Strategic Management: Concepts and Cases 9e

Part I: Strategic Management Inputs
Chapter 2: The External Environment: Opportunities, Threats, Industry Competition and Competitor Analysis
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● Overview:
  – General and industry environment
  – External environment analysis process activities
  – General environment segments
  – Porter’s 5 Competitive Forces
  – Strategic groups: Definition and influence
  – Competitor Analysis: Intelligence and ethics
External Environment: General, Industry and Competitor

- Three External Environments include:
  - General
  - Industry
  - Competitor
External Environment: General, Industry and Competitor (Cont’d)

• **The General Environment**
  - The broader society dimensions that influence an industry and the firms within it
  - Grouped into 7 dimensions OR ‘environmental segments’

• **Industry Environment**
  - Set of factors directly influencing
    - A firm’s competitive actions/responses
    - Relates to Porter’s 5 Forces
    - Competitor analysis: gather and interpret competitor information

• **Competitor Environment**
  - Gives details about
    - A firm’s direct and indirect competitors
    - The competitive dynamics expected to impact a firm's efforts to generate above-average returns
External Environment Analysis

• **Opportunity**
  – General environment condition that, if exploited, helps a company achieve strategic competitiveness

• **Threat**
  – General environment condition that may hinder a company's efforts to achieve strategic competitiveness

• **4 components of External Environment Analysis**
  – Scanning
  – Monitoring
  – Forecasting
  – Assessing
Industry Environment Analysis

• **Industry**
  – **Definition:** Group of firms producing products that are close substitutes
  – Industry environment, in comparison to the general environment, has more direct effect of firm’s
    • Strategic competitiveness and
    • Above-average returns
  – Intensity of industry competition and industry’s profit potential are a function of 5 forces
Industry Environment Analysis (Cont’d)

• Porter’s 5 Forces
  – 1/5: New entrants
    • Can threaten market share of existing competitors
    • May bring additional production capacity
    • Function of two factors
      – 1: Barriers to entry
        » Economies of scale
        » Product differentiation
        » Capital requirements
        » Switching costs
        » Access to distribution channels
        » Cost disadvantages independent of scale
        » Gov’t policy
      – 2: Expected retaliation
  – 2/5: Threat of substitute products
    • Goods or services outside of given industry perform same or similar functions at a competitive price (i.e., plastic has replaced steel in many applications)
Industry Environment Analysis (Cont’d)

• Porter’s 5 Forces
  
  – 3/5: Bargaining power of suppliers
    • They are powerful when ...
      – 1. Few large companies and more concentrated
      – 2. No substitutes
      – 3. Industry firms not significant customer to supplier
      – 4. Supplier’s goods are critical to buyer’s success
      – 5. High switching costs due to effectiveness of supplier’s products
      – 6. Threat of forward integration

  – 4/5: Bargaining power of buyers
    • They are powerful when ...
      – 1. Purchase large portion of industry’s total output
      – 2. Product sales accounts for significant seller annual revenue
      – 3. Low switching costs (to other industry product)
      – 4. Industry products are undifferentiated or standardized and threat of backward integration
Industry Environment Analysis (Cont’d)

• Porter’s 5 Forces
  – 5/5: Intensity of Rivalry Among Competitors
    • Numerous or equally balanced competitors
    • Slow industry growth
    • High fixed costs or high storage costs
    • Lack of differentiation or low switching costs
    • High strategic stakes
    • High exit barriers
Strategic Groups

- **Strategic Groups**
  - Set of firms emphasizing similar strategic dimensions to use a similar strategy

- **Implications**
  - Because firms within a group compete (offer similar products) rivalry can be intense – the greater the rivalry the greater the threat to each firm’s profitability
  - Strengths of the 5 forces differs across strategic groups
  - The closer the strategic groups, in terms of strategy, the greater the likelihood of rivalry
Competitor Analysis

- **Competitor analysis and organization response:**
  - What drives competitors
    - Shown by organization's future objectives
  - What the competitor is doing and can do
    - Revealed in organization's current strategy
  - What the competitor believes about the industry
    - Shown in organization's assumptions
  - What the competitor’s capabilities are
    - Shown by organization's strengths and weaknesses
Competitor Analysis Components

**Future Objectives**
- How do our goals compare with our competitors’ goals?
- Where will emphasis be placed in the future?
- What is the attitude toward risk?

**Current Strategy**
- How are we currently competing?
- Does their strategy support changes in the competitive structure?

**Assumptions**
- Do we assume the future will be volatile?
- Are we operating under a status quo?
- What assumptions do our competitors hold about the industry and themselves?

**Capabilities**
- What are our strengths and weaknesses?
- How do we rate compared to our competitors?

**Response**
- What will our competitors do in the future?
- Where do we hold an advantage over our competitors?
- How will this change our relationship with our competitors?
Competitor Analysis (Cont’d)

- **Competitor intelligence**
  - Set of data and information the firm gathers to better understand and anticipate competitors' objectives, strategies, assumptions, and capabilities

- **Follow ethical practices when gathering competitor intelligence**
  - Obtain public information
  - Attend trade fairs and shows and collect brochures, view exhibits, listen to their discussions

- **Some practices may be legal, but unethical**

- **Unethical tactics can include**
  - Blackmail
  - Trespassing
  - Eavesdropping
  - Stealing drawings, samples or documents