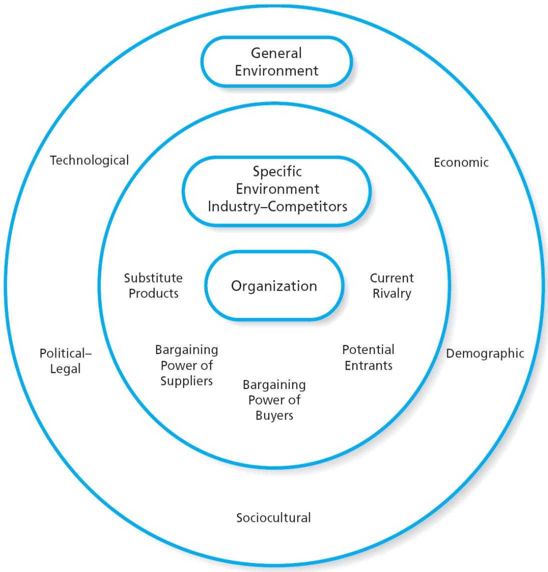
Formulating Strategy: Looking Outside

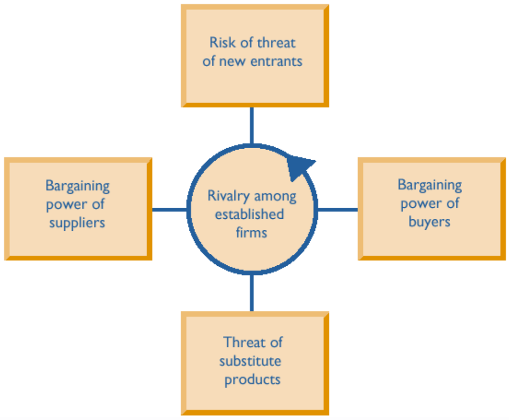


External environment:

Reading the external environment: **scanning, monitoring, forecasting and assessing**

- *Competitive Intelligence Is …*
    - **Information** that has been analysed to the point where you can make a decision.
    - **A tool** to alert management to early recognition of both threats and opportunities.
    - **A means to deliver reasonable assessments**.
    - **A process**

The five forces model



To succeed a company must fit its strategy to the industry's environment in which it operates or must be able to shape the industry's environment to formulate and implement strategies to its advantage through its chosen strategy

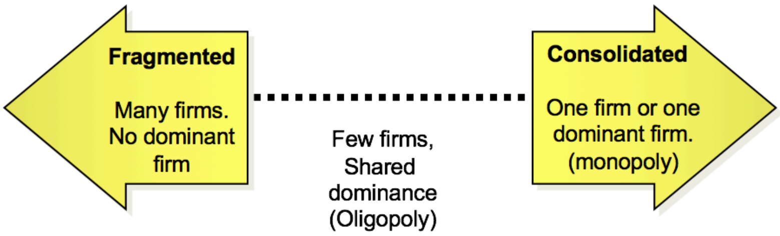
Threat of new entrants: barriers to entry

- Economies of Scale
- Product Differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale
- Government Regulation

The bargaining power of buyers:

- A buyer group is powerful if:
    - They purchase a large portion of the industry's output
    - The sales of the product being purchased account for a significant portion of the seller's annual revenues.
    - They could switch to another product at little, if any, cost.
    - The industry's products are undifferentiated or standardised
    - Buyers can integrate backwards
- A supplier group is powerful if:
    - When there are few suppliers as opposed to buyers
    - Satisfactory substitute products are not available
    - When industry firms are not a significant customer for supplier groups
    - Supplier's goods are critical to buyers' market place success
    - When differentiation makes it costly for buyers to switch suppliers – they can't pay one supplier off against another.
    - The supplier group poses a credible threat of forward integration

Rivalry amongst established companies:

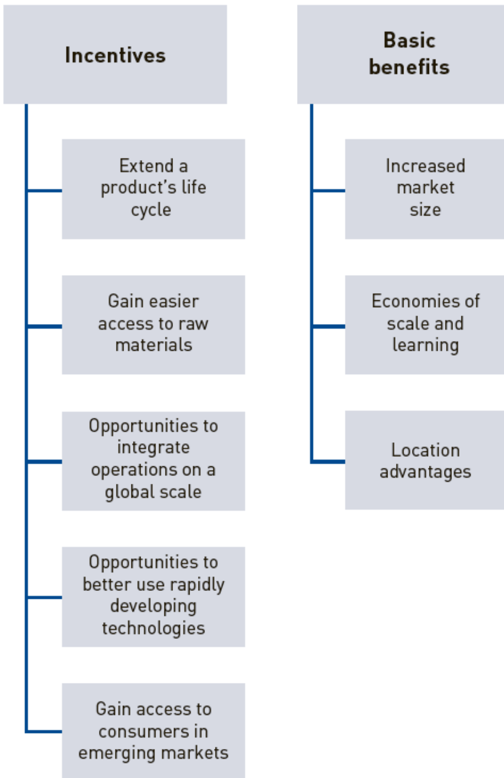


The five forces model:
- Barriers to entry
- Existence of substitutes
- Bargaining power of buyers
- Bargaining power of suppliers
- Intensity of competition

→ Complementors (the sixth force)

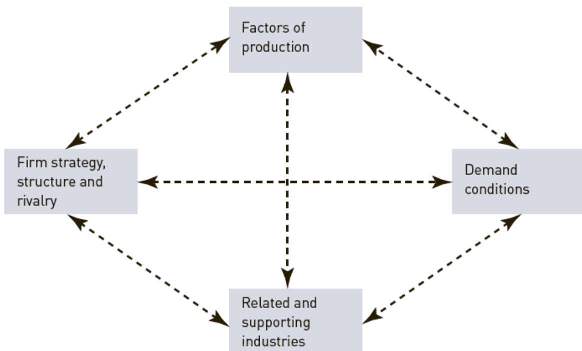
Strategic groups within industries
- Two unassailable assumptions in industry analysis
  - No two firms are totally different
  - No two firms are exactly the same
- *Strategic groups:* Organisations' in a strategic group occupy similar positions in the market, offer similar goods to similar customers and may also make similar choices about production technology and other organisational features.
- Additional analytical tool

Globalisation of Markets
- Result of:
  - Reductions in multilateral and regional trade barriers
  - Reduced costs of international transport and communications
  - Reform and greater integration of capital markets
- Consequences:
  - Widespread industry rationalisation
  - Heightened competition at national, regional and global levels
  - Increases both cross-border mergers and acquisitions
  - Increases in number of multi-national firms



Why expand internationally?
- Provide opportunities for competitive advantage through:
  - Fully capturing of economies of scale and experience curve effects
  - Optimising the physical location for every activity in the value chain
  - Transferring competitively valuable resources from one business to another and/or from one country to another
  - Leveraging use of a competitively powerful brand name

Porters diamond of competitive advantage



Business Level Strategies

Business-level strategy is an integrated and coordinated set of commitments and actions the firm uses **to gain competitive advantage by exploiting core competencies in specific product markets**

Competitive advantage
- Managing strategically is about getting and keeping CA
- CA is what sets an organisation apart
- Competitive strategies are designed to exploit CA
- CA implies other competitors
- CA can be eroded easily and quickly by competitors

Classifying industries and strategies
- **Emerging**: wide latitude, low cost, differentiation or focus when resources and capabilities are limited
- **Growth:** maximising gains in revenue that exceed market average, driving down costs and attracting lots of new customers, pursing innovation, gaining additional distribution channels or sales outlets and expanding geographic coverage
- **Shakeout**
- **Mature**: pruning marginal products and models, improving value chain efficiency acquiring rivals and expanding internationally
- **Declining**: stress differentiation based on quality improvement and product innovation and strive to drive down costs

Porter's generic strategies
- Cost leadership
    - Offers products or services with: acceptable quality and features, to a broad set of customers, at a low price - not necessarily lowest price, no-frills, standardised products aimed at the 'typical' or 'average' customer
    - Focuses on driving costs lower, relative to competitors' costs
        - Lowest costs in the industry
        - Efficiencies/economies of scale
        - High volume/low margin
    - Approach one: Controlling cost drivers: economies of scale, learning and experience curve effects, efficiency, costs of key inputs, etc.
    - Approach two: Revamping the value chain
        - Simplify product design
        - Offer basic, no-frills product/service
        - Shift to a simpler, less capital-intensive, or more flexible technological process
    - How: firms can use international sales to exploit economies of scale, operate facilities around the world to gain access to low-cost labour and operate internationally to gain access to low cost raw materials
    - Advantages:
        - Earn profits while charging low prices
        - Better positioned to face competitive rivalry on price (price wars)
    - Disadvantages:
        - Too much focus on one or a few value chain activities
        - Low cost methods are easily imitated by rivals
        - Lack of parity on differentiation – no point being low cost if product not valued
        - Becoming too fixated on reducing costs and ignoring:
            - Buyer interest in additional features
            - Declining buyer sensitivity to price

