

# Business Strategy

## INTRODUCTION

Identify the brand/company

“Half circle full circle half circle A, half circle full circle, right angle A”

➤ COCA COLA

# TOP 10 Most Valuable Brands In The World

#1. Apple inc. \$323 bln.

#2. Amazon. \$200,7 bln.

#3. Microsoft. \$166 bln.

#4. Google. \$165.4 bln.

#5. Samsung. \$62.3 bln.

#6. Coca-Cola. \$56.9 bln.

#7. Toyota. \$51.6 bln.

#8. Mercedes-Benz. \$49.3 bln.

**What is the reason behind this?**

# STRATEGY

- Strategy is about winning.
- Strategy is the creation of a unique and valuable position, involving a different set of activities (Michael E. Porter, ).
- 3 distinct sources
  - ✓ Serving few needs of many customers, *Coke*
  - ✓ Serving broad needs of few customers,
  - ✓ serving broad needs of many customers in a narrow market *Apple*

# Questions?

- What is strategy?
- Why is strategy so valuable?
- And how can we, as employees, managers or owners of businesses, be sure that our strategies are as effective as possible?

# Strategy?

- Strategy is the means by which individuals or organization **achieve their objectives**.
- The determination of long-run goals and objectives of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out these goals (Chandler, 1962)

# Strategy/ Strategic Mg Definition

- Strategy is the art and science of informed action **to achieve a specific vision**, an overarching objective, or a higher purpose for a business enterprises (Daniell, 2006)
- Strategic management : the art and science of **formulating, implementing, and evaluating cross-functional** decisions that enable an organization to achieve its objectives.

# The purpose of strategic management

- To achieve superior performance
- To exploit and create new and different opportunities for tomorrow; long-range planning, in contrast, tries to optimize for tomorrow the trends of today.
- A company can outperform rivals only if it can establish a difference that it can preserve. It must deliver greater value to customers or create comparable value at a lower cost, or do both.



# Three important questions to answer in developing a strategic plan

- Where are we now?
- Where do we want to go?
- How are we going to get there?
- "If we know where we are and something about how we got there, we might see where we are trending—and if the outcomes which lie naturally in our course are unacceptable, to make timely change." (Abraham Lincoln)

# Why do firms need strategy?

Strategy assists the effective management of organization by

- Strategy as decision support
- Strategy as a coordinating device
- Strategy as target

# Corporate and Business Strategy

- Corporate strategy defines the scope of the firm in terms of the industries and markets in which it competes (e.g. diversification, acquisition etc.)
- Business strategy is concerned with how the firm competes within an industry, it must establish a competitive advantage over the rivals (competitive strategy)

# Describing Strategy

- **Where** is the firm competing?

Relates to product, firm supplies, the customers, countries and localities, range of activities

- **How** it is competing?

differential strategy, brand image, market share leadership.

e.g. COKE

Not simply about “competing for today”;  
concerned with “competing for tomorrow”

# Key terms

- Competitive advantage,
- Strategists,
- Vision and mission statements,
- External opportunities and threats,
- Internal strengths and weaknesses,
- Long-term objectives,
- Strategies,
- Annual objectives, and
- Policies

# Competitive Advantage

- Competition: “anything that a firm does especially well compared to rival firms.”
- When a firm can do something that rival firms cannot do, or owns something that rival firms desire, that can represent a competitive advantage.
- Firm can sustain a competitive advantage for only a certain period due to rival firms imitating and undermining that advantage.

Firm must strive to achieve sustained competitive advantage

- Continually adapting to changes in external trends and events and internal capabilities, competencies, and resources; and by
- Effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

# Strategist

- Strategists are the individuals who are most responsible for the success or failure of an organization.
- Strategists have various job titles, such as chief executive officer, president, owner, chair of the board, executive director, chancellor, dean, or entrepreneur.
- “All strategists have to be chief learning officers. We are in an extended period of change. If our leaders aren’t highly adaptive and great models during this period, then our companies won’t adapt either. because ultimately leadership is about being a role model.



