

Business Strategy

European Institute of Innovation, Entrepreneurship and Technology
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Course & Class Information

Course: Business Strategy

Program: Master's in Business Administration (MBA)

Credits: 6 ECTS

Mode: Onsite / Blended

Class 2: External Environment Analysis & Industry Structure

Instructor: Dr. Leul Girma

Main Teaching & Learning Materials

Books

- Johnson et al., (2017): *Exploring Strategy*
- Grant, (2022): *Contemporary Strategy Analysis*
- Porter, (1985) : *Competitive Strategy*

Academic journal articles

- Harvard Business School case studies

Digital resources

- Company annual reports
- Industry and market databases

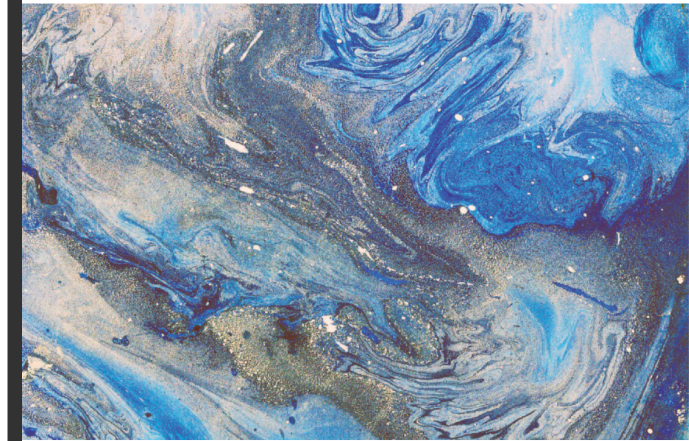
Tools

- Microsoft Excel or equivalent
- Presentation software



ROBERT M. GRANT

CONTEMPORARY STRATEGY ANALYSIS



Objective and Learning Outcomes

Objective:

To develop the ability to **systematically analyze the external business environment** and understand how macro-environmental and industry forces influence strategic opportunities and threats.

By the end of this class, YOU will be able to:

- Apply PESTEL analysis to evaluate macro-environmental drivers
- Use Porter's Five Forces to analyze industry structure and competitive intensity
- Identify external opportunities and threats to inform strategy
- Assess industry and market trends shaping competitive environments
- Evaluate the impact of uncertainty and disruption on strategic decision-making

Why do successful companies suddenly lose their competitive position?

Strategy is shaped not only by internal strengths, but by the external environment in which firms compete.

- What changed — the company or the environment?**
- Could the disruption have been anticipated?**
- How should firms respond to external change?**

2. Analyze the External Environment

Analyzing the external environment involves assessing the **industry, competitive forces**, and **broader macro-environment** to identify opportunities and threats facing the firm, Anticipate change (Johnson et al., 2020; Grant, 2022).

Industry and competition:

Number of competitors, how they compete, innovation races, price wars, advertising

Macro-environment:

PESTEL, entry barriers, suppliers and buyer power, substitute products.

Market trends:

Changes in customer needs, technology, and regulation

Competitive dynamics:

Product launches, strategic moves, market expansion, how competitors act, and react

The Logic of External Analysis

Macro environment → Industry environment → Strategic implications

PESTEL: What is changing in the broader environment?

Porter's Five Forces: How competitive is the industry?

Industry and Market Trends:

Strategic implication: What does this mean for firm strategy? Effective strategies align with external realities.

PESTEL

Dimension	Key external Factors	Opportunity or Threat?	Strategic Implication
Political	<i>Tax policy Public</i>		<i>New markets</i>
Economic	<i>Economic, growth</i>		<i>Increase investment</i>
Social	<i>Changing lifestyles</i>		<i>Strengthen channels</i>
Technological	<i>Innovation speed</i>		<i>Invest in AI</i>
Environmental	<i>Resource scarcity</i>		<i>Environmentally friendly</i>
Legal	<i>Consumer protection</i>		<i>Build trust</i>

- What external changes are most likely to affect the industry?
- Which factors create opportunities?
- Which factors pose threats?
- How should we respond strategically?

