



INDUSTRY AND COMPETITIVE ANALYSIS

Company Situation Analysis



Mission of the firm
first step

Mission Statement
Product/Service Scope Now: Future:
Customer Scope Now: Future:
End User/Consumer Scope Now: Future:
Channel Scope Now: Future:
Complementor Scope Now: Future:
Geographical Scope Now: Future:
Unique Competencies Now: Future:



What Is Situation Analysis?

- Two considerations
 - Company's **external or macro-environment**
 - Industry and competitive conditions
 - Company's **internal or micro-environment**
 - Competencies, capabilities, resource strengths and weaknesses, and competitiveness

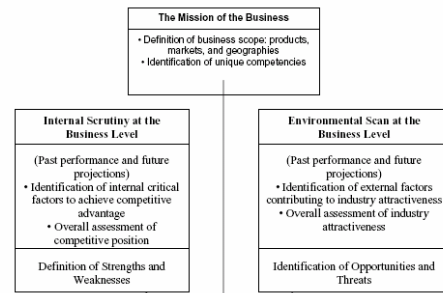
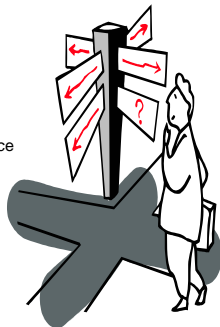


Figure 3.2: Strategic Thinking and Analysis Leads to Good Strategic Choices

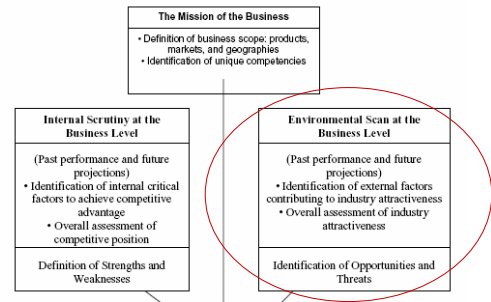
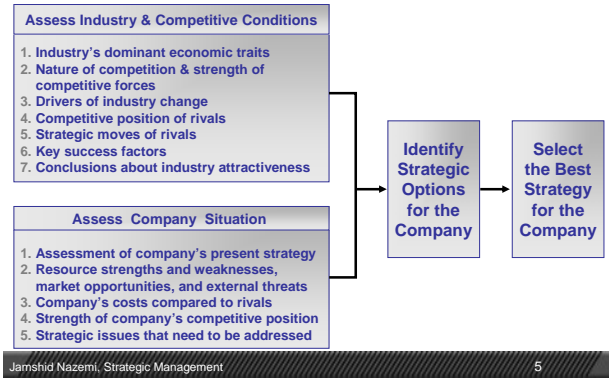
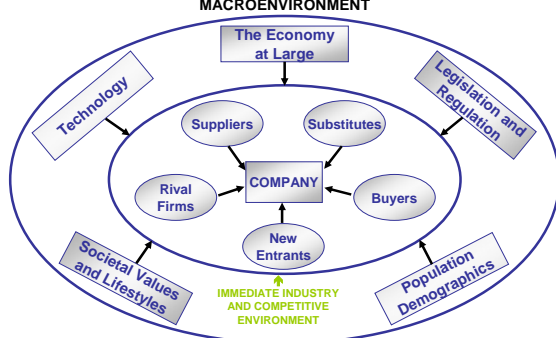
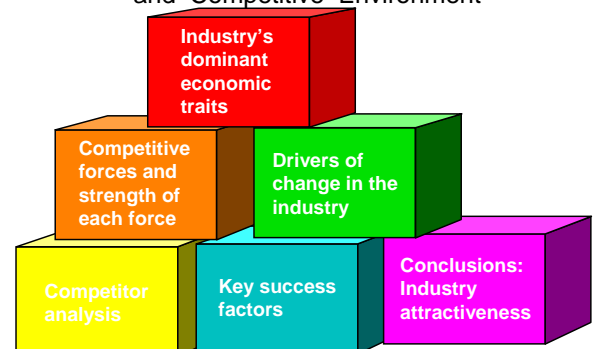


Figure 3.1: The Components of a Company's Macro-Environment



Key Considerations Regarding the Industry and Competitive Environment





Question 1: What are the Industry's Dominant Economic Traits?

