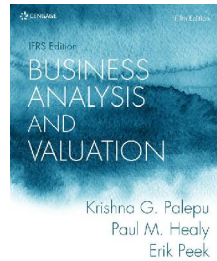


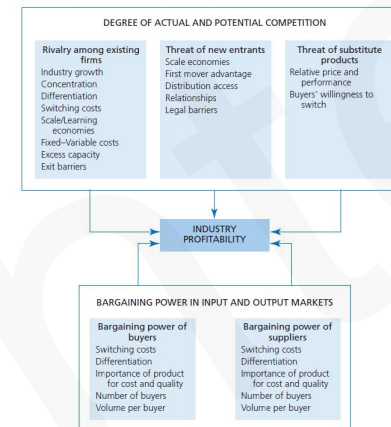
## Strategy Analysis

### Chapter 2



## INDUSTRY STRUCTURE AND PROFITABILITY

FIGURE 2.1 Industry structure and profitability



## COMPETITIVE FORCE 1: RIVALRY AMONG EXISTING FIRMS

- Higher degrees of competition among firms:
  - Push prices towards the marginal cost of production.
  - Make non-price dimensions of products or services more important.
- Determinants of the intensity of competition among firms:
  - Industry growth rate.
  - Concentration and balance of competitors.

## RIVALRY AMONG EXISTING FIRMS, CONTINUED

- Determinants of the intensity of competition among firms:
  - Degree of differentiation in products and services and switching costs.
  - Scale/Learning economies and ratio of fixed to variable costs.
  - Excess capacity and exit barriers.



## COMPETITIVE FORCE 2: THREAT OF NEW ENTRANTS

- The ease with which a new firm can enter an industry will affect the profitability of other firms within the industry.
- Factors affecting the barriers to entry are:
  - Economies of scale
  - First mover advantage
  - Relationships with suppliers and customers
  - Legal barriers



## COMPETITIVE FORCE 3: THREAT OF SUBSTITUTE PRODUCTS

- The degree to which substitute products or services exist affects the industry's bargaining power with suppliers and customers, and ultimately profitability.
- The degree to which substitutes exist depends upon the relative price and performance of competing products or services, and the willingness of customers to accept substitutes.



## COMPETITIVE FORCE 4: BARGAINING POWER OF BUYERS

- Buyer bargaining power can exert downward pressure on prices.
- Factors that can affect this bargaining power are:
  - Buyer price sensitivity to product or service
  - Relative bargaining power of buyers



## COMPETITIVE FORCE 5: BARGAINING POWER OF SUPPLIERS

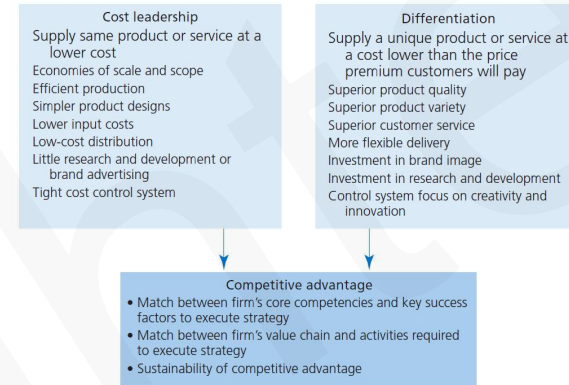
- A mirror image of the bargaining power of buyers.
  - Suppliers have bargaining power when there are few substitutes and/or few suppliers relative to the number of customers demanding a product or service.

## COMPETITIVE STRATEGY ANALYSIS

- Individual firms must choose appropriate strategies to succeed within their industry segment.
- Two basic competitive strategies are:
  - Cost leadership
  - Product / service differentiation
- Figure 2.3 conveniently summarizes aspects of cost leadership and differentiation.

## STRATEGIES FOR CREATING COMPETITIVE ADVANTAGE

FIGURE 2.3 Strategies for creating competitive advantage



## ACHIEVING AND SUSTAINING COMPETITIVE ADVANTAGE

- Choice of strategy is an important first step for a firm. The likelihood of achieving and sustaining competitive advantage must be evaluated.
- Factors to evaluate include:
  - Unique core competencies
  - A system of activities that fits with the strategy and potentially reinforce each other
  - Strategic positioning

## CORPORATE STRATEGY ANALYSIS

- Companies with multiple business segments require an analysis how the separate segments are managed within the corporate governance structure.
- Factors to analyze include:
  - Transaction costs
  - Specific benefits to operating under one corporate umbrella