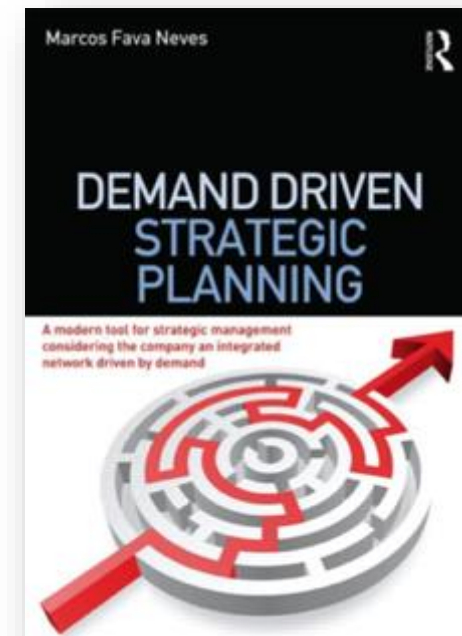# Analyzing the Company's Environment and Market (External Analysis)

Demand Driven Strategic Planning
Chapter 02
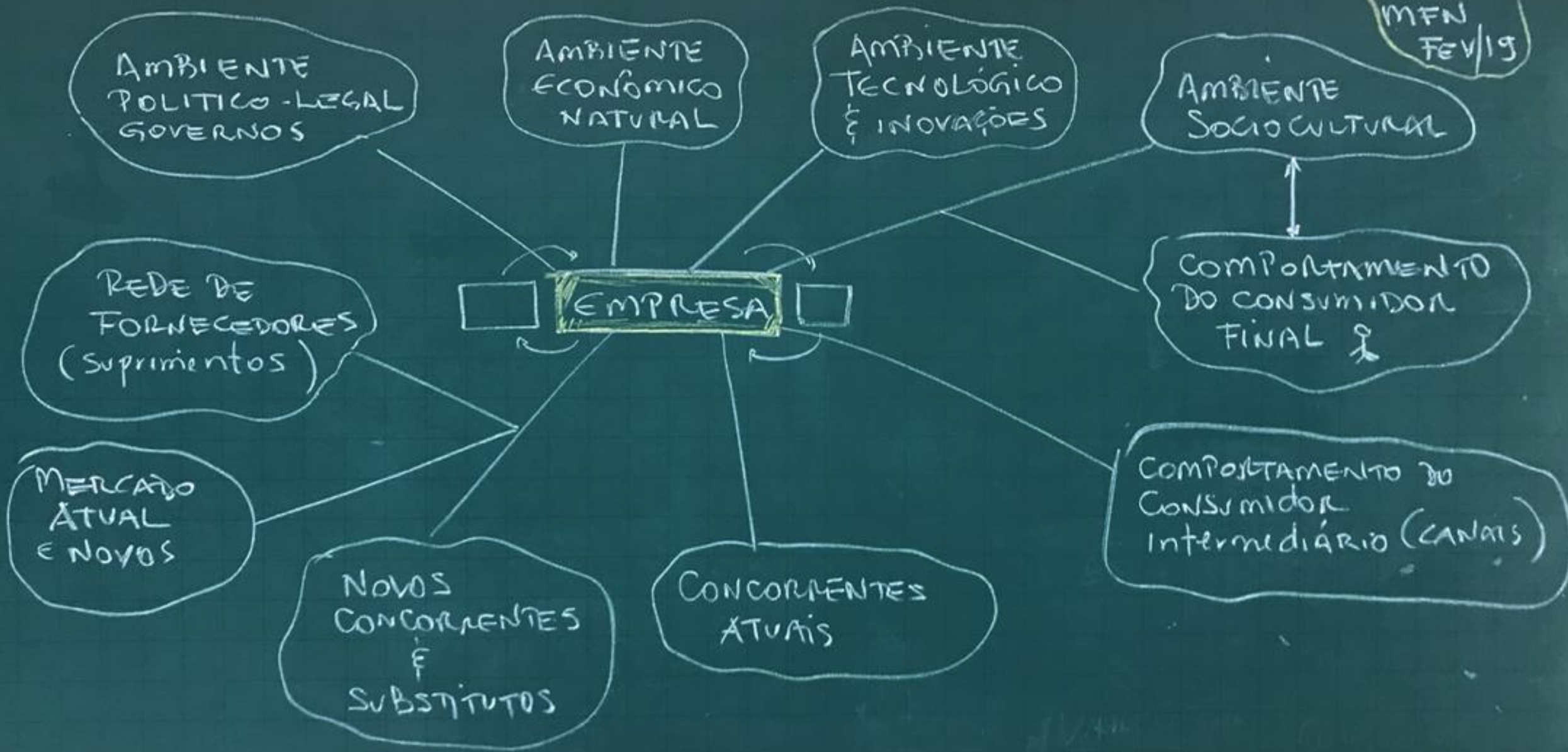
Prof. Dr. Marcos Fava Neves

Faculdade de Administraçao (FEA/RP) – Universidade de São Paulo, desde 1995
Escola de Administração de Empresas (EAESP/FGV), desde 2018
Center for Agricultural Business - Purdue University (Indiana/USA), desde 2013
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www.**doutoragro**.com

MARCOS FAVA NEVES

DEMAND DRIVEN STRATEGIC PLANNING

A modern tool for strategic management considering the company an integrated network driven by demand

