

Analyzing Firm's External Competition Environments with PEST and Porter's Five Forces Framework: Is it Still Useful? Evidence from An SME

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ABSTRACT: This paper applies PEST (Political, Economic, Societal, and Technological) analysis and Porter's Five Forces framework to small-medium sized enterprises with H Hardware Co. Ltd as an example. The results of the analysis is consistent with what the firm's executives perceived about the business environments of their firm. This, to an extent, evidenced that PEST and Porter's Five Forces framework seem still useful even after Porter's consulting firm (which used his Five Forces method significantly)'s bankruptcy. Therefore, this paper shows, in a sense, that Porter's personal consulting firm's financial failure does not mean the failure of Porter's Five Forces framework.

Key Words: SMEs, strategic analysis, PEST, Porter's Five Forces

I. INTRODUCTION

The purpose of this paper is threefold: First, through a comprehensive and objective analysis of a small Chinese firm, namely H Hardware Appliance Co., Ltd., a clear valuation conclusion can be drawn for now and further a guideline can be provided for this small firm in the future; Third, through a solid research process and forward-looking judgment, it can form a set of methodologies suitable for SMEs' value assessment, which can help enterprises find their own value proposition in the capital wave and better achieve long-term development.

H Hardware & Electrical Co., Ltd. was founded in 2003. Its main business is production and sales of metal products, household appliances, plastic products and lighting fixtures. After ten years of development, the company's business volume is booming, the annual sales volume has exceeded 50 million, the products sell well at home and abroad, the company brand "VASE" won the title of Guangdong Province well-known trademark. Last year, H Hardware Appliances moved into a new production and processing base. Currently, it has five production lines and more than 200 employees. With its technological advantages, brand advantages and ten-year sales channel advantages in the local market, the company has become a local company of the same type. The leader in the middle. The company's good business performance and bright development prospects have attracted the attention of external capital. According to business owners, PE has privately consulted with them about investment matters. On the one hand, the business owner is clear that it is difficult to realize the rapid expansion of asset scale in a short period of time after leaving the injection of external funds; on the other hand, due to the traditional family-owned business model, the business owner has less exposure to the capital market. Corporate value assessment, especially the lack of awareness of the value of the company in the market, is a concern in this regard. As mentioned above, most of the valuation methods currently on the market are aimed at listed companies or large enterprises. Such enterprises are relatively standardized in operation, financial systems are perfect, information is more open and transparent, and valuation is relatively easy. Most of the SMEs in China have a lack of management level and the financial system is not perfect. Therefore, in the evaluation of the value of SMEs, the above methods cannot be used. This paper attempts to explore a more flexible, more systematic and scientific SME value evaluation system, provide research ideas for the value evaluation of H Hardware Appliance Co., Ltd., make a systematic scientific value assessment, and lay the foundation for the evaluation of possible introduction of strategic investors in the future.

Research methods

In order to make a reasonable system valuation for H Hardware Appliance Co., Ltd., this paper adopts several methods including Field Research and Document Search. Through interviews and investigations, the financial department, product research and development department of H Hardware Appliance Co., Ltd. and other relevant personnel learned about the hardware industry, especially the development status of cabinet hardware through inquiries, inspections, interviews, etc., we obtain relevant data and data for analysis and research. Through

literature search method, we master the theoretical development and valuation model of enterprise value assessment, and understand the global and national macroeconomic development status, analyze the industry growth trend of cabinet hardware, and make accurate identification of factors affecting industry and enterprise development. A purely qualitative, subjective view discussion approach is used to judge the competitive advantage of H Hardware Appliance Co., Ltd. from the perspective of strategic management, and to predict the development prospects and obtain qualitative conclusions. This approach is different from the purely quantitative analysis approaches (e.g., Pan 2006 and Jarrett et al., 2009), the quantitative-analysis-based qualitative discussion approaches (e.g. in Feng et al., 2015), and the qualitative analysis based quantitative model discussion approaches (e.g., in Zhao et al., 2014). Also, the purely qualitative approach of this paper is mainly to show the applicability of existing theories based on the experiences and practical common senses, which is yet different from the purely qualitatively observatory summarization approaches (e.g., in Pan et al., 2006).

