## Week 1: Introduction to Strategy

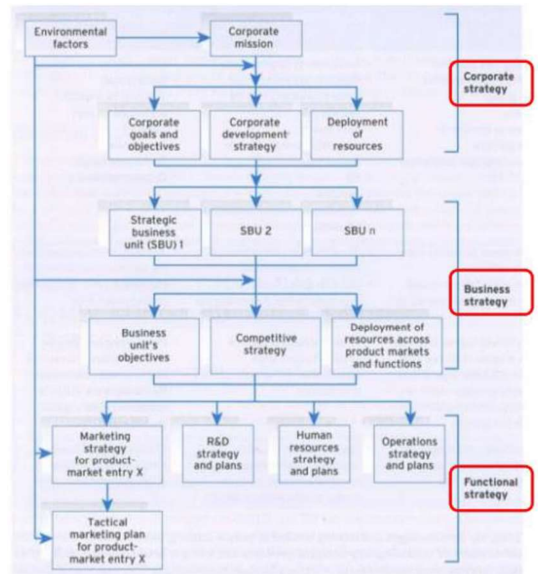
*WHAT IS STRATEGY?*

**Strategy:** a fundamental pattern of present and planned: objectives, resource deployments, and interactions of an organisation with markets, competitors, and other environmental factors.

- Specifies where businesses want to go and how they want to get there.

*WHAT ARE THE ELEMENTS OF STRATEGY?*

1. **Scope**
2. **Goals and objectives**
3. **Resource deployment**
4. **Identification of sustainable competitive advantage**
5. **Synergy:** synergy exists when the business' business, product markets, resource deployment and competencies complement and reinforce each other.




*HIERARCHY OF STRATEGY*

1. **Corporate strategy:**
   - Determines which businesses/industries the corporate should be in
   - Gives insights on how to gain advantage from managing a set of businesses
2. **Business-level strategy:**
   - Looks at how a business unit competes within its industry
   - Covers how to gain and sustain competitive advantage for a single line of business
3. **Functional strategy; marketing strategy**:

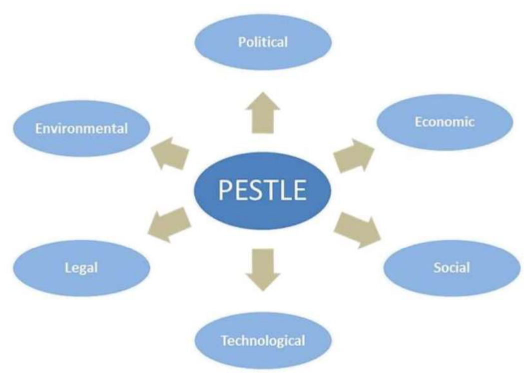
*For small organisations, strategic business-units might just be the entire company and therefore, the corporate level and business level strategy levels merge.*

## Week 2: Context/Industry Analysis

*MACRO ENVIRONMENTAL FORCES*

The **macro environment**:

- Business environmental conditions that affect the market and industry as a whole
- External and largely uncontrollable forces or conditions that influence and organisation's decision making, and affect its performance and strategies
- Larger distant societal forces as opposed to actors close to the company




*PESTLE MODEL*

Covers the different macro environmental factors.

**Political factors:** the factors that determine the extent to which a government may influence the economy or a certain industry.

**Economic factors:** the determinants of an economy's performance that directly impacts a company and have resonating long term effects.

**Social factors:** the factors that shape the social and cultural environment of the market.

**Technological factors:** innovations in technology that may affect the operations of the industry and the market.

**Legal factors:** the laws that affect the business environment and the policies that companies maintain for themselves.

**Environmental factors:** the factors that influence or are determined by the surrounding natural environment.

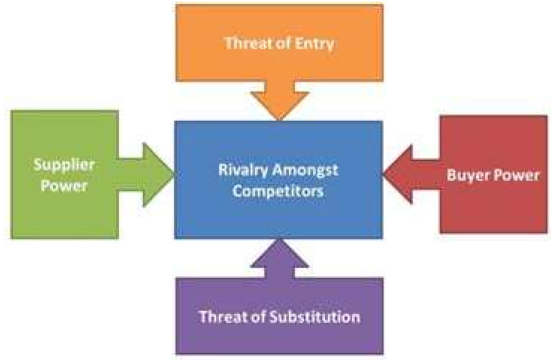
- Waste disposal
- Energy consumption

When looking at the PESTLE model, it is important to discuss the macro environmental forces and its relevant impacts on the core business.

