

Get the 4-1-1

Conducting an Environmental Scan

So What

As Kyle watched the first big snowstorm arriving, he received a text telling him that his school would be closed tomorrow. Kyle smiled, but he wasn't dreaming of the typical snow day activities of sleeping in or playing video games. He was looking forward to the opportunity to earn money plowing his neighbors' drives with the snowplow he had installed on his truck.

The next morning, Kyle sadly discovered that most of the neighborhood had snow removal included in their lawn-care contracts. Some neighbors said they would be happy to use his services next winter—but only if he could guarantee speedy snow removal every time it snowed.

Kyle's idea to outfit his truck for snow removal was a great one because the winters in his area are usually harsh. However, he had failed to scan the environment well enough to recognize trends in snow removal in his neighborhood, including lawn-care contracts and residents' expectations for dependability. Before Kyle makes another significant investment or business decision, he will remember to conduct environmental scanning first!

Environmentally Aware

You've heard it many times—businesses should be mindful of the environment. This means that organizations should avoid polluting, use recyclable materials, and conserve energy, right? Well, yes, but being mindful of the environment can have another important meaning as well. The term **environment** can simply refer to *surroundings*. Look at your surroundings. What environment are you currently in? A classroom? A library? Your bedroom? How does this environment affect your ability to concentrate on your work and perform successfully?

Businesses exist within environments just as individuals do. Businesses that regularly perform **environmental scanning** can identify challenges and opportunities. This valuable information can help them adapt to changing business climates and succeed in the short- and long-term.

Looking over the business landscape

Environmental scanning (sometimes called environmental monitoring or environmental analysis) is a three-step process in which businesses:

- 1) gather information about their surroundings,
- 2) analyze that information, and
- 3) determine the future impact of that information.

Why is environmental scanning so important for business success? Think about what might happen to you if you weren't aware of your surroundings. You could miss a potential threat, such as a large pothole in the road or a pick-pocket on the subway. You could also miss a potential opportunity, such as a sign for soccer tryouts or an empty chair sitting next to that person you've been wanting to talk to all year. Like people, businesses must constantly be aware of potential threats and opportunities.

Objectives

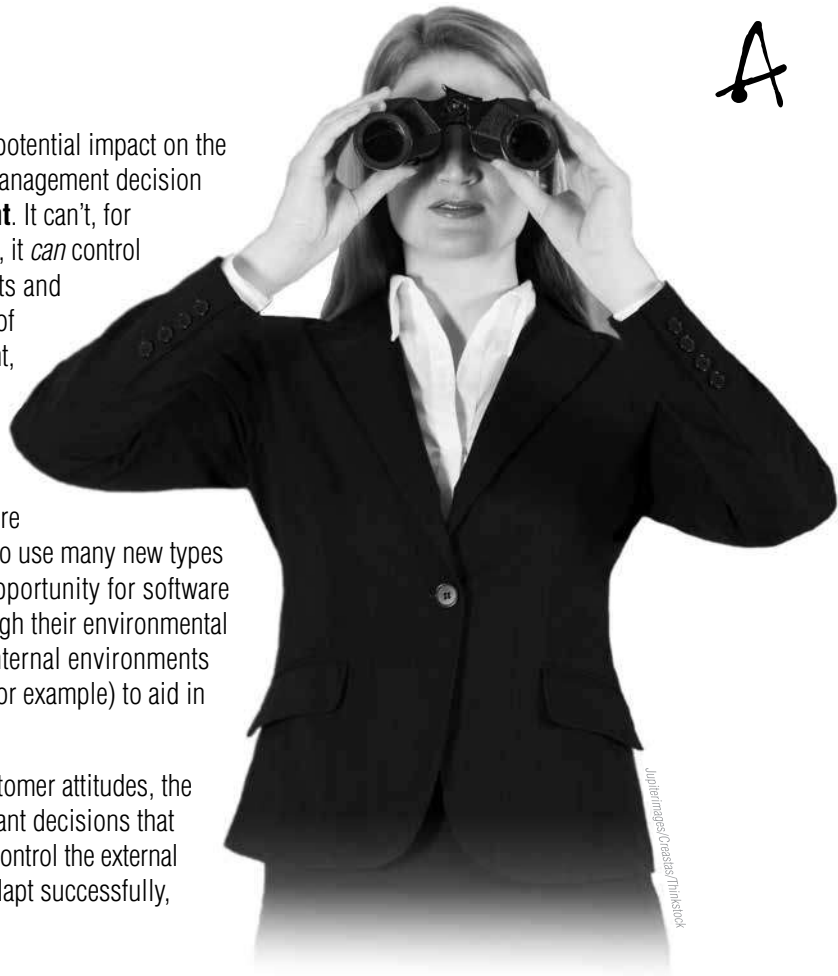
- A Explain the purpose of environmental scanning.
- B Demonstrate procedures for conducting an environmental scan.