Research significance and purpose

China's small and medium-sized enterprises have a large number and a wide distribution, involving a wide range of industries. As of the end of the third quarter of 2013, the total number of SMEs registered in the industrial and commercial sector exceeded 42 million, an increase of 49.4% over 2007, accounting for 99% of the total number of enterprises in the country. More than 90%; at the same time, SMEs contributed 58.5% of GDP, 68.3% of foreign trade exports, 52.2% of taxes and 80% of employment. SMEs constitute an important part of China's market economy and a fundamental force for promoting national economic development and promoting social stability. With the further growth of the economy and the growth of small and medium-sized enterprises, the groups with outstanding performance or investment value in these enterprises may face mergers and acquisitions, restructuring, introduction of PE equity investment, project financing or listing, and all of these. Economic activities are based on the assessment of the reasonable value of the company. Corporate valuation has become the focus of most investors and management in the modern capital market. However, the current evaluation of the value of SMEs has always been a difficult point, and has not yet formed a more mature and complete evaluation plan. This can be attributed to both financial and non-financial reasons. On the financial side, on the one hand, most of the SMEs' financial systems are not perfect, and the statements are not open and transparent. On the other hand, most SMEs are non-listed companies, lacking a publicly traded market, and insufficient information disclosure, resulting in increased data access. To assess the increased risk. The non-financial factors affecting the valuation of SMEs mainly include human resources, management models and internal risk control. These factors will also have a certain impact on their assessment.

To a certain extent, due to the unique characteristics of SMEs, the valuation method is different from the traditional evaluation method used by listed companies. I will use H-Hardware Co., Ltd. as the basis for the traditional evaluation method. The object, through its scientific and reasonable value evaluation, lays a valuation foundation for its possible introduction of strategic investors in the future, and at the same time forms a relatively complete value evaluation plan for SMEs. This is the significance of this article.

II. METHODOLOGIES

Viewing companies through different financial perspectives will have different values. For example: Book value, which is the accounting value embodied in the balance sheet. Because it clearly reflects the status of assets, liabilities and shareholders' equity, that is, the sum of the value of investors' claims, it has certain rationality. At present, there are still quite a few enterprises in China to calculate the value of enterprises based on this. However, because the book value of the company is only based on historical cost, ignoring the influencing factors such as inflation, the actual value is underestimated, and at the same time it is out of sync with the dynamic business reality. Of course, the drawback of greater book value is that it does not reflect the future benefits that assets can create, and the most important characteristic of assets is that they are expected to bring economic benefits to the company.

Market value is the price at which an enterprise conducts an assessment, joint venture, merger, acquisition, listing, or transaction in the market. It can comprehensively reflect the core assets, innovation capability, competitive advantage and business performance of the enterprise. It is a concept under the conditions of market economy. Only under the conditions of market economy, the internal governance structure of the enterprise has been institutionalized, and the information disclosure of enterprises has been legalized. The marketization of the capital structure of an enterprise will have the market value of the enterprise. Therefore, the concept of enterprise market value is different from corporate value, which is different from corporate book value.

Intrinsic value refers to the present value of the cash flow that the enterprise can generate in the foreseeable future. This is also the “enterprise value” studied in this paper. One of the characteristics of intrinsic value is that different investors have different evaluation results on the intrinsic value of the enterprise. Its emphasis is on the future earnings of the enterprise. When assessing the intrinsic value of the enterprise, it must take into account both the internal conditions of the enterprise and the external environment. Taking into account the development history and future prospects of the enterprise, the factors to be included in the calculation are more comprehensive, and the evaluation results should be in line with the actual situation of the enterprise.

PEST macro analysis model

It is a way to help companies analyze the external macro-competition environment. The model analyzes the external environment that affects the competitiveness of enterprises from four aspects: politics, economy, technology and society. Political factors usually include taxation policies, labor regulations, environmental regulations, trade restrictions, tariffs, etc. For multinational companies, they should also include state relations. Economic factors usually include economic growth rates, interest rates, exchange rates, and inflation rates. These factors often have a major impact on business operations and decision making. Social factors include population growth rate, income level, education level, consumption habits, and so on. Technical factors can determine the entry of an industry, affecting costs, quality, and triggering innovation.

Porter’s Five Force Analysis Model

It was proposed by Michael Porter’s in the early 1980s that it believes that there are five forces in the industry that determine the scale and extent of competition. These five forces combine to affect the attractiveness of the enterprise. Significant impact. This model is often used to analyze a customer's competitive environment to provide relevant information needed for corporate strategy development. Porter’s’s five strengths include: the bargaining power of the supplier, the bargaining power of the buyer, the ability of potential competitors to enter, the replacement ability of substitutes, and the competitiveness of competitors in the industry. Any industry, whether domestic or international, whether it is producing products or providing labor services, will be reflected in the competition of these five kinds of competition. Therefore, Porter’s’s five-force analysis model is a strategic analysis tool that companies often use when developing competitive strategies.

