantzen called, the “customers who mattered,” a list of a dozen or so businesses around the world, which varied somewhat with the ebb and flow of the computer business. Almost as an afterthought, Jantzen sold a fairly standardized line through a major components supply house.

Jantzen’s position as the leading global supplier in its field relied on innovation in product features and a willingness to work closely with individual customers and build systems customized to their particular technical specifications. Maintaining this position was a never-ending race to convert a changing basic technology into commercial systems, then to move on to the next generation of systems to stay abreast of the technology and ahead of competitors. The relationships that Jantzen’s sales engineers and design teams had built with customer design teams had proved to be a major asset.

Jantzen had chosen to build a comprehensive and integrated system of core activities ranging from design through manufacturing to direct sale. This system had served to maintain close relationships with customers, proprietary control on innovations for as long as possible, and internal control over critical outputs such as quality and delivery. Plant operations in general were set up for flexibility to accommodate a high variety of custom requirements.
Jantzen’s Strategy as a Focusing Tool
A base case analysis of Jantzen’s prospects would rely heavily on the company’s past and current strategy to provide direction on the environmental questions and conditions to explore. Here is a sampling:

1. Jantzen’s growth and profit goals are ambitious. Is there enough growth potential and competitive room in the market to support these goals even in the short term?

2. Jantzen’s product market focus is very narrow. With such a high reliance on a single component system and relatively few customers, it is essential to understand these customers thoroughly, not just in terms of technical needs but also in terms of the economic pressures they are facing in their marketplace. This understanding will help to build a better basis for dealing with new negotiating pressures, and a convincing forecast based on individual customer potential and buying requirements.

3. Jantzen’s value proposition is based on superior technical features and individual customization. This suggests two critical areas for analysis. First, will the basic technology continue to generate opportunities for product innovation? If this window is closing, what are the competitive consequences for Jantzen? Second, will the trend toward price sensitivity continue, and will this introduce new influencers and new agendas into the purchasing process?

4. Jantzen’s core activities are highly integrated. Will this system remain cost effective in the light of possible changes in customer purchasing criteria and the potential development of greater competence among competitors and sub-component suppliers?

The Profit Model as a Focusing Tool
Underlying every strategy is a profit model that consists of the structure of revenues, costs, profits, and investment associated with it. You can develop the profit model for a current strategy from the actual performance records of the business. For new proposals you can develop a profit model out of the substance of the proposal, and particularly from the structure of goals and core activities. In both cases it is important to distinguish between variable costs (which vary with volume) and fixed costs (which do not vary with volume). The utility of this effort is illustrated in the following examples.

High Fixed Cost Structures
If you find that a high proportion of the costs at expected operating volumes are fixed, some special care should be given to assessing the prospects for price stability in the market. Consider the situation that prevails in the airline industry. Once an airline has set its schedule for a season, its costs are largely fixed and the battle is on to maximize total contribution. Since variable costs are quite low in airline operations, there is a strong temptation in this structure to cut ticket prices to capture additional volume. Unfortunately, this structure leads to fierce price wars and declines in average profitability for the industry as a whole.

High Variable Cost Structures
If a high proportion of the costs related to expected operating volumes are variable, however, you should take care to assess the accuracy of
the assumptions about the significant input costs. Consider the problems that a large agrochemicals company has with one of its ammonia plants. The plant has a high variable cost structure and a large part of these costs are for the natural gas used in the conversion process. In fact, the profitability of the plant hinges directly on access to natural gas at prices that are competitive with other regional producers. Unfortunately, some miscalculations about continuing political support for advantageous gas supply at the time the plant was proposed, however, have left this company with a major investment that simply cannot make money.

**High Break-Even Points** If the break-even point of your proposal is high relative to the size of the target market, you need to make a very careful assessment of your ability to achieve the required share position. You should also weigh the possibility that if you do achieve the high share position, you may have established a significant barrier to new competition.

**High Up-Front Investment** The timing of the investment commitments anticipated in a strategic proposal relative to the development, introduction, and market acceptance of a product will create different levels of risk. In the pharmaceutical industry, for example, much of the investment behind a new product is committed years before a single dollar of revenue is received. Proposals with high up-front investment require a very careful assessment of market potential. In addition, the inescapable risk of such proposals suggests the need for ample supplies of risk capital. This is an argument that pharmaceutical companies use in support of patent protection—that the high returns on successful products provide the needed capital funding for the development of new products.

In the plastics products industry, on the other hand, all that may be necessary to support a proposal to introduce a new product line may be a relatively modest investment in the design and fabrication of new moulds. Often manufacturing capacity can be built as the product succeeds in the market. Operating in this type of environment should certainly not be taken as an opportunity for sloppy market assessment, but in these circumstances there is less pressure for accuracy. The relative ease of entry, on the other hand, suggests that you must look closely at potential competitive developments.

**Inflexible Investment Structures** In some cases, you will find that the nature of the investment required by a strategic proposal is such that there will be little salvage value if things do not work out. The impact of such investments on the availability and cost of capital needs to be carefully considered. A small winery that intended to age all of its products, for example, had to revise its proposal because its bankers were not prepared to finance the inventory. Similarly, a group with a uniquely designed restaurant had difficulty raising money from lenders who were concerned about the fact that the building had no alternative uses if the restaurant failed. In circumstances such as these you should carefully explore the probabilities of external forces that would lead to such “worst case” scenarios.