- Market size and growth rate
- Scope of competitive rivalry
- Number of competitors and their relative sizes
- Prevalence of backward/forward integration
- Entry/exit barriers
- Nature and pace of technological change
- Product and customer characteristics
- Scale economies and experience curve effects
- Capacity utilization and resource requirements
- Industry profitability



Table 3.2: Relevance of Key Economic Features

Economic Feature	Strategic Importance
Market Size	Small markets don't tend to attract new firms; large markets attract firms looking to acquire rivals with established positions in attractive industries
Market growth rate	Fast growth breeds new entry; slow growth spawns increased rivalry & shake-out of weak rivals
Capacity surpluses/shortages	Surpluses push prices & profit margins down; shortages pull them up
Industry profitability	High-profit industries attract new entrants; depressed conditions lead to exit
Entry/exit barriers	High barriers protect positions and profits of existing firms; low barriers make existing firms vulnerable to entry
Product is big-ticket item for buyers	More buyers will shop for lowest price
Standard products	Buyers have more power because it's easier to switch from seller to seller
Rapid technological change	Raises risk; investments in technology facilities/equipment may become obsolete before they wear out
Capital requirements	Big requirements make investment decisions critical; timing becomes important; creates a barrier to entry and exit
Vertical integration	Raises capital requirements; often creates competitive & cost differences among fully vs. partially vs. non-integrated firms
Economies of scale	Increases volume & market share needed to be cost competitive
Rapid product innovation	Shortens product life cycle; increases risk because of opportunities for leapfrogging



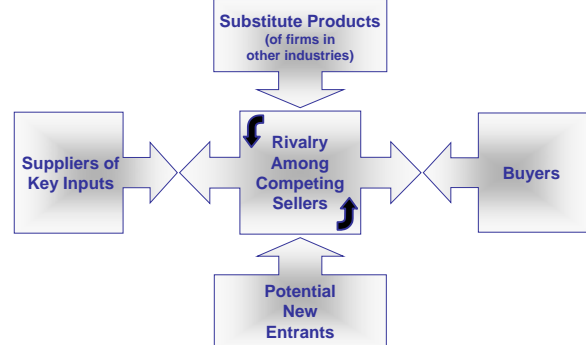
Question 2: What is Competition Like and How Strong Are the Competitive Forces?

Objective

- To identify
 - Main **sources** of competitive forces
 - **Strength** of these forces
- Key analytical tool
 - **Five Forces Model of Competition**



Figure 3-4: Five Forces Model of Competition





Analyzing the Five Competitive Forces: How to Do It

- Assess **strength** of each of the five competitive forces (Strong? Moderate? Weak?)
 - Rivalry among competitors
 - Competition from substitute products
 - Competitive threat from potential entrants
 - Bargaining power of suppliers and supplier-seller collaboration
 - Bargaining power of buyers and buyer-seller collaboration
- Explain how **each** force acts to create competitive pressure—**What are the factors that cause each force to be strong or weak?**
- Decide whether **overall competition (the combined effect of all five competitive forces)** is brutal, fierce, strong, normal/moderate, or weak



Rivalry Among Competing Sellers

- Usually the **most powerful** of the five forces
- The big factor determining the strength of rivalry is how actively and aggressively are rivals employing the various weapons of competition in jockeying for a stronger market position and seeking bigger sales
 - Is price competition vigorous?
 - Active efforts to improve quality?
 - Are rivals racing to offer better performance features?
 - Are rivals racing to offer better customer service?
 - Lots of advertising/sales promotions?
 - Active efforts to build a stronger dealer network?
 - Active product innovation?
 - Active use of other weapons of rivalry?



Common Barriers to Entry

- Sizable economies of scale
- Inability to gain access to specialized technology
- Existence of strong learning/experience curve effects
- Strong brand preferences and customer loyalty
- Large capital requirements and/or other specialized resource requirements
- Cost disadvantages independent of size
- Difficulties in gaining access to distribution channels
- Regulatory policies, tariffs, trade restrictions



Principle of Competitive Markets

Threat of entry is stronger when:

- Entry barriers are low
- Sizable pool of entry candidates exists
- Incumbents are unwilling or unable to contest a newcomer's entry efforts
- Newcomers can expect to earn attractive profits



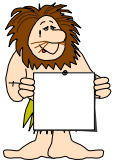
Competitive Force of Substitute Products

Concept

Substitutes matter when customers are attracted to the products of firms in **other industries**