III. STRATEGIC ANALYSIS OF H HARDWARE APPLIANCE

Through the strategic analysis of the external environment and internal factors of H Hardware Appliance Co., Ltd., this paper forms a qualitative description of the core competitiveness and development prospects of H Company, so as to construct a reasonable financial analysis model, and realize the future income growth and profitability through the model. Forecasts such as financial indicators provide hypothetical support for value assessment.

Basic Profile of H Hardware Appliance

Main business

H Hardware & Electrical Co., Ltd. is a private limited liability company in Guangzhou. Its business scope covers the production and sale of hardware products, household appliances, plastic products and plumbing fittings. Among them, the main business is the production and sale of cabinet hardware accessories. Founded in 2003, the company is mainly engaged in the wholesale business of bathroom accessories such as rice boxes, trash cans, cabinet parts and bathroom racks. In 2005, the company cut down the operation of sanitary products, specializing in cabinet accessories, and enriched the product variety, and developed a series of cabinet hardware accessories. In 2006, the company further adjusted its business strategy, from wholesale trade to independent development, independent production and self-promotion of one-stop service. After years of development, H Hardware Appliance Co., Ltd. has a certain scale, supplying more than 20 series of boutique accessories, products covering high-end cabinet accessories, open wardrobe accessories, the company’s sales volume exceeded 50 million last year, forming a relatively stable Downstream channel, the company brand “VASE” was awarded “Guangdong Province Well-known Trademark” and its products were selected as “China Famous Products”.

Financial status

Since its establishment in 2003 to 2007, the company has maintained a high-speed growth trend. In 2008, affected by the global financial crisis, the export volume of products declined. In the same year, operating income,

operating profit and net profit declined. At the end of 2008, the country's 4 trillion investment plan and a series of stimulus measures were introduced, which enabled the company to invest more energy resources in the domestic market. Affected by the recovery of the real estate industry, sales volume began to rise in 2009. While expanding its sales channels, the company actively establishes long-term business cooperation with major brands such as Guangdong Oupai Home and Sophia Home. With the support of increasingly stable downstream channels, the company's operating results are relatively less affected by macro market environment fluctuations. Steady growth. As of 2013, the company's annual operating income was 58.945 million yuan, an increase of 28.18%; the main business profit was 12.78 million, an increase of 15.45%; net profit was 7.258 million, an increase of 7.22%. The company's gross profit margin in 2013 was 21.01%, an increase of 2.64% year-on-year, showing a good situation of simultaneous growth in operating income and profitability.

Organizational structure

H Hardware & Electrical Co., Ltd. is a private limited liability company. The founder Hua Zongquan holds 80% of the shares and the younger brothers account for 20%. The company implements flat management, with H.Z.Q as general manager and the younger brother of Mr. H.Z.Q as deputy general manager. The company has 8 departments: Finance Department, Product Development Department, Technology Department, Quality Control Department, Production Department, Purchasing Department, PMC and Human Resources Department.

Human Resources

The company currently employs 224 people and its staff structure is as follows:

Professional composition: 20 management personnel, 8 product research and development personnel, 22 sales personnel, 10 full-time accounting staff, 5 full-time quality supervision personnel, production personnel and other 159 people.

Education level: 16 Master's degree holders, 33 Bachelor degree holders, 66 junior college graduates, and 109 secondary school graduates. The product research and development department and the technical department are the core departments of the company. They are responsible for product innovation and production technical support. They have higher requirements for the qualifications of the staff members. Therefore, the department employees are mainly graduate students. In addition, the company's finance department, quality control department and other professional and technical departments are mostly undergraduate and have high quality. The overall talent structure of the company is reasonable.

Business strategy

The company's strategic goal is to maintain the product innovation and quality management system based on the domestic first-class cabinet hardware accessories company, and continue to enhance brand awareness and become a one-stop supplier of influential cabinet accessories. The company's current core strategy is technology leadership strategy. First, further strengthen the construction of R&D team. Second, establish and maintain cooperation with experts and scholars in this field, seek technical support outside the enterprise, and thirdly follow the trend of green environmental protection. , research and development of energy-saving cabinet hardware accessories.

