



# THE INDUSTRIAL ENVIRONMENT ANALYSIS

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DR.MAHESH, M.Com., M.Phil.,NET.,MBA.,PH.D.,  
HEAD,PG AND RESEARCH, DEPARTMENT OF  
COMMERCE,  
MEENAKSHI CHANDRASEKARAN COLLEGE  
OF ARTS AND SCIENCE, KARAMBAYAM ,  
PATTUKKOTTAI. THANJAVUR. TAMIL NADU.  
E.MAIL.ID: sruthimahre@gmail.com  
dr.mahicomm@gmail.com  
CONTACT NO:9626261892

## ABSTRACT

An industry analysis is a business function completed by business owners and other individuals to assess the current business environment. This analysis helps businesses understand various economic pieces of the marketplace and how these various pieces may be used to gain a competitive advantage.

The remote environment consists of a set of forces that originate beyond a firm's operating situation. These comprise political, economic, social, technological, and legal forces which create opportunities, threats, and constraints for the firm.

The Five Forces model is a framework for industry analysis. The five forces that determine the competitive intensity and the attractiveness of a market are: the bargaining power of the buyers, the bargaining power of the suppliers, the threat of new entrants, the threat of substitute products, and the intensity of rivalry amongst existing firms.

KEY WORDS: PESTEL, OET, IE, IEF



## **INTRODUCTION**

Small business owners often conduct industry analysis before starting their business. This analysis is included in the entrepreneur's business plan that outlines specific elements of the economic marketplace. Elements may include the number of competitors, availability of substitute goods, target markets and demographic groups or various other pieces of essential business information. This information is commonly used to secure external financing from banks or lenders for starting a new business venture.

### **Definition of Industry Analysis**

An industry analysis is a business function completed by business owners and other individuals to assess the current business environment. This analysis helps businesses understand various economic pieces of the marketplace and how these various pieces may be used to gain a competitive advantage. Although business owners may conduct an industry analysis according to their specific needs, a few basic standards exist for conducting this important business function.

### **Features (1)**

Industry analysis features include a review of the economic and political underpinnings of the business environment. Economic reviews often include an examination of the industry's business cycle. The business cycle helps individuals understand if the industry is growing, reaching a plateau or in decline. A political review helps individuals understand the amount of government regulation and taxation present in the business industry. Industries with heavy government involvement may have fewer profits for companies operating in these environments.

### **Considerations**

Industry analysis may be conducted using Michael Porter's five forces model. Porter is a Harvard professor renowned for his work in creating a specialized industry analysis model. The five forces model reviews an industries supplier power, threat of substitutes, buyer power, barriers to entry and the rivalry that is created when companies compete for the previous four forces. This standard industry analysis tool helps individuals use a time-tested management procedure for generating intelligent business analysis.

### **Time Frame**

Business owners may need to conduct several industry analyses throughout their company's lifetime. Economic markets are in a constant state of flux and may incur significant changes from shifts in political policy. Although smaller businesses may struggle to conduct an industry



analysis in a timely manner, larger or publicly held companies often conduct an analysis each quarter. The results of their analysis are often included in forward-looking statements in quarterly or annual reports.

## **Expert Insight**

Small business owners may need to seek outside help for conducting an industry analysis. Management consultants, public accounting firms or the Small Business Administration (SBA) may provide small businesses with copious amounts of resources regarding various industry analyses. This information can save the business owner valuable time from attempting to reinvent the wheel and create a new analysis when one may already exist from a professional organization.

**ENVIRONMENT ANALYSIS** is the study of the organizational environment to pinpoint environmental factors that can significantly influence organizational operations.

**MANAGERS** commonly perform environmental analyses to help them understand what is happening both inside and outside their organizations and to increase the probability that the organizational strategies they develop will appropriately reflect the organizational environment.

In order to perform an environmental analysis efficiently and effectively, a manager must thoroughly understand how organizational environments are structured.

For purposes of environmental analysis, the environment of an organization is generally divided into 3 distinct levels:

1. General Environment
2. Operating Environment
3. Internal Environment

Managers must be well aware of these 3 organizational environmental levels, understand how each level affects organizational performance and then formulate organizational strategies in response to this understanding.

## **THE GENERAL ENVIRONMENT: (2)**

The components normally considered part of the general environment are:

- Economic
- Social: Including Demographics and Social Values
- Political



- Legal
- Technological

### **THE OPERATING ENVIRONMENT (OET):**

The operating Environment includes various components like:

- Customer
- Competition
- Labour
- Supplier
- International Issues.

### **THE INTERNAL ENVIRONMENT: (3)**

The level of an organization's environment that exists inside the organization and normally has immediate and specific implications for managing the organization is the internal environment.

It includes marketing, finance and accounting, planning, organizing, influencing and controlling within the organization.

### **The Environmental Factors That Affect The Industry (4)**

Environmental factors for a company or an industry refer to variables and conditions around that company and industry that affect its working and performance, but which cannot be controlled. For example, the weather conditions in a city may affect the sale of Ice cream in a city, but the company selling or manufacturing ice creams has Little control over the weather.

We can differentiate environmental factors from the internal variables (IE) of factors, that are under reasonable control of a company or industry. A company cannot change or influence the environmental factors (IEF) , but it does have fair amount of control over impact of environmental factors on its performance. This control is achieved by, understanding, anticipating, and responding wisely to environmental factors by management of internal factors. For example, a company cannot change the weather condition, but it can manage its production and stocks of ice cream in a way that minimizes the ill effect of uncertainty and fluctuations created by changing weather condition.

To understand, analyze and deal with environmental factors, we can use the "PESTEL" framework that classifies all environmental factors in the following six groups.



1. Political
2. Economical
3. Socio cultural
4. Technological
5. (Physical/Geographic) Environmental
6. Legal.

Some of the major environmental factors affecting automobile industry in each of these group are described below.

### **Political**

- Political climate in different countries producing an buying automobiles regarding policies on import, export and manufacture of automobiles and automobile components. This will also include policies on allowing setting up of manufacturing plants by foreign companies.
- Stability of governments. This may affect the future conditions in a country.
- Taxation policies.

### **Economical**

- The population figures and automobile buying capacity of people.
- Level of economic activity that affects need for commercial use of automobiles

### **Socio cultural**

- Lifestyle and preferences of people, that impact their choice of types of automobiles.
- Social norms that impact the decision to own and use automobiles versus other means of transport.

### **Technological**

- Technology relating to automobile designs
- Technology of automobile manufacture
- Technological developments that may increase or decrease use of automobiles. For example, Internet increase number of people working from home and thus reduce automobile use for commuting?



## **Physical/Geographic Environmental**

- Physical conditions effecting ability to use automobiles of different types. This will also include state infrastructure such as roads for driving vehicles.

## **Legal**

- Legal provision relating to environmental population by automobiles.
- Legal provisions relating to safety measures.

## **Conclusion (5)**

An environment analysis in which businesses operate changes very quickly. Political, economic, social and technological changes all put pressure on organizations. Logical is a global business that provides innovative solutions in data and systems management for its clients, helping their organizations to respond to external factors. The nature of the work that Logical can offer an employee is both challenging and stimulating.

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