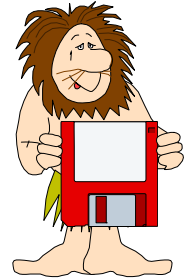
Examples

- Eyeglasses vs. Contact Lens
- Sugar vs. Artificial Sweeteners
- Newspapers vs. TV vs. Internet
- E-mail vs. Overnight Delivery



How to Tell Whether Substitute Products are a Strong Force

- Sales of substitutes are growing rapidly
- Producers of substitutes plan to add new capacity
- Profits of producers of substitutes are up



Principle of Competitive Markets

Competitive threat of **substitutes** is **stronger** when they are:

- Readily available
- Attractively priced
- Believed to have comparable or better performance features
- Customer switching costs are low



Competitive Pressures From Suppliers and Supplier-Seller Collaboration

- Whether supplier-seller relationships represent a **weak** or **strong** competitive force depends on
 - Whether suppliers can exercise sufficient bargaining leverage to influence terms of supply in their favor
 - Extent and competitive importance of collaborative partnerships between one or more sellers and their suppliers





Competitive Force of Suppliers

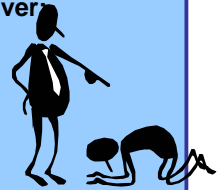
- Suppliers are a **strong** competitive force **when**:
 - Item makes up large portion of product costs, is crucial to production process, and/or significantly affects product quality
 - It is costly for buyers to switch suppliers
 - They have good reputations and growing demand
 - They can supply a component cheaper than industry members can make it themselves
 - They do not have to contend with substitutes
 - Buying firms are not important customers



Principle of Competitive Markets

Suppliers are a stronger force the more they can exercise power over:

- Prices charged
- Quality and performance of items supplied
- Reliability of deliveries



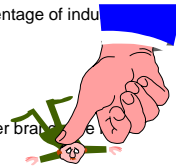
Competitive Pressures From Buyers and Seller-Buyer Collaboration

- Whether seller-buyer relationships represent a **weak** or **strong** competitive force depends on
 - Whether buyers have sufficient bargaining leverage to influence terms of sale in their favor
 - Extent and competitive importance of collaborative partnerships between one more sellers and their customers



Competitive Force of Buyers

- Buyers are a **strong** competitive force **when**:
 - They are large and purchase a sizable percentage of industry product
 - They buy in large quantities
 - They can integrate backward
 - Industry's product is standardized
 - Their costs in switching to substitutes or other brands are low
 - They can purchase from several sellers
 - Product purchased does not save buyer money





Principle of Competitive Markets

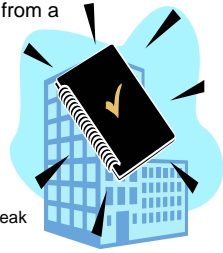
Buyers are a *stronger* competitive force the more they have leverage to bargain over:

- Price
- Quality
- Service
- Other terms and conditions of sale




Strategic Implications of the Five Competitive Forces

- Competitive environment is *ideal* from a profit-making standpoint when:
 - Rivalry is moderate
 - Entry barriers are high and no firm is likely to enter
 - Good substitutes do not exist
 - Suppliers and customers are in a weak bargaining position



Environmental Scanning

Definition

Monitoring and interpreting sweep of social, political, economic, ecological, and technological events to spot budding trends that could eventually impact industry

Purpose

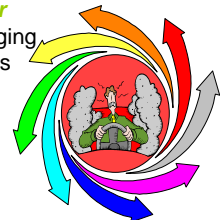
Raise consciousness of managers about potential developments that could

- Have important impact on industry conditions
- Pose new opportunities and threats



Question 3: What Forces Are at Work to Change Industry Conditions?

- Industries change because *forces* are *driving* industry participants to alter their actions
- *Driving forces* are the *major underlying causes* of changing industry and competitive conditions





Common Types of Driving Forces

- Internet and e-commerce opportunities
- Increasing globalization of industry
- Changes in long-term industry growth rate
- Changes in who buys the product and how they use it
- Product innovation
- Technological change/process innovation
- Marketing innovation



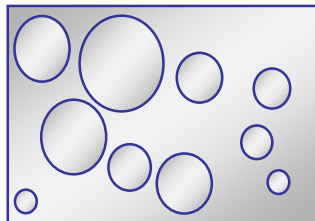
Common Types of Driving Forces

- Entry or exit of major firms
- Diffusion of technical knowledge
- Changes in cost and efficiency
- Market shift from standardized to differentiated products (or vice versa)
- Regulatory policies / government legislation
- Changing societal concerns, attitudes, and lifestyles
- Changes in degree of uncertainty and risk



Question 4: Which Companies are in Strongest / Weakest Positions?