**The Profit Model as a Focusing Tool: The Jantzen Example** The Jantzen activity system, as we noted earlier, was highly integrated from design through
manufacturing to direct sale. The manufacturing process itself relied on a heavy investment in specialized, computer-controlled tools to produce sub-components. The result was a fixed cost structure that could become a serious problem if the environment became more hostile. This means that some very careful analysis must be done on the stability of market prices. What effect will maturing demand and competitive pressure have on prices? Jantzen may well have to modify its strategy to accommodate these emerging realities.

**Defining the Right Time Horizon**

So far, we have concentrated on picking the right questions to ask in an environment analysis. A parallel job is that of setting a time horizon for the pursuit of these questions. You will clearly have to project into the future, but how far? Earlier we mentioned the role of your performance assessment in establishing time horizons. There are three additional factors that will help: (1) the pace of change in competitive and other industry forces; (2) the flexibility of the strategic commitment under consideration; and (3) the time required to implement the new strategy.

**Pace of External Change**  Life cycles for products and technologies are becoming shorter and shorter, compressing the time horizons that are relevant for environment analysis. Increasingly shorter gaps between the introduction of new versions and speed levels of microprocessor chips are a telling example of this phenomenon. Each generation of chip development changes the environment for computer builders, microprocessor suppliers, and other industry participants, and each generation imposes new and ever-shorter time horizons on strategic proposals in the industry.

But the pace of change varies widely from one situation to another, so gauging the speed with which major changes are likely to occur is a critical first step in setting the time horizon for analysis. In some markets, like smartphones and personal computers, the time horizon may be measured in months. In other markets, such as commercial aircraft, the time horizon for fundamental change stretches far off into the future.

Anticipating the pace of change in a market should be integral to your study of demand trends, competitive developments, and so forth. However, you should also be thinking hard about the period of continuity for which the strategic proposal will be valid.

**Flexibility of Commitment**  By definition, a strategic proposal involves a commitment that is hard to reverse. But the flexibility or reversibility of proposals does vary. The less flexible the strategic commitment is, the further ahead you must look. For example, a consumer packaged-goods company may be able to introduce a new product on a limited basis, in test areas, thereby reducing the scale of the required initial investment. However, if a resource company is considering the development of a new mine, there are no half measures. The company will have to make the whole investment, and it may not earn returns for several years. In such cases the time horizon for analysis is correspondingly extended.
Implementation Horizon  Some strategic ventures, like the mining example just mentioned and other major capital projects, require years of planning and construction to complete. In such cases these logistical realities determine the relevant period for environment analysis.

Setting a time horizon is subtler for strategic initiatives that count on major organizational change to support them. Organizations have great inertia. If you want to be ahead of, or at least ready for, new developments, you have to look quite a distance down the road. In later chapters we develop the topics of strategic and organizational change, and these will give you the grounding for making judgments about necessary and required time horizons from an implementation standpoint.

Defining the Right Time Horizon: The Jantzen Example  The Jantzen example calls for a base case analysis of a very successful business strategy. The crucial question is its sustainability—will the strategy continue to produce excellent results? The outcome of recent sales negotiations suggests that Jantzen's business environment is changing; customers are putting a new emphasis on price, and competitors are meeting these demands. In this context, the time horizon for analysis is immediate. The changes are already under way that will create a substantially new set of environment conditions.

Minimizing the Risks of Focus  

We have gone to some lengths to emphasize the importance of focus in your analysis of the environment. Focus results in an efficient process and provides specific, in-depth results. However, it is important for you to recognize that these benefits are possible only at the risk of what we call strategic myopia. If your focus is too specific, you might miss the emergence of a new market opportunity or the arrival of unconventional competition. Similarly, if you concentrate on a particular time horizon you may get blindsided by events that lie just beyond the limit. Part of forecasting the future is imagining possibilities of what could be.

The risks of focus can be reduced by ensuring that your analysis is accompanied by continuous macroenvironmental scanning, and that the analysis is recycled as it proceeds, to incorporate any redefinitions of the relevant environment and the questions being addressed. With these precautions, the practical advantages of concentrated analysis far outweigh the risks and disadvantages of missing something.

Macroenvironment Scanning  A sensible hedge against the risks of focus is to maintain a concurrent awareness of the events and institutions surrounding the relevant business environment—which is called macroenvironment scanning. The chief differences between the focused environment analysis that we have been talking about and macroenvironment scanning are summarized in Table 5.1. Macroenvironment scanning is essentially an issue-seeking process. It is an ongoing search for basic developments that may offer a firm brand new opportunities or present unconventional threats to its continuing performance.
As we discussed in Chapter 4, PEST is a popular model for macroenvironment scanning. The aim in reviewing the PEST trends is to identify broad forces and basic changes in the total environment of a business. Most urgent is the search for any threats to negate. A broadly based assessment is particularly useful when the uncertainty in the environment is very high. In Chapter 4, we presented tools for scenario planning, which are particularly helpful in uncertain environments. But you need to be careful here; the aim is to look wide but avoid aimlessness. A useful approach is to take analytic expeditions that work outward from your defined business environment. Used this way, macroenvironment scanning and the PEST model become an extension of your basic strategy–environment analysis. Your understanding of your business strategy and its environment sets the underlying guidelines. From this base you can screen the many events that occur on the fringe of the business environment and isolate those that have a potential positive or negative impact on the business.

