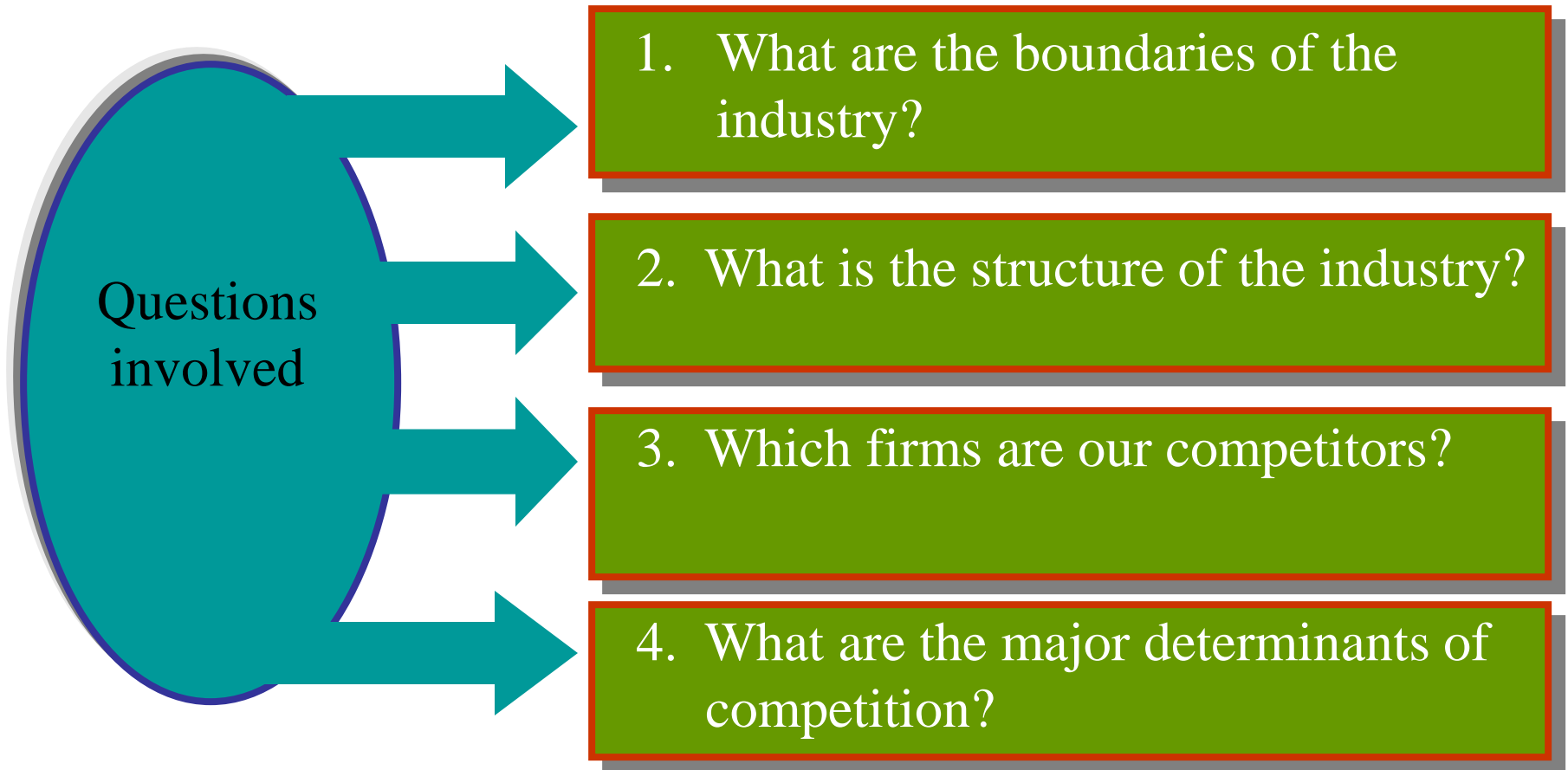


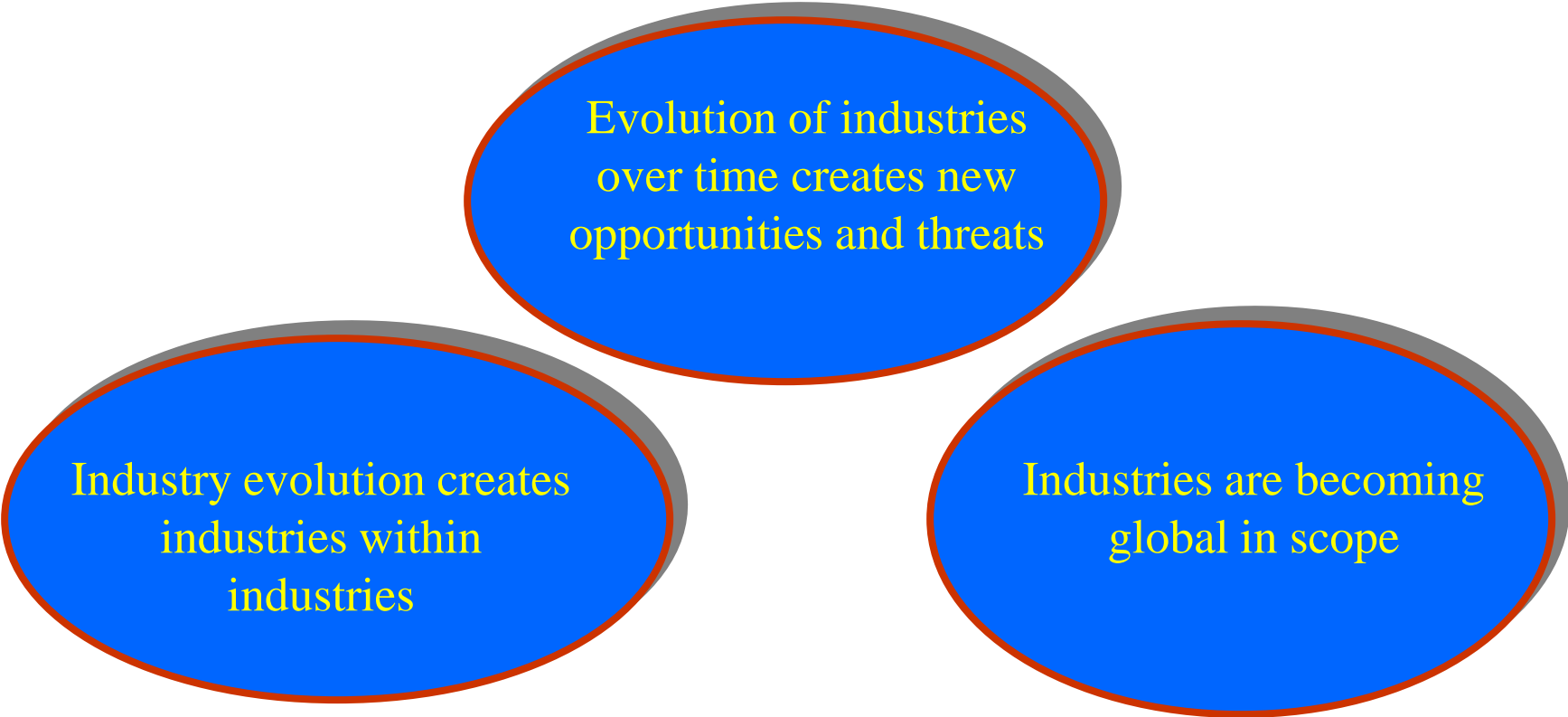
I. Industry and Competitive Analysis



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



Evolution of industries
over time creates new
opportunities and threats

The diagram consists of three blue ovals with red borders, arranged in a triangular pattern. Each oval contains text in yellow font. The top oval is at the top center, the bottom-left oval is at the bottom left, and the bottom-right oval is at the bottom right. The ovals have a slight 3D effect with a grey shadow on the right side.