CAPÍTULO 2 - O QUE OBSERVAR NA ANÁLISE MACROAMBIENTAL

MFN
Fev/19

AMBIENTE POLÍTICO-LEGAL GOVERNOS

AMBIENTE ECONÔMICO NATURAL

AMBIENTE TECNOLÓGICO & INOVAÇÕES

AMBIENTE SOCIOCULTURAL

REDE DE FORNECEDORES (suprimentos)

EMPRESA

COMPORTAMENTO DO CONSUMIDOR FINAL

MERCADO ATUAL E NOVOS

NOVOS CONCORRENTES & SUBSTITUTOS

CONCORRENTES ATUAIS

COMPORTAMENTO DO CONSUMIDOR INTERMEDIÁRIO (CANAIS)

Agenda – Tools for External Analysis (Chapter 02)

2.1 - The Company Network

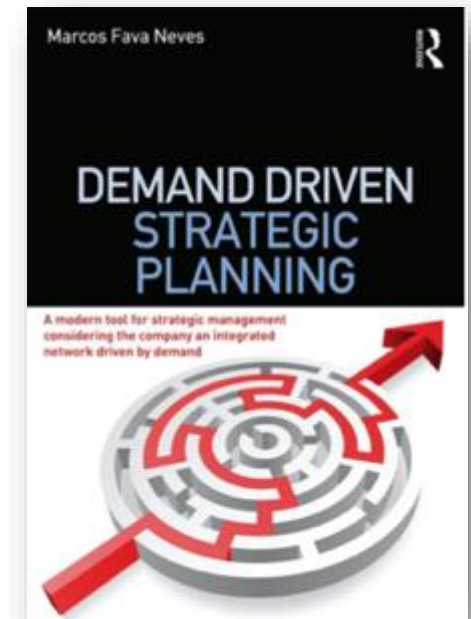**2.2 – Building Marketing Information Systems**

2.3 – Industry Attractiveness

2.4 - Consumer's Buying Process and Behaviour

2.5 – PEST Macroenvironmental Analysis
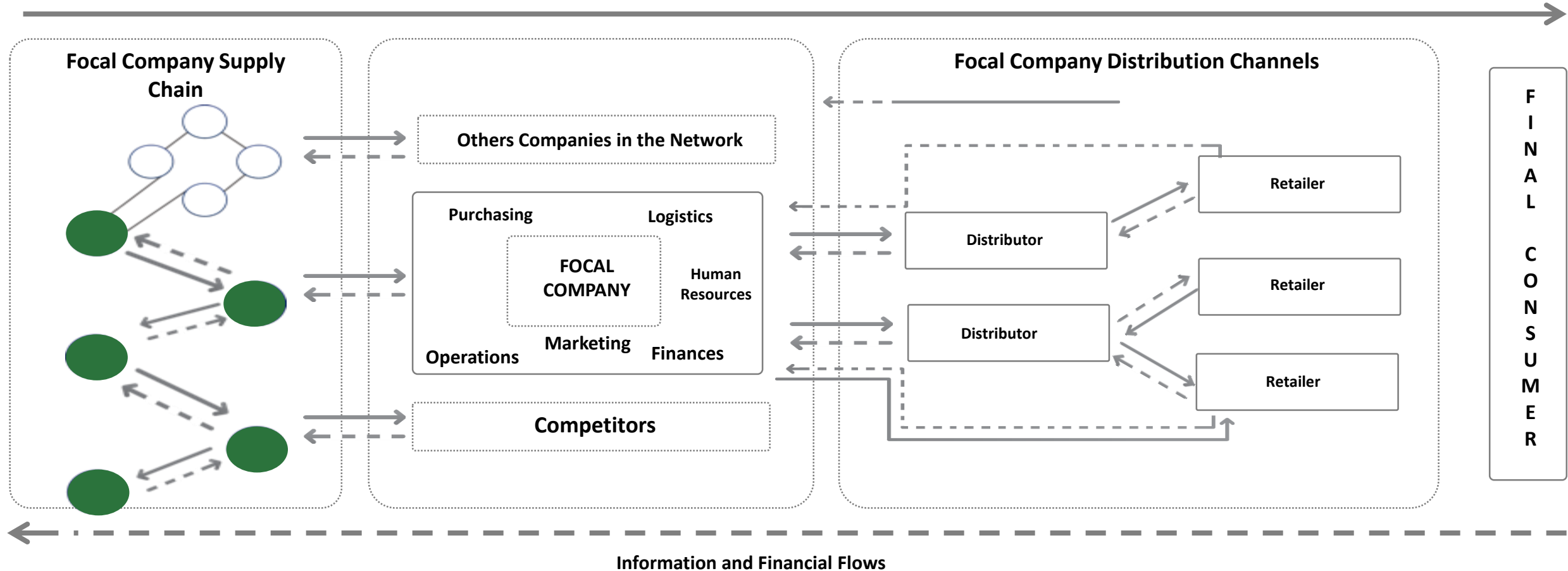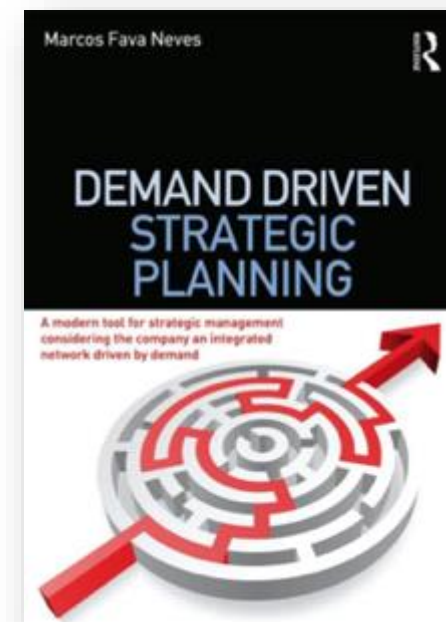
2.6 - 10 Year Scenario for the Network