Identifying Market Intrusions A second way to minimize the risks of focus is to keep your eyes open for newcomers into your industry. Trucks and aircraft have taken business that historically belonged to the railroads. Upstart “low fare” airlines are challenging the traditional hub-and-spoke network airlines. Plastics have replaced wood, paper, and metals in numerous applications. The development of new technology is often the edge that allows outsiders to break into an industry and successfully penetrate its markets—witness the move by cable companies to enter the household phone market by way of voice over internet telephony. We will discuss disruptive business models further in Chapter 10. In Chapter 4, the value chain tools and new economy models help you to consider how the boundaries of the industry might change, and whether there is opportunity for new competitive entry. You do not need incredible foresight to recognize these developments; you simply need to keep watch on patent registrations, technical reports, and products or processes already in use in other industries that may be applicable in your own situation. Given the time lags associated with truly novel commercial development and market diffusion, there will be enough time to respond, as long as you take a clear and imaginative view of the potential of the innovation and the intentions of its sponsors.

### Table 5.1 Comparison of Focused Environment Analysis and Macroenvironment Scanning

<table>
<thead>
<tr>
<th>Focused Environment Analysis</th>
<th>Key Characteristics</th>
<th>Primary Subjects</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Driven by strategic proposal</td>
<td>Analysis of fit with forces in defined environment</td>
<td>Forecast of performance</td>
<td>Identify events of potential impact on the business</td>
</tr>
<tr>
<td>Relatively formal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue-seeking</td>
<td>Continuous, informal process</td>
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Recycling A third hedge against the risks of focus is to ensure that the analytic process stays open—that you are prepared to incorporate new information and to double back or recycle your work as the need arises. This proposition is easy to agree with in the abstract, but difficult to follow in practice. Recycling breaks the momentum of a proposal and may require substantial additional analysis. You may be reluctant, particularly in ambiguous situations, to go back a step, perhaps to the beginning, and redefine and reassess the situation. Fight this tendency or you will lose the important benefits of learning about new possibilities as the work develops.

Naturally, there is a limit to recycling. You must be careful to avoid the extreme of “analysis paralysis.” At some point risks must be taken and decisions must be made. The art of good analysis is the ability to balance the need for additional study with the need to take action. You should be fully aware of this balance at all stages of your strategic work.

STEP 2: TEST THE STRATEGY–ENVIRONMENT LINKAGE

We now turn to the task of testing how well a strategic proposal addresses the opportunities, challenges, and timing requirements of the environment. To help organize this process we have classified environmental forces into four basic categories: demand, supply, competition, and government. The elements of this model are portrayed in Figure 5.2. In the following sections we will review each of the environment categories and present

*Figure 5.2 Testing the Strategy–Environment Linkage Business Environment Analysis Model (BEAM)*
several concepts that will help you to pursue your analysis. This model is not intended to supplant the models previously presented. Rather it is intended as a starting point to conduct your environment analysis. It is helpful to mentally review the other models to assess whether they might provide some insight into the situation at hand.

The four components we identify are quite consistent with the models presented in Chapter 4. As noted in the discussion of the value chain and Porter's Five Forces model, understanding supply, demand, and competition is critical. We add government to the list since in many economies the regulatory environment has a direct impact on the industry. Simply examining the political factors that affect the industry, as in the PEST model, does not adequately capture the microprocesses of industry analysis. In the following sections, we develop each component of the model in further detail.

As the process of questioning and testing proceeds, you will develop a better understanding of environment conditions and an accumulating evaluation of the strategy–environment fit. These may lead to an early conclusion that the strategic proposal is inadequate, in which case you should recycle the analysis, as indicated in Figure 5.1, to develop a better proposal that incorporates your findings.

**Demand**

The test of the linkage of your proposal and demand is whether it anticipates opportunities and creates advantages in the way that it addresses customer requirements and trends in the market. Is the strategy aimed at growing market segments? Does the strategy tap into new customer needs? In this process it is particularly important for you to gauge the degree to which a strategic proposal incorporates (1) the needs and preferences of current and potential customers, (2) the scale and timing of market development, and (3) the bargaining power of customers.

**Needs and Preferences** It is surprising and discomforting to observe the degree to which companies will sometimes commit themselves to strategies without pinning down the fundamentals of anticipated demand. The literature on new product development is full of warnings on this account and of examples of setbacks in companies that ought to have known better, such as Microsoft with Microsoft's Bob, IBM's OS/2, and Motorola’s Lapdock. The lesson is that you simply should not feel comfortable unless you understand the links between your strategy and your intended customers.

Consider the strategic change that drove a turnaround at the Blockbuster Video chain. After several years of rapid growth, Blockbuster's sales and profitability faltered in the mid-90's. Some analysts explained the slump by pointing to the increasing popularity of new technologies such as video on demand, but the real source of the problem was utterly prosaic. Customer service levels at Blockbuster had been sacrificed to the point where one in five shoppers went home empty-handed or went away without the exact video that they wanted. How could a company like Blockbuster underestimate the importance of having available the videos that customers wanted when they visited the store? It was partially out of arrogance, no doubt, but beneath this there was a strategy and profit model under which
Blockbuster purchased tapes outright from the movie studios, making a fully adequate inventory a very expensive proposition. As a result, once dissatisfaction showed up in deteriorating performance, it became commonplace at Blockbuster to manage dissatisfaction rather than to deal with the basic customer service issue. The habits of the past were so ingrained, moreover, that it took a new and forceful CEO to highlight the importance of customer service and to work out a solution to the problem. This was not easy; to support new higher service levels, Blockbuster had to overhaul its profit model completely. It did so by negotiating a new deal with the studios under which revenue-sharing arrangements were used to substantially reduce the fixed purchase cost of tapes. This made adequate inventories feasible, at the penalty, of course, of unit profit margins. The result was an immediate improvement in business.