Analysis of the external environment of the enterprise

To evaluate the strength of a company's core competitiveness, it is inseparable from the analysis of the external environment that affects the survival and development of the company. Through analysis, companies can clearly understand the opportunities and threats they face, and form the next strategic plan. An accurate look at the future changes in the external environment is a prerequisite for the success of the strategy.

Political factors

Political factors are extensive, and there are related laws, regulations and policies that have a great impact on the hardware industry. The purchase restriction order was introduced: In 2010, the state introduced the basic purchase restriction industrial policy. In 2011, Beijing took the lead in implementation, and then major cities followed suit. In recent years, the "restriction order" has caused the real estate industry to fall into the cold winter, and the cooling of the property market has also affected the hardware industry. As the upstream of the real estate industry chain, due to the decline in the transaction volume of the property market, hardware demand will also be restrained. However, due to the large number of second- and third-tier cities in China, it will take time for the "restriction order" to sweep across the country, which has somewhat mitigated the negative impact of this. Building materials to the countryside: another policy factor affecting the hardware industry. Through the implementation of

the policy of building materials to the countryside, the process of new rural construction will be further promoted. The demand for cement, steel and hardware in the rural market will increase substantially, which will drive the production and sales of related enterprises to prosper. Affected by this, due to the export difficulties, many hardware companies began to consider "export to domestic sales", and the move of building materials to the countryside, undoubtedly pointed out another direction for the sales of the hardware industry.

Energy conservation and environmental protection proposals and regulations: Since the two sessions in 2009, the energy conservation and environmental protection proposals have entered the public's sight. Last year, pollution incidents frequently occurred, and the ash cloud shrouded the whole city, deepening the public's concern about energy conservation and environmental protection. In August 2013, the State Council issued the "Opinions on Accelerating the Development of Energy Conservation and Environmental Protection Industry". Under the guidance of the "Opinions", the environmental awareness of China's hardware companies has been strengthened. Through the production process, environmentally friendly raw materials are automatically selected, and at the same time, the production line is made. Corresponding adjustments will strengthen the management of pollution prevention in the production process, improve environmental protection standards, and enhance their competitiveness. At the same time, China's hardware companies are also strengthening product research and development, moving closer to the energy-saving and environmental protection market. The introduction and sale of new hardware products for energy-saving faucets and environmentally-friendly cabinets also confirm the market's preference for environmental protection themes. It can be said that the energy conservation and environmental protection proposal and the "Opinions" serve as a one-foot benchmark. In the process of big waves and sands, the hardware enterprises that are depleted and polluted seriously, unable to keep up with the pace of the market, refused to leave the door, and the enterprises left behind can follow the green trend. Overall, the competitiveness of the hardware industry has been improved. In the long run, the advantages outweigh the disadvantages.

New urbanization construction: The rapid development of new urbanization is expected to become a powerful driving force for China's economic growth and social development. The introduction of a new urbanization strategy will drive a new round of development in the real estate industry. With the urbanization process, the rural population is transferred to the towns. For this group of displaced rural populations, housing becomes an indispensable carrier to meet their survival needs, which will effectively promote the development of the real estate industry in the second and third tier cities. As a hardware industry closely related to the real estate industry's prosperity, it is also expected to be boosted by the prosperity of real estate, and the demand for growth will be ushered in the new urbanization process.

Based on the above analysis, we can obtain the following external key economic factors:

Opportunities: 1. Building materials to the countryside to promote the construction of new countryside and stimulate hardware demand. 2. Promulgation of energy conservation and environmental protection proposals and regulations, promote enterprises to adapt to the green trend to achieve transformation, strengthen competitiveness, and further standardize the hardware industry market and enhance the prosperity. 3. The new urbanization construction will drive domestic demand in the hardware industry and usher in growth.

Threats: 1. The introduction of a purchase restriction has reduced the transaction volume of the property market and has a negative impact on hardware sales.

Economic factors

The central bank raises interest rates: raising interest rates leads to higher capital costs, which has an impact on hardware manufacturers. It is mainly reflected in two aspects: firstly, it will slow down the investment momentum of fixed assets of enterprises, and compress the demand for hardware products in a short time frame to bring to the hardware market. The pressure to come down has a negative impact. On the other hand, the pressure on capital costs brought by interest rate hikes will also reduce the enthusiasm of enterprises to raise funds, control the development momentum of enterprises to expand production, avoid the large supply of products and cause market prices to fall, and the industrial boom is expected to continue to stabilize. At the same time, China's hardware industry is dominated by small and medium-sized enterprises. Such enterprises have the characteristics of small investment by operators and low debt ratio. The risk of corporate profitability being reduced due to increased production costs is relatively low. On the contrary, affected by interest rate hikes, these companies will increase R&D efforts, improve product quality, improve product quality, and accelerate the pace of transformation and upgrading of the hardware industry in order to increase profit levels. This will have a positive impact in the long run.