You might have noticed that the concept of environmental scanning is very similar to SWOT (Strengths, Weaknesses, Opportunities, Threats). That's correct! While environmental scanning focuses mostly on gathering information about a business's *external* environment, the information doesn't do a business any good unless it knows how to capitalize on its strengths and minimize its weaknesses to meet opportunities and threats head-on!

Being aware of threats and opportunities—and knowing their potential impact on the organization—helps a business with strategic planning and management decision making. A business cannot control its **external environment**. It can't, for instance, alter the country's birth rate or rewrite the tax code. But, it *can* control its internal environment and prepare to meet upcoming threats and opportunities. A business's **internal environment** consists of elements such as finances, personnel, research and development, production, and marketing. This internal environment plays a large role in determining how a business will respond to opportunities and threats.

Let's say a foreign country has been developing its infrastructure and technology capabilities and its consumers are now ready to use many new types of computers and software applications. This creates a big opportunity for software companies, and they should know about it ahead of time through their environmental scanning efforts. Now, they can use the **strengths** in their internal environments (strong marketing departments with international experience, for example) to aid in strategic plans for entering the new market.

A business's environment is always changing. Changes in customer attitudes, the economy, technology—all of these and more affect the important decisions that owners and managers must make. Because businesses cannot control the external environment, they are faced with a choice—adapt or fail. To adapt successfully, they rely on environmental scanning.



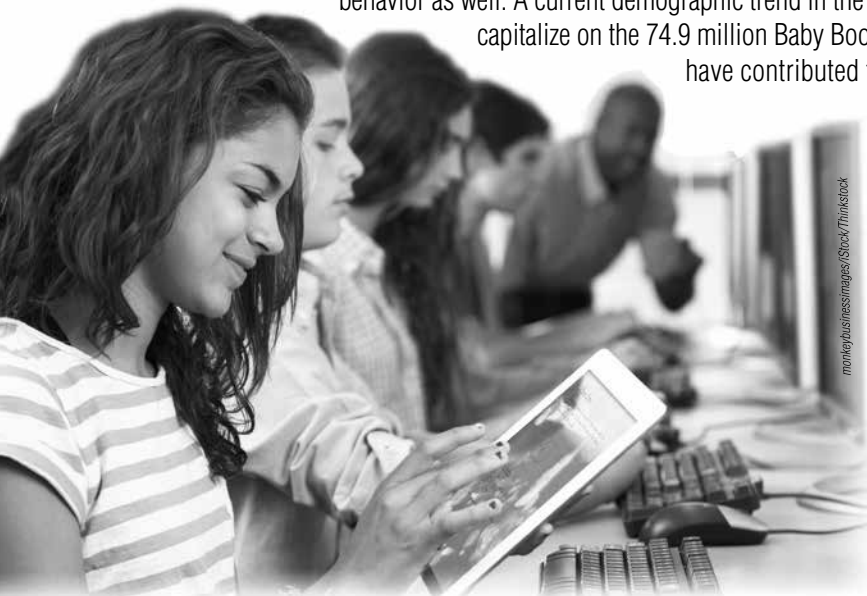
Scanning the horizon

Six main categories are generally included in an environment scan. Let's examine each category and consider how they can impact business.

Demographics. Demographics are the physical and social characteristics of the population. Examples of demographic data include age, gender, income, employment status, family status, education, geographic location, religious beliefs, and race or ethnic origin.

