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FINANCE AND INFORMATION MANAGEMENT/ INFORMATION TECHNOLOGY

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STRATEGY ANALYSIS (CHAPTER 2)

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STRATEGY ANALYSIS



- A strategic planning model is a collective term for several elements contributing to the strategic planning process. The core components of a strategic planning model include:
 - A **templated structure** for creating strategic goals.
 - A loose **structure of governance** to help you manage and track your strategy.
- First, do not mistake strategy for a plan. In short, strategy is the act of making strategic choices, while a plan is a roadmap with timelines, owners, and deliverables.

STRATEGY ANALYSIS (Conti..)



- You should always start with strategic analysis. Through this process, you will be able to identify competitive advantage, assess organizational capacity, analyze external factors that might impact your strategy, and find other opportunities you could exploit.
- Most popular strategic tools and frameworks that can help you brainstorm your strategy:
 - ✓ VRIO Framework
 - ✓ SWOT Analysis
 - ✓ PESTLE Analysis
 - ✓ Porter's Five Forces
 - ✓ GE Matrix
 - ✓ Ansoff Matrix
 - ✓ McKinsey 7S Model
 - ✓ Blue Ocean Strategy

PORTER'S 5 FORCES



- Porter's Five Forces is a simple but powerful tool that can be used to identify the main sources of competition in your industry or sector.
- When you understand the forces affecting your industry, you can adjust your strategy, boost your profitability, and stay ahead of the competition. You can take fair advantage of a strong position or improve a weak one, and avoid taking wrong steps in the future.

PORTER'S 5 FORCES



FORCE I: RIVALRY AMONG EXISTING FIRMS

- Competitive rivalry examines the intensity of competition within the industry.
- High rivalry can lead to price wars, aggressive marketing, and innovation.
- Factors like industry growth, exit barriers, and level of differentiation impact competitive rivalry.

RIVALRY AMONG EXISTING FIRMS, CONTINUED

- Determinants of the intensity of competition among firms:
 - Price
 - Product
- Degree of differentiation in products and services and switching costs.

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 this threat
 - Barriers to entry
 - Economies of scale
 - Relationships with suppliers and customers
 - Legal barriers
 - Brand loyalty

FORCE 3:THREAT OF SUBSTITUTE PRODUCTS

- The threat of substitutes assesses the availability of alternative products or services.
- Strong substitute products can erode market share and profitability.
- Factors such as price-performance trade-offs and switching costs influence the threat of substitutes.

COMPETITIVE FORCE 4: BARGAINING POWER OF BUYERS

- The bargaining power of buyers examines the influence customers wield in the market.
- High buyer power can lead to price pressure and reduced margins for businesses.
- Factors such as buyer concentration, price sensitivity, and product differentiation affect buyer power.

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.

Porter's Five Forces Analysis for Amazon

Force	Description
Threat of New Entrants	<ul style="list-style-type: none">- High entry barriers in the e-commerce industry due to economies of scale, brand recognition, and extensive distribution network.- Significant capital requirements for infrastructure, technology, and logistics pose challenges for new entrants.
Bargaining Power of Suppliers	<ul style="list-style-type: none">- Moderate supplier power as Amazon relies on various suppliers for products, technology, and services.- Amazon's scale and negotiating power enable it to secure favorable terms and pricing agreements with suppliers, reducing supplier power.
Bargaining Power of Buyers	<ul style="list-style-type: none">- Moderate to high buyer power as consumers have multiple options for online shopping and can easily switch between platforms.- Price transparency and low switching costs give buyers leverage to demand competitive pricing and superior service from Amazon.
Threat of Substitutes	<ul style="list-style-type: none">- Moderate threat of substitutes as traditional brick-and-mortar retail stores and other e-commerce platforms offer alternatives to Amazon.- Amazon's extensive product selection, fast delivery, and Prime membership benefits mitigate the threat of substitutes.
Competitive Rivalry	<ul style="list-style-type: none">- High competitive rivalry in the e-commerce industry with competitors like Walmart, Alibaba, and eBay vying for market share.- Intense price competition, innovation, and strategic acquisitions characterize the rivalry in the industry.- Amazon maintains its competitive edge through continuous innovation, superior customer service, and Prime ecosystem offerings.