GDP growth slows down: H Hardware & Electrical Co., Ltd. is engaged in cabinet hardware production, processing and sales, and has high dependence on macro economy. With the continuous economic growth and population growth, investment demand for commercial construction, civil buildings and infrastructure It is expected to grow steadily in the longer term, which will lead to an increase in demand in the hardware industry. Therefore, the macroeconomic prosperity will have a greater impact on the hardware industry. At present, China's economic growth has slowed down overall. Under the background that credit contraction has already put pressure on the economic outlook in 2014, this will lead to further weakening of China's growth momentum. This has a negative impact on the overall demand of the hardware and electrical industry.

Exchange rate reform: China's exchange rate reform began in 2005, and the exchange rate of RMB against the US dollar continued to rise in 2005-2007. However, affected by the 2008 US financial crisis, the RMB stopped appreciating. In 2010, the central bank restarted the exchange rate system, further promoted the reform of the RMB exchange rate formation mechanism and enhanced the flexibility of the RMB exchange rate. In 2012, the central bank increased the floating rate of inter-bank spot foreign exchange RMB against the US dollar from 0.5% to 1%. A series of moves by the central bank have caused the yuan to appreciate 34% against the dollar in eight years. On the one hand, the excessive appreciation of the Renminbi Yuan has led to a decline in export competitiveness. Enterprises have been forced to raise their export prices in order to maintain a certain profit, which will weaken their international competitiveness. On the other hand, they will also affect the economic benefits of import and export enterprises and increase foreign exchange risk.

Opportunity: None.

Threats: 1. The slowdown in economic growth has a negative impact on the hardware industry. 2. The continued appreciation of the RMB after the exchange reform has weakened the international competitiveness of hardware export enterprises. 3. The central bank's interest rate hike will increase the financing cost of enterprises and reduce profits.

Social factors

The change of the concept of consumption of hardware products: as a necessity of life, hardware products have always attracted consumers' attention with the characteristics of low price, good quality and practicality. In the past, consumers have paid more attention to product quality and price in the choice of hardware products. However, with the development of social economy, some hardware sub-industries, such as home cabinet hardware and daily-use bathroom hardware industry, are showing new trends under the new situation, and the corresponding products will present different characteristics. Consumers' preferences are also gradually A change has occurred. Affected by the national energy conservation and environmental protection regulations, as well as the frequent occurrence of haze weather, consumers have added green elements when choosing hardware products.

Opportunity: Consumers' transformation of the concept of purchasing hardware products is in line with the green transformation of hardware companies, which is a good development opportunity for such enterprises.

Threat: None.

Technical factors

The production and processing of the hardware industry is inseparable from the use of molds. In recent years, the application of fast economic molds has promoted the rapid development of the hardware industry. In the past, most of China's hardware companies still follow a number of old-fashioned roads, which are large and not strong, resulting in the lack of sustainable competitiveness of enterprises, facing increasingly specialized market demand and increasingly fierce competition. Many hardware companies that have developed rapidly in the early days feel that they are weak. With the rise of new technologies, hardware companies have realized the transformation of their development strategies through the implementation of new technologies such as rapid economic molds, and won by quality in order to gain a place in the rapidly changing market.

Opportunity: The replacement of traditional technology by fast economic molds will drive industry demand to continue to grow steadily.

Industry competition factors

The hardware industry is in the growth period of the industry life cycle, and the industry concentration is low. H Hardware Appliance Co., Ltd. pursues quality leadership and technology leadership strategy in the industry competition and has achieved great success.

(1) Analysis of industry life cycle and industrial concentration

Although the hardware industry has been developing in China for many years, it is still in the growth stage from the characteristics of the four stages of the industry life cycle. China is currently the world's largest hardware manufacturing country. In the international market, with the retreat of the global economic crisis, the export trend in the domestic market, building materials to the countryside and the state vigorously promote new urbanization construction pointed out new growth points. Towns and rural areas are expected to become sales hotspots for hardware products.

The current hardware production enterprises are basically private enterprises, mainly small and medium-sized enterprises, with low concentration, and the market share of leading enterprises has no absolute advantage. This small, multi-weak, weak and scattered enterprise structure has led to Chinese enterprises. In the international market, the added value of products is not high, the competitiveness is weak, and the economic benefits are poor.