Then Blockbuster once again missed a change in customer preferences as customers moved toward digital downloads such as NetFlix and low-cost rentals at kiosks such as Redbox, and later went online. Blockbuster’s large brick and mortar operation became an anchor on its business model. In 2010 it filed for bankruptcy protection in the United States to re-invent itself to focus on digital download offerings. The last few company-owned stores closed in January 2014.

The problem in such instances is not that managers are unaware of the importance of customer needs and preferences. It is that other priorities get in the way. Blockbuster is a case in point. Another classic example is the belated recognition by Levi Strauss & Co. that its basic North American blue jeans business was in trouble. Changing demographics and tastes had been leaving Levi’s traditionally dominant jeans behind and creating opportunities for new competitors such as Tommy Hilfiger, Calvin Klein, The Gap, JNCO, and others. But Levi was slow to take note, in good part because its design, marketing, and merchandising units operated quite autonomously, to the point, even, of working from separate office buildings. Structure and politics were getting in the way of timely focus and market response. Levi ultimately moved to streamline its organization and get on with a push into new fashion concepts.

A major benefit of periodic strategic reviews is that they give you the opportunity to stand back and make sure that customer needs and preferences are being effectively addressed by your organization.

**Scale and Timing of Market Development** The goals of a strategic proposal set out performance expectations. A critical test of these promises is whether the revenue projections are reasonably consistent with the anticipated scale and pace of market development. The uncertainties that you will need to address in this test will vary across the product market life cycle. In the early stages of the cycle, the major concern is timing: When and at what rate will the market develop? Later, with growth established, the key question is one of ultimate potential: Where is the ceiling? Even later, in maturity, the worry is vulnerability: How will substitutes affect future demand?

Timing is thus a particularly crucial issue in many strategic proposals. The questions that you will face are often not so much whether a market exists, but how fast
it will develop and how long it will last. Think of the timing question facing Cinram International in 2003 as it considered the acquisition of AOL Time Warner’s DVD and CD manufacturing operations. The $1 billion deal would make Cinram the world’s largest DVD and CD producer. CD demand was in decline and manufacturing contracts were becoming increasingly competitive. DVD was on the rise, but to what heights and for how long before capacity increases squeezed pricing, and new formats such as video on demand and personal DVD recorders cut into the market? While initially the purchase contributed to Cinram’s bottom line, by 2007 the DVD industry had matured and Cinram took a $314 million writedown primarily related to this business. It took a further writedown in 2010 when Warner House Entertainment cancelled its agreement to purchase DVDs from Cinram.

**Customer Bargaining Power** In Porter’s Five Forces model, the thrust of the analysis focuses on the bargaining power of the buyer. Porter contends that the higher the bargaining power of the buyer, the lower the industry attractiveness. However, it is helpful to pursue the issue of bargaining power beyond the issue of industry attractiveness. In consumer goods and services, customer buying power is an aggregate phenomenon, summarizing the collective ability and willingness of buyers to influence prices and volumes. A significant question in the analysis of the fit of a strategy with demand forces is whether the strategy properly anticipates the timing and degree of change in buying power that will occur as a result of industry disruptions, such as the advent of new technology. The internet, for example, is fundamentally changing the role of store-based retailers by providing consumers with a competitive place to make a purchase, or, at a minimum, with powerful tools to “pre-shop” for price and product features before visiting a store. Additionally, the internet is allowing consumers, who as individual buyers in most cases are relatively powerless, to harness the collective power of social media to change relations with firms, such as the 2008 “United Breaks Guitars” phenomenon. After Dave Carroll and his band produced a protest song video that went viral, United Airlines shareholders lost approximately $180 million in value in four days.

In industrial goods, demand is shaped more directly by the bargaining power of individual buyers. For example, the automakers usually have a high degree of bargaining power because (1) they buy goods in quantities that represent important volumes to their suppliers; (2) they have a choice of suppliers from which to buy; and (3) they have the capability, should they choose to exercise it, of integrating backward into production for themselves. As a consequence, the supplier firms in the industry are frequently caught in tough bargaining situations in which their customers have a distinct advantage. To counter such circumstances, suppliers build strategies to link their customers into their unique capabilities and to spread the risk of individual projects by maintaining a broad portfolio of contracts and customers.

There are, of course, many aspects of demand that you will need to consider as you review the prospects of your strategy. The key is to stay on track and stick to fundamental issues such as we have illustrated with the foregoing examples.
Supply
A further test of the linkage between your strategic ideas and the environment lies in the potential for advantage and disadvantage in supply conditions and trends, as Porter identified in the Five Forces model. Consider, for example, the possibilities in the matching or mismatching of strategy with (1) technology, (2) supplier competence and bargaining power, and (3) competition for raw materials and people.

