

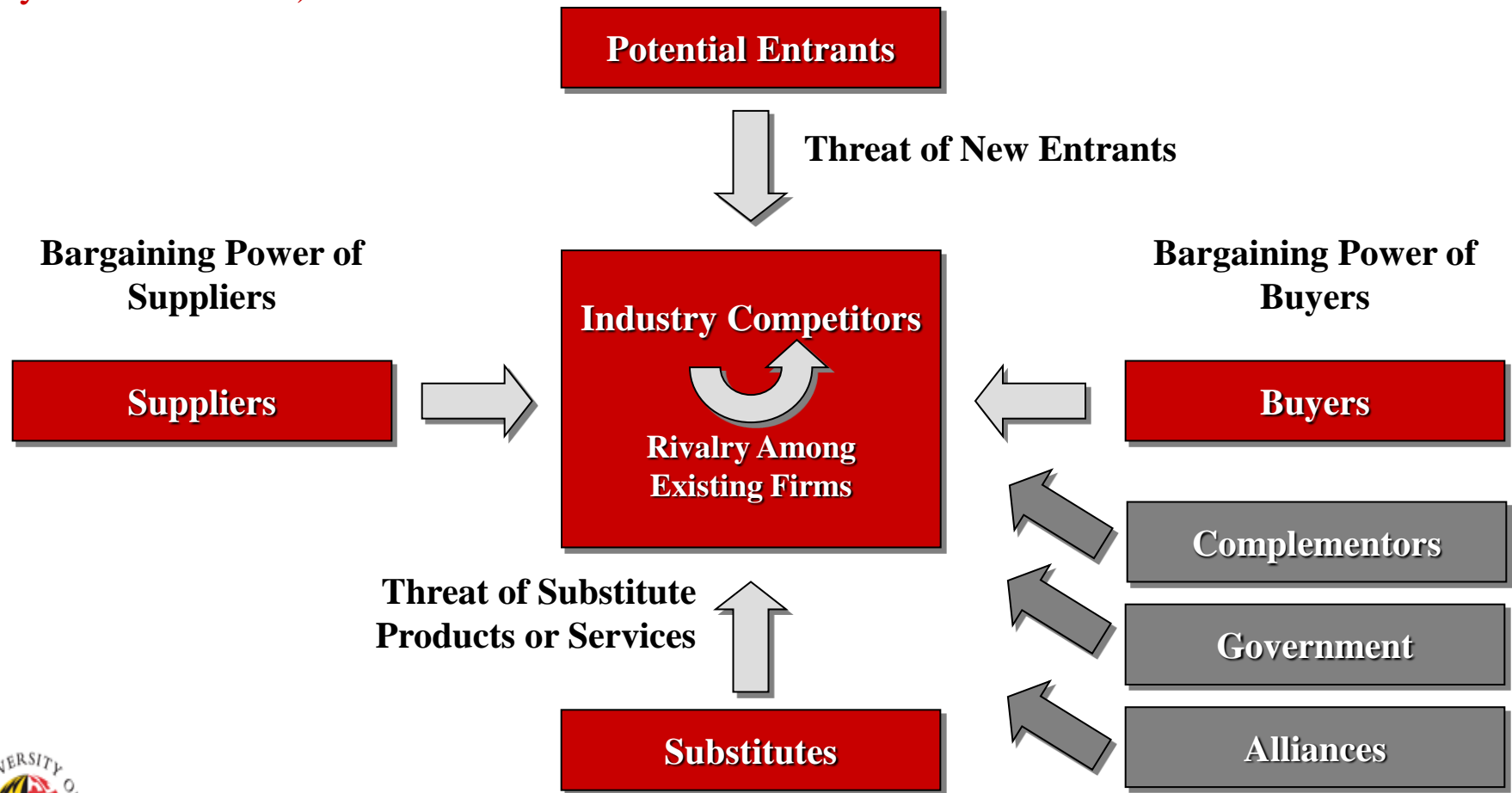
Competitive Advantage

Sustainable Competitive Advantage

- Achieved when a venture has implemented a strategy that other companies do not duplicate
- Can only be maintained until competitors are able to duplicate or develop a substitute
- Pursuit of a sustainable competitive advantage requires a full complement of commitments, decisions, and actions by the entrepreneur

The Five Competitive Forces that Determine Industry Profitability

(by Michael Porter)



(1) Rivalry Determinants

- Industry growth
- Fixed costs
- Product differences
- Brand identity
- Switching costs
- Concentration and balance
- Diversity of competitors
- Exit barriers

(2) Determinants of Buyer Power

Bargaining Leverage

- Buyer concentration
- Buyer volume
- Buyer switching costs relative to firm switching costs
- Buyer information
- Ability to backward integrate
- Substitute products

(2) Determinants of Buyer Power

Price Sensitivity

- Price/total purchases
- Product differences
- Brand identity
- Impact on quality and performance
- Buyer profits
- Decision makers' incentives

(3) Determinants of Supplier Power

- Differentiation of inputs
- Switching costs of suppliers and firms in the industry
- Presence of substitute inputs
- Supplier concentration
- Importance of volume to supplier
- Cost relative to total purchases in the industry
- Impact of inputs on cost or differentiation

(4) Entry Barriers

- Economies of scale
- Proprietary product differences
- Brand identity
- Switching costs
- Capital requirements
- Access to distribution
- Absolute cost advantages
- Learning curve
- Access to necessary inputs
- Proprietary processes
- Government policies
- Expected retaliation

(5) Determinants of Substitution Threat

- Relative price performance of substitutes
- Switching costs
- Buyer propensity to substitute

Summary

- Developing a sustainable competitive advantage is a key success factor for new ventures
- Environmental scanning provides valuable insights into the industry and the market
- Analyzing competitive forces within an industry is fundamental to positioning the new venture successfully