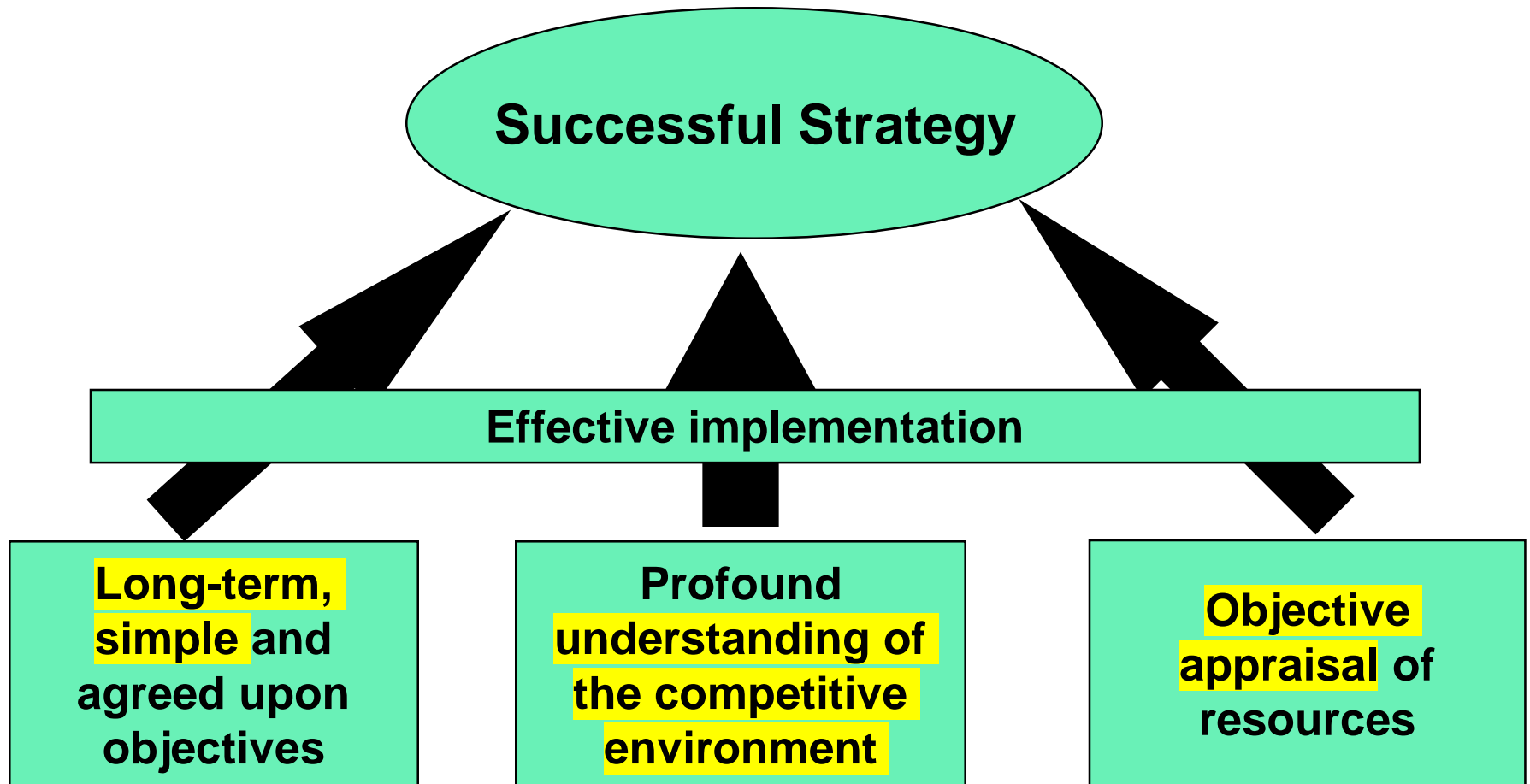
# Strategists help an organization

- To gather, analyze, and organize information.
- Track industry and competitive trends,
- Develop forecasting models and scenario analyses,
- Evaluate corporate and divisional performance,
- Spot emerging market opportunities,
- Identify business threats, and
- Develop creative action plans.

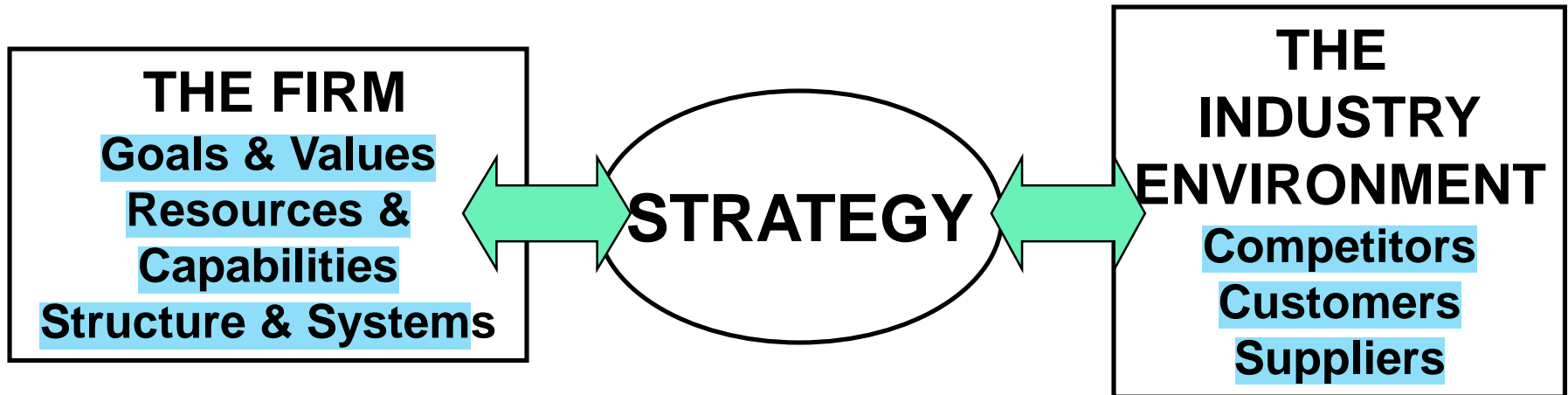
# Level of Decision



# Common elements in successful Strategy



**Strategy:**  
**the Link between the Firm and its**  
**Environment**



**PEST**

# Vision Statement

- Vision is that for which the firm strives to achieve in the **long term**
- Reflects management's vision of **what the organization seeks to do and become**

**“What do we want to become?”**

Stokes Eye Clinic in Florence, South Carolina, is

**“Our vision is to take care of your vision.”**

## Cont.

- The vision statement should be short, preferably one sentence
- As many managers as possible should have input into developing the statement.
- Provides a clear view of what the organization is trying to accomplish for its customers
- Indicates intent to take a business position

# Apple vision statement

- **“We believe that we are on the face of the earth to make great products and that’s not changing.”**

Through this statement, the company highlights that they are always determined

- to deliver quality products for its clients.
- to do so for quite some time.
- detailed account of how the company approaches its operations to position itself as the dominant player in the sector it operates in.

# Components associated with this statement

- Innovations
- Integration of partners and excellence
- Market specialization



# Mission statement

- Enduring statements of purpose that distinguish one business from other similar firms.
- Identifies the scope of a firm's operations in product and market terms.
- It addresses the basic question that faces all strategists:

**“What is our business?”**

Describes the values and priorities of an organization

- Developing a mission statement compels strategists to think about the nature and scope of present operations
- To assess the potential attractiveness of future markets and activities.
- A mission statement broadly charts the future direction of an organization.

Cont.

- A mission statement is a constant reminder to its employees of why the organization exists and
- What the founders envisioned when they put their fame and fortune at risk to breathe life into their dreams. (David, 2015)

# Apple's original mission statement

- “Apple is dedicated to the empowerment of man—to making personal computing accessible to each and every individual so as to help change the way we think, work, learn, and communicate.” (David Andrew)
- Apple mission statement is “ **to bringing the best user experience to its customers through its innovative hardware, software, and services.** ”
- Tim Cook, Apple's current CEO, stated this as the company's mission statement and included it in the 2018 annual report.

Through their mission statement, Apple highlights that it exists :

- To offer its clients the best service that it can.
- Describes how the company intends to achieve this.
- The company highlights the scope of its operations and how it exploits these to satisfy the needs of its client base.

While focusing on the dynamic technological changes over time, Apple stays clear that

- impacting positive change through innovation is its central objective.

The following components arise from this mission statement:

- Best user experience
- Improving the lives of people
- Empowerment of the public
- Top-quality products

# Characteristics

- Strategy concerns both organization and environment.
- The substance of strategy is complex
- Strategy affects the overall welfare of the organization.
- Strategy involves issues of both content and process.
- Strategies are not purely deliberate
- Strategies exist on different levels.
- Strategy involves various thought processes.

- Thank you



# Schools of Thoughts

The Ten Schools of Thoughts by  
Henry Mintzeberg

# School of thought

- A school of thought refers to intellectual tradition collectively drawn by a group of people who share common characteristics of opinion or outlook of a philosophy, discipline, belief, social movement, economics, culture, or art.
- In strategic management the “Ten Schools of Thought” model by Henry Mintzeberg is a framework that can be used to categorize the field of Strategic Management.

# The Design School

- It proposes a model of strategy making. It looks at strategy formation as a **process of conception**. It is a fit between internal capabilities and external potentials.
- Strategy formulation is a **deliberate process of conscious thought**.
- The **CEO is the key strategist** who develops the strategy and controls its execution. Strategies become successful when process of strategy formulation is kept simple and formal.

## Cont.

- Formulated strategies should be clear and the plan must be kept simple.
- The strategy design process is complete once a strategy is formulated.
- Strategies can only be implemented once they are fully formulated.
- The design school is laid the foundation of strategic planning.
- Strategy formulation as a deliberate, conscious process and stating the need for both external and internal analysis.

