

Risk Management

Delegates attending the Risk Management workshop may wish to take the opportunity of considering the risks to the business in their own area of responsibility.

The full process for risk identification may involve not only a “top-down” approach from the senior management, but also a “bottom-up” view from employees at all levels. This would normally be achieved through small group meetings and/or individual discussion.

This document provides details of three analytical tools that would more usually be used in more conventional strategic planning. These are the models of Porter’s Five Market Forces, SWOT and PEST analysis.

The checklists in each of these three can provide thought-provoking triggers when considering risks and we suggest that this is how they be used. Run through the points and consider from your industry perspective, and whether you have risks in these areas. At this stage, do not attempt to quantify or prioritise items as this is a later stage in the process.

Bring the results of your deliberations to the workshop.

Porter's Five Forces model

Michael E Porter's five forces of competitive position model and diagrams

Michael Porter's famous Five Forces of Competitive Position model provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization.

American Michael Porter was born in 1947. After initially graduating in aeronautical engineering, Porter achieved an economics doctorate at Harvard, where he was subsequently awarded university professorship, a position he continues to fulfill at Harvard Business School. His research group is based at the Harvard Business School, and separately he co-founded with Mark Kramer the Foundation Strategy Group, 'a mission-driven social enterprise, dedicated to advancing the practice of philanthropy and corporate social investment, through consulting to foundations and corporations'. A prime example of someone operating at a self-actualization level if ever there was one.

After his earlier work on corporate strategy Porter extended the application of his ideas and theories to international economies and the competitive positioning of nations, as featured in his later books. In fact in 1985 Porter was appointed to President Ronald Reagan's Commission on Industrial Competitiveness, which marked the widening of his perspective to national economies. By the 1990's Porter had established a reputation as a strategy guru on the international speaking circuit second only to Tom Peters, and was among the world's highest earning academics.

Porter's first book Competitive Strategy (1980), which he wrote in his thirties, became an international best seller, and is considered by many to be a seminal and definitive work on corporate strategy. The book, which has been published in nineteen languages and re-printed approaching sixty times, changed the way business leaders thought and remains a guide of choice for strategic managers the world over.

