



Economic Incentives Template for Operating Environment Analysis

The purpose of this template is to guide analysis of an organisation’s operating environment. Although it may be of less relevance to smaller organisations, it is understood to still be informative.

Using the ‘Economic Incentives Template for Operating Environment Analysis’

Step 1: Brainstorming is conducted, involving 3-4 experts, on each of the items listed on the template. Assessment of conditions specific to the organisation are recorded.

Indicator	Explanation	Own Assessment
Threat of entry	Key factors increasing the threat of entry are: profitability does not require economies of scale, the product is undifferentiated, brand names are not well-known, initial capital investment is low, consumer switching costs are low, accessing distribution channels is easy, location is not an issue, proprietary technology & materials are not an issue, and expedited retaliation of existing firms is not an issue.	
Substitutes	Consumer switching costs are low when the substitute product is cheaper than the industry product, substitute product quality is equal or superior to industry product quality, and substitute performance is equal or superior to industry product performance.	
Bargaining power of buyers	Bargaining power increases if buyers are more concentrated than sellers, buyer switching costs are low, threat of backward integration is high, buyer is price sensitive, buyer is well-educated regarding the product, buyer purchases product in high volume, buyer purchases comprise large portion of seller sales, product is undifferentiated, and if substitutes are available.	
Bargaining power of suppliers	Bargaining power of suppliers is high if suppliers are more concentrated than buyers, buyer switching costs are high, suppliers can easily integrate forward (i.e. start producing the buyer’s product themselves), the buyer is uneducated regarding the product, the supplier’s product is highly differentiated, the buyer does not represent a large portion of the supplier’s sales, and if substitute products are unavailable.	

Step 2: Results are used to inform internal presentations or for integration into a business plan.