# The Critical View of Design School

- It assesses strengths and weaknesses bypassing the learning.
- Structure follows strategy, which makes strategy explicit. This promotes inflexibility.
- Under design schools thought formulation of strategy gets separated from implementation of strategy which detaches thinking from acting.

# The Planning School

- Strategy formation is considered a formal process. Also, the thought process runs towards planning the entire strategy in a rigorous manner, so that the firm advances forward.
- The complete process and the plan which the company implements is documented from the start to finish.
- In short the strategy planning is treated as distinctive processes.
- The plan is given more importance whenever the management wants to take new decisions.
- With the plan in hand, the management gets a clear direction to move ahead, helping the company to move forward steadily

# Planning School



# The Critical View of Planning Schools

- Criticality arises when **something happens out of plan.** This typically happens when plans are made years in advance, and changes occur in the industry or the organization.
- When an internal or external variable changes, the complete plan is affected. Hence, **proper prediction is essential** when using the planning school of thought.



# The Positioning school

- Entire focus is on strategy content.
- The management of firms decide that they want to position the product at the top of the mind and make decisions accordingly.
- In this case firms need to determine the competition already present in the market, and how the firm is positioned.
- Five Force Model, Value chain, and BCG matrix are a few strategic tools that can be used under the positioning school.
- Once the market is analyzed, the right strategy can be applied to improve the positioning of the firm's product.

# The Critical View of Positioning School

- In the positioning school of thought, the strategy assumes that the market will remain as it is, and it does not take into consideration new entrants or changes in a business environment.
- Like the planning strategy, the positioning school of thought can also fail if there are major changes in the business environment.

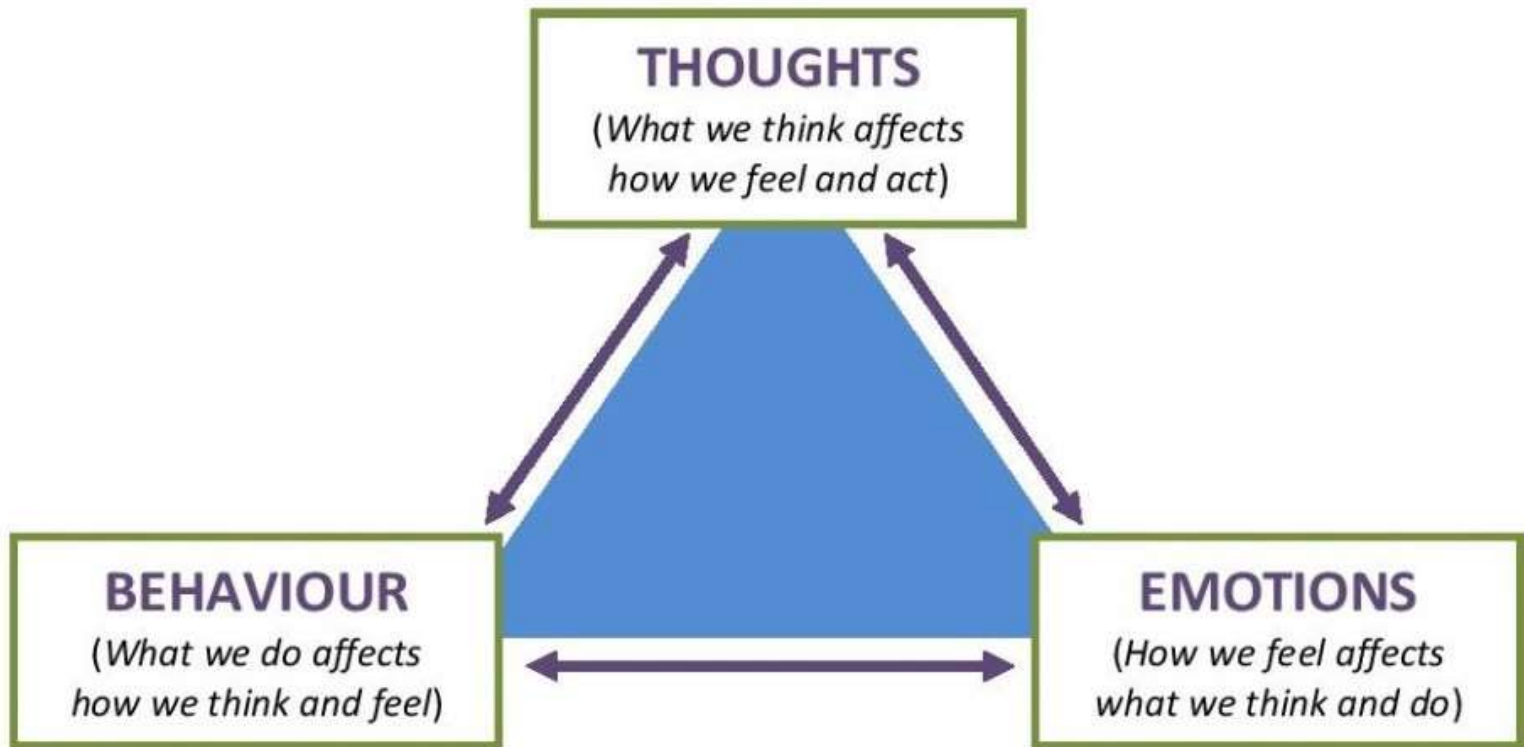
# The Entrepreneurial School

- Considers strategy formation as **visionary process**.
- Focuses on **the CEO's vision** as the key determinant of strategy.
- The leader has particular perspective, a sense of long-term direction, a vision of the organization's future.
- The process of strategy formation occurs in a rather **unconscious way**. It is **deep rooted in the experience** of the leader.
- The leader promotes the vision by maintaining close **personal control of the implementation** in order to be able to reformulate specific aspects as and when necessary.
- The organization responds to leader's directives.

# The Critical View of Entrepreneurial School

- The problem with this management school of thought is only one question: Where to find a mature, experienced, talented and honest leader?
- If organization designs its strategies based on the recommendations by the leader of the company, the leader has to be a visionary and
- the one who takes responsibilities of success as well as failure of strategies.

# The Cognitive Triangle



# The cognitive school

- Organizations give lot of importance to people's perception and their behavior. One of the best examples of cognitive studies is the Johari window. Wherein, organizations can do better business by an understanding of their employees, suppliers, and customers.
- Customer's perceptions matter and therefore, their information processing should be given a thought. This is where corporate communication plays an important role.

Cont.

- Once the organization knows what their customers demand and want sending the right signals becomes easy for them.
- It attempts to explain the rationality of choice of the product by the consumer under conditions of incomplete information and reduced processing capability.
- It analyses the external symptoms of behavior, reactions and thought processes that cannot be subject to direct observation.

# The Critical View of Cognitive School

- The problem with the cognitive model is that it is not practical beyond a certain point.
- A top company cannot rely on surveys and marketing research reports alone to find new ideas or to make connections with their customers.
- Fact is that every day some new product get introduced in the market and keeping a tab on each movement in market is not possible in the cognitive school of thought.