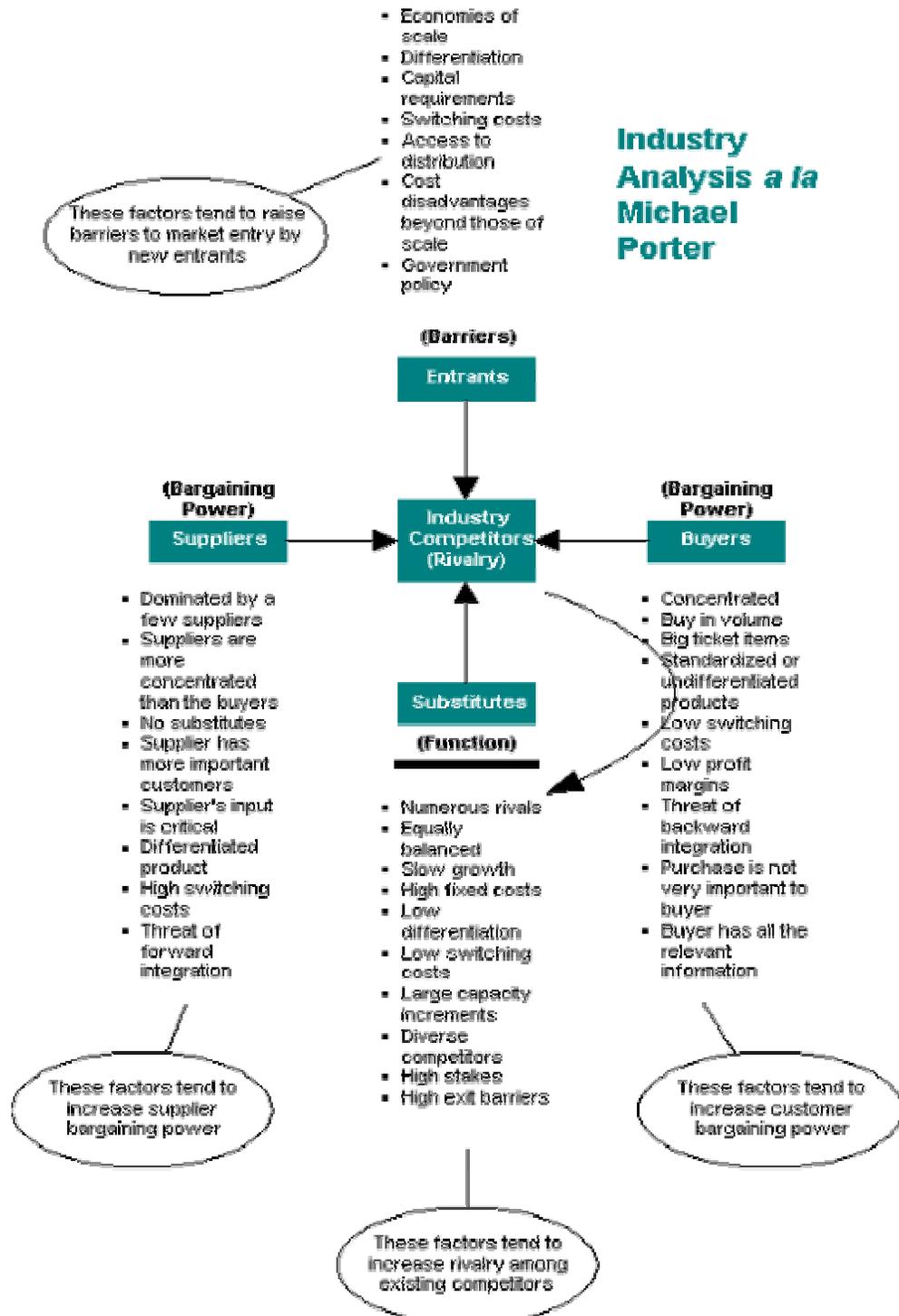
Aside from his innovative thinking, Porter has a special ability to represent complex concepts in relatively easily accessible formats, notably his Five Forces model, in which market factors can be analysed so as to make a strategic assessment of the competitive position of a given supplier in a given market. The five forces that Porter suggests drive competition are:

Porter's Five Forces

1. **Existing competitive rivalry between suppliers**
2. **Threat of new market entrants**

3. **Bargaining power of buyers**
4. **Power of suppliers**
5. **Threat of substitute products (including technology change)**

Typically this five forces model is shown as a series of five boxes in a cross formation, item 1 being central.



Porter's Five Forces model can be used to good analytical effect alongside other models such as the Swot and Pest analysis tools.

Porter's Five Forces model provides suggested points under each main heading, by which you can develop a broad and sophisticated analysis of competitive position, as might be used when creating strategy, plans, or making investment decisions about a business or organization.

Porter is also known for his simple identification of five generic descriptions of industries:

1. **Fragmented** (e.g., shoe repairs, gift shops)
2. **Emerging** (e.g., space travel)
3. **Mature** (e.g., automotive)
4. **Declining** (e.g., solid fuels)
5. **Global** (e.g., micro-processors)

And Porter is also particularly recognised for his competitive 'diamond' model, used for assessing relative competitive strength of nations, and by implication their industries:

1. **Factor Conditions:** production factors required for a given industry, e.g., skilled labour, logistics and infrastructure.
2. **Demand Conditions:** extent and nature of demand within the nation concerned for the product or service.
3. **Related Industries:** the existence, extent and international competitive strength of other industries in the nation concerned that support or assist the industry in question.
4. **Corporate Strategy, Structure and Rivalry:** the conditions in the home market that affect how corporations are created, managed and grown; the idea being that firms that have to fight hard in their home market are more likely to be able to succeed in international markets.

PEST market analysis tool

PEST analysis method and examples

The PEST analysis is a useful tool for understanding market growth or decline, and as such the position, potential and direction for a business. A PEST analysis is a business measurement tool. PEST is an acronym for Political, Economic, Social and Technological factors, which are used to assess the market for a business or organizational unit. The PEST analysis headings are a framework for reviewing a situation.

A PEST analysis measures a market; a SWOT analysis measures a business unit, a proposition or idea.