Technology If your strategy anticipates developments in technology, it might give you a head start on your rivals and an opportunity for industry leadership. The pioneer internet retailer Amazon.com, for example, took early advantage of the new possibilities in electronic commerce to challenge the conventional booksellers Barnes & Noble Inc. and Borders Group Inc. Then, as the internet bubble burst, Amazon was widely thought to be heading for the scrap heap. Not so. With a singular attention to the possibilities of technology in supply and delivery as well as in internet selling, Amazon.com bounced back as a dominant and increasingly broader-based retailer. As CEO Jeff Bezos says, “The three most important things to us are technology, technology, technology.”

On the other hand, if your strategies fail to anticipate and respond to technical change you might quickly become the laggard in the industry. BlackBerry (formerly Research in Motion), for example, suffered serious consequences to its corporate performance and reputation when it underestimated the speed of technological change in smartphones by companies such as Apple, LG, HTC, and Samsung, and overestimated the protection that its traditional enterprise business would offer. As in the estimation of demand forces, the issue with technology is often one of timing; it is critical that you keep your strategic reviews up to date on the pace of new developments.

Supplier Competence and Bargaining Power Another area of potential strategic advantage or constraint that you need to consider is in the linkage of strategies to the competence and bargaining power of suppliers. The issue of supplier power is a primary focus in Porter's model. However, as in the case of the bargaining power of the buyer, it is helpful to look beyond industry attractiveness to assess the implications of supplier power.

The ability of strategies to create marketplace advantages, for example, will often depend on high levels of supplier competence. Retailers such as Home Depot and Canadian Tire are a case in point: their ability to deliver superior prices and in-stock reliability relies heavily on their programs to develop supplier competence, to the point of virtual integration through electronic data interchange. Their considerable bargaining power relative to most suppliers helps expedite the process of development and integration. When the reverse is true, however, supplier capabilities and bargaining power can be a significant problem. Walmart's expansion in Brazil, Argentina, and other developing countries, for example, was delayed by both the reluctance and the limited competence of local suppliers, and their superior bargaining power relative to the Walmart start-up business.

If you face powerful suppliers that can influence the cost, quality, and delivery of essential inputs, you need to account for this in the development of your strategic proposal.
Fabricators of steel products, for example, try to reduce their reliance on powerful raw steel suppliers by seeking product markets where they can incorporate value-added services in design and installation, and reduce their reliance on raw steel supplies.

**Competition for Raw Materials and People** In many industries, the most significant strategic opportunities lie in the ability to achieve an advantage in raw materials and people. You will need to be particularly careful in these instances to check that your strategic proposals have fully considered these possibilities. In resources, for example, the quantity and relative cost of gas, oil, timber rights, mineral deposits, and so forth go a long way toward defining the position and future possibilities for the companies in their respective industries. The critical strategic test in these industries lies in how well the businesses develop and sustain their raw materials positions. Consider the fall over the last few years in the cost of production of natural gas with development of shale gas production techniques in North America. The cheaper recovery costs and widespread availability of shale gas threaten to undermine the viability of conventional natural gas plays. In response to these changes, Exxon Mobil acquired XTO Energy and thus provided itself access to significant unconventional natural gas reserves along with the technology and knowledge that XTO brought on exploiting unconventional natural gas fields.

In skill- and service-intensive industries, businesses vie to become the “best company to work for.” W. L. Gore, for example, focuses on innovation (Gore-Tex, vascular graft materials, guitar strings, etc.) and attributes much of its success to empowerment policies such as letting employees find out what they want to do. New-project champions must recruit “volunteers.” As one such champion said with respect to his project, “If you can’t find enough people to work on it, maybe it’s not a good idea.” In the service-intensive airline industry, Southwest Airlines in the United States and WestJet Airlines in Canada translate their capacity to hire flexible and energetic people into customer service advantages over their traditional airline competitors.

**Competition**

The test of the linkage of a strategic proposal and competition is in whether it pursues competitive opportunities and offsets competitive challenges and vulnerabilities. Consider, for example, the development and appraisal of a strategy relative to (1) aggregate competitive conditions and their impact on market attractiveness and (2) the specific strategies of individual competitors.

**Aggregate Competitive Conditions** You will need to check product market entry strategies, in particular, against an assessment of the attractiveness of the market as determined by aggregate competitive conditions. In this process, Porter’s model provides a useful vehicle to gauge rivalry and the resulting attractiveness of industries and market segments.

Consider the industry-level opportunities and obstacles faced by a privately held manufacturer of plastic drainage products. The company’s early growth had been based
on an innovative application of extrusion technology to the fabrication of corrugated plastic pipe for agricultural and industrial drainage. In many applications, the new plastic pipe provided significant advantages in cost and ease of installation over existing clay, steel, and concrete products. After a very profitable ten-year period, however, a number of changes in the industry were squeezing growth and profitability. Product and process technologies for existing applications had matured and were readily available to competitors and new entrants. Large installation contractors were bargaining successfully for very significant price and delivery concessions. Resin suppliers had consolidated and accumulated significant bargaining power relative to users. Substitute product producers in steel and concrete had redesigned their product lines to compete vigorously with the plastic contender. Together these forces were creating an unattractive market for the industry. The company’s response to such a challenging environment, after an appreciable delay in recognizing what was happening, was to shift its product market focus to very large diameter applications that had not been developed because of technical obstacles, and to invest heavily in a risky process development program. As it turned out, the development efforts were successful. The resulting proprietary technology allowed the company to repeat its earlier success, only now in a new and, for a time at least, more attractive industry segment.