# The Learning school

- Depend on their experiences and market happenings.
- Make strategies looking at the past; not necessarily their own past.
- Take cues from strategies in market which became successful or failed.
- Things that worked in market and try to implement the same thing over time with the assumption that it will work again.
- Discard strategies that didn't work for others.

# The critical view

- Steering or **guiding** the company on the basis of the **previous road maps that have gone by.**
- Depend on **decisions of past** because change is constant in the market.
- **Strategy can be used when the firm is stable, and wants to work on auto mode** while it develops something else in the mean time.

# The Power school

- Power centered. People who are in power take the decisions.
- The power centers can be customers, suppliers, worker's unions or leaders in the organization.
- Designing strategy as a political process for negotiating, forming alliances and promoting one's own interests.
- Ensures that there is lesser resistance for implementing the strategy.

# The critical view

- Problem arises when the powerful people stop listening to feedback from others and stop implementing measures of improvement.

# The Cultural school

- Human capital is most important in organizations.
- A positive culture in the firm harnesses innovations and entrepreneurial culture in organizations.
- Strategy formation becomes subject to a company's unique values.
- Emphasizes the role of social values, beliefs and culture in decision making

# The Critical View

- People **resist change** because they get used to a typical culture.
- **Politics** in organizations plays an important role.
- Only school of thought which introduces a **collectivist dimension of social process** in strategy formation.

# The Environmental school

- **Situational** related and gives most importance to the environment.
- When **expert knowledge become scares**, the strategy formulation needs a change on the basis of available expertise of people.
- Total **dependence on environmental** factors.

# The Critical View

- The process entirely depends on the environment which constantly changes. It is difficult for organizations to keep changing their strategies constantly.



# The Configuration school

- The **most preferred** school of thoughts
- The basic premise: the strategy needs to be configured.
- Allows **the firm to move** from one position to another.
- Find a combination of all aspects of the **nine** other strategy schools.

Key to strategic management is

- to **sustain stability or at least adapt** strategic change,
- recognizing the **need** for transformation and
- to **manage** the troublesome process of transformation effectively.

# The critical view

- Tries to attain stability via various ways, and keeps transforming as long as needed.
- Resolves the conflict between emergent and deliberate strategy.
- Too rigid in its distinction between phases of stability and transition phases.

# Business strategy process

# Strategic management process

- Strategic management is a dynamic process . It is continual, evolving, iterative process.
- It means that it cannot be a rigid, stepwise collection of few activities arranged in a sequential order
- Rather it is a continually evolving mosaic of relevant activities.

## Four

### Major phases of strategic management process

- A) Establishment of strategic intent (the aspirational plans, overarching purpose).
- B) Formulation of strategies.
- C) Implementation of strategies.
- D) Strategic evaluation.

## A. Establishment of strategic intent:

- It involves the hierarchy of objectives that an organization set for itself. Generally it includes vision, mission, business definition and objectives establishing the hierarchy of strategic intent which includes -
  - 1. Creating and communicating a vision.
  - 2. Designing the mission statement.
  - 3. Defining the business.
  - 4. Adopting the business model.
  - 5. Setting objectives.

# Formulation of strategy

- Formulation of strategy is relates to strategic planning.
- It is done at different levels i.e. corporate, business, and operational level.

The strategic formulation consists of the following steps

## **1. Framing of mission statement :**

- Here the mission states the philosophy and purpose of the organization.
- All business frames the mission statement to keep its activities in the right direction.



## 2. Analysis of internal & external environment

- The management must **conduct an analysis** of internal and external environment.
- **Internal environment** consists of manpower, machines, and other sources which resides within the organization and easily alterable and adjustable. These sources reveal the **strength and weakness** of the organization.
- **External environmental** factor includes government, competitions, consumers, and technological developments. These are not adjustable and controllable and relates to organizations **opportunities and threat**

### 3. Setting of objectives:

- After SWOT analysis, the management is able to **set objectives** in key result areas such as marketing, finance, production, and human resources etc.
- While setting objectivities in these areas the objectives must be **realistic, specific, time bound, measurable, and easy attainable.**

## 4. Performance comparison :

- By undertaking **gap analysis** management must compare and analyze its present performance level with the desired future performance.
- This enables the management to find out exact **gap between present and future** performance of the organization.
- If there is adequate gap then, the management **must think of strategic measures to bridge the gap.**

## 5. Alternative strategies :

- After making SWOT analysis and gap analysis management needs to prepare (frame) alternative strategies to accomplish the organizational objectives.
- It is necessary as some strategies are to be hold and others to be implemented.

## 6. Evaluation of strategies :

- The management must evaluate the benefits and costs of each every alternative strategy in term of sales, market share, profit, goodwill and the cost incurred on the part of the strategy in terms of production, administration, and distribution costs.

## 7. Choice of strategy :

- It is not possible to any organization to implement all strategies therefore management must be selective.
- It has to select the best strategy depending on the situation and it has to consider in terms of its costs and benefits etc.

## C. Strategy Implementation :

- The strategic plan is put into action through **six sub processes**
- The **project implementation** <sup>①</sup> deals with the **setting up of organization.**
- **Procedural implementation** <sup>②</sup> deals with the different aspects of the **regulatory framework** within which organizations have to operate.
- Resource allocation <sup>③</sup> relates to the procurement and commitment of resources for implementation.

- 4
- The **structural aspect** of implementation deals with the **design of organizational structures and systems and reorganizing** so as to match the structure to the needs of strategy.
  - The **behavioral aspects** consider the leadership style for implementing strategies and other issues like corporate
  - The **functional aspects** relates to the policies to be formulated in different functional areas.



✓ For any strategy implementation there are five major steps.

- 1. Formulation of plans.
- 2. Identification of activities.
- 3. Grouping of activities.
- 4. Organizing resources.
- 5. Allocation of resources.

## D. Strategic Evaluation:

### Elements

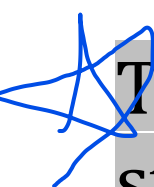
1. Setting of standards
2. Measurement of Performance
3. Comparison Of Actual Performance With Set Target
4. Analyzing Deviation And Taking Corrective Measures

# Strategic Fit

- The task of management is to keep the organization in a controlled balance against the multiple and diverse forces
- Strategic fit (or alignment) is used to indicate how a strategy needs to be “fitted” (aligned) with its external context and how the internal organization needs to be properly meshed (aligned) with the strategy.
- The strategic fit is a prime task of the general management team

# Strategic Fit

- The degree to which an organization is matching its resources and capabilities with the opportunities in the external environment.
- The matching takes place through strategy and it is therefore vital that the company has the actual resources and capabilities to execute and support the strategy.



The intangible barrier to strategy imitation is strategic fit.

- The way in which a firm's activities and capabilities fit together is often achieved by sustained learning and experimentation over time and cannot readily be imitated by would-be followers.
- Positioning choices determine not only which activities a company will perform and how it will configure individual activities but also how activities relate to one another. While operational effectiveness focuses on individual activities, strategy concentrates on combining activities.

