

## 4.14: Common Frameworks for Situational Analysis

### Learning Outcomes

- Differentiate among five components of industry environment: customers, competitors, suppliers, regulations, and advocacy groups.
- Explain SWOT.
- Explain the resource-based view of strategy.

After the macro, or PESTEL, level analysis has been completed, the next step in goal setting is to do a **situational analysis** that looks more closely at external and internal conditions that affect your particular organization. Five key components of the organization's specific business environment are examined. These are customers, competitors, suppliers, and government and legal issues—including regulations and advocacy or support groups. The analysis looks at what impact these factors may have on a specific organization or business.

### Customers



Customer analysis should answer questions such as: Who is your target customer today? How will you retain your customers?

A customer analysis is a critical component of any organizational strategy. You probably would not want to open an extreme sports adventure business in a city where the age of the typical resident is older than fifty. Or, you might be wasting your marketing dollars advertising trendy, designer jeans on the Hallmark TV channel. You might do very well, however, if you opened a combination coffee/book store in a busy college town. If an organization doesn't know who its customers are or what its customers want, it can't meet customer needs.

Some of the things a **customer analysis** should do is to:

- Identify the target customer. Is this customer base growing or is it decreasing? What are your customer demographics (age, income, location, gender, politics, etc.)? What is the revenue of these customers? How much discretionary income do they have?
- Understand the specific customer needs. Why do they buy certain brands? How do they make their purchasing decisions? Do they purchase in person or online?
- Show if and how your product or service meets those needs.

Besides determining if a customer base exists in the region, this data can be used in the future to plan effective promotional campaigns, forecast inventory needs, and determine the optimal combination of distribution channels.

### Competitors

You read about competitive analysis in the previous section at the macro level. At the situational level, a business needs to identify its specific competitors and assess their potential for taking market share. An organization needs to be aware of future initiatives of the competition (as much as is possible) and examine the competitors' financial and marketing performances.

### Suppliers

Another industry component that will greatly impact an organization is its suppliers. Your business may start by buying raw materials and producing finished goods purchased directly by consumers. Or it may process raw materials into products that are part of another company's final consumer goods. Some organizations create services rather than goods but still need materials, such as computer software and hardware or office supplies, to provide those services. Whatever the situation, without raw materials or support products, the organization cannot operate.

In the past, it was common for an organization to choose suppliers that were in the same region or at least the same country. In today's competitive global economy, however, a supplier is likely on the other side of the world. The **supply chain** is a system comprised of organizations, information, resources, people, technology, and activities that bring products or services from a supplier to a consumer. In larger organizations, entire departments may be dedicated to supply chain logistics. Implementing cooperative alliances with key suppliers is also a popular tactic employed by strategic organizations. Although multiple sources of supply helps to guarantee the availability of supplies, creating a cooperative agreement with one supplier can significantly reduce costs. How to handle suppliers is an extremely important factor in setting goals and generating strategies.

## Regulations

Governmental and legal environment are part of the PESTEL analysis discussed in the previous section. At the situational level, however, state and local regulations also need to be part of any analysis. The regulatory burden depends largely upon the type of industry and the specific nature of the business. In some industries, regulation is the single biggest uncertainty affecting investment and spending, corporate image, and risk management. These organizations include airlines, utilities, railways, telecommunications, banking, and pharmaceuticals. Often, the regulations have positive impacts on both consumers and businesses. They provide the public with a high level of confidence in the safety and efficacy of the products. They can also prevent competition from businesses with substandard and low-quality goods from trying to enter an industry. Despite the benefits that regulations can provide, any changes in how the product is manufactured, shipped, tested, or provided will greatly affect unit costs and profit margins.

Regulations are lighter for less risky products and businesses, but every company must comply with federal and state payroll, benefits, tax requirements, and following municipal commercial and building codes can present challenges. For example, a decision to expand the size of a fitness center to attract more customers may be thwarted by a local regulation that fixes a ratio of parking spaces to square footage. Or extra time could be added to delivery schedules if truckers must avoid more direct routes to comply with weight regulations on local highways. Some localities will not permit the shipping of dangerous chemicals through their towns. These factors all affect an organization's ability to be competitive.

Regulations are a greater burden on small companies unless they are exempted because of size (some companies with fewer than twenty-five employees are exempt from overtime pay provisions, for example.) However, dealing with regulations can be challenging regardless of the size of the organization. Complying with regulations often involves a trade-off between short-term profits and long-term public relations and social responsibility.

## Advocacy Groups

Advocacy groups are also known as special interest groups, public interest groups, environmental groups, or political support groups. Whatever their label, their aim is to influence public opinion, public policy, and company behavior. Advocacy groups use a variety of strategies and tactics to draw attention to their causes, including lobbying, promotions using celebrities, and public information campaigns. They provide a type of check on the business community by exposing unethical or unpopular practices. The Internet—especially social media—has greatly strengthened the ability of these groups to impact an organization.