- How does the trend affect the business?
- What are the strategic implications derived from these trends?

*PORTER'S FIVE FORCES*

Porter's five competitive forces collectively determine an industry's long-term attractiveness.




*Rivalry among existing competitors*

**Rivalry is strong when:**

- There is a high investment intensity
- There are numerous competitors of equal size and capacity
- There is little product differentiation
- It's easy for customers to switch from one seller's products to those of others
- Buyer demand is growing slowly or declining
- There is excess supply or unused production capacity
- High exit barriers keep unprofitable firms from leaving the industry

The greater the competitive rivalry in an industry, the less attractive it is to current players or would-be entrants.

*Threat of new entrants (competitors)*

**Threat of new entrants depend on:**

- Expected reaction of incumbent firms to new entry
- Barriers to entry

**Entry barriers**

- Cost advantages enjoyed by industry incumbents (economies of scale)
- Strong brand preferences and high degrees of customer loyalty
- Strong "network effects" in customer demand
- High capital requirements
- The difficulties in building a network of distributors or dealers and securing adequate space on retailer's shelves
- Restrictive government policies

The easier it is to enter an industry, the less profitable that the industry is likely to be for the **existing players.**

If there are high barriers to entry, or if any potential new entrant can expect sharp retaliation from the existing competitors, **new players** will be less likely to want to participate.

*Power of suppliers*

**Suppliers' bargaining power is strong if:**

- Demand for supplier's products is high and they are short in supply
- Suppliers provide a differentiated input that enhances the performance of the industry's product
- It is difficult or costly for industry members to switch their purchases from one supplier to another
- The supplier industry is dominated by a few large companies -> more concentrated than the industry it sells to
- Suppliers provide an item that accounts for a sizable fraction of the costs of the industry's product
- Industry members are not major customers of suppliers
- There are no good substitutes available for the supplier's products
- Forward integration is easy for suppliers: a form of vertical integration that involves the purchase or control of distributors (suppliers just sell the products themselves)

The greater the bargaining powers of the key suppliers to an industry, the lower the overall attractiveness of the industry.

*Bargaining power of buyers*

Identify the different customer segments (manufacturers, service providers)

**Buyer's bargaining power is strong if:**

- Buyer demands is weak in relation to industry supply
- Industry goods are standardised or differentiation is weak
- Buyers' cost of switching to competing brands or substitutes are low
- Buyers are large and highly concentrated
- Backward integration is easy: a form of vertical integration that involves the purchase or control of suppliers (buyers make it themselves)
- Buyers have the ability to postpone purchases
- Buyers are price-sensitive
  - Buyer earn low profits or low income
  - Produce represents significant fraction of cost structure or procurement budget
  - Product quality/performance is not a critical consideration

The <u>greater the power of high-volume customers, the less attractive the industry will be</u>.

*Threat of substitute*

**Threat from substitutes is strong when:**

- Good substitutes are readily available and attractively priced.
- Substitutes have comparable or better performance features.
- Buyers have low costs in switching to substitutes.

**Signs that competition from substitutes is strong:**

- Sales of substitutes are growing faster than sales of the industry.
- Producers of substitutes are moving to add new capacity.
- Profits of the producers of substitutes are on the rise.

The <u>higher the threat of substitutes, the less attractive the industry will be.</u>

The strongest competitive forces determine the extent of the competitive pressure on industry profitability.

An industry is attractive when the overall impact of the five forces is moderate to weak – attractive to an average industry member more specifically.

When looking at Porter's Five Forces, remember to give a **clear conclusion** on each force.

- Is the force strong, moderate or weak?
- Is the strength of the force **changing?**
- Clear conclusions must be supported through a discussion of the **main drivers** (discuss drivers which are most relevant: between 2 – 3)

Also provide an overall conclusion/assessment of the attractiveness of the industry.

- Is it attractive or not?
- What are the strongest forces?
- What might the competition do for the business?

It is good to look at how the model impacts upon both existing businesses and new entrants.

- Will the industry be attractive for both existing and new players?

**Template for Porter's Five Forces**

Definition of the industry:

- Size (Volume, Sales in dollars)
- Growth (%)

| Force | Participants *(name them)* | Strength *(High, med, low?)* | Is it changing? *(Increasing, stays the same, decreasing)* | Evidence from case study | Impact on the industry |
|---|---|---|---|---|---|
| Threat of Substitutes | | | | | |
| Threat of New Entrants | | | | | |
| Industry Rivalry | | | | | |
| Power of Suppliers | | | | | |
| Power of Buyers | | | | | |