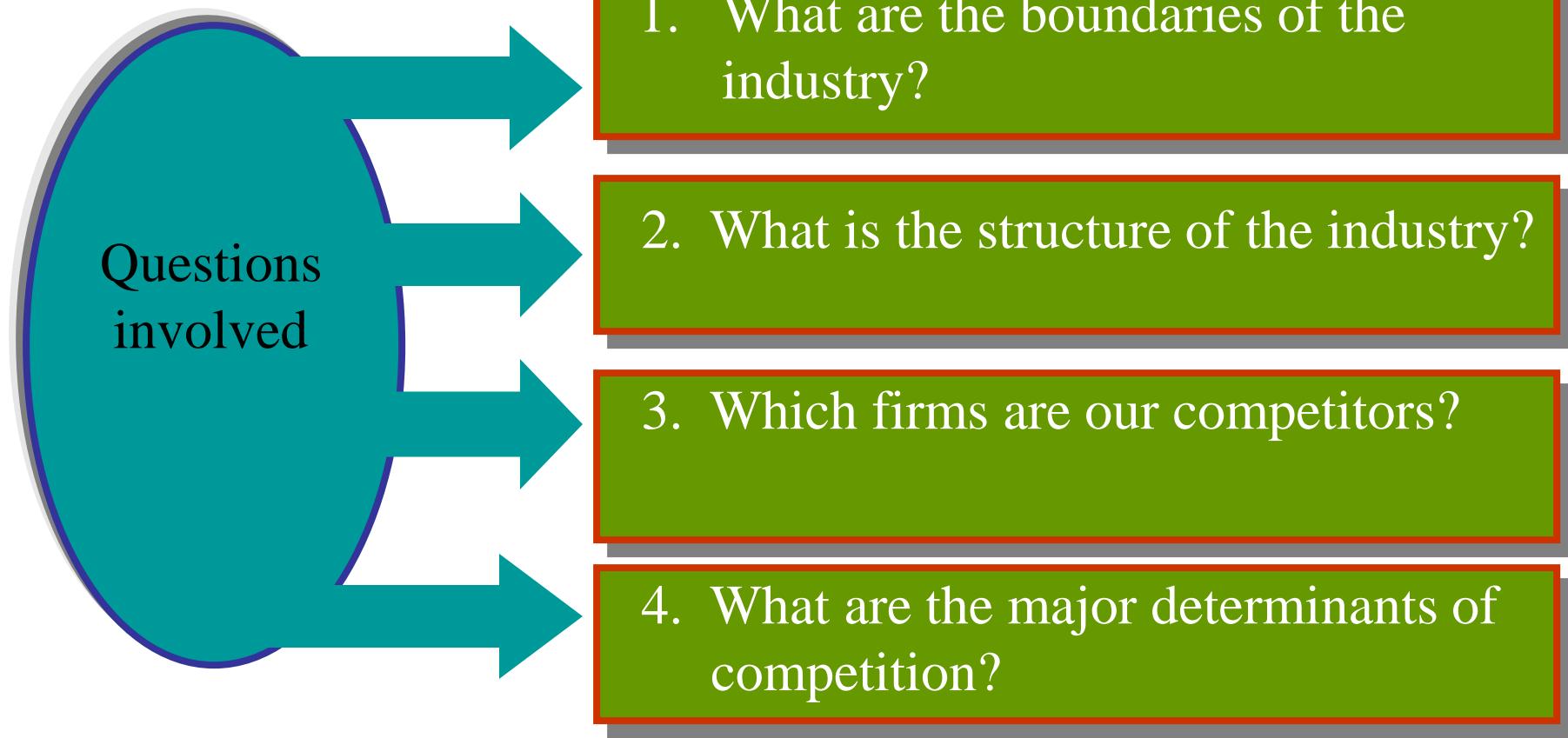


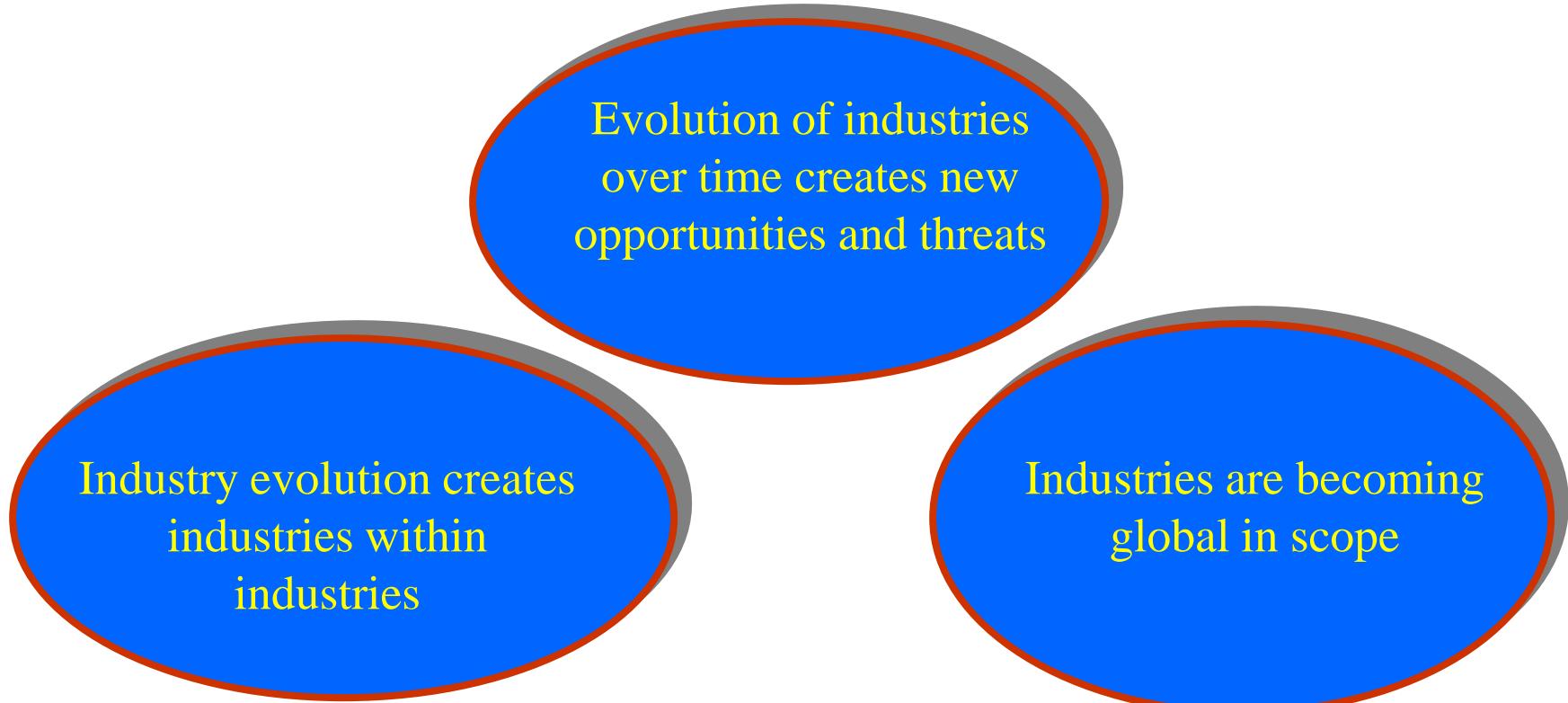
# I. Industry and Competitive Analysis



# Why a Definition of Industry Boundaries is Important

- Helps executives determine arena in which their firm competes
- Focuses attention on firm's competitors
- Helps executives determine key factors for success
- Gives executives another basis on which to evaluate their firm's goals

# Sources of Difficulty in Defining Industry Boundaries



# Issues in Defining an Industry

- What part of the industry corresponds to our firm's goals?
- What are the key ingredients of success in that part of the industry?
- Does our firm have the skills needed to compete in that part of the industry?
- Will the skills enable us to seize emerging opportunities and deal with future threats?
- Is our definition of the industry flexible enough to allow necessary adjustments to our business concept as the industry grows?

# Characteristics of Industry Structure

- **Structural attributes** – Enduring characteristics giving an industry its distinctive character
- Variations among industries involves examining
  - **Concentration** – Extent to which industry sales are dominated by only a few firms
  - **Economies of Scale** – Savings firms within an industry achieve due to increased volume
  - **Product Differentiation** – Extent to which customers perceive products of firms in industry as different
  - **Barriers to Entry** – Obstacles a firm must overcome to enter an industry

# Variables in Identifying Competitors

- ***How do other firms define the scope of their market?***
  - The more similar the definitions of firms, the more likely the firms will view each other as competitors
- ***How similar are the benefits the customers derive from the products and services other firms offer?***
  - The more similar the benefits, the higher the level of substitutability between them
- ***How committed are other firms to the industry?***
  - To size up commitment of potential competitors to industry, reliable intelligence data are needed concerning potential resource commitments