N.B. The PEST model is sometimes extended (some would say unnecessarily) to seven factors, by adding Ecological (or Environmental), Legislative (or Legal), and Industry Analysis (the model is then known as PESTELI). Arguably if completed properly, the basic PEST analysis should naturally cover these 'additional' factors: Ecological factors are found under the four main PEST headings; Legislative factors would normally be covered under the Political heading; Industry Analysis is effectively covered under the Economic heading. If you prefer to keep things simple, perhaps use PESTELI only if you are worried about missing something within the three extra headings.

A SWOT analysis measures a business unit or proposition, a PEST analysis measures the market potential and situation, particularly indicating growth or decline, and thereby market attractiveness, business potential, and suitability of access - market potential and 'fit' in other words. PEST analysis uses four perspectives, which give a logical structure, in this case organized by the PEST format, that helps understanding, presentation, discussion and decision-making. The four dimensions are an extension of a basic two heading list of pro's and con's.

PEST analysis can be used for marketing and business development assessment and decision-making, and the PEST template encourages proactive thinking, rather than relying on habitual or instinctive reactions.

Here the PEST analysis template is presented as a grid, comprising four sections, one for each of the PEST headings: Political, Economic, Social and Technological. The free PEST template below includes sample questions or prompts, whose answers can be inserted into the relevant section of the PEST grid. The questions are examples of discussion points, and obviously can be altered depending on the subject of the PEST analysis, and how you want to use it. Make up your own PEST questions and prompts to suit the issue being analysed and the situation (i.e., the people doing the work and the expectations of them). Like SWOT analysis, it is important to clearly

identify the subject of a PEST analysis, because a PEST analysis is four-way perspective in relation to a particular business unit or proposition - if you blur the focus you will produce a blurred picture - so be clear about the market that you use PEST to analyse.

A market is defined by what is addressing it, be it a product, company, brand, business unit, proposition, idea, etc, so be clear about how you define the market being analysed, particularly if you use PEST analysis in workshops, team exercises or as a delegated task. The PEST subject should be a clear definition of the market being addressed, which might be from any of the following standpoints:

- a company looking at its market
- a product looking at its market
- a brand in relation to its market
- a local business unit
- a strategic option, such as entering a new market or launching a new product
- a potential acquisition
- a potential partnership
- an investment opportunity

Be sure to describe the subject for the PEST analysis clearly so that people contributing to the analysis, and those seeing the finished PEST analysis; properly understand the purpose of the PEST assessment and implications.

PEST analysis template

Other than the four main headings, the questions and issues in the template below are examples and not exhaustive - add your own and amend these prompts to suit your situation, the experience and skill level of whoever is completing the analysis, and what you aim to produce from the analysis.

If Environmental is a more relevant heading than Economic, then substitute it. Ensure you consider the three additional 'PESTELI' headings: Ecological (or Environmental), Legislative (or Legal), and Industry Analysis.

The analysis can be converted into a more scientific measurement by scoring the items in each of the sections. Whether there are established good or bad reference points is for you to decide. Scoring is particularly beneficial if more than one market is being analysed, for the purpose of comparing which market or opportunity holds most potential and/or obstacles. This is useful when considering business development and investment options, i.e., whether to develop market A or B; whether to concentrate on local distribution or export; whether to acquire company X or company Y., etc. If helpful when comparing more than one different market analysis, scoring can also be weighted according to the more or less significant factors.

Subject of PEST analysis: (define the standpoint and market here)

political

- ecological/environmental issues
- current legislation home market
- future legislation
- European/international legislation
- regulatory bodies and processes
- government policies
- government term and change
- trading policies
- funding, grants and initiatives
- home market lobbying/pressure groups
- international pressure groups

economic

- home economy situation
- home economy trends
- overseas economies and trends
- general taxation issues
- taxation specific to product/services
- seasonality/weather issues
- market and trade cycles
- specific industry factors
- market routes and distribution trends
- customer/end-user drivers
- interest and exchange rates

social

- lifestyle trends
- demographics
- consumer attitudes and opinions
- media views
- law changes affecting social factors
- brand, company, technology image
- consumer buying patterns
- fashion and role models
- major events and influences
- buying access and trends
- ethnic/religious factors
- advertising and publicity

technological

- competing technology development
- research funding
- associated/dependent technologies
- replacement technology/solutions
- maturity of technology
- manufacturing maturity and capacity
- information and communications
- consumer buying mechanisms/technology
- technology legislation
- innovation potential
- technology access, licencing, patents
- intellectual property issues