- Differentiation
  - Objective: incorporate differentiating features that cause buyers to prefer firm's product or service over brands of rivals
  - Key to success: Find ways to differentiate that ***create value*** for buyers and that are ***not easily matched*** or ***cheaply copied*** by rivals. Not spending more to achieve differentiation than the price premium that can be charged
  - **Most appealing approaches to differentiation**
    - Those hardest for rivals to match or imitate
    - Those buyers will find most appealing
  - **Best choices for gaining a *longer-lasting, more profitable* competitive edge**
    - New product innovation
    - Technical superiority
    - Product quality and reliability
    - Comprehensive customer service
    - Unique competitive capabilities (e.g., Dealer Network)
    - Speed
  - Ways to differentiate
    - Attributes of products or services: product features, product complexity, timing of product introduction, location
    - Relationships with customers: product customisation, consumer marketing, product reputation
    - Linkages within or between firms: product mix, distribution channels and service
  - When does a differentiation strategy work best?
    - Buyer needs and uses are diverse
    - Few rivals are following a similar differentiation approach
    - Technological change and product innovation are fast-paced
  - Risks of differentiation strategies
    - Trying to differentiate on a feature that buyers do not perceive as lowering their cost or enhancing their well-being
    - Over-differentiating such that product features exceed buyers' needs
    - Charging a price premium that buyers perceive is too high
    - Dilution of brand identification through product-line extension
    - Not understanding what buyers want or prefer and differentiating on the "wrong" things
- Focus
  - ***Concentrated*** attention on a ***narrow*** piece of the total market
  - Serve niche buyers ***better*** than rivals
  - Focused cost leadership or focused differentiation
  - Opportunities may exist because:
    - Large companies may overlook small niches
    - Company may lack resources to compete industry-wide
    - May be able to serve a narrow market segment more effectively than industry wide competitors
    - Focus to direct resources to certain value chain activities to build competitive advantage
    - Minimise R&D costs by copying innovators
  - What makes a niche attractive for focusing?
    - Big enough to be profitable and offers good growth potential
    - Not crucial to success of industry leaders
    - Costly or difficult for multi-segment competitors to meet specialised needs of niche members
    - Focuser has resources and capabilities to effectively serve an attractive niche
    - Few other rivals are specialising in same niche

- Implementing a focus or niche strategy
  - Choose a market niche where buyers have distinctive preferences, special requirements, or unique needs and where buyers are less vulnerable to substitutes
  - Develop unique capabilities to serve needs of target buyer segment
  - Expand and protect the niche e.g. Nike new niches – cycling, walking, hiking etc.
- Risks of a focus strategy
  - Competitors may find effective ways to match a focuser's capabilities in serving the niche, successfully focusing on an even smaller segment or on the most profitable slice of the focuser's chosen segment
  - Niche buyers' preferences shift towards product attributes desired by majority of buyers - niche becomes part of overall market
  - Segment becomes so attractive it becomes crowded with rivals, causing segment profits to be splintered (multiple niching)

- Best-cost-provider strategies
  - Combine a strategic emphasis on ***low-cost*** with a strategic emphasis on ***differentiation***
  - Objectives:
    - Deliver superior value by ***meeting or exceeding*** buyer expectations on product attributes and ***beating*** their price expectations
    - Be the low-cost provider of a product with ***good-to-excellent*** product attributes, then use cost advantage to ***under-price*** comparable brands
  - Risks:
    - A ***best-cost provider*** may get ***squeezed*** between strategies of firms using ***low-cost*** and ***differentiation*** strategies
    - Low-cost leaders may be able to siphon customers away with a ***lower price***
    - High-end differentiators may be able to steal customers away with ***better product attributes***
    - ***Underestimating the challenges and expenses*** associated with coordinating and creating value in the extended value chain

All of these models:
- Share failure to take into account the conditions of the individual firm
- Assume organisation perfectly malleable
- Assume that a single strategic direction is enough
- Strong assumptions about unity of organisation and ability to control