2.7 – Collective Actions Using the Network

The Company as an Integrated Network – Conceptual Model

The Company is an Integrated Network in the New Era[1]

Environmental Variables Shaking the Network (PEST)

Flow of Products, Services and Marketing Communications

Focal Company Supply Chain

Focal Company Distribution Channels

F I N A L   C O N S U M E R

Others Companies in the Network

Purchasing   Logistics

FOCAL COMPANY

Human Resources

Operations   **Marketing**   Finances

Retailer

Distributor

Retailer

Distributor

Retailer

Competitors

Information and Financial Flows

Service Providers: financial, insurance, certification, transport, storage...

Agenda – Tools for External Analysis (Chapter 02)

Marcos Fava Neves

DEMAND DRIVEN STRATEGIC PLANNING

A modern tool for strategic management considering the company an integrated network driven by demand

2.2 - Marketing Information Systems

What's the information for?	Where does it fit in the planning?	How to see and understand the information needs within the company?	Which information is relevant to the company?	Where/How to get the information?
To antecipate changes To make better decisions To redirect To prevent To improve To plan To innovate To renew	In the internal and external analysis **Chapter 2:** ✓ STEP ✓ Consumers intermediary ✓ Consumers (organizational or industrial) **Chapter 3:** ✓ internal (company) ✓ competitor	**Internal Research:** ✓ Existing information ✓ Past decisions made ✓ Which information the company needs and wants ✓ What are the sources ✓ Updating ✓ New Sources ✓ Subjects and events ✓ Websites ✓ Periodicity	1. Internal Archives 2. Intelligence 3. Research **INTERNAL:** ✓ Sales ✓ Costs ✓ Human resources ✓ Production **EXTERNAL** ✓ STEP ✓ Market ✓ Consumers ✓ Competitors ✓ Customers ✓ Government	Distributors: resellers Salespeople: reports Consumers: research Employees Suppliers Competitors Shareholders Government Advisory Committee Advisory board

Table 2.1 Marketing Information Systems

Market Evolution

	2013	2014	2015	2016	2017	2018	2019	2020
Amount of Sales ($)								
Volumes (quantity)								
Average prices								
Sales per Company								
Company Market Share								

Table 2.2 Market evolution.

	2013	2014	2015	2016	2017	2018	2019	2020
Region A								
Region B								
Region C								
Region D								
Region E								
Total								

Table 2.3 Market evolution by region

Agenda – Tools for External Analysis (Chapter 02)
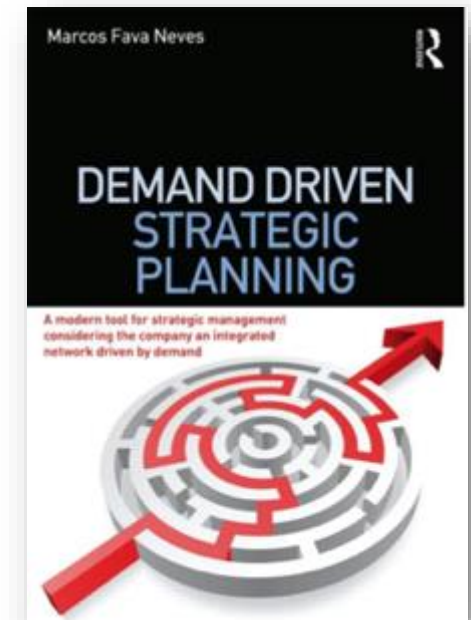
2.3 - Industry Attractiveness
The Five Forces Model

Supplier Power
- ✓ Are the factors that determine the supplier's power the same?
- ✓ Also, it is important to analyze the following issues:
- ✓ Who are they? How many? Where are they located?
- ✓ What are their offers? What are their prices?
- ✓ Quality products?

The threat of new entrants
- ✓ Demand for capital
- ✓ Economies of scale
- ✓ Advantage of costs
- ✓ Product differentiation
- ✓ Access to distribution channels
- ✓ Legal Barriers
- ✓ Retaliation
- ✓ Network externalities
- ✓ Expectation about future competition
- ✓ Brand value by consumers

Competitors
- ✓ Concentration
- ✓ Number
- ✓ Competitors (diversity)
- ✓ Potential for product differentiation
- ✓ Overcapacity & barriers
- ✓ Costs of businesses
- ✓ Stagnation or decline of the industry
- ✓ Prices and sales terms

Competition from Substitutes
- ✓ Propensity of buyers to replace
- ✓ Prices and performance of the products
- ✓ Substitute products availability

Buyers Power
- ✓ Price sensitivity
- ✓ Bargaining power
- ✓ Industry concentration
- ✓ Substitute products availability
- ✓ Integration among suppliers
- ✓ Capacity to determine the prices
- ✓ Specific Investments
- ✓ Percentage of total costs

Source: Adapted from Porter (1980) and Grant (2002).
Figure 2.3 Determinants of the competition's intensity
– the five forces model.