Just as individuals have their own demographic characteristics, markets also have demographic characteristics. Businesses must pay close attention to trends in demographic data because changes in the demographic makeup of a market can cause significant changes in consumer behavior as well. A current demographic trend in the United States is the aging of the population. Companies looking to capitalize on the 74.9 million Baby Boomers turning gray, along with their desire to remain independent, have contributed to rapid growth in the home health care industry. As this large demographic group ages, businesses are likely to identify even more opportunities to serve Baby Boomers' needs.

Another demographic trend is the rapid growth of minority populations in the U.S. In 2014, the U.S. Census Bureau reported that 48 percent of the U.S. population under age 18 were members of racial and ethnic minority groups and estimated that these same groups will grow to 64 percent by the year 2060. These changes in the country's population will impact our educational system and workforce while presenting challenges and opportunities for businesses. According to analysts, for example, Hispanics, which are the largest minority group in the U.S., are driving demand for more consumer packaged goods. For more on the impact of aging Baby Boomers and a more diverse population, watch "The Future of America": <https://www.youtube.com/watch?v=sWTYZGM8e0g>.



▲ Hispanic students representing 25% of students enrolled in American public schools is a significant demographic shift.

Society and culture. What do customers value? What are their attitudes toward the world around them? Our society is transforming at a rapid rate—some say faster than ever before. Successful businesses stay on top of changes in society and culture so that they can remain sensitive to customer needs and wants. Here are just a few examples of social trends that affect business decision making:



▲ Fathers actively involved in their children's lives is a positive trend that presents opportunities for businesses to meet families' needs.

- **Changing family roles.** Single parents, two-income households, and diverse attitudes about what defines a family and family roles are becoming commonplace. With up to 70 percent of mothers working, fathers have tripled their involvement in childcare. Many fathers express that they want to share childcare responsibilities equally with their spouse, and they struggle, just like mothers, to achieve work-life balance. Businesses must recognize these changes and adapt their policies and **marketing campaigns** to meet this trend. The Today Show video "How Today's Dad Has Changed with the Times" reflects on the need to portray and treat fathers fairly: <http://www.today.com/video/today/55365551>.
- **Need for convenience.** Many consumers are willing to pay more for items that save them time or fit into their hectic schedules. Prepackaged food and food delivery allow consumers who spend more money to save time. Businesses scanning for opportunities to make life more convenient for consumers will likely profit.

- **Concern for fitness and health.** Physical health and fitness are important aspects of many consumers' lives. People want gyms that fit their lifestyles, and they want to know where and how their food was grown and prepared. Gyms providing on-site childcare and 24-hour service help busy people fit physical fitness into their day. Restaurants offering hormone-free meat, vegetarian choices, or locally raised food give diners the healthy food they prefer. See how a fast-food startup is profiting from consumers' increased demand for healthy foods in the video "Sweetgreen—Redefining Healthy Fast Food" by CBS This Morning: https://www.youtube.com/watch?v=kWEf_YlBWk.



▲ Locally raised food is a growing trend with farmers' markets and farm-to-table restaurants offering fresh produce.

- **Going green.** Many of today's consumers are concerned with fuel efficiency and "carbon footprints." As a result, a growing number of companies have developed goods and services to fulfill consumers' desire for products that don't harm the environment, cause pollution, or waste resources. Although some businesses struggle to meet this demand while remaining profitable, others, like Preserve Products, have capitalized on this trend by offering products made from recycled materials. The Preserve Toothbrush's handle, for instance, is made from recycled yogurt containers, and the company gives store credit to customers who recycle the toothbrushes. Scanning for opportunities to "go green" is a good way to grow business while meeting consumers' desire for environment-friendly products and practices.

The economy. The economy greatly affects businesses and the decisions they must make to satisfy customers and remain profitable. Economic factors that businesses should pay attention to during an environmental scan include:

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| • Stage of the business cycle (prosperity, recession, recovery, etc.) | • Interest rates | • Tax rates |
| • Inflation | • Unemployment rates | • Currency exchange rates |
| | • Investor confidence | • Foreign economic conditions |

During a recession, for instance, customers cut back on spending, especially for “unnecessary” purchases such as vacations or new cars. This drop in sales can significantly impact many different industries. But if companies are paying attention to the environment, they can identify **tactics** and strategies to help them weather such economic downturns.