**Individual Competitor Strategies** In many markets competition boils down to a handful of readily identifiable competitors. In these situations it is imperative for you to look at the competitors individually, study their strategies, and determine the potential impacts on your strategic intentions. More specifically, you should be trying to determine (1) how capable each competitor is, and how steadfast it will be in pursuing its strategic course, (2) how your strategic proposal might affect the competitor’s prospects, and (3) how motivated and capable each competitor is to react to your strategic initiative, and how it might go about doing so. These results, in turn, will condition your expectations for your own strategic proposal.

At times, the strategies of close competitors are reasonably easy to figure out. Monsanto has long been developing its capabilities in the growing crop biotechnology industry. When rival DuPont spent nearly $3 billion on acquisitions and partnerships in the industry, its underlying strategy was quite apparent. DuPont was intent on weaving together a formidable competitive position by integrating the core activities of crop biotechnology, from basic science to farm distribution. Monsanto had little choice but to respond in kind if it intended to be a long-run contender in the industry. Accordingly, a year later Monsanto was in the process of bolstering its position through over $5 billion in acquisitions including DeKalb Genetics Corp., Delta and Pine Land, and Cargill Inc.’s international seed operations.

At other times it is more difficult to pin down what your competitors are up to. Consider the consternation at Coke when PepsiCo announced in 2009 its intention to purchase the two largest bottlers of the PepsiCo products. Coke and PepsiCo dominate soft drinks and know virtually every step and misstep the other makes. Their bottlers had traditionally been independent entities that, in addition to bottling activities,
handled packaging, promotion, and distribution. Coke must have been concerned. What
was PepsiCo up to? How would the acquisition impact PepsiCo’s distribution capability
and supply management system? Would this become an additional cost and competitive
threat to Coke? These were important questions to answer. Then in February 2010 Coke
announced that it would purchase its largest Coke bottler. The acquisition was completed
in October 2010 just a few months after the completion of PepsiCo’s acquisition. These
examples underline a key point. However obvious or obscure the situation, it is only at
your peril that you ignore or underestimate competitors or the potential for competition.
Knowing your competitors, like knowing your customers, is a central law of survival and
success.

**Government**

Government involvement is a pervasive aspect of the business environment and is
expected to play an even greater role after the massive failure of world economies in
2008.\(^8\) Not only has government stepped up its regulatory oversight, it has also become
financially invested in a variety of industries. In addition, as the externalities or spillover
effects of a firm’s operations on the environment have become easier to detect, the vis-
ibility and enforcement associated with environmental and social issues is increasing.\(^9\)
Whether we like it or not, governments play many roles—from framing and implement-
ing the basic legal framework for business conduct, to establishing taxes, incentives, and
supports, to being customers and even competitors. The scope and importance of govern-
ment activity in the economy is enormous, creating a complex context of opportunities
and constraints for businesses. It is vitally important that you train a clear eye on these
realities as you create and test strategic proposals. Consider, for example, the importance
for strategy of correctly anticipating (1) government support, (2) changing trade policy,
and (3) regulatory compliance.

**Government Support** Many businesses and industries operate with a level of gov-
ernment support that goes well beyond that normally available to everyone. Some of this
support is direct, for example, in the form of grants and subsidies for research or plant
location. Some is indirect, for example, where an industry may be given preferential leg-
islation that provides protection from foreign competition. (This is particularly the case
in resource industries such as fishing and oil and gas, as well as industries such as railroads
and air transportation.) You need to weigh your strategy carefully in terms of its ability to
create advantage from government support and to offset any potential changes in support
activities. Some film production companies, for example, seek cost advantages by working
in locations where generous government incentives are available. The large automobile
companies pit governments in various jurisdictions against each other as they search for
the most attractive subsidies for their plant construction and modernization programs.
Pharmaceutical companies throughout the world use their considerable research and
development spending as a bargaining chip in lobbying for the maintenance of patent
protection. For example, in the Canadian province of Quebec, the “15 year rule,” which
guarantees that drugs will be reimbursed for 15 years even if lower-priced generics become available, has helped attract pharmaceutical research companies to Quebec.

Some companies leverage their strategies on close government ties. Consider the way Bombardier, for example, has used its considerable skills in government relations to help build its various businesses. Bombardier’s market entry and expansion activities have often been driven by opportunities to assist governments who have become embroiled in troubled transport and aerospace facilities. Some examples are the acquisition of rail transit and rolling stock assets in Canada and Mexico respectively, and of aircraft assets in Canada and Ireland. In these and other circumstances, Bombardier has demonstrated a capacity to acquire technology and plant facilities on advantageous terms, and to integrate these advantages into its total operations. On another front, Bombardier has also been very aggressive and skilful in developing a government customer base for its transportation projects. The company’s willingness to target government and its effectiveness in sorting its way through complex economic and political considerations has given it significant advantages over more conventional competitors. Finally, Bombardier has been very successful in obtaining government loans for the customers of its aircraft division; so much so, in fact, that there is considerable controversy over the fact that over $5 billion of Export Development Canada’s $20 billion plus portfolio was committed to Bombardier’s airline customers, who, being airlines, are not the soundest credit risks in the world.10

Changes in Trade Policy In the past 20 years or so, governments have been backing away from regulation and protectionism. Overall, the aim is to improve economic efficiency by increasing the opportunities open to businesses and with this, the competition that they face. As deregulation and trade liberalization proceed, albeit in fits and starts at times, it is crucially important that you develop strategies that anticipate the freedoms created by the changing circumstances and the challenges of new competition.

