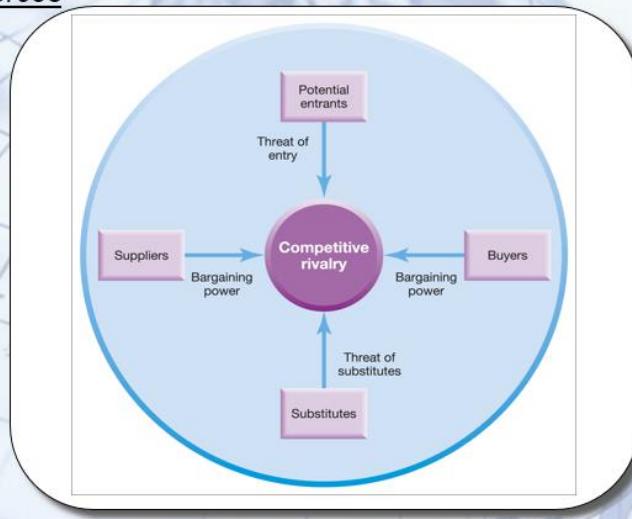


# Managing Industry Competition

**I/O (industrial organisation) economics paradigm** - Industry structure determines strategy and firm performance (Structure-Conduct-Performance)

## **Five forces model**

The Five Forces Framework



The focal firm's performance critically depends on the degree of competitiveness of the five forces within an industry

The stronger and more competitive these forces are, the less likely the focal firm is able to earn above-average return, and vice versa

- Rivalry among competitors...
- Threat of potential entry...
- Bargaining power of suppliers...
- Bargaining power of buyers...
- Threat of substitutes...

Not all industries are equal in terms of their potential profitability

The task for strategists is to assess the opportunities (O) and threats (T) underlying each competitive force affecting an industry, and then estimate the likely profit potential of the industry

Also look at type of industry eg.

- Monopolistic industry?
- Oligopolistic/Duopolistic?
- Hypercompetitive industry?
- Perfectly competitive industry?

**The Three Generic Competitive Strategies** – used to respond to the five forces (external environmental factors)

	PRODUCT DIFFERENTIATION	MARKET SEGMENTATION	KEY FUNCTIONAL AREAS
Cost Leadership	Low (mainly by price)	Low (mass market)	Manufacturing, services, and logistics
Differentiation	High (mainly by uniqueness)	High (many market segments)	R&D, marketing, and sales
Focus	Extremely high	Low (one of a few segments)	R&D, marketing, and sales

### Cost leadership

- Firm's theory about how to compete successfully centers on low costs and low prices
- Offer better value to customers
- Target average customers for mass market - little differentiation
- Key functional areas are manufacturing and materials management
- High volume, low margin approach
- Defense against five forces
- Relentless drive to cut costs might compromise value that customers desire

### Differentiation:

- Deliver products that customers perceive to be valuable and different
- Target customers in smaller, well-defined segments who are willing to pay premium prices
- Low volume, high margin approach
- Must have unique attributes (actual or perceived) - quality, sophistication, prestige, or luxury
- Challenge - identify attributes that are valued by customers in each market segment
- Key functional areas are research and development (source of innovation), marketing/sales, and after-sale services
- Defense against five forces
- Drawbacks
  - Difficult to sustain differentiation in the long run
  - Relentless efforts of competitors to duplicate differentiation

### Focus Strategy:

- Serving the needs of a particular segment or niche of an industry such as a geographical market, type of customer, or product line
- A specialized differentiator has a smaller, narrower, and sharper focus than a large differentiator
- A specialized cost leader deals with a narrower segment compared with the traditional cost leader
- Focusing may be successful when a firm possesses intimate knowledge about a particular segment
- The essence of the three strategic choices:
  - Whether to perform activities differently or to perform different activities relative to competitors
- There are two fundamental strategic dimensions: *cost* and *differentiation*
  - The key is to choose one dimension and execute on it consistently