Competition. Businesses should always pay attention to what their competition is doing. By watching its competition, a business can better decide on strategies to be successful. An environmental scan may gather information on competition in a few different categories:

- *Brand competition*—competition between two similar products (e.g., Nike vs. adidas)
- *Substitute products*—competition between different products satisfying same need (e.g., Netflix’s streaming entertainment vs. television networks)
- *General competition*—all businesses competing for scarce customer dollars (e.g., grocery stores, gas stations)

Businesses should keep tabs on all these types of competition both domestically and outside the U.S.



▲ Luxury cruises have to compete with an entire tourist industry and offer deep discounts to attract cruisers when the economy is sluggish.

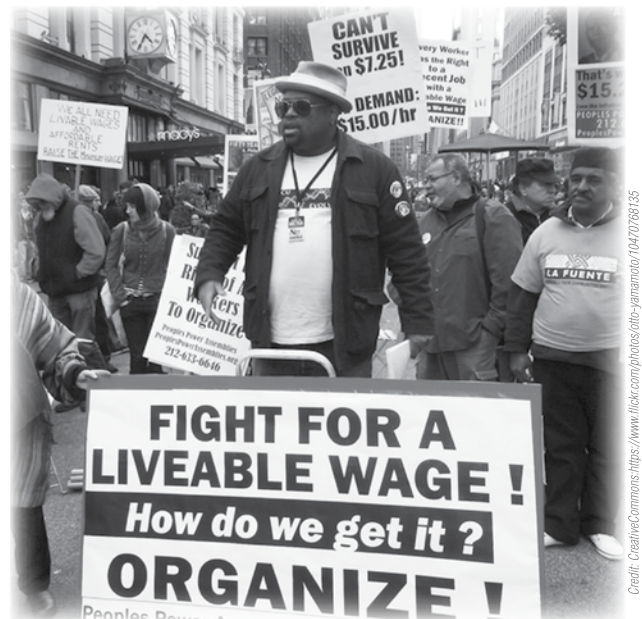


Ever hear of the “sharing economy”? It’s a growing trend driven in large part by our mobile, connected society—a trend that businesses would be wise to consider. The video “The cash-strapped millennials using sharing economy” by *BBC News* gives insight into the increased popularity of shared or borrowed goods and services: <http://www.bbc.com/news/business-23848946>.

Government. Even within a private enterprise system, the government still affects business decision making. Many political factors come into play, including:

- Changing laws and regulations (e.g., minimum-wage laws, environmental-protection laws, and worker-safety laws)
- Monetary and fiscal policies (money supply and government spending)
- Import/Export restrictions and regulations
- Government relations with specific industries (e.g., **subsidies** for agricultural businesses)
- Marketing-specific legislation (e.g., laws against false advertising)
- State and local laws
- Political climates and stability in foreign markets

When planning new manufacturing facilities, businesses should look to their environmental scan to determine whether or not local **zoning regulations** will affect the construction of a new building, as well as whether tax abatements are available to companies creating new jobs.



▲ While there is much social debate over raising the federal minimum wage to reduce poverty, the impact on business is always considered as well.

Technology. The most rapidly changing category included in an environmental scan is technology. Advances in communication, new products, and new manufacturing processes can drastically change a business's decisions and plans. Businesses should examine new developments in digital technology in particular to determine challenges as well as opportunities. An easily accessed website, online store, or mobile app can have a huge impact on any business venture. The video "How Companies Use Tech to Track Your Eyes" explains how technology may soon impact all future electronic-device use as developers consider enabling users' eye movements, instead of their hands, to control devices: <http://www.bloomberg.com/news/videos/b/f2db431e-6c0d-499f-9662-5883aad94be2>.



▲ Companies need to constantly look out for new technologies. A major change in the way we use current technologies is on the horizon as companies develop devices controlled with eye movements instead of hands.

Keep in mind

Here are a few important things businesses must remember about the information gathered during environmental scanning:

- All of these factors are **dynamic**, meaning changing all the time. Over time, customers may put less emphasis on convenience. An economy in **recession** will eventually recover. New legislation will be written. Keeping track of all these changes is why environmental scanning is so crucial to business success.
- All of these factors are **interrelated**, meaning they affect each other. The demographics in a population will influence the social and cultural attitudes in a population, the state of the economy will impact government policies, and so on.
- Each business has a unique relationship with its environment. Therefore, certain factors and trends affect some businesses and industries more than others. For example, levels of investor confidence have significance for financial planners, while housing trends are of interest to real estate developers.

