

Notes from Reading → “Exploring Corporate Strategy” - Johnson, Gerry

- **PESTLE: Political, Economic, Social, Technological, Legal, Environmental**
 - ↳ Provides broad data from which the *key drivers of change* are identified
 - These allow *scenarios* to be constructed, which consider how strategies might need to change depending on the the business environment may change
 - ↳ Political: the role of governments
 - ↳ Economic: macroeconomic factors (eg. ER, business cycles, growth rates)
 - ↳ Social: changing cultures and demographics (eg. ageing pop)
 - ↳ Technological: innovations in IT (eg. internet, nanotechnology, new composites)
 - ↳ Legal: legislative constraints or changes (eg. restriction on mergers and acquisitions)
 - ↳ Environmental: ‘green’ issues (eg. pollution, waste)
- **Key drivers of change:** high-impact factors likely to significantly affect the success or failure of a strategy → often vary by industry or sector
 - ↳ Help managers to focus on the main aspects of PESTLE that impact their business
- **Scenarios:** detailed and plausible views of how the business environment of an organisation might develop in the future based on key drivers for change, about which there is uncertainty
 - ↳ Typically start from the key drivers with the most uncertainty
 - ↳ Don’t try to ‘predict the future’, merely give managers an idea of how forces interact
 - ↳ Don’t allocate relative probabilities of scenarios as it would limit debate and learning
- **Industry:** a group of firms producing the same principle product or service
- Porter’s Five Forces Framework → wants these forces to all be as low as possible
 - ↳ *Threat of entry:* possibility of other firms entering and increasing competition
 - Low threat of entry is good → often due to high barriers of entry
 - > eg. Scale and experience (economies of scale, experienced efficiency),
 - Access to supply/distribution channels (loyalty, vertical integration),
 - Expected retaliation (eg. incumbents start price war, marketing blitz),
 - Legislation or gov. action (regulation, tariffs, patent protection),
 - Differentiation (providing G/S with higher perceived value - cars)
 - ↳ *Threat of substitutes:* impact of G/S that offer similar benefits by a different process
 - Price-performance ratio: if performance advantages are great, can be dearer
 - Extra-industry effects: consider more distant threats and constraints
 - ↳ *Power of buyers:* bargaining power of consumers (or retailers from suppliers)
 - Buyer power can be high (bad for firms) when
 - > Concentrated buyers: few, large buyers OR high % of buyer purchase
 - > Low switching costs: buyers can easily switch between suppliers

- > Buyer competition threat: ease of backward vertical integration
 - ↳ *Power of suppliers*: capacity of those who supply G/S to influence price/quantity
 - Supplier power can be high (bad for firms) when
 - > Concentrated suppliers: few, large producers dominate supply
 - > High switching cost: expensive to switch creates dependence
 - > Supplier competition threat: ease of forward vertical integration
 - ↳ *Extent of rivalry*: how strong intra-industry competition is (greater = worse for firms)
 - Competitor balance: if most firms equal size and 1 tries to dominate = bad
 - Industry growth rate: if low industry growth, firm growth at expense of rival
 - High fixed costs: high FC → aim to lower AC by ↑ volumes → oversupply
 - High exit barriers: incumbents fight for market share to avoid closure
 - Low differentiation: little to stop customers from switching producers
- **Industry life cycle**: Industries often start small, develop rapidly to a ‘shake out’, then slow
 - ↳ *Development stage* - few players, little direct rivalry → 5 forces are often weak
 - ↳ *Growth stage* - low rivalry, plenty of market opportunity, but low barriers to entry
 - ↳ *Shake-out stage* - growth rate slows, increased rivalry forces out weakest entrants
 - ↳ *Maturity stage* - ↑ entry barriers, eco of scale & experience impact, key = market share
 - ↳ *Decline stage* - high exit barriers, extreme rivalry
- **Hypercompetitive cycles**: sequences of moves and counter-moves (eg. ‘price-wars’, innovations, marketing booms) between competitors in an industry
 - ↳ Industry structures are not always ‘natural’, but are shaped by strategies of firms
- **Strategic groups**: organisations within an industry or sector with similar strategic characteristics, following similar strategies or competing on similar bases
 - ↳ Strategic groups are characterised through 2 main categories
 - Scope (eg. product range, geographical coverage, distribution channels)
 - Resource commitment (eg. brands, marketing, extent of vertical integration)
 - ↳ To map strategic groups, compare industry top performers and bottom performers
 - ↳ Strategic group concept allows managers to *understand competition, analyse strategic opportunities, analyse mobility barriers*
- **Market segment**: a group of customers who have similar needs that are different from customer needs in other parts of the market
 - ↳ These provide managers with information on several important issues
 - Customer needs → which customers needs should be prioritised
 - Relative market share → where the firm dominates the market
- **Strategic consumer**: the person at whom business strategies are primarily addressed because they have the most influence over which G/S is purchased
- **Critical success factors**: those product features that are particularly valued by a group of customers and, therefore, where the organisation must excel to outperform competition
- **Strategic gap**: an opportunity in the competitive environment that is not fully exploited

- “Blue ocean” strategies = low rivalry, “red ocean” strategies = high rivalry
- Main Opportunities
 - ↳ *Opportunities in substitute industries*: judge relative merits in eyes of consumer
 - ↳ *Opportunities in other strategic groups*: judge value of new/unrelated strategic groups
 - ↳ *Opportunities in targeting buyers*: target neglected strategic consumers/influences
 - ↳ *Opportunities in new market segments*: BUT may require change in products/services
 - ↳ *Opportunities over time*: look to future and try to predict/identify new market space

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Lecture 3

- The macro-environment is the highest level layer, factors identified in this layer impact ALL organisations to some degree
- The Competitors is the layer closest to the organisation, within an industry or sector, some organisations will be competing closer than others
- PESTLE is a macro-environment analysis, not an industry or segment analysis, not internal analysis, large scope of info to cover, some shocks are hard to anticipate
- PESTLE example: Nintendo in context of USA
 - Political: Current US is engaging in a marked shift in international relations
 - ↳ President Trump reducing ties with Japan, not signing TPP (Economic?)
 - Economic: Disposable incomes in US are rising so people’s discretionary Y are ↑
 - Social: People are interacting more and more through technology, people are spending decreasing amounts of time on ‘leisure’
 - Technological: There is a potential upper limit as to how effectively data can be processed → Moore’s law less applicable in near future
 - Legal: More groups and states are considering the introduction of paid leave (sick leave, maternity leave) and paid overtime - will lead to ↓ labour productivity
 - Environmental: legislation to limit waste dumping, recycled electronics sent to China
- The Industry is constituted of all organisations that produce the same products or services
- Define industry boundaries by
 - Identifying the relevant market
 - Identifying the substitutability on the demand side
 - Identifying the geographical boundaries that MAY apply