Consider, for example, the advent of the North American Free Trade Agreement (NAFTA) and the fortunes of the Canadian furniture industry, whose sales to the United States have grown fourfold in the past decade. The early years were tough, and companies that could not adapt went out of business; over 15 companies and hundreds of jobs were lost in the province of Ontario alone. But those who did adapt prospered, selling into the United States because they could, and because they had to. The garment industry was one of the industries that went through a major restructuring. A company like the Montreal-based Gilden Activewear could now manufacture garments in Mexico at a lower cost and ship the finished products into the United States without attracting any custom duties. Gilden’s moves to even lower cost jurisdiction in the Caribbean Basin and Central America were helped with the implementation of the Trade Enhancement Act in the early 2000s that gave these countries benefits similar to those enjoyed by Mexico under NAFTA. Gilden was also expected to reap benefits as a result of the 2011 Free Trade Agreement that Canada signed with Honduras, a country where Gilden had substantial manufacturing facilities and was its largest private sector employer.
Regulatory Compliance  The matter of compliance is often straightforward—the rules are clear, and the actions anticipated in your strategic proposal either comply or they do not. At times, however, compliance is not nearly so easy as it sounds. Some policies are vague, requiring judgments by the business, regulatory authorities, or even in the courts. Some policies are administered inconsistently, and some are changed in midstream. In these murkier circumstances you will need to take great care in identifying the regulatory sensitivities in your strategic plans and in working out an action plan to deal with them.

In order to increase competition in the cellular wireless market, the Canadian government auctioned wireless spectrum in 2008. Globalive Wireless was the winner of $442 million of the auctioned licences and got permission from Industry Canada to launch its wireless services. However, in 2011 the Canadian Radio-television Telecommunication Commission (CRTC), responsible for regulating broadcasting and telecommunication systems, rejected Globalive Wireless’s application for a carrier licence on the grounds that Globalive Wireless violated foreign ownership limit rules. But then, seven weeks later the then-industry minister Tony Clement overturned the CRTC ruling and approved the licence application. But this was not the end of the matter! The issue ended up in court, and in February 2011 a Federal court passed judgment reversing the minister's decision. Imagine the uncertainties faced by potential entrants as they make their plans to enter the Canadian cellular wireless market. In China, regulatory risk is seen by some as the biggest uncertainty in the macroenvironment.

Many organizations are doing a better job at anticipating regulatory pressures, which are often associated with trying to control the externalities, or unwanted spillover effects, of an organization’s strategy on society. “When Kraft, Nabisco, and Nestlé decided to reformulate their recipes, and national restaurant chains such as Wendy’s and Burger King switched to less artery-choking fats in their fry-o-laters, they were choosing to internalize an externality. They were taking ownership of an issue that they could, by law, have continued to say was not their problem. Yes, they did so under some activist pressure, and yes, they could still do more. But unlike tobacco companies in the 1980s, the food companies didn’t wait for regulation or lawsuits. They acted.”

Testing the Strategy–Environment Linkage: The Jantzen Example  How well does Jantzen’s existing strategy fit its environment? The answer, unfortunately, is not very well at all. The strategy does not fit with the environment of maturing demand and competition. The inconsistencies are so great, in fact, that even with this first set of qualitative tests it is clear that a complete reformulation of Jantzen’s business strategy is badly overdue.

A major problem facing Jantzen was the changing nature of market requirements for its component product. In earlier years its customers were very receptive to the custom design support and technical liaison that Jantzen provided so well. Now, these same PC manufacturers were facing fierce competition in their own markets and looking for ways to reduce their product costs. One route was to standardize components, develop alternative suppliers, and press for low prices. This was diluting Jantzen’s competitive edge in custom design and its traditional strength in customer relationships, since engineers were
now being displaced on buying teams by purchasing and manufacturing executives. With
the standardization of products increasing, independent distributors, which Jantzen had
chosen largely to ignore, were starting to take a greater position in the market by servicing
the many smaller, local, PC assemblers.

As if demand shifts were not enough, a number of well-qualified competitors were
now operating in the market. These competitors had mastered the basic technology, eras-
ing much of Jantzen’s competitive lead. Within the established technology, however, there
were still rapid changes in product speed and capacity, which left competitors leapfrogging
each other to deliver the best performance for a price. In spite of the pace of product
change, some of the new competitors had chosen to operate as designers and assemblers
and rely quite heavily on a rapidly developing and very competitive, global sub-compo-
nent supply industry. These competitors had been foremost in cutting prices in recent
months. A further and quite disturbing development for Jantzen was the announced plans
of two of the largest PC manufacturers to enter the open market as merchant suppliers,
both of whom had previously produced the component solely to meet a portion of their
own needs.

Jantzen’s strategy was being eclipsed by demand and competitive developments.
There might be room in the industry for it to continue as a specialist supplier, but this
would cap its ability to grow. If Jantzen wants to grow it has to radically change its value
proposition and core activities to conform with new industry realities. At this point of
the analysis it would be appropriate to recycle and create a new strategy for the company.