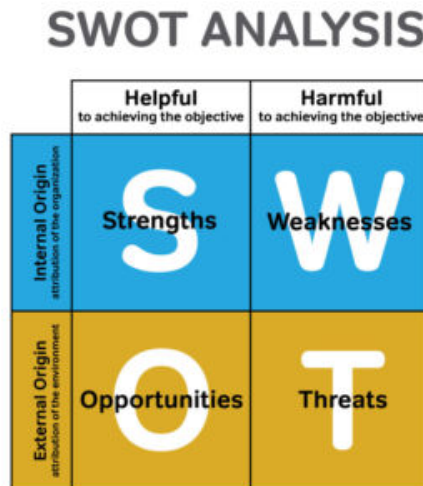
Advocacy groups represent political, economic, and social interests—all of which affect the business environment. (The PESTEL analysis in a previous section looked at the macro effect of these groups.) Today environmental interest groups are extremely varied, and many hold conflicting views about appropriate strategies for pursuing their interests.

People for the Ethical Treatment of Animals (PETA) is one of the more outspoken activist groups and has targeted many organizations it believes abuse animals. In 2016, after years of PETA campaigns aimed at publicizing its marine operations, SeaWorld announced that it would end its orca whale breeding program. In 2017, a combination of low ticket sales and adverse publicity on the general condition of circus animals led Ringling Bros. and Barnum and Bailey Circus to close after almost a century and a half. PETA had filed more than 130 formal complaints against the circus with the U.S. Department of Agriculture. Regardless of criticisms that some advocacy group charges are not scientifically sound, negative publicity alone may be enough to disrupt business.

### ? Practice Question

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## SWOT: A Situational Analysis Summary



The organization puts together its vision and mission with the SWOT analysis to set its goals.

Once external factors have been thoroughly considered, an organization can look at its own internal resources. A **SWOT analysis** is a method that examines the internal strengths and weaknesses of an organization as well as external opportunities and threats (social, political, economic, legal environmental) that would affect that organization. In fact, a SWOT analysis is really more of a summary of data from various other analyses formulated in a way that allows for comparisons. SWOT stands for strengths, weaknesses, opportunities, and threats.

- **Strengths** are the areas where the organization has particular skills and resources that would allow it to pursue goals effectively. For instance, innovative and collaborative organizational cultures are strengths of Apple and Google.
- **Weaknesses** are areas where the organization is lacking resources and would be prevented from pursuing some goals. For example, when consumers demanded smaller, fuel-efficient cars, many American manufacturers lacked the designs and equipment to make these cars.
- **Opportunities** are conditions that are favorable to the organization and would facilitate its efforts to achieve its goals. Building on the earlier example, Japanese automakers saw an opportunity in the American demand for smaller cars to increase their market share.
- **Threats** are conditions that would prevent the organization from achieving its goals. Many businesses, for instance, are concerned about the threat posed by China's competitive growing manufacturing capability.

### ? PRactice Question

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## Resource-based View (RBV) Strategic Approach

The **resource-based view (RBV)** argues that focusing on an organization's strengths is essential to achieve a sustained competitive advantage. (Remember, the purpose of the SWOT analysis is to help companies identify their strengths.) RBV supporters look for ways to use internal resources (assets) to take advantage of external opportunities. To understand RBV, resources are classified into two groups: tangible and intangible.

- **Tangible assets** are physical things such as land, equipment and machines, and real estate. Although they are necessary, they aren't unique and competitors can fairly easily acquire these kinds of assets.
- **Intangible assets** are anything an organization can own that is not physical. Examples include brand names, intellectual property, and the organization's reputation and goodwill. These kinds of assets are not easily acquired and usually contribute heavily toward a sustained competitive advantage. For example, Mercedes Benz has a reputation for quality engineering and luxury in its vehicles. People take it as a given that they produce precision, high-quality products

## ? Practice Question

<https://assessments.lumenlearning.co...essments/12183>

### The VRIO Framework

In 1991, J.B. Barney developed the VRIN framework to analyze a firm's internal resources and capabilities to see if they can be used to sustain a competitive advantage. A few years later, he later revised VRIN to VRIO, the current model. VRIO stands for the four key characteristics that a resource must have if it is to produce sustained competitive advantage.

- **Valuable.** A resource is valuable if it enables the company to take advantage of opportunities or defend against threats. A valuable resource allows the company to provide value for its customers by making its product better or cheaper. It means the company can continue to add features or lower the price to maintain the perceived value.
- **Rare.** If only one or two companies can acquire a resource it is considered rare. A resource may be rare because little of it exists, such as workers with particular skills, or because there are few sources for it, such as lithium for batteries. Rare and valuable resources can create a *temporary competitive advantage* because even if other firms duplicate performance, they don't have access to the unique resource (tangible or intangible, such as a patent or unique skill). If the resource is not rare, the best a company can achieve is competitive parity (equality).
- **Inimitable.** If another organization can't copy, buy, or find a replacement for the resource, it is *inimitable*. According to Barney, resources can be inimitable if they (1) developed historically over a long period of time, (2) competitors cannot identify the particular resources that are the cause of competitive advantage, and (3) the resource is a result of the corporate culture and personal dynamics of the organization.
- **Organized to capture value.** The three characteristics listed earlier are "necessary but not sufficient conditions" to achieve a sustained competitive advantage. The missing ingredient is management's ability to develop the strategy to put it all together. The firm must be organized in a way that can capture value by employing the right strategies.

The VRIO and the SWOT analyses are tools that help companies organize to successfully achieve sustained competitive advantages.

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