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Agenda – Tools for External Analysis (Chapter 02)

2.1 - The Company Network

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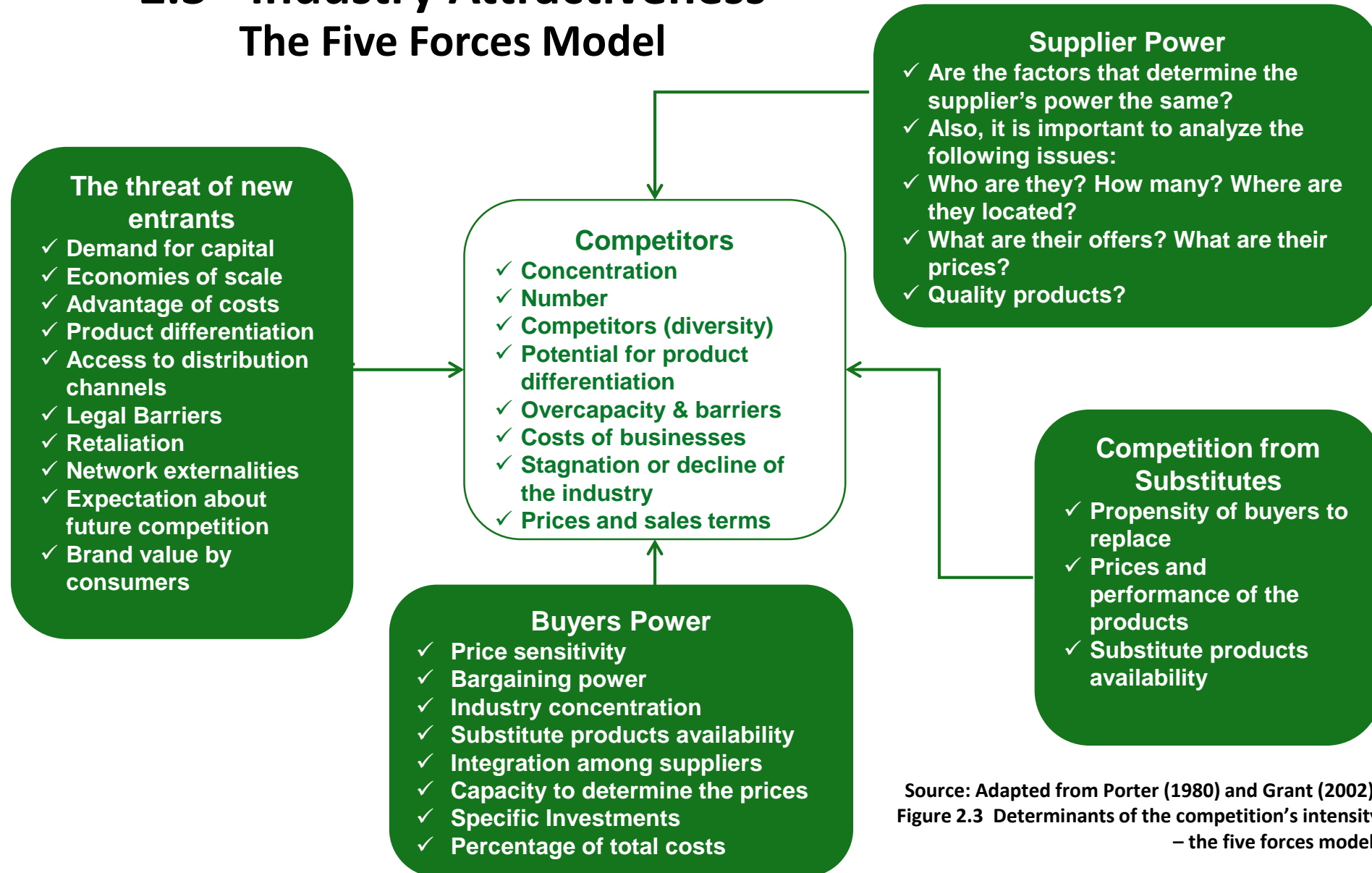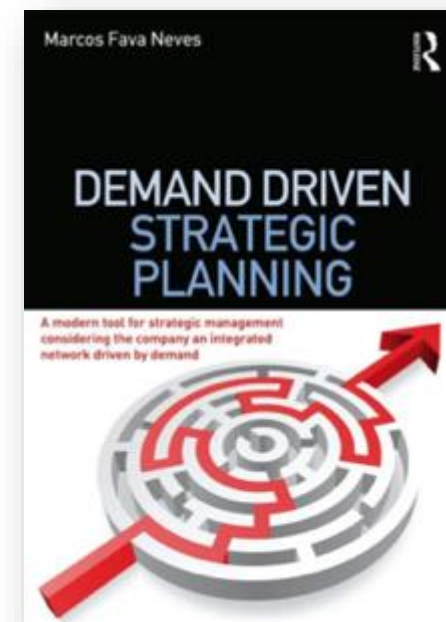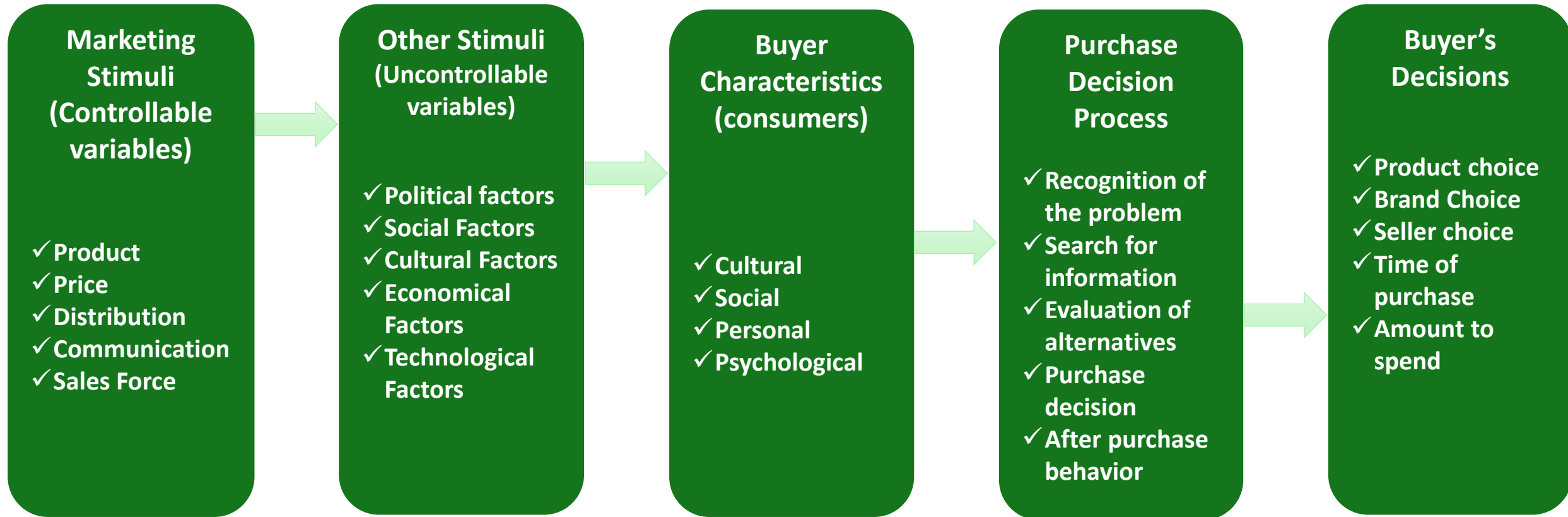
2.5 – PEST Macroenvironmental Analysis