Summary

Environmental scanning is a three-step process in which businesses gather information about their surroundings, analyze that information, and determine the future impact of that information. It's important for businesses as it allows them to recognize potential opportunities and **threats**, and adjust **strategic planning** and decision making accordingly. Six main categories of information included in environmental scans are demographics, society and culture, the economy, competition, government, and technology.

TOTAL RECALL

1. What is an environment?
2. What is environmental scanning?
3. Why is environmental scanning important for business success?
4. List the six categories of information that should be included in an environmental scan.

THE GRAY ZONE

Businesses can't control their external environments. That's why they conduct environmental scanning to gather information about their surroundings and use the strengths in their internal environments to meet opportunities and threats head-on. Sometimes, however, businesses do attempt to influence their external environments. One way they might try to do so is by lobbying the government for changes in laws that affect them or their industries. They might even contribute to campaign funds for political candidates who are on "their side." Although it might not be illegal, some people think it is unethical for businesses to involve themselves in government this way. What do you think?

Yes, You Scan

You know why environmental scanning is important and what types of information your business should be looking for when it conducts a scan. But, how exactly should you go about scanning? Just follow these steps:



- ▲ Frontline employees are often included in environmental scanning because they have the most contact with customers and can provide good insight.

Step one: Identify participants and responsibilities.

Who will participate in your business's environmental scanning efforts and what specific tasks will they be responsible for? On a certain level, all employees should be participating in environmental scanning. Everyone should be aware of the environment and how it affects the business as well as her/his particular job. If you work for a coffee shop and you see a competitor offering a special promotion or discount, you should take note of it. Even if you don't have any decision-making authority when it comes to planning sales, you can at least let your supervisor know what you saw.

In some cases, environmental scanning responsibilities may be more formal. Marketing employees may be responsible for conducting **market research** or arranging for an outside firm to do so. They may be responsible for creating or maintaining a database to organize all relevant environmental information. Or, they may head up efforts to make contact with customers and gather information from them directly.

Step two: Carry out scanning activities.

The activities involved in environmental scanning will vary from business to business. Some of the tools you can use to gather information include:

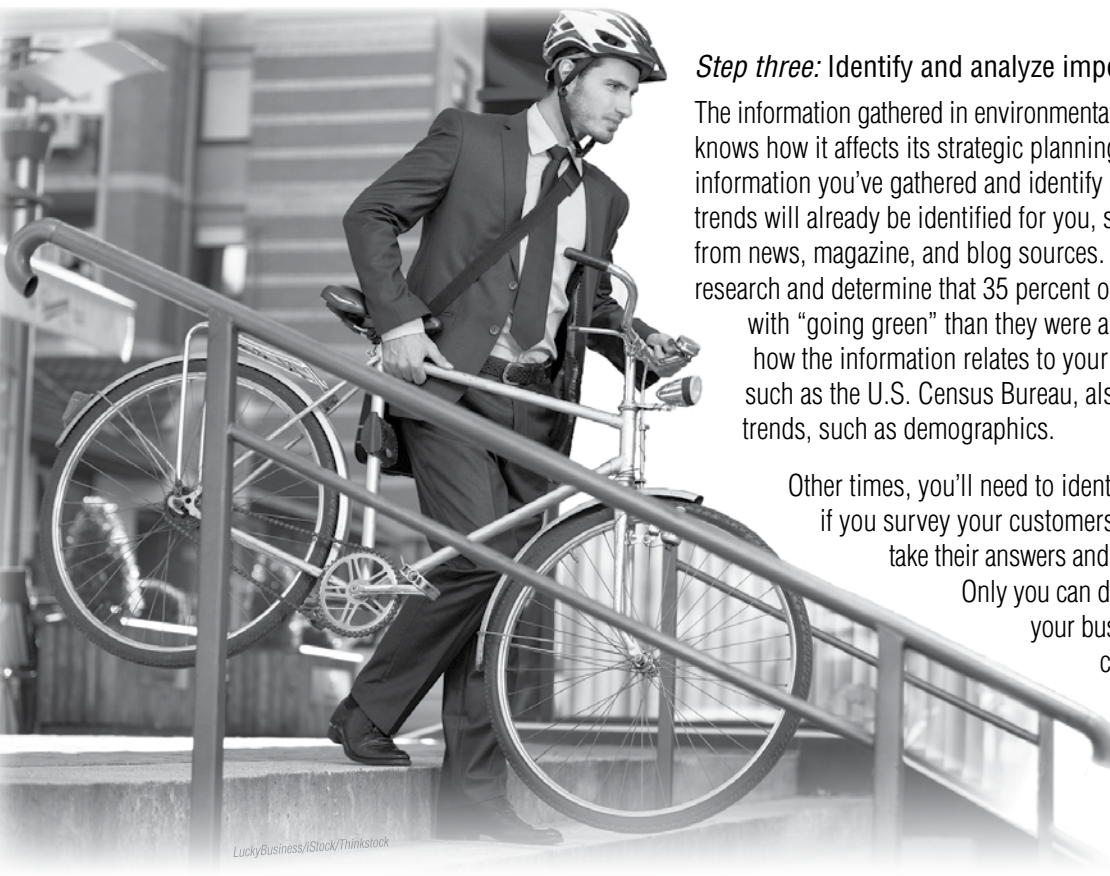
- Surveys
- Questionnaires
- Focus groups
- Informal conversations
- Newspapers, magazines, and trade journals
- Television, Internet, and social media
- Market research studies