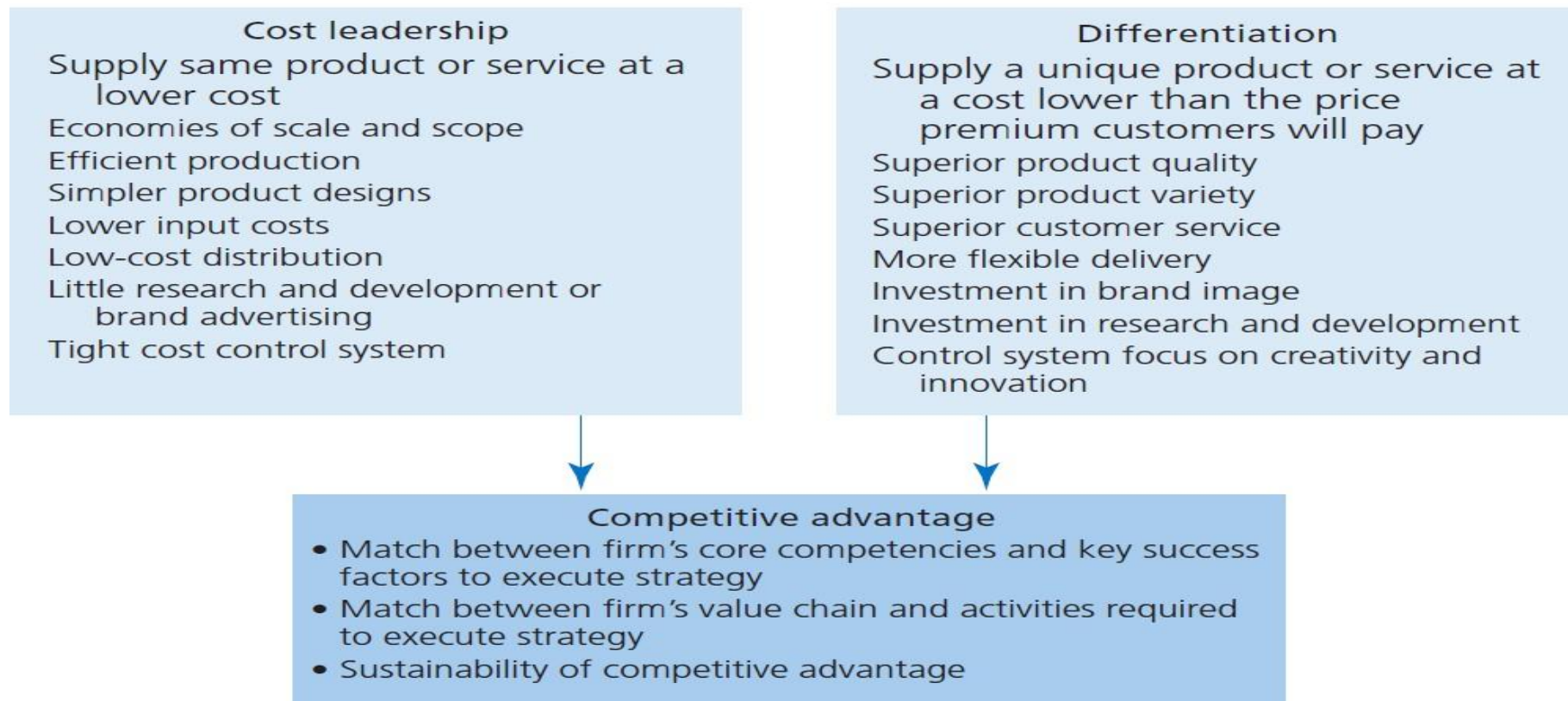
INDUSTRY STRUCTURE IS DYNAMIC

- Industry structure changes over time, and is not static. Over time, buyers or suppliers can become more or less powerful.
- Technological or managerial innovations can make new entry or substitution more or less likely.
- Changes in regulation can change the intensity of rivalry, or affect barriers to entry.
- Choices by competition, such as new pricing or distribution approaches, can also affect the path of industry competition.
- **Five Forces analysis is essential to anticipate and exploit industry structural change.**

STRATEGIES FOR CREATING COMPETITIVE ADVANTAGE



FIGURE 2.3 Strategies for creating competitive advantage



SWOT ANALYSIS



- SWOT stands for: Strength, Weakness, Opportunity, Threat. A SWOT analysis guides you to identify your organization's strengths and weaknesses (S-W), as well as broader opportunities and threats (O-T). Developing a fuller awareness of the situation helps with both strategic planning and decision-making.
- SWOT also offers a simple way of communicating about your initiative or program and an excellent way to organize information you've gathered from studies or surveys.

SWOT ANALYSIS



- **A SWOT analysis can offer helpful perspectives at any stage of an effort. You might use it to:**
 - Explore possibilities for new efforts or solutions to problems.
 - Make decisions about the best path for your initiative. Identifying your opportunities for success in context of threats to success can clarify directions and choices.
 - Determine where change is possible. If you are at a juncture or turning point, an inventory of your strengths and weaknesses can reveal priorities as well as possibilities.
 - Adjust and refine plans mid-course. A new opportunity might open wider avenues, while a new threat could close a path that once existed.

SWOT Analysis Example

Strengths	Opportunities
<ul style="list-style-type: none">• Innovative product offering• Affordable prices• Loyal current users	<ul style="list-style-type: none">• Expand social media presence• Work with industry influencers
Weaknesses	Threats
<ul style="list-style-type: none">• Not enough brand recognition• Not resources spent on marketing	<ul style="list-style-type: none">• Tough competition• Supply chain challenges• Tough job market

SWOT ANALYSIS EXAMPLE



Strengths

- What do we do well?
- What's unique about our organization?

Customer service:

Our customer service is world-class compared to our competitors seeing as we have an NPS score of 90.

Weaknesses

- What could be improved?
- What resources could improve our performance?

E-commerce visibility:

Our website visibility is low due to our lack of marketing budget, with transactions continuing to decrease.

Opportunities

- Are there market gaps in our services?
- What are our goals this year?

Marketing campaign:

In order to improve e-commerce visibility, we'll run ads on Youtube, Facebook, and Instagram.

Threats

- Are there industry changes?
- What new market trends are on the horizon?

New competitor:

With a new e-commerce competitor set to launch within the next month, we could see a decline in customers.

THANK
YOU