First Check for Fit or Recycle

You have now completed an initial assessment of how well your strategic proposal antici-
pates and addresses demand, supply, competition, and government. If some serious ques-
tions have come up in the course of this analysis, now is the time to stop and reshape
the proposal or build a substantially new proposal that incorporates the accumulated
understanding of the environment. There is nothing to be gained from spending more
time on a strategic proposal that obviously does not fit with the environment. On the
other hand, if the proposal seems reasonable in most respects (not perfect, because per-
fect does not happen in such complex considerations), the analysis should move on to
a forecast of performance to see if the proposal will meet its goals. A good fit between
strategy and environment does not necessarily mean that you do exactly and fully what
your competitors have developed as the best practices for an industry. There are many
examples of companies, including fashion retailer Zara, that defy industry norms and
carve out a unique niche in which to compete. Zara is one of the leading players in the
fast fashion industry. It has developed a quick response system that allows it to capture
trendy fashion designs and deliver products to the market with ultra-low production lead
times. At the heart of this system are trend spotters, small batches of products that are
frequently changed and quickly shipped to company-owned stores, all enabled by infor-
mation technology.
STEP 3: FORECAST PERFORMANCE

As you move to forecasting the expected performance of your strategic proposal, it is important to recall a beginning assumption in the strategy–environment analysis—that the strategic proposal, by and large, will be implemented as planned. In other words, you are assuming that the business has the will and the capabilities to put the strategy into place. These additional issues of will and capability come later in the analysis, after there is some assurance that you are working with a proposal that suits the environmental realities. It would be an obvious waste of time to go into the other considerations if the proposal cannot pass this first test!

The goals incorporated in the strategic proposal provide a useful reference point for the performance forecast. The question that you want to answer is whether the strategic proposal, implemented as planned, will meet these goals.

By this stage in the analysis you will have already weeded out the proposals that clearly do not fit with the environment. Now you must focus on those that remain. Work systematically through the strategic goals for each proposal (for example, the revenue, cost, return, and investment goals) and use what you have learned about the environment to draw conclusions about the likelihood of achieving them.

While this is being done it is useful to identify and note the primary risks entailed. These points of risk are helpful to focus the immediate analysis as well as the subsequent comparison of the current proposal with competing alternatives. We will illustrate the process with respect to the two most tangible goal dimensions: revenues and costs.

The strategic goals for revenue growth and their underlying components of price and unit volume need to be evaluated in terms of how the strategic proposal addresses expected developments in the environment. Is the strategy powerful enough to deliver the promise? Watch out for questionable assumptions about market growth and the impact of competitive activity. A fault that we often see in strategic proposals in large companies is overly ambitious revenue goals, which are made without sufficient thought or are biased to justify the project that is being proposed. Remain cognizant of your customers’ “willingness to pay” and ensure that your revenue per unit of sales is below or equal to it. Were the Jantzen strategy pushed to this point, the issue would be whether the company could sustain prices and increase volumes at over 20 percent in the next few years. While the overall growth in demand for PCs might support this expectation, the changing nature of demand has diluted Jantzen’s value proposition, and the advent of aggressive competition suggests severe pricing pressures in the market.

Cost performance goals require just as critical an eye. First, you want to ensure that the projected operating costs incorporate anticipated supply developments and the possibilities of government regulatory or tax action. This is relatively straightforward. A more difficult task is to evaluate the cost goals that hinge on competitive conditions. What are the promotional costs, for example, that will be required to introduce a new product? Further, what is the possibility of competitively induced cost changes as time goes by in such areas as distribution margins, credit allowances, transportation arrangements, advertising and promotion spending, and so on?
As you continue to test performance forecasts against strategic goals, you may begin to question the goals or the other supporting elements of the strategic proposal. Here again it is time to recycle the proposal using the new information to revise the strategy where appropriate. This time, try to use the analysis to improve the proposal; abandonment should come only after some good creative effort has failed to address your concerns.

**STEP 4: RANK AGAINST OTHER PROPOSALS**

At this point the strategic proposal is considered to be compatible with the environment. Subject to some understood risks, it is expected to achieve its goals. The only question before going on to other steps of the Diamond-E analysis is whether it is competitive with other proposals you are considering. A definitive answer is impossible until the whole analysis has been completed, but a preliminary screen can weed out proposals that promise less or have higher risks, or in some other way are not competitive with others in the running. If the proposal is clearly not competitive, then shift your attention to the superior options. Otherwise, it is time to move on and examine the strategy-resource linkage.

**SUMMARY**

This chapter has presented the basic steps for analyzing the links between strategy and the organization’s environment. The early priority in this process is to focus the analysis, and we demonstrated the utility of performance assessment, the strategic proposal, and the business profit model in pursuing this task. We acknowledged the potential risks of over-focusing the analysis, but argued that there are sufficient safeguards in a careful process of analysis that the merits of focus well exceed the risks involved.

The next step of analysis is to examine the substance of the strategic proposal in the light of current and anticipated demand, supply, competition, and government policy. For demonstrably poor fits we suggested developing a more attractive proposal that incorporated the insights gained in the analysis.

After assessing the fit between the strategic proposal and the environment, the next step is to forecast the performance of the strategic proposal. If the forecast turns out to be consistent with the strategy’s goals, the next steps are to compare it with alternatives and then move on to further stages of the Diamond-E analysis. If the forecast is not consistent with its goals, the remedy, again, is to recycle and improve the proposition.

Now, armed with a proposal that fits with the environment, we turn our attention to its execution. The first topic to address is whether the resources needed to support the proposed strategy are available or can be readily acquired or developed by the business.
Notes


Additional Readings