SWOT analysis

SWOT analysis method and examples

The SWOT analysis is an extremely useful tool for understanding and decision-making for all sorts of situations in business and organizations. SWOT is an acronym for Strengths, Weaknesses, Opportunities, Threats. The SWOT analysis headings provide a good framework for reviewing strategy, position and direction of a company or business proposition, or any idea.

A SWOT analysis measures a business unit, a proposition or idea; a PEST analysis measures a market.

A SWOT analysis is a subjective assessment of data which is organized by the SWOT format into a logical order that helps understanding, presentation, discussion and decision-making. The four dimensions are a useful extension of a basic two heading list of pro's and con's.

SWOT analysis can be used for all sorts of decision-making, and the SWOT template enables proactive thinking, rather than relying on habitual or instinctive reactions.

The SWOT analysis template is normally presented as a grid, comprising four sections, one for each of the SWOT headings: Strengths, Weaknesses, Opportunities, and Threats. The free SWOT template below includes sample questions, whose answers are inserted into the relevant section of the SWOT grid. The questions are examples, or discussion points, and obviously can be altered depending on the subject of the SWOT analysis. Note that many of the SWOT questions are also talking points for other headings - use them as you find most helpful, and make up your own to suit the issue being analysed. It is important to clearly identify the subject of a SWOT analysis, because a SWOT analysis is a perspective of one thing, be it a company, a product, a proposition, and idea, a method, or option, etc.

Here are some examples of what a SWOT analysis can be used to assess:

- a company (its position in the market, commercial viability, etc)
- a method of sales distribution
- a product or brand
- a business idea
- a strategic option, such as entering a new market or launching a new product
- a opportunity to make an acquisition
- a potential partnership
- changing a supplier
- outsourcing a service, activity or resource
- an investment opportunity
- risk management

Be sure to describe the subject for the SWOT analysis clearly so that people contributing to the analysis, and those seeing the finished SWOT analysis, properly understand the purpose of the SWOT assessment and implications.

SWOT analysis template

Subject of SWOT analysis: (define the subject of the analysis here)

strengths

- Advantages of proposition?
- Capabilities?
- Competitive advantages?
- USP's (unique selling points)?
- Resources, Assets, People?
- Experience, knowledge, data?
- Financial reserves, likely returns?
- Marketing - reach, distribution, awareness?
- Innovative aspects?
- Location and geographical?
- Price, value, quality?
- Accreditations, qualifications, certifications?
- Processes, systems, IT, communications?
- Cultural, attitudinal, behavioural?
- Management cover, succession?

weaknesses

- Disadvantages of proposition?
- Gaps in capabilities?
- Lack of competitive strength?
- Reputation, presence and reach?
- Financials?
- Own known vulnerabilities?
- Timescales, deadlines and pressures?
- Cashflow, start-up cash-drain?
- Continuity, supply chain robustness?
- Effects on core activities, distraction?
- Reliability of data, plan predictability?
- Morale, commitment, leadership?
- Accreditations, etc?
- Processes and systems, etc?
- Management cover, succession?

opportunities

- Market developments?
- Competitors' vulnerabilities?
- Industry or lifestyle trends?
- Technology development and innovation?
- Global influences?
- New markets, vertical, horizontal?
- Niche target markets?
- Geographical, export, import?
- New USP's?
- Tactics - surprise, major contracts, etc?
- Business and product development?
- Information and research?
- Partnerships, agencies, distribution?
- Volumes, production, economies?
- Seasonal, weather, fashion influences?

threats

- Political effects?
- Legislative effects?
- Environmental effects?
- IT developments?
- Competitor intentions - various?
- Market demand?
- New technologies, services, ideas?
- Vital contracts and partners?
- Sustaining internal capabilities?
- Obstacles faced?
- Insurmountable weaknesses?
- Loss of key staff?
- Sustainable financial backing?
- Economy - home, abroad?
- Seasonality, weather effects?