✓ There are three types of fit, which are not mutually exclusive

- **First-order fit:** Simple consistency between each activity (function) and the overall strategy. **Consistency** ensures that the competitive advantages of activities cumulate and do not erode or cancel themselves out.
- **Second-order fit:** Occurs when activities are reinforcing.
- **Third-order fit:** Goes beyond activity reinforcement to what Porter refers to as **optimization** of effort.

- Strategic fit is fundamental not only to competitive advantage but also to the sustainability of that advantage because it is harder for a competitor to match an array of interlocked activities than it is merely to replicate an individual activity.

## Benefits of good strategic fit

- Cost reduction, due to economies of scale, and
- The transfer of knowledge and skills.



# External Environments of Firm

# Introduction

- The business environment of the firm consists of **all the external influences** that impact its decisions and its performance.

✧ • **Corporate strategy** is concerned with deciding which **industries the firm** should be **engaged** and how it should **allocate its resources** among them.

✧ • **Business strategy** is concerned with establishing **competitive advantage**.

# Environment

- Understanding of the competitive environment is a critical ingredient of a successful strategy.
- Business strategy is essentially a quest for profit.
- The primary task is to identify the sources of profit in the external environment.
- All those factors or forces, residing besides the business and affecting its functions or various decisions of the business.

## Definition

- Keith Davis : Environment of the business means the aggregate of all conditions, events and influences that surround and affect it.
- Arthur M. Weimer : Business environment encompasses the climate or set of conditions, economic, social, political or institutional in which business operations are conducted.”

# FEATURES

- Environment is dynamic in nature.
- It has direct and indirect impact.
- It has two types of factors (internal & external).
- It is not separable from business.

# Cont.

- Impact on business decisions.
- It regulates the scope of business.
- It is multi dimensional.

The prerequisite for effective environmental analysis is to distinguish the vital from the merely important.

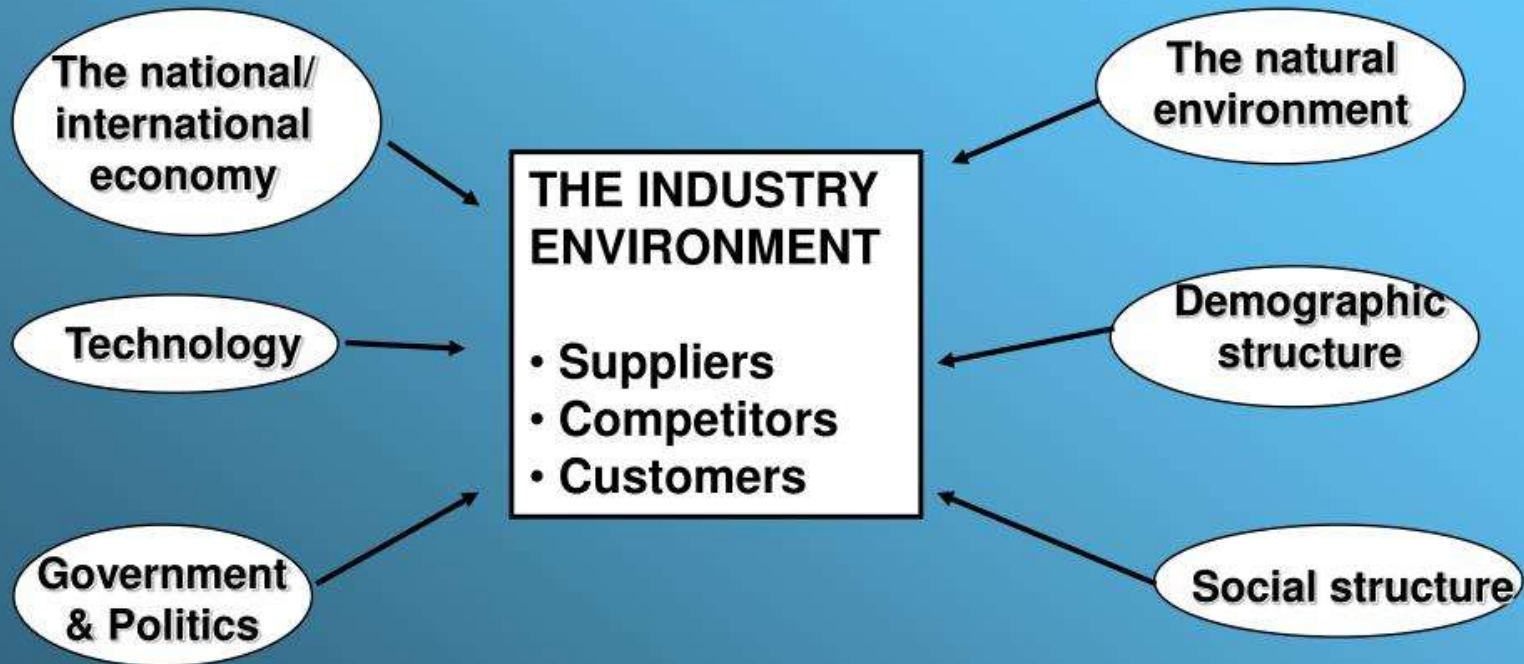
# Principles *Indu. Eng*

- First, for the firm to make a profit it must create value for customer.
- Second, in creating value, the firm acquires goods and services from suppliers. Hence, it must understand its suppliers and manage relationships with them.
- Third, the ability to generate profitability depends on the intensity of competition among firms that vie for the same value-creating opportunities. Hence, the firm must understand competition.

- Thus, the core of the firm's business environment is formed by its relationships with three sets of players: customers, suppliers and competitors. This is its industry environment.



