**Theme 2 Summary – The Competitive Enviornment of Organisations**

**Competition and Business Strategy in Historical Perspective – Ghemawat**

* Up to 19th Century, Firms remained small, it was only with the introduction of Railways – the first mass market that there was an incentive to expand
* Began to take advantage of economies of scale and scope, vertically integrated Multidivisional companies (M-Form)
* Management Science,Concept of learning curves and (peter drucker) discovered that strategic planning could help influence market forces
* Second Industrial Revolution saw introduction of many academic and business schools – promoted idea to train managers to think strategically
* SWOT analysis, Harvard maintained strategies had to be formed on a case by case analysis,others preferred to use a standard one
* Increase in number of strategy consultants (Boston Consulting Group) – asked why companies had advantage over others, even with same resources. It was because of the experience curve, doubling experience reduces costs 20-30%
* Growth share matrix- be dominant in as many products as possible
* Portfolio planning techniques become important, long term planning not always adequate (due to recessions,inflation etc..) had to analyse portfolio and remove weaker units
* Four phases of strategy
  + Financial Planning – meet annual budget
  + Forecast based planning – predict the future
  + Externally orientated planning – think strategically
  + Strategic management – create the future
* What makes an industry attractive?
  + Profitability was held by the few largest companies
  + Some industries firms could raise prices above competitive level and not be challenged – why? (Bain)
    - Absolute cost advantage – patents
    - Product differentiation
    - Economies of scale
* Development of Porters 5 Forces
  + Suppliers
  + New Entrants
  + Substitutes
  + Buyers
  + Industry Competitors
* More attention was paid into splitting up a business into it’s various components and thinking how costs can be shared across business
* Successful companies competed based on low costs or differentiating products
* In industries where it’s only a cost game – never did as well
* George Stalk – To be a head of competition for future, need to be able to respond fast and have good variety, otherwise customers buy on price
* Japanese shortened cycles so much it was impossible to keep up

**Are you sure you have a strategy? – Hambrick and Fredersickson**

* Five Elements to a strategy
  + Arenas – Where you will be active / target market
  + Vehicles – How will you get there? / Organic Growth, Acqusitions
  + Differentiators – What makes you different?
  + Staging – Speed and sequence of moves
  + Economic Logic - Clear idea of how profits will be generated
* All 5 elements essential, must align and support each other
* All 5 elements need preparation and investment,
* You would think it’s better to be flexible, think on your feet and grab opportunities as they appear, however a good plan should take these into account
* It should evolve and be adjusted regularly
* Lifespan 2-3 years, used to be 5-10
* Strategy is not all planning, it’s about intentional,informed and integrated choices
* IKEA as example (Rachel Notes)

**How Competitive Forces Shape Strategy – M.Porter**

* Porters 5 Forces
  + Threat of new entrants
    - New firms can shake up industry and steal market share
    - Number of new entrants determined by barriers to entry
    - 6 barriers to entry
      * Economies of scale
      * Product differentiation
      * Capital requirements
      * Cost disadvantages – learning curve,tax breaks
      * Access to distribution channels
      * Government policy – laws, licences
  + Power of suppliers – supplier group powerful if
    - Few suppliers
    - Product is unique and differentiated
    - No competition with related products in the industry
    - Can integrate forward into industry
    - Industry in not an important customer to them
  + Power of buyers – powerful buyer if
    - Few bulk buyers
    - Can integrate backwards into industry
    - Product is big % of buyers costs
    - Products are standard and undifferentiated
    - Product is unimportant to the buyer, doesn’t earn them high profits, provides them with inventive to get it cheaper

*Strategic action – find suppliers and buyers who hold least power*

* + The threat of substitutes
    - Places a price ceiling on the industry, reduces potential profits
    - Value for money will determine your price
  + Internal Rivalry within the industry
    - Numerous competitors and or roughly same size
    - Slow industry growth, fighting for customers
    - Lack of differentiating of products,
    - High switching costs lock in buyers
    - Fixed costs are high, product is perishable,
    - Goods often over produced, price cutting
    - High exit barriers
    - Rivals have different strategies that collide
* Formulation of Strategy
  + Perform SWOT analysis
  + Exploit change in the industry

**Profit Pools : A fresh look at strategy – Gadiesh and Gilbert**

* A profit pool is the total profits earned in an industry at all points along its value chain
* Companies need to be able to spot untapped sources of profit in their industry
* Ie.U Haul – low price truck rentals to get customers, made profits selling accessories to them
* Firms who see deepest parts of industry’s profit pool first can gain a large advantage
* Profit pools are constantly changing
* In particular in industries undergoing structural change caused by
  + Deregulation
  + New Technology
  + New competitors
  + Customer Changes
* They can open and close of sources of profits
* Increasing revenue doesn’t always increase profit (Gucci)
* Choke Points – particular businesses that control the flow of profits in an industry – ie. Intel, Microsoft
* Profit pools segment based – ie Dell looking for most profitable customers – business
* Profit pool lens offers very different perspective on industry, especially those used to thinking in terms of revenue

**Getting Real about Virtual Commerce – P.Evans and T.Wurster**

* In the past, it was whoever got into ecommerce first was able to grab the empty space on the web. However that phase has ended and the bubble has lost some of its buoyancy
* It’s large retailers like Amazon who are seen as Navigators on the web
* Sell more than their traditional industry – reach out to as many people as possible
* Normally suppliers try to avoid navigators to they don’t achieve critical mass, however without these navigators they now have very little chance of being seen
* It’s also difficult to stop them anyway
* A navigator is a very powerful source of income for suppliers, alliances are essential
* Product suppliers and physical stores only saw web as a way to inform customers and advertise, didn’t think people would actually buy online
* Key is offering navigation service that actually solves consumer problems instead of pushing products . ie.Price comparison sites
* Disadvantage that navigators have is the lack of expertise and knowledge,information richness
* Only recently begun mining customer data, monitoring needs and trends
* Physical stores can also get a lot of info from the web

**TV3 and Meteor Case Studies – See Notes on them**