2.6 - 10 Year Scenario for the Network

2.7 – Collective Actions Using the Network

2.4 - Consumer's Buying Behavior

Marketing Stimuli (Controllable variables)

- ✓ Product
- ✓ Price
- ✓ Distribution
- ✓ Communication
- ✓ Sales Force

Other Stimuli (Uncontrollable variables)

- ✓ Political factors
- ✓ Social Factors
- ✓ Cultural Factors
- ✓ Economical Factors
- ✓ Technological Factors

Buyer Characteristics (consumers)

- ✓ Cultural
- ✓ Social
- ✓ Personal
- ✓ Psychological

Purchase Decision Process

- ✓ Recognition of the problem
- ✓ Search for information
- ✓ Evaluation of alternatives
- ✓ Purchase decision
- ✓ After purchase behavior

Buyer's Decisions

- ✓ Product choice
- ✓ Brand Choice
- ✓ Seller choice
- ✓ Time of purchase
- ✓ Amount to spend

Source: Kotler (1997).
Figure 2.4 Purchase behavior model.

The consumer's Purchase Decision Process

STEP OF THE PROCESS	HOW THE STEP HAPPENS	WHAT IDEAS CAN BE USED	WHICH QUESTIONS MUST BE ASKED
Recognition of the Purchase Need	Personal values and necessities associated with external influences, mainly coming from social interaction, make the current state different from the desired, thus giving rise to a need.	➢ Apply the most frequent and efficient stimulus, in order to stimulate this need, for example, advertisings showing the benefits.	➢ Which need is fulfilled when consuming this product? ➢ Are these needs evident? ➢ How much is the target public involved with the product?
Search for Information	The search is made through internal sources (memory, knowledge) and in external sources (market and through personal contacts).	➢ Identify how much the consumer searches for information and the sources he most uses. This helps the company improve the product's pricing, its distribution strategy and mainly the communication/advertising plan. It needs to work with the sources that most influence the consumer.	➢ Which product or brand does the consumer remember? ➢ Is the consumer motivated to look for external sources? Which are those sources? ➢ Which are the product attributes that are most researched?

Table 2.6 The consumer's purchase decision process.

The consumer's Purchase Decision Process

STEP OF THE PROCESS	HOW THE STEP HAPPENS	WHAT IDEAS CAN BE USED	WHICH QUESTIONS MUST BE ASKED
Evaluation of the Alternatives	The consumer will choose an alternative that is the strongest in the criteria that he values most.	➢ The company should, through research, identify what the consumer values (attributes) and be competitive in these attributes. Reposition in the attributes analyzed, reposition competitors, change the weight in the consumer's criterion of analysis.	➢ Does the consumer evaluate and compare alternatives? ➢ What are the alternatives and criteria of choice? Can it be altered? ➢ What is the result of the evaluation of alternatives? ➢ Are they truly different? Can this be proved?
Purchase Decision	At this point purchase decisions are taken, in other words where to buy, when to buy, what to buy and how to pay.	➢ A strong effort must be made at the point of sale (in food purchases, 2/3 of decisions are made here). ➢ Observe the growth of purchases by mail, e-mail, telephone and catalogs.	➢ Will the consumer spend time and energy until the best alternative is found? ➢ Where do you prefer to buy the product (channel) and at what moment in your day?
Post Purchase Behavior	Comparison between product expectations and its performance. The consequences go from extreme satisfaction and positive word-of-mouth or even filing a lawsuit against the company.	➢ Maintain an effective and timely toll free number or an e-mail. ➢ Do surveys to monitor the consumer's satisfaction. ➢ Remember that only 5% of unsatisfied consumers complain. The rest simply stop buying.	➢ Is the consumer satisfied with the product or service? ➢ What are the reasons for the satisfaction/dissatisfaction? Does he comment on this to other people? ➢ Is there an intention of repeating the purchase? Why?