Industry evolution creates
industries within
industries

Industries are becoming
global in scope

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

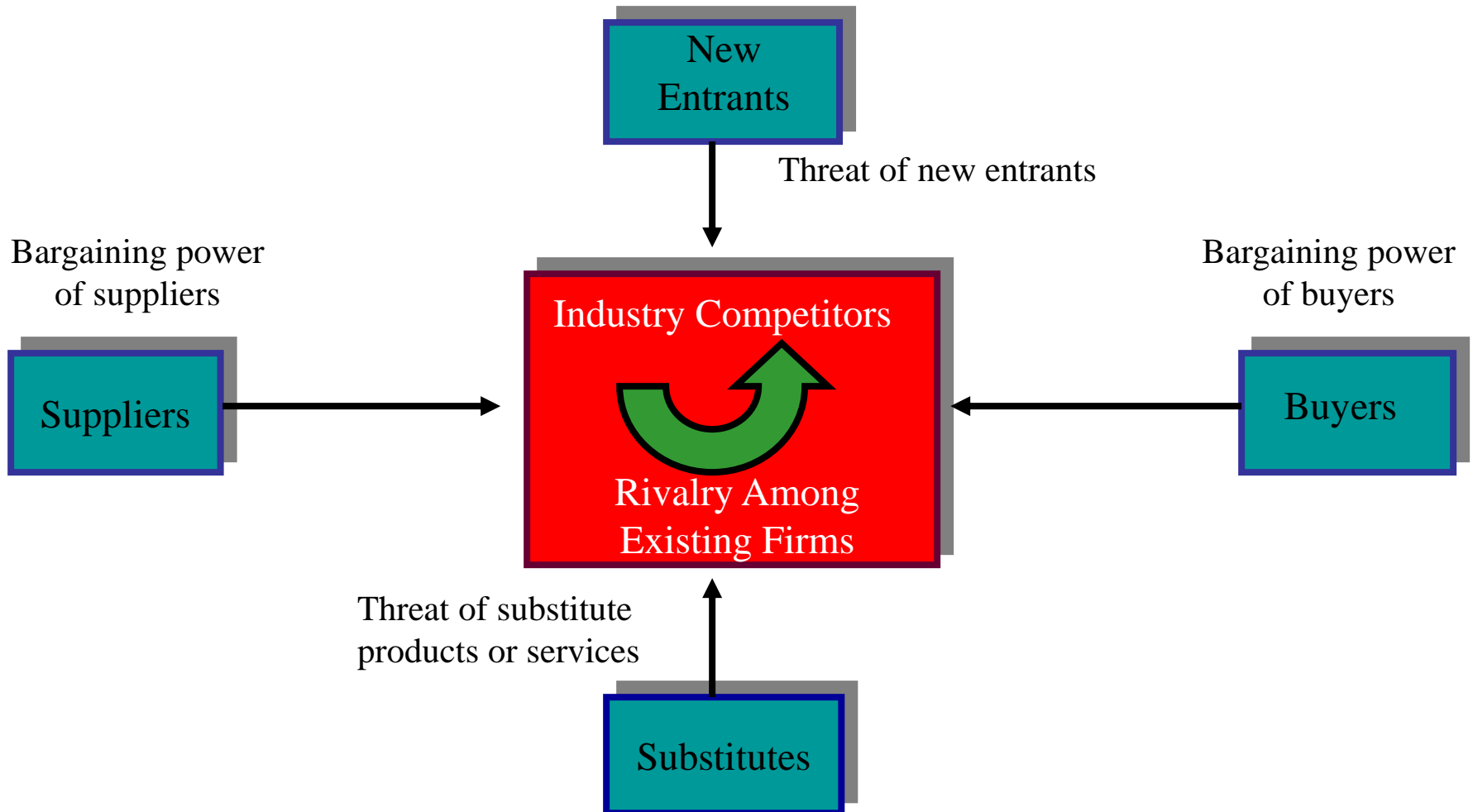
Common Mistakes in Identifying Competitors

- 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
- Supplier power
- Buyer power
- Substitute availability
- Competitive rivalry

Operating Environment (Global and Domestic)

- Competitors
- Creditors

- Labor
- Suppliers
- Customers

THE FIRM