- One technique for revealing the different competitive positions of industry rivals is **strategic group mapping**
- A **strategic group** consists of those rivals with similar competitive approaches in an industry



Strategic Group Mapping

- Firms in **same strategic group** have two or more competitive characteristics in common
 - Sell in same price/quality range
 - Cover same geographic areas
 - Be vertically integrated to same degree
 - Have comparable product line breadth
 - Emphasize same types of distribution channels
 - Offer buyers similar services
 - Use identical technological approaches

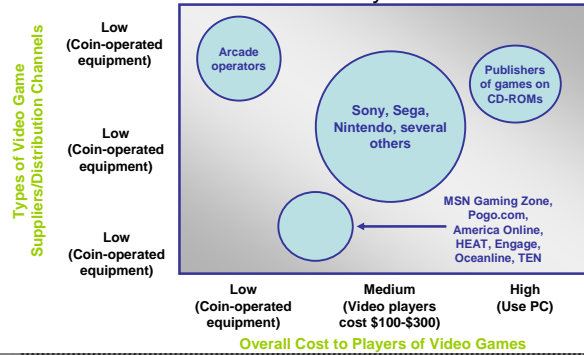


Procedure for Constructing a Strategic Group Map

- STEP 1:** Identify competitive characteristics that differentiate firms in an industry from one another
- STEP 2:** Plot firms on a two-variable map using pairs of these differentiating characteristics
- STEP 3:** Assign firms that fall in about the same strategy space to same strategic group
- STEP 4:** Draw circles around each group, making circles proportional to size of group's respective share of total industry sales



Example: Strategic Group Map of the Video Game Industry



Guidelines: Strategic Group Maps

- Variables selected as axes should **not** be highly correlated
- Variables chosen as axes should expose **big** differences in how rivals compete
- Variables do **not** have to be either quantitative or continuous
- Drawing sizes of circles proportional to combined sales of firms in each strategic group allows map to reflect relative sizes of each strategic group
- If more than two good competitive variables can be used, several maps can be drawn



Interpreting Strategic Group Maps

- Driving forces and competitive pressures often favor some strategic groups and hurt others
- Profit potential of different strategic groups varies due to strengths and weaknesses in each group's market position
- **The closer strategic groups are on map, the stronger the competitive rivalry among member firms tends to be**



Question 5: What Strategic Moves Are Rivals Likely to Make Next?

- A firm's own best strategic moves are affected by
 - Current strategies of competitors
 - Future actions of competitors
- Profiling key rivals involves gathering **competitive intelligence** about their
 - Current strategies
 - Most recent moves
 - Resource strengths and weaknesses
 - Announced plans



Competitor Analysis

- Successful strategists monitor &
 - Understand their strategies
 - Watch their actions
 - Evaluate their vulnerability to driving forces and competitive pressures
 - Size up their resource strengths and weaknesses and their capabilities
 - Try to anticipate rivals' next moves



Table 3.3: Categorizing Objectives and Strategies of Competitors

Competitive Scope	Strategic Intent	Market Share Objective	Competitive Position	Strategic Posture	Competitive Strategy
• Local	• Be dominant leader	• Aggressive expansion via acquisition & internal growth	• Getting stronger; on the move	• Mostly offensive	• Striving for low-cost leadership
• Regional	• Overtake industry leader	• Expansion via internal growth	• Well-entrenched	• Mostly defensive	• Focusing on market niche
• National	• Be among industry leaders	• Expansion via acquisition	• Stuck in the middle of the pack	• Combination of offensive & defensive	• Pursuing differentiation based on <ul style="list-style-type: none"> • Quality • Service • Technology superiority
• Multicountry	• Move into top 10	• Hold on to present share	• Going after a different position	• Aggressive risk-taker	• Breadth of product line
• Global	• Move up a notch in rankings	• Give up present share to achieve short-term profits	• Struggling; losing ground	• Conservative follower	• Image & reputation
	• Maintain current position	• Retrenching to a position that can be defended			• More value for the money
	• Just survive				• Other attributes



Predicting Moves of Rivals

- Predicting **rivals' next moves** involves
 - Analyzing their current competitive positions
 - Examining public pronouncements about what it will take to be successful in industry
 - Gathering information from grapevine about current activities and potential changes
 - Studying past actions and leadership
 - Determining who has flexibility to make major strategic changes and who is locked into pursuing same basic strategy



Question 6: What are the Key Factors for Competitive Success?