# From Environmental Analysis to Industry Analysis

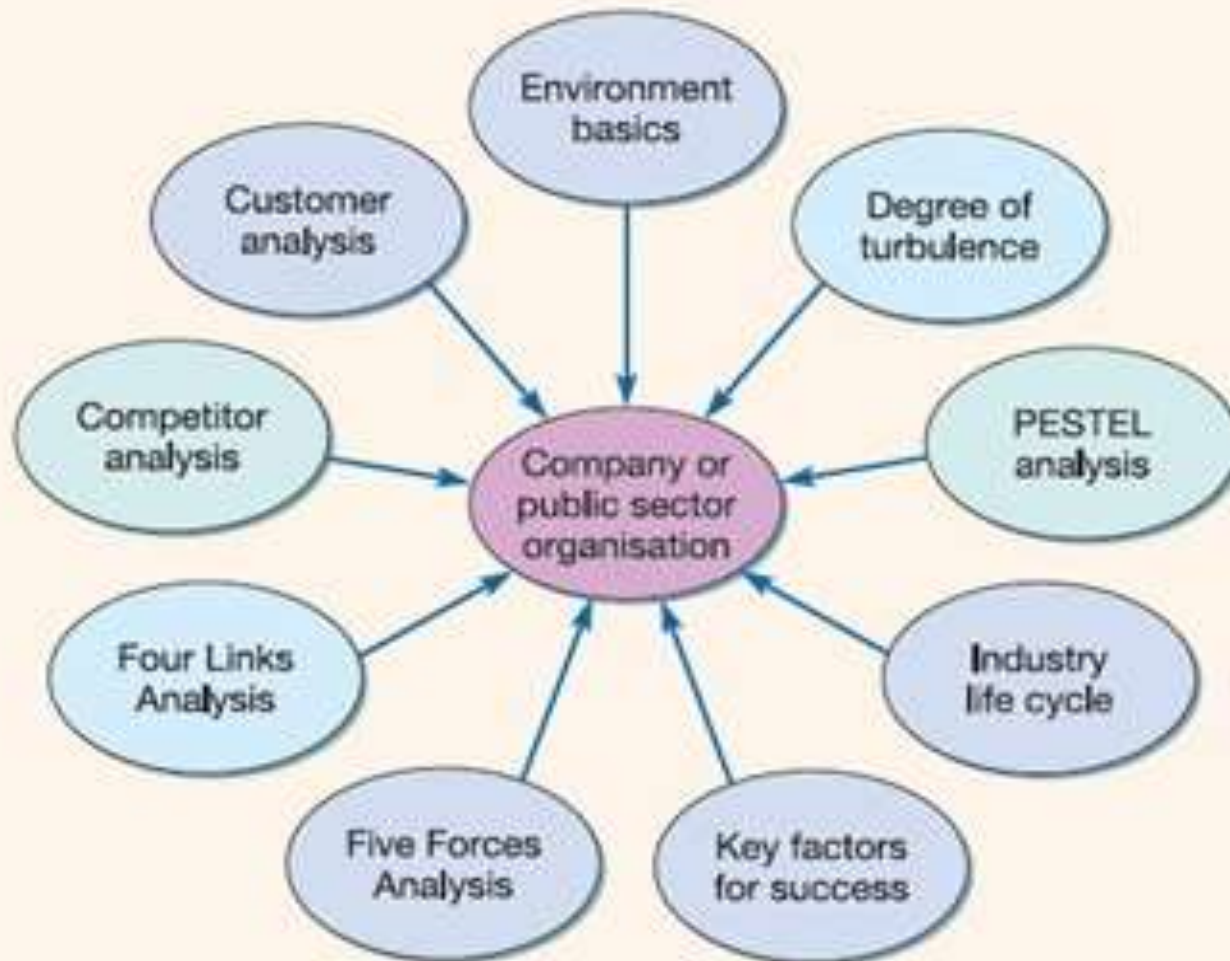


- *The Industry Environment lies at the core of the Macro Environment.*
- *The Macro Environment impacts the firm through its effect on the Industry Environment.*

# Layers in business environment

- The Macro Environment
- Industrial Environment(or sector)
- Competitive Environment  
(Competition/Markets)
- The firm

# Analysing the strategic environment – the nine basic analytical tools



# The Macro Environment

- Macro environment is not that much immediate environment of a company. This macro environment factors are far away from the company but it gives indirect effects on companies functioning.
- It includes demographic, economic, natural, social and technological environmental forces or factors.
- PEST(EL)

# Political environment

- National, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations.

# Cont.

- So whenever govt. through its policy brightness the prospects of some enterprises may pose a threat to some others.
- For example liberalization has opened up some opportunities to some business at the same time it has give set back to some business.

- For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit.
- Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly.

# Cont.

- The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.



# Political, Governmental, and Legal Variables

- Government regulations or deregulations
- Changes in tax laws
- Special tariffs
- Political action committees
- Voter participation rates
- Number, severity, and location of government protests
- Number of patents
- Changes in patent laws
- Environmental protection laws
- Level of defense expenditures
- Legislation on equal employment
- Level of government subsidies
- Antitrust legislation

# Political, Governmental, and Legal Variables

- Import–export regulations
- Government fiscal and monetary policy changes
- Political conditions in foreign countries
- Special local, state, and federal laws
- Lobbying activities
- Size of government budgets
- World oil, currency, and labor markets
- Location and severity of terrorist activities
- Local, state, and national elections

# Economic factors

- The economic conditions of a country means the nature of the economy, the level (slope) of development of economy, economic conditions, the level of income of the people, or distribution of income and assets etc.
- These factors are important while determining the business strategies, for example in a developing country the low income may be the cause for very low demand for a product, here business can't increase the purchasing power of the people to generate higher demand for its product.
- So here the company should emphasis an reduction of prices for higher sale.

- The economic policy of the govt.
- The economic system refers to the kind of economy; the country has i.e. free market economy, capitals or socialist economy.
- Improved customer service, immediate availability, trouble-free operation of products, and dependable maintenance and repair services are becoming more important.
- People today are more willing than ever to pay for good service if it limits inconvenience.

## Economic variables

- Availability of credit
- Level of disposable income
- Propensity of people to spend
- Interest rates
- Inflation rates
- Money market rates
- Federal government budget deficits

# Cont.

- Gross domestic product trend
- Consumption patterns
- Unemployment trends
- Worker productivity levels
- Value of the dollar in world markets
- Stock market trends
- Foreign countries' economic conditions

# Economic variables

- Import/export factors
- Demand shifts for different categories of goods and services
- Income differences by region and consumer groups
- Price fluctuations

# Cont.

- Export of labour and capital
- Monetary policies
- Fiscal policies
- Tax rates



# Advantages of a Weak Rupee for Domestic Firms

- More export
- Lower import
- Goods cheaper to foreign consumers
- Combats deflation by pushing up prices of imports
- Reduces trade deficit
- Encourages firms to globalize

# Disadvantages of a Weak Rupee for Domestic Firms

- Can lead to inflation
- Can cause rise in oil prices
- Can weaken government
- Makes it unattractive for Indian to travel globally