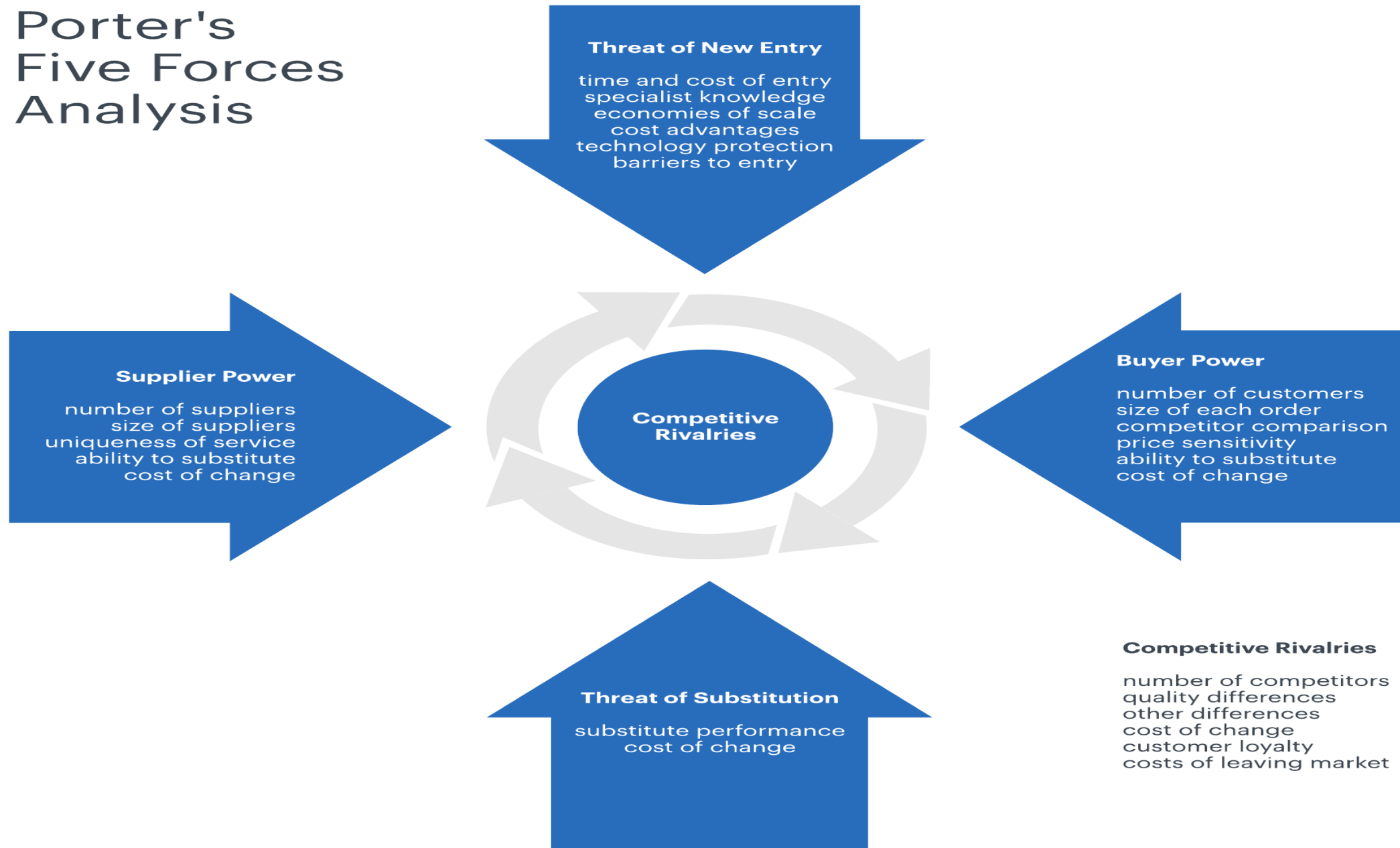
Objective:

Apply PESTEL to identify external factors and derive strategic responses.

Instructions

1. **Form small groups** (3–4 students).
2. **Select one industry** (e.g., banking, automotive, streaming, airlines, retail).
3. Identify **ONE key external factor** for each PESTEL dimension.
4. Decide whether it represents an **opportunity or a threat**.
5. Propose **one strategic response** for firms in that industry.

Porter's Five Forces Analysis



Instructions:

Work in small groups.

Choose one industry.

Evaluate each force as **High, Medium, or Low**.

Identify **which force most limits profitability**.

Note :

- **PESTEL** identifies macro-environmental changes.
- **Five Forces** evaluates industry competitiveness.
- External forces shape the environment in which firms develop strategy.

Industry and market trends reflect the direction and pace of change within a competitive environment and help firms anticipate future strategic conditions.

Trend	Driver	Impact	Strategic Implication
Growth of AI	Technological innovation	Faster automation	Invest in AI capabilities

What each column means

Trend: The major direction of change

Driver of Change: What is causing it (technology, regulation, behavior, etc.)

Impact on Industry: How competition or structure may shift

Strategic Implication: How firms should respond

Objective:

Develop the ability to identify major industry trends and evaluate their strategic impact.

Instructions

- Form small groups (3–4 students).
- Select one industry (e.g., banking, automotive, streaming, airlines, retail).
- Identify **3 major trends** shaping the future of that industry.
- Analyze each trend using the logic below:
- **Trend → Industry Impact → Strategic Response**

Uncertainty arises when future environmental conditions are difficult to predict, while disruption refers to changes that fundamentally reshape industries and competitive dynamics (Johnson et al., 2020; Grant, 2022).

Sources of uncertainty:

- Rapid technological change
- Regulatory shifts
- Economic volatility
- Changing customer behavior
- Geopolitical developments

Types of Disruption

- Technological disruption:** Innovation that transforms products or business models (Christensen, 1997)
- Business model disruption:** New ways of delivering value (Johnson et al., 2020)
- Regulatory disruption:** Policy changes that reshape competition
- Market disruption:** Sudden shifts in demand or customer expectations

Firms can reduce vulnerability by:

Monitoring early signals of change

Investing in adaptable capabilities (Teece, 2007)

Diversifying risks

Developing scenario-based strategies (Grant, 2022)

Strategy should prepare firms not only to compete, **but to adapt.**

Class 2 Recap — External Environment & Market Analysis

- External analysis helps firms understand the environment in which they compete**
- PESTEL evaluates macro-environmental factors**
- Porter's Five Forces analyses industry structure**
- Industry and market trends signal the direction of change**
- Uncertainty and disruption can reshape industries**

Further reading

Christensen, C. M. (1997). *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*. Harvard Business School Press.

Grant, R. M. (2022). *Contemporary Strategy Analysis* (11th ed.). Wiley.

Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regnér, P. (2020). *Exploring Strategy* (12th ed.). Pearson.

Porter, M. E. (2008). The Five Competitive Forces That Shape Strategy. *Harvard Business Review*, 86(1), 78–93.

Teece, D. J. (2007). Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance. *Strategic Management Journal*, 28(13), 1319–1350.

Thank you



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