



SITUATION ANALYSIS: Environmental Review

The Environmental Review is one of two key parts of a Situation Analysis and the Situation Analysis is the 'Now' in the Now, Where, How process of planning and problem solving. We see the Environmental Review as being primarily an external review of the business. It is essentially designed to determine the Opportunities and Threats of the business although it is not and does not need to be limited to this focus. The Opportunities and Threats can then be used as part of the planning and strategy development processes in the business. If you want to understand more about the other elements of the SWOT (Strengths and Weaknesses) we refer you to the paper titled "[SITUATION ANALYSIS: Diagnostic Review](#)".

The intent of this paper is to provide you with a framework for carrying out an Environmental Review on your or your client's business. You will need to tailor and enhance this framework to meet your specific needs i.e. the specific circumstances of the business.

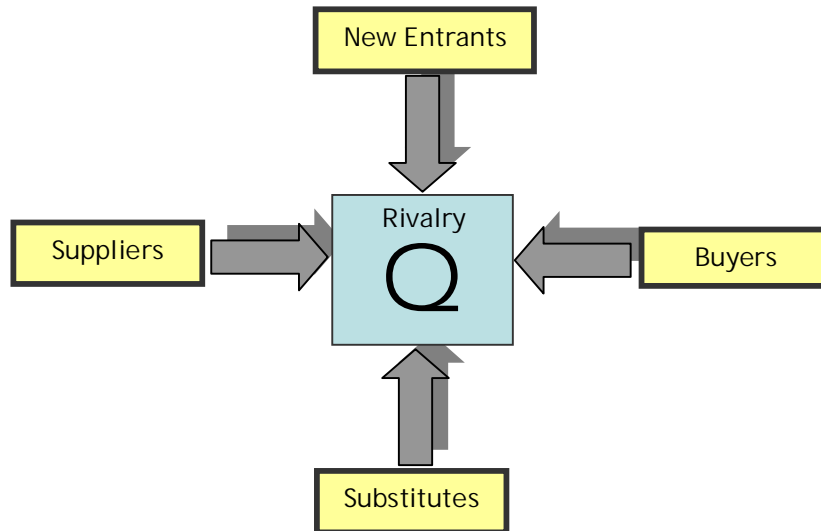
The first point we should clear up is the apparent anomaly in that in doing an Environmental Review we are essentially looking to future trends and yet we include it as part of the Now?? The reason for this is that it is today's (now) view of the future market it is not the future market itself. Equally in the Now, Where, How Process the Where is about your firm's where not the market where - your firm's response to the anticipated future market is the where part of the Now, Where, How Planning Process.

The most important thing in carrying out an Environmental Review, in the first instance, is to make sure that you have identified and understood all the major external factors (externalities) that impact on and will shape the firm as it moves forward. This is a difficult assignment for a range of reasons, not the least of which are:

- The market place is changing so rapidly that such externalities may be hard to identify because of their transient nature.
- The externalities may change from time to time and so may their impacts - lack of consistency.
- It is not always easy to identify cause and effect relationships - they are often subtle or are separated in terms of time and space so the link between cause and effect becomes unclear.

However there are some good frameworks available to assist you in researching these externalities and their impacts. Two, in particular, that we recommend are Prof Michael Porter's Industry Structure Diagram and the PEST Analysis. With all these tools it is important to think both broadly and deeply about the issues - think outside the square. The tools can't provide the answers but they can give you a useful way of conceptualizing the issues by providing a framework within which the issues can be explored. The tools are only as good as the approach you take to them.

Industry Structure



This diagram provides a simple but effective way of understanding the structure of a market in terms of market power and competitive forces. The issues that need to be addressed by reference to this model are:

- Where does the market power lie? With customers, suppliers etc. Where does the ATO and ASIC sit on this diagram? What power and influence will they have?
- What are the major competitive influences forging the shape of the market for the future? Where is the major competition being generated? What is the nature of this competition? Competition is not simply about competition for business but also includes such things as competition for 'resources' e.g. people. You may even consider the ATO as a competitor if simplification of tax returns 'gets up' to any significant extent.
- What are the trends in each of these components and how do you see these components interacting?
- How do you perceive the market changing over the next few years?

PEST Analysis

The PEST Analysis is another useful tool with PEST referring to the main external pressures/influencers of your market:

- Political, Regulatory & Legal - what are the major political, regulatory and legal changes likely to impact on the profession and your firm over the next few years and create opportunities or threats? This may be a direct impact on your firm or an impact on your clients that in turn will have an impact on your firm.
- Economic (macro) - What are the economic scenarios (local and international) that are being put forward and how do you see them impacting on your firm to create opportunities and threats.?
- Social and Environmental - What demographic and environmental trends are forecast and how do you see them impacting on your firm to create opportunities and threats?
- Technological - What technological changes will impact over the next few years to create opportunities and threats?

Obviously it will, in many cases, be difficult to be precise with future trends and that level of precision is not needed in most cases. The purpose of this tool is to try and understand some of the major trends and how they might impact.



Bringing it Together

We often use the following table to bring together the thinking on both the Porter diagram and the PEST Analysis:

Externality	Specific Drivers	Opportunities (Likely positive impacts)	Threats (Likely negative impacts)
Competition	• •	• •	• •
Political, Regulatory & Legal	• •	• •	• •
Economic	• •	• •	• •
Social & Environmental	• •	• •	• •
Technological	• •	• •	• •

From this table identify what you think are the major (external) Opportunities and Threats that will shape the profession and your firm over the next three to five years:

No	Opportunities	Threats
1		
2		
3		
4		
5		
6		

To understand how these Opportunities & Threats may be used to develop high level strategy please read the [Strategic SWOT](#) article.

Based on the above analysis what are the external issues that you believe need to be addressed in the business (try to be exhaustive and specific)?

List them:

No	Issue
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	
11	
12	



Refer to the [Developing Action Plans](#) article to see how these issues are prioritized and developed into action plans.

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May 2005*