# **Porter's Five Forces and Generic Strategies**

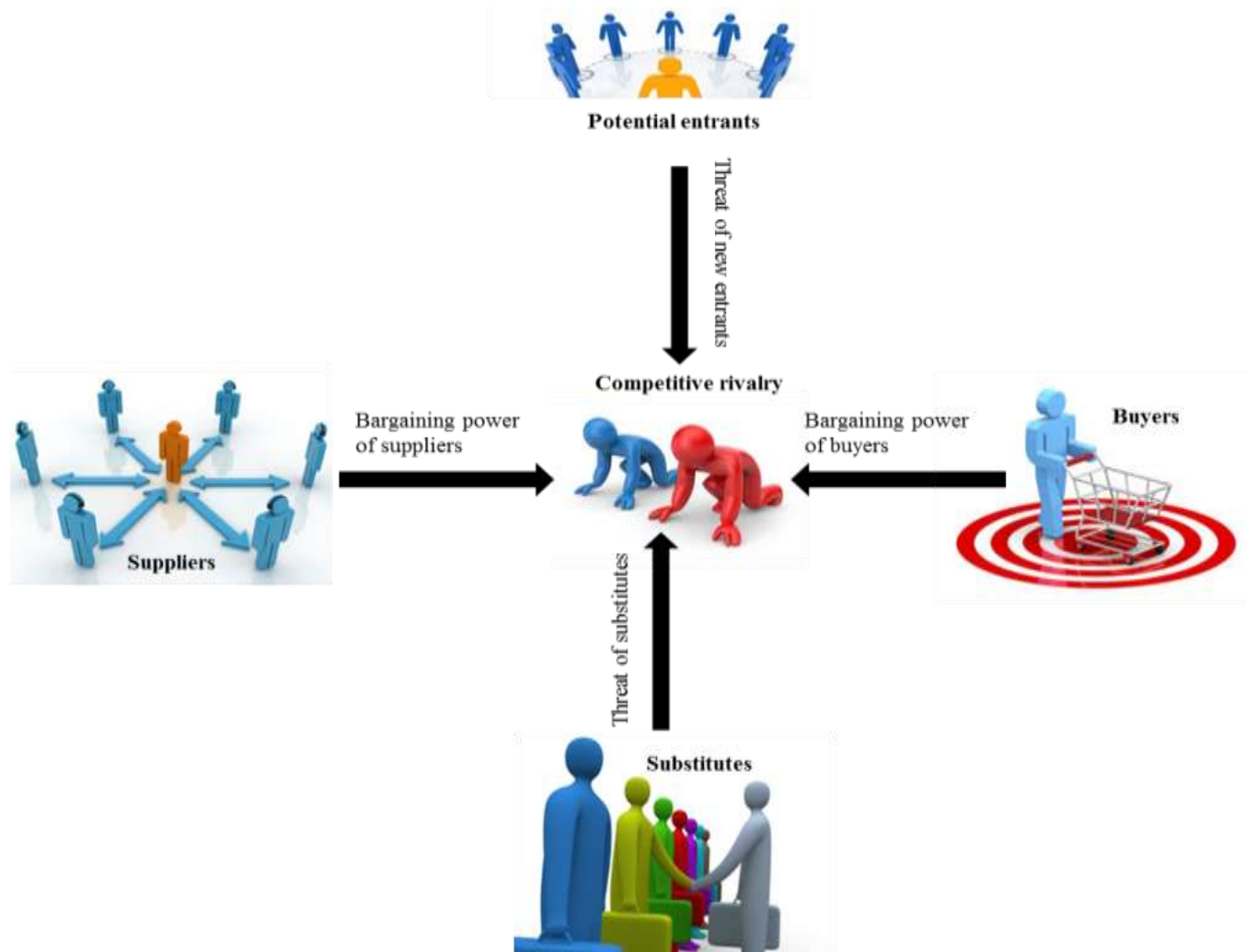
# What is the need?

- Growth in globalised competition
- To ensure competitive advantage
- Porter (1980) argues that by understanding “the competitive forces, and their underlying causes, reveals the roots of an industry’s current profitability while providing a framework for anticipating and influencing competition (and profitability) over time.”

# What are the five forces?

- The five forces model is based on the theory of determining the competitive intensity and attractiveness of a market
- The key five forces involve:
  - The threat of new entrant (dependent upon entry barriers),
  - The bargaining power of buyers,
  - Bargaining power of Suppliers, whereby the bargaining power of each group influences profitability, the availability of,
  - Threat of Substitutes which could potentially include alternatives for consumers, and the degree of,
  - Rivalry among upon existing competitors.

# What are the five forces?



# What are the five forces?

Insights and attributes into competitive industries:

- It implied micro-economic theory into just 5 major influences.
- It effectively and before its time applied 'systems thinking'.
- It showed how 'competitive rivalry' is very much a function of the other four forces.
- It helped predict the long-run rate of returns in a particular industry.
- It went beyond a more simplistic focus on relative market growth rates in determining industry attractiveness.
- It helped combine input-output analysis of a specific industry with industry boundaries via entry barriers and substitutes.
- It emphasized the importance of searching for imperfect markets, which offer more national opportunities for superior returns.

# Competitive Rivalry

- One of the most important
- Increase in pressure, time and cost!
- Factors
  - Number of Competitors
  - Market Size
  - Product differentiation
  - Power of buyers
  - Capacity utilisation
  - Cost structure
  - Exit barriers



# Competitive Rivalry

- **Benefits**
  - Differentiation
    - Research and Development
  - Lowers prices
  - Economic growth

# The threat of new entrant

- Involves organisations entering into an industry whereby they will gain market share and competition will intensify
- Six barriers to entry
  - Economies of scale
  - Product differentiation – Loyalty (Shugan, 2005)
  - Capital Requirements
  - Cost disadvantages
    - Raw materials
    - Favorable locations
    - Government subsidies
  - Distribution channels (Grimm, 2006)

# Bargaining power of customer

- Customers who **collectively** become a powerful group
- Exert pressure
- Drive down prices
- Increase the quality of good



# Bargaining power of customer

- Determinants
  - Bought in large values of quantity
  - Product or service is standard or undifferentiated
  - Buyer is large and supplier is small
  - Threats of vertical integration
    - Increases pressure to meet demands