Table 2.6 The consumer's purchase decision process.

PACKAGING UP MILLENNIAL SUCCESS

MEET THE MILLENNIALS

Millennials are one of the largest generations of consumers who are about to hit their prime spending years.

Recent research from Goldman Sachs, suggests that, "Millennials are poised to reshape the economy; their unique experiences will change the ways we buy and sell, forcing companies to examine how they do business for decades to come."[2]

At Tetra Pak, we believe this generation of consumers are characterized by six underlying needs, which can be targeted through both product formulation and packaging when wanting to attract their attention.

THE SIX MILLENNIAL NEEDS

1 Global

Millennials are the first globalised generation to have grown up in a world where technology makes 2,000 miles as close as two. This has elevated the outlook and network of influencers that Millennials have to a truly global scale. More than half have friends that live abroad and 20% have spent time studying or working overseas[4].

2 Connected

Millennials are the first digitally native generation. They are more connected and more reliant on digital technology than any other generation and the majority don't remember a time before mobile internet. Today, more than 84% of Millennials own a smart phone[5] and report checking in for updates more than 40 times daily[6]. As a result, they expect brands to be just as connected.

3 Social online & offline

Millennials are highly social and consistently look to their peers for guidance and recommendations on shopping decisions. Millennials view online social activity as an important supplement to the offline world, with 54% of Millennials stating that social networking has helped them to build stronger relationships with friends and family[7].

4 Hungry for experiences

Millennials are often regarded as more adventurous, compared to older generations, always on the lookout for new products and services, searching for novelty and fun even in everyday products. For instance, 65% of Millennials in the USA said they are interested in trying everything from opera to rock-climbing compared to just 39% of other generations.[8] Millennials have a greater interest in travel, which often translates itself into adventurous eating habits, demonstrating how they want to buy an experience rather than a product.

5 Impulse shoppers

This is a generation characterized by impulse — whether it's planning meal and food purchases on a day by day basis or deciding to treat themselves to a special purchase, Millennials are interested in convenience. They look for food and drink options that are easy, simple to deal with and fit into ever busier lives. As a result, 41% of Millennials are prepared to pay more for products that make their lives easier.[9]

6 Smart consumers

Millennials are savvy shoppers, who are able to navigate the balance between price and value. They're interested in a healthy and more environmentally friendly lifestyle, with 53% of Millennials reporting that they would like to do more for the environment but that they don't know how.[10]

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The Consumer's Risk Analysis

1 - What are the risks of bad performance (the product will not solve the need completely)?

2 - What are the risks of extra-time expenditure or lack of conveniencein the purchase process?

3 - What are the risks of money expenditure (perception of less value for the money spent)?

4 - What are the risks of not belonging or not receiving pleasure, comfort and well being within the community in the purchase of the product?

5 - What are the risks in health or security related to the product?

6 - What are the risks of payments (receivables/consumer finances)?

7 - What are the risks in not fitting consumer's values towards environment, employment and other values a consumer might have?

8 - What are the risks in reselling (value of used products)?

9 - What are the risks in understanding features of the product?

10 - What are the risks in maintenance, services, or post-sales interactions?

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Analyzing the Purchase Decision Process of Your Clients/Consumers

STEP OF THE PURCHASE PROCESS	DESCRIBE HOW THE PROCESS IS DONE	WHAT OPPORTUNITIES ARE THERE FOR YOUR COMPANY?
		List of opportunities

Table 2.7 Analyzing the purchase decision process of your clients/consumers.

Agenda – Tools for External Analysis (Chapter 02)

2.1 - The Company Network

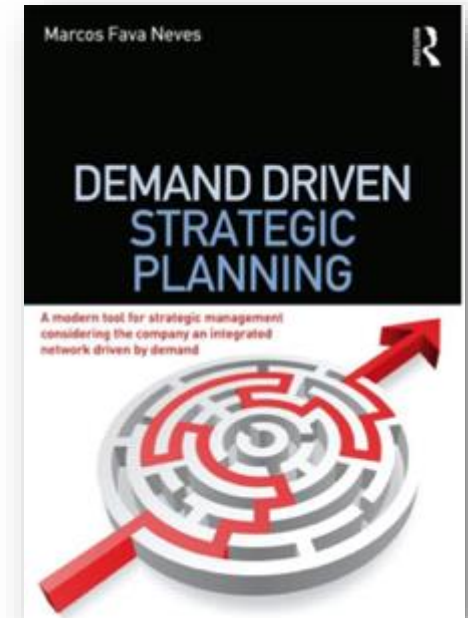2.2 – Building Marketing Information Systems

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The STEP Structure for the Macroenvironmental Analysis