(2) Porter's five-force model analysis

Using Porter's five-force model to further analyze the basic competitive situation of the industry in which H Hardware Appliances is located, H Hardware Appliances has more types of products, but mainly uses daily-use hardware, so it is in the daily hardware industry.

Supplier bargaining power: The upstream of the daily hardware industry is mainly aluminum, stainless steel and other raw material manufacturers. Compared with such enterprises, suppliers have strong bargaining power. The reason is that the overcapacity of steel products has caused prices to continue to fall, iron ore prices have been rising, and the profits of the steel industry have continued to fall. It is an indisputable fact that daily hardware companies have little room for bargaining on the upstream, on the other hand The prices of some raw materials are more open and transparent, and there are hard cost support, which further increases the difficulty for daily hardware companies to price their suppliers. Overall, the supplier has a strong bargaining power, and H Hardware Appliance Co., Ltd. is in a weak position in the game with upstream companies.

Buyers' bargaining power: From the perspective of production and sales, the downstream of the daily hardware industry is dominated by decorative companies, related accessory companies and furniture companies. As far as the upstream and downstream are concerned, the upstream has no absolute advantage in bargaining power, and the purchaser's price is affected by the size of the company. Generally speaking, the industries in which decorative companies, related accessory companies and furniture companies are located have lower barriers to entry, lower concentration and fierce competition. The market is dominated by small and medium-sized enterprises, with a small scale and weak price. At the beginning of the establishment of H Hardware Appliances Co., Ltd., it implemented a price priority strategy and quickly occupied some markets. In the further development process, it strengthened the improvement of product quality and product innovation. Its reputation is in a leading position among its peers. In short, in its downstream enterprises The game is in a relatively balanced position, but it is developing in a good direction.

The threat of new entrants: On the whole, the entry barriers for daily-use hardware are relatively low, and more than a dozen people can produce them. Therefore, more and more hardware manufacturers have emerged. These manufacturers are small in scale and low in mechanization. The quality of employees and production efficiency are relatively low, the homogenization of products is relatively serious, the business contracted is mainly OEM, and the profit is low; while the small and large-scale enterprises with strong scale carry out ODM and even some OBM production. . After ten years of development, H Hardware & Electric Appliance Co., Ltd. has formed its own brand. "VASE" has won the title of Guangdong Famous Brand. Its strength is currently in a leading position among similar SMEs, and new entrants have a lower threat to it.

The threat of substitutes: The daily use of hardware has a wide range of functions, covering all aspects of people's daily life. It has the advantages of being strong, durable, stainless, and beautiful. It has no prominent alternative threats in terms of materials and functions. The development of science and technology, the progress of the times and the improvement of people's consumption consciousness have promoted the development of daily-use hardware to a green, intelligent and new-style route. This is the direction of H Hardware Appliance Co., Ltd. For the moment, the company will not feel the threat of alternative products.

Competition level in the same industry: H Hardware & Electrical Co., Ltd. is a professional supplier of cabinet accessories, and has strong competitive strength in the field of cabinet accessories. The company is leading the

technology and first introduced the concept of “cabinet lamp” in China and put it into practice. At the same time, the company has also developed a new product with independent property rights – the afterburner. Compared with the same type of small and medium-sized enterprises, the company has embedded more technology and green elements in the production process, and the new Japanese hardware products such as trash cans, cabinet embedded rice boxes and cabinet lifts are gradually changing the purchase of consumers. Habits, the gap between the big and the competitors, currently enjoys high customer recognition and market reputation.

Evidences and Conclusion

One of the authors of this paper has a very close connection with the founder and top executive of the target firm of this study. With the in-depth communications about H Hardware’s business, we found that the results from the above PEST and Porter’s Five Forces analysis are consistent with what the firm’s top executives’ perception on the business of the firm. As these top executives have long time business experiences and have kept sharp senses on the market competition, we think that the top executive’s perception indirectly verifies the effectiveness of PEST and Porter’s Five Forces framework in the analysis of business environment.

Noticing that there has been increasing questionings about the effectiveness and realistic applicableness of Porter’s Five Forces, after Porter’s own consulting firm went bankrupt around 2010, due to this framework has contradictions with the settings of competitive market, we think our study verified, though indirectly, that Porter’s Five Forces framework is still useful, especially for SMEs such as H Hardware Co. Ltd. that does not have much capabilities to conduct complex strategic analysis.

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