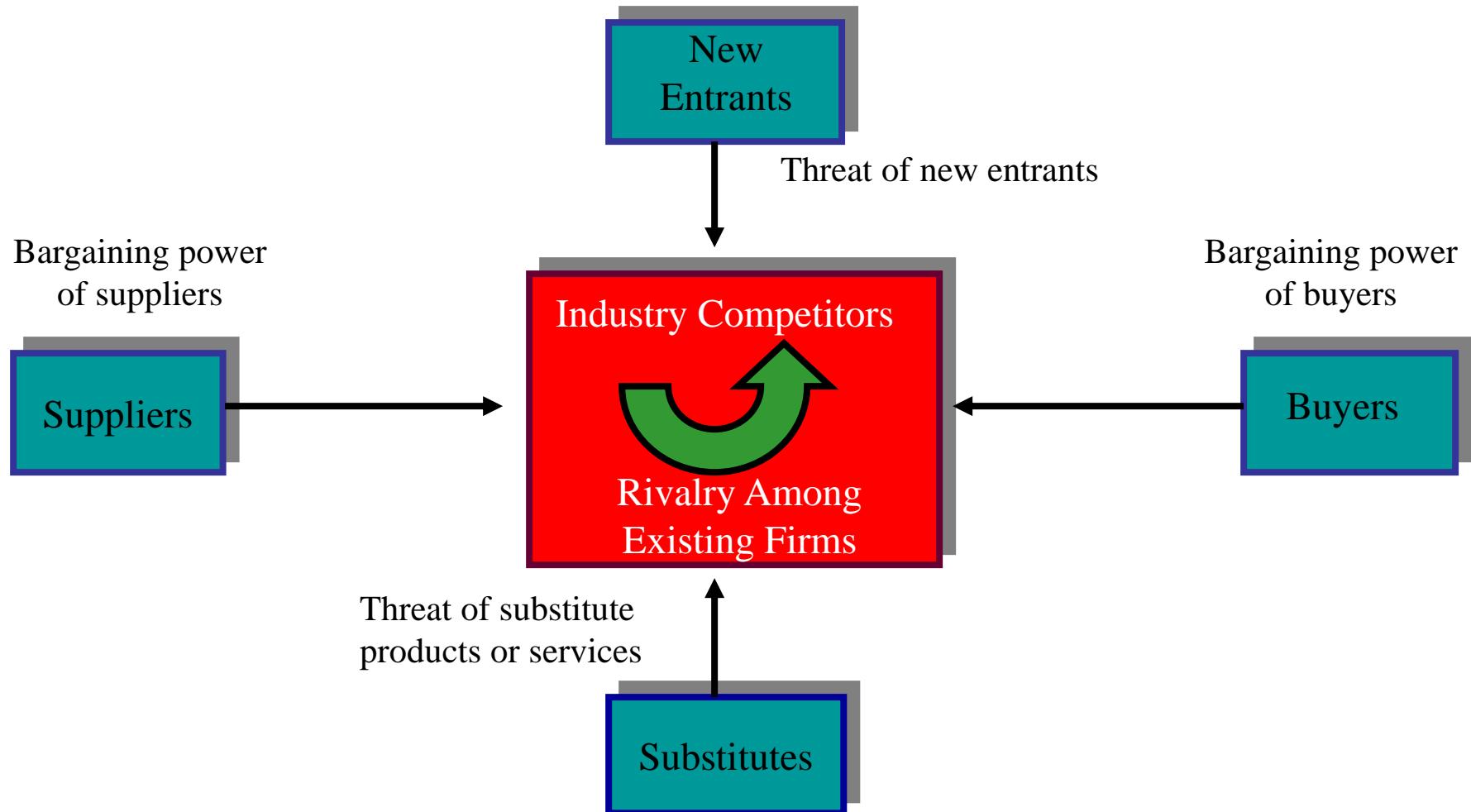
# Common Mistakes in Identifying Competitors

- Overemphasizing current and known competitors while ignoring potential entrants
- Overemphasizing large competitors while ignoring small ones
- Overlooking potential international competitors
- Assuming competitors will continue to behave in same way

# Common Mistakes in Identifying Competitors (contd.)

- Misreading signals indicating a shift in focus of competitors
- Overemphasizing competitors' financial resources, market position, and strategies while ignoring their intangible assets
- Assuming all firms in industry are subject to same constraints or are open to same opportunities
- Believing purpose of strategy is to outsmart competition, rather than satisfy customer needs

# Forces Driving Industry Competition



## II. The Firm's External Environment

- Economic
- Social
- Political

### ***Remote Environment (Global and Domestic)***

- Technological
- Ecological

### ***Industry Environment (Global and Domestic)***

- |                 |                          |                         |
|-----------------|--------------------------|-------------------------|
| •Entry barriers | •Buyer power             | •Competitive<br>rivalry |
| •Supplier power | •Substitute availability |                         |

### ***Operating Environment (Global and Domestic)***

- Competitors
- Creditors

THE FIRM

- Labor
- Suppliers
- Customers