- Competitive elements most affecting **every industry member's** ability to prosper
 - Specific strategy elements
 - Product attributes
 - Resources
 - Competencies
 - Competitive capabilities
- **KSFs** spell the difference between
 - Profit and loss
 - Competitive success or failure



Identifying Industry Key Success Factors

- Answers to three questions pinpoint **KSFs**
 - On what basis do customers choose between competing brands of sellers?
 - What resources and competitive capabilities does a seller need to have to be competitively successful?
 - What does it take for sellers to achieve a sustainable competitive advantage?
- **KSFs** consist of the **3 - 5** really **major** determinants of financial and competitive success in an industry



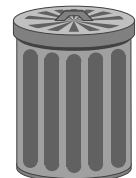
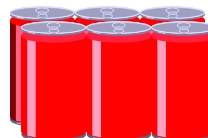
Table 3.3: Common Types of Key Success Factors

Technology-related	Scientific research expertise; Product innovation capability; Expertise in a given technology; Capability to use Internet to conduct various business activities
Manufacturing-related	Low-cost production efficiency; Quality of manufacture; High use of fixed assets; Low-cost plant locations; High labor productivity; Low-cost product design; Flexibility to make a range of products
Distribution-related	Strong network of wholesale distributors/dealers; Gaining ample space on retailer shelves; Having company-owned retail outlets; Low distribution costs; Fast delivery
Marketing-related	Fast, accurate technical assistance; Courteous customer service; Accurate filling of orders; Breadth of product line; Merchandising skills; Attractive styling; Customer guarantees; Clever advertising
Skills-related	Superior workforce talent; Quality control know-how; Design expertise; Expertise in a particular technology; Ability to develop innovative products; Ability to get new products to market quickly
Organizational capability	Superior information systems; Ability to respond quickly to shifting market conditions; Superior ability to employ Internet to conduct business; More experience & managerial know-how
Other types	Favorable image/reputation with buyers; Overall low-cost; Convenient locations; Pleasant, courteous employees; Access to financial capital; Patent protection



Example: KSFs for Tin and Aluminum Can Industry

- Locating plants close to end-use customers -- to keep costs of shipping empty cans low
- Ability to market plant output within economical shipping distances





Question 7: Is the Industry Attractive or Unattractive and Why?

Objective

Develop conclusions about whether the industry and competitive environment is *attractive* or *unattractive*, both near- and long-term, for earning good profits

Principle

A firm uniquely well-suited in an otherwise unattractive industry can, under certain circumstances, still earn unusually good profits



Things to Consider in Assessing Industry Attractiveness

- Industry's market size and growth potential
- Whether competitive conditions are conducive to rising/falling industry profitability
- Will competitive forces become stronger or weaker
- Whether industry will be favorably or unfavorably impacted by driving forces
- Potential for entry/exit of major firms
- Stability/dependability of demand
- Severity of problems facing industry
- Degree of risk and uncertainty in industry's future



Conducting an Industry and Competitive Situation Analysis

- Two things to keep in mind
 1. Evaluating industry and competitive conditions cannot be reduced to a formula-like exercise-- *thoughtful analysis is essential*
 2. Sweeping industry and competitive analyses need to be done every 1 to 3 years



SWOT

- Opportunities
 - Not every industry opportunity is a company opportunity
 - Offer avenues for profitable growth
 - Offer potential for competitive advantage
 - Match well with company's financial and organizational capabilities

Use environment analysis as SWOT evaluation



SWOT

• Threats

- Emergence of new products
- Emergence of new technologies
- Entry of new competitors
- New regulations
- Vulnerability to interest rate fluctuations
- Vulnerability to FX rate fluctuations
- Demographic shifts
- Political upheaval

Use environment analysis as SWOT evaluation



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
- Market Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
- Competitive Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
- Economic Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
• Government and Political Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
• Regulatory Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
• Technological Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
• Legal Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
• Social Factors		



IDENTIFICATION OF OPPORTUNITIES AND THREATS

Critical External Factors	Impact	
	Positive (Opportunities)	Negative (Threats)
• Environmental Factors		