Political and Legal Factors	Social and Cultural Factors
✓ Political and legal structure;	✓ Demographics;
✓ Alliances and political orientations;	✓ Life styles;
✓ Legislative structure;	✓ Social mobility;
✓ Identification and analysis of the government agencies that legitimate;	✓ Education levels;
	✓ Attitudes;
✓ Antitrust policies;	✓ Consumerism;
✓ Political and governmental stability;	✓ Behavior patterns;
✓ Interest and exchange rates (in their political aspect)	✓ Women`s participation in the labor market;
✓ Labor legislation;	✓ Population concentration in large cities;
✓ International commerce regulations;	✓ Races/ethnicity;
✓ Environmental protection legislation;	✓ Time scarcity;
✓ Pressure groups;	✓ Population aging;
✓ Power of the labor unions;	✓ Personal individuality;
✓ Packaging recycling laws;	✓ Family shopping trips
✓ Packaging restrictions;	✓ Search for security;
✓ Restrictions on communication types;	✓ Convenience;
✓ Tariff barriers;	✓ Leisure;
✓ Taxation polices;	✓ Wealth distribution;
✓ Agricultural subsidy policies;	✓ Attitudes at work;
✓ Product certification and/or processes;	✓ Concern with food safety;
✓ Others.	✓ Family size;
	✓ Environment;
	✓ New media;
	✓ Others.

Table 2.4 The STEP structure for the macro environment audit.

The STEP Structure for the Macroenvironmental Analysis

Economic and Natural Factors	Technological Factors
✓ Business life cycle;	✓ Government and industry level of investment in research and development;
✓ Interest rate;	✓ Speed of technology transfer;
✓ Exchange rate;	✓ Product life cycle;
✓ Credit lines;	✓ Direction of technology transfer;
✓ Inflation rate;	✓ Change in the cost of technology;
✓ Investment levels;	✓ Research entities and institutes, and universities that are developing research;
✓ Unemployment;	✓ Research programs;
✓ Energy costs;	✓ Life cycle of used equipment;
✓ Types of financial institutions;	✓ Improvements in the equipment;
✓ Growth tendencies (GNP);	✓ Sales through mail; telephone, internet;
✓ Nature of domestic and international competition;	✓ Scanners, computerized stock control and delivery;
✓ Commercial blocks;	✓ Electronic data interchange (EDI);
✓ Education level;	✓ Genetic modification;
✓ Economic integration;	✓ Satellites;
✓ Supplier concentration;	✓ Digitalization;
✓ Buyer concentration;	✓ Cellular telephones;
✓ Energy availability;	✓ Nano-technologies
✓ Restrictions of environmental raw-materials (water, air, among others);	✓ QR codes
✓ Tourism expenditure;	✓ Others.
✓ Others.	

Sources: based on Gilligan and Wilson (2003); Johnson and Scholes (2008); Stern et al. (1996); Rosenbloom (1999); Berman (1996); Achrol and Stern (1988 and consulting projects.

Table 2..4 The STEP structure for the macro environment audit.

Agenda – Tools for External Analysis (Chapter 02)

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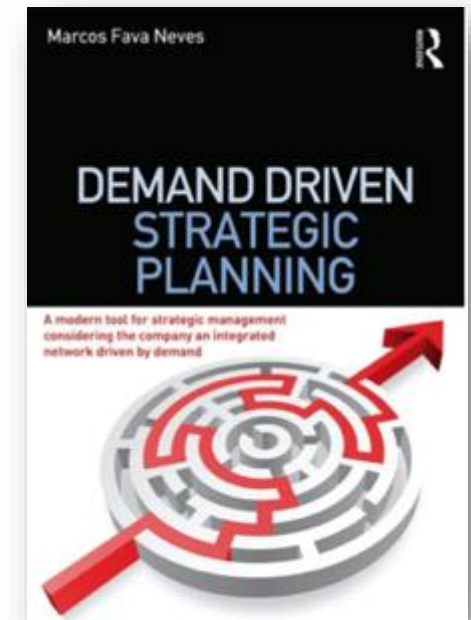**2.2 – Building Marketing Information Systems**

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FINAL CONSUMERS

How will the consumer look like?

What will be value for them?

How new products can affect the market?

What are the trends in income?

What will be the effect in developing and emerging countries?

What changes will occur in buying behavior (conscious, environment, sustainable)?

How demographic trends affect consumption?

How preferences will change?

How will be the acceptance to GMO's and other technologies?

DISTRIBUTION

What are the trends in retailing?

Will retail concentration and global operation movement continue?

What to expect from private labels?

Which will be the effects of technology and price transparency?

Which will be the policies toward supply chain (purchasing)?

How competition among retailers will affect the chain?

What will be the role of foodservice?

MARKETING INDUSTRY
FOOD INDUSTRY

Which will be the speed of New Product Development (NPD)?

How will consolidation look like?

How will costs margins and profitability of product-lines look like?

How will be the relationship with retailers and agro-industry?

What are the roles of regional companies?

Who are the new players diversifying to this market?

Which is the growth expectation for this industry?

How to solve the logistics problems to supply the emerging markets?

PROCESSING INDUSTRY
AGRO - INDUSTRY

How industry will be the structured?

Will the agro-industry be concentrated?

The agroindustry would operate in global scale?

How would be the logistics to the clients and purchasing behavior?

Who will be new players?

Where they may come from?

What will be the degree of own production of inputs?

How will operating costs and margins look like?

FARMERS

How production will be structured?

How will concentration happen?

Will it be more professional?