A questionnaire or focus group might reveal valuable information about customer attitudes. News sources can give you the latest updates on the state of the economy. Trade journals can contain vital knowledge about the newest technology as well as what your competitors are up to.



- ▲ The simple act of reading current events can help a business recognize trends and developments that may affect its business.

When carrying out scanning activities, it's important to focus only on what's relevant. **Information overload** is all too easy to suffer in a modern world where knowledge is constantly available at the tips of our fingers. Consider an online university that can be accessed from anywhere in the world. Demographic data regarding its customers' educational status is more relevant in its environmental scan than data regarding geographic location. Successful environmental scanning requires "weeding out" unnecessary information.



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Step three: Identify and analyze important issues and trends.

The information gathered in environmental scanning is only useful if a business knows how it affects its strategic planning and decision making. Look at the information you've gathered and identify specific trends. Many times, the trends will already be identified for you, such as when you read information from news, magazine, and blog sources. A company may conduct its own research and determine that 35 percent of its customers are more concerned with "going green" than they were a year ago. Now, you must determine how the information relates to your business. Government agencies, such as the U.S. Census Bureau, also publish pertinent data on certain trends, such as demographics.

Other times, you'll need to identify the trends yourself. For example, if you survey your customers to gather information, you'll have to take their answers and translate them into usable information. Only you can determine information that is specific to your business, such as the average age of your customers or what types of technology they prefer.

▲ The popularity of bicycles is a trend that affects many businesses, such as auto makers, transportation providers, and city planners.

Once you have identified a trend, ask critical questions, such as:

- How does this trend affect demand for our goods or services?
- How does this trend affect our business's ability to compete?
- How critical is this trend to long-term organizational success?

Determine whether or not the trend is an important one for your business.

Step four: Report results or select issues and trends to act on.

Depending on your level of authority at the company, you may be responsible for reporting environmental scan results, or you may be part of a team that must decide which issues and trends the business should act on. Keep in mind that not all trends can be addressed immediately or all at once. A business must prioritize trends in its strategic planning.

Step five: Scan on a continuous basis.

Environmental scanning is not a one-time activity, or even a once-a-year activity. It must be conducted on a continuous basis since the environment is dynamic and new trends can arise at any time. Scanning on a continuous basis allows your business to act quickly, taking advantage of opportunities before competitors do and responding to threats before they can cause damage.

Summary

To conduct an environmental scan, first identify participants and their responsibilities. Then, conduct scanning activities, identify and analyze important issues and trends, report results or select issues and trends to act on, and remember to scan on a continuous basis.

TOTAL RECALL

1. Who should participate in a business's environmental scanning?
2. What tools can be used in environmental scanning?
3. List the five steps in environmental scanning.