What will be the most competitive areas in the world?

Which are the growing areas and declining areas?

What will be the role of cooperatives and associations?

Crops will be substituted in some areas?

How plagues and diseases will affect the chain?

How to expect from regulation changes?

How production costs will look like?

INPUTS SUPPLIERS

What innovations will come to market?

What movements upward the supply chain will be done?

How will the selling and distribution channel structure look like?

The concept of offering integrated solutions for farmers will be the most suitable one?

How will the situation of genetic modified organism (GMO) be?

Agenda – Tools for External Analysis (Chapter 02)

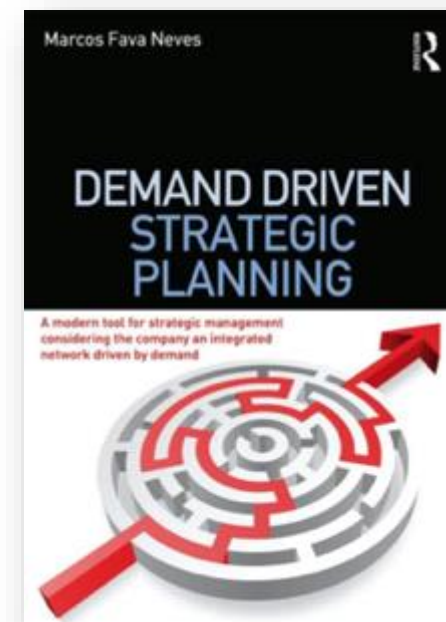**2.1 - The Company Network**

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Matrix of Collective Actions of the Members of a Network

Ideas for Collective Actions with Suppliers	Ideas for Collective Actions with its Channels	Ideas for Collective Actions with Facilitator Companies (freight carriers, banks, logistics operators, etc.)	Ideas for Collective Actions with its Competitors
Action 1	Action 5	Action 7	Action 9
Action 2	Action 6	Action 8	Action 10
. . .	. . .	. . .	. . .

Table 2.8 Matrix of collective actions between the members of a network.

Consolidation: Projects Based on the STEP Analysis

ACTIONS AND PROJECTS

THREATS

List of threats identified on the STEP Analysis
- …
- …

List of projects and actions for the company based on the STEP Analysis
- …
- …
- …

OPPORTUNITIES

List of opportunities identified on the STEP Analysis
- …
- …

Figure 2.2   Consolidation of the project and actions based on the STEP analysis.

Prof. Marcos Fava Neves

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❑ Marcos Fava Neves is an *international expert* on global agribusiness issues and a part-time professor of planning and strategy at the School of Business (FEARP) of the University of São Paulo (USP) and FGV Business School, both in Brazil. He graduated as an agronomic engineer from ESALQ/USP - Piracicaba in 1991. He earned his master's degree in 1995 and his doctorate in management in 1999 from the FEA/USP School of Economics and Business – São Paulo. Marcos completed postgraduate studies in European agribusiness at ESSEC-IGIA in France in 1995 and in chains/networks at Wageningen University, in the Netherlands (1998-1999). In 2013 he spent the year as a visiting international professor at Purdue University (Indiana, USA) where he maintains the linkage as a permanent International Adjunct Professor. Since 2006 he is an international professor at the University of Buenos Aires, Argentina.

❑ He has *specialized in strategic-planning* processes for companies and food chains and works as a board member of both public and private organizations, being member of mor than 10 international boards since 2004. Also in 2004, he created the Markestrat think tank with other partners, today employing around 60 people and doing international projects, studies and research in strategic planning and management for more than 250 agri-food business organizations. Some of these projects were very important in suggesting public policies for food chains that were implemented in Brazil with economic and social impacts.

❑ Also as an experience in the private sector, from 1992 to 1993 he worked in citrus juice exporter and from 1994 to 1995 in a veterinarian company. In 2008, he became CEO of Brazil's second-largest biofuel holding company, a position he occupied until 2009, when he returned to the University of São Paulo (USP) and Markestrat.

❑ At the academic side, since 1995 (when he was hired by USP), Marcos has advised more than 30 doctorate dissertations and master's theses and helped to form around 1200 Bachelors in Business Administration in Brazil with around 120 courses taught to undergraduates at USP.

❑ His writings are strongly focused on supplying simple and effective methods for business. He has published more than 100 articles in international journals and has been author and editor of 63 books by 10 different publishers in Brazil, Uruguay, Argentina, South Africa, Singapore, Netherlands, China, the United Kingdom and the United States. He is also a regular contributor for China Daily Newspaper and has written two case studies for Harvard Business School (2009/2010), one for Purdue (2013) and five for Pensa/USP in the nineties. Recognized as the Brazilian academic with the largest number of international publications about orange juice and sugar cane chain and one of the top 3 most cited Brazilian authors in the area of food and agribusiness. He has reached more than 4000 citations in Google Scholar index.

❑ Marcos is one of the most active Brazilian speakers, having done more than 1050 lectures and presentations in 25 countries. He received around 150 recognitions from Brazilian and international organizations, and is considered a "Fellow" of the IFAMA (International Food and Agribusiness Management Association), title received in Minneapolis - 2015.

❑ Coming from a family of farmers, he is a worldwide defender of agriculture and farmer's role in the development of the society. In the social side, together with his parents, Marcos is one of the creators and maintainers of Mucapp, a NGO that in 20 years has built more than 450 houses for families in Brazil that face very unfavorable conditions.