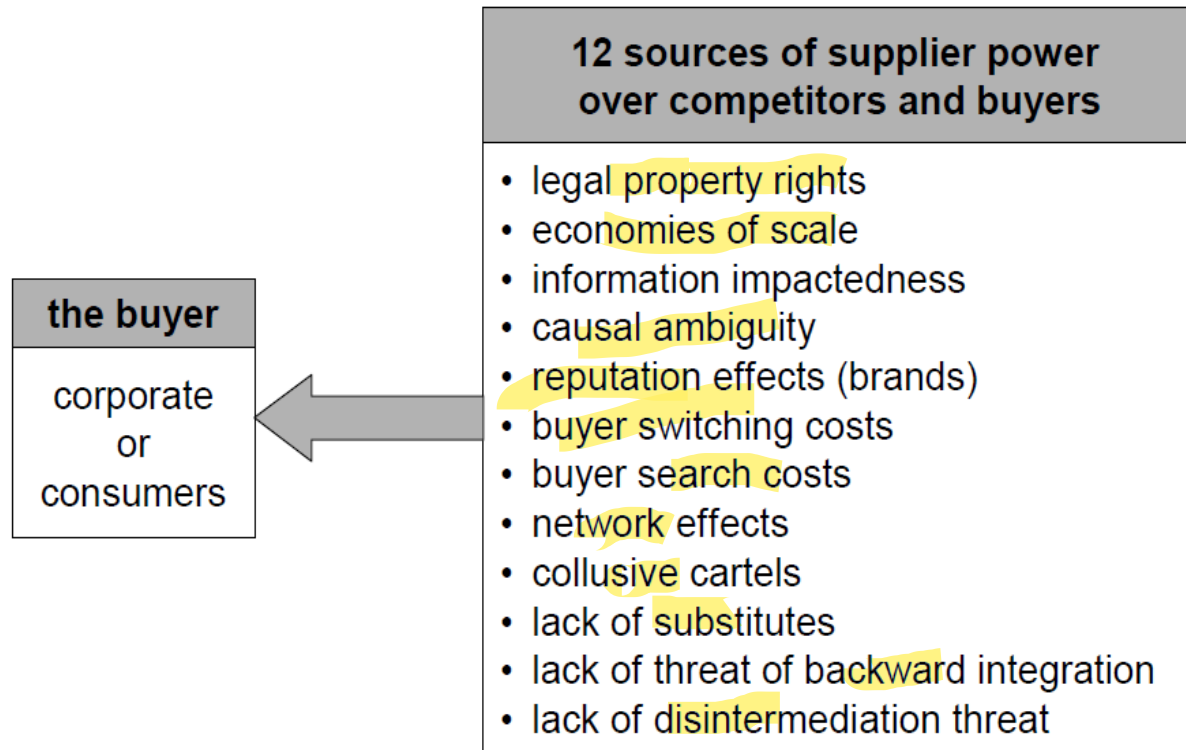
# Bargaining power of supplier

- The suppliers have power to sell their products at higher prices.
- Example: Fast Food Restaurants



# Bargaining power of supplier

- The fundamental bases of supplier power over buyers (Cox, 2001)



# Threat of substitutes

- “A substitute performs the same or a similar function as an industry’s product by a different function . . . [and] limit an industry’s profit potential by placing a ceiling on prices” (Porter, 2008: 84).
- Extent depends on:
  - Switching costs
  - Product price
  - Product quality

# Criticisms of the Five Forces

- Does not assist firms to identify and leverage unique sustainable advantages (Speed, 1989).
- Focuses on attractiveness of industries rather how firms gain an advantageous position
- Overemphasises competition and lack of cooperation
- Cannot generalise. Based on a snap shot of time

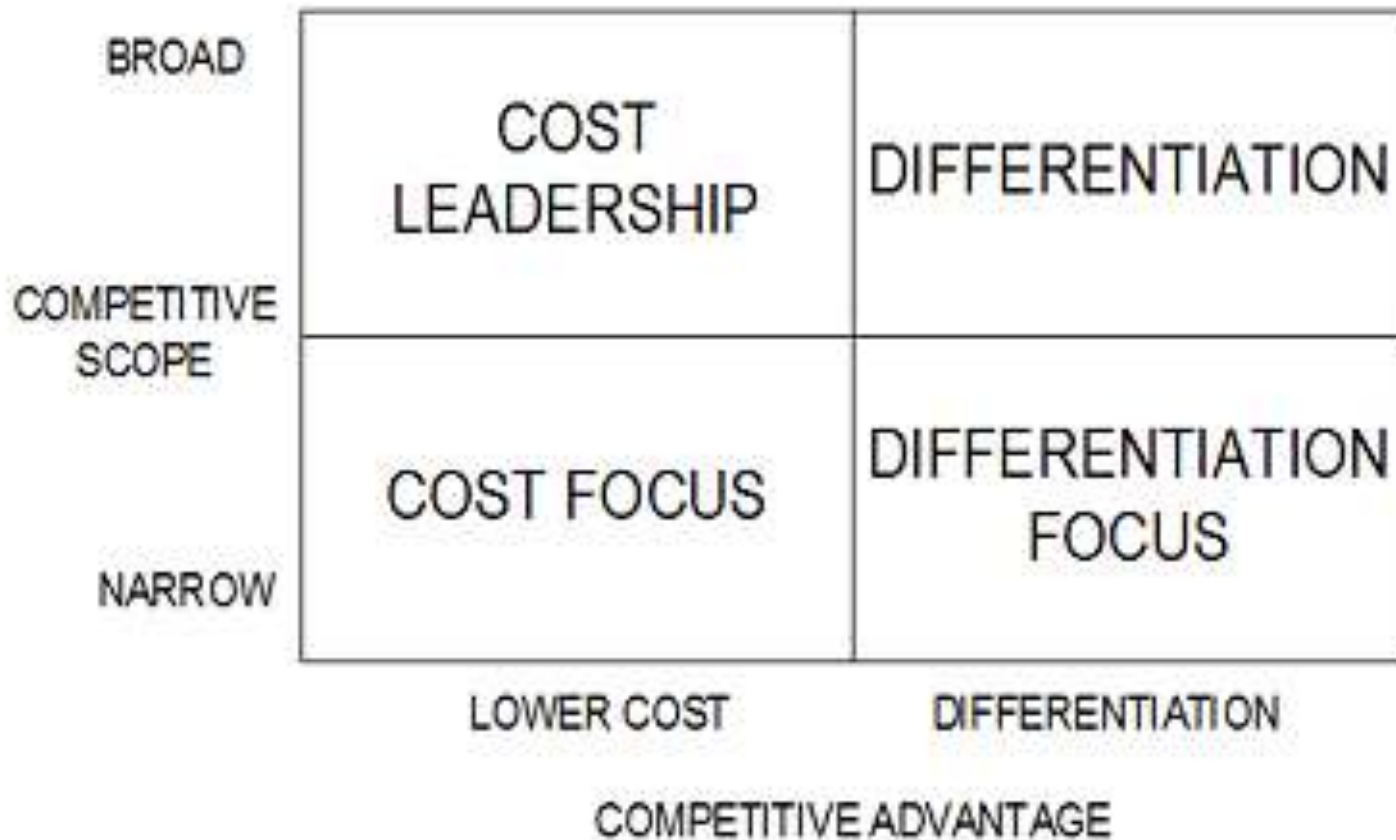
Given these criticisms it is worth mentioning that it has been suggested that “each of Porter’s five forces offers a useful ‘window’ onto industry dynamics” (MacIntosh and MacLean, 2015: 64).



# Porter's Generic Strategies

- For organisations to survive and succeed they need to adopt a competitive strategy
- Based on gaining competitive advantage
  - Gaining advantage through better value, price or benefits

# Porter's Generic Strategies



Source: Adapted from Porter (1985: 12).

# Cost Leadership

- Focuses on gaining competitive advantage by having the lowest cost in the industry
- Aim
  - To service mass market
- Techniques
  - Mass production
  - Mass distribution
  - Economies of scale
  - Technology
  - Product design

# Differentiation

- Concentrates on providing a unique product or service, developing a unique selling point (USP) to ensure they are different from their competitors
- Tailoring to individual customer segments
- Techniques
  - Extra features
  - Quality
  - Price

# Focus/Differentiation Focus

- Concentrates on a selected few target markets (focus) or seeks differentiation in its target segment
- Aim
  - Gain a competitive advantage through effectiveness rather than efficiency
- Techniques
  - Being clear in differences with competition
  - Being clear in differences with other consumers
  - Niche status

# ‘Stuck in the middle’

- Attempt to adopt all three of these strategies
- Demonstrates indecisiveness on competitive strategy
- Lack of clarity



# Criticisms: Porter's generic strategies

- Theoretical shortcomings
  - Too general. Simplistic strategy
- Fit with reality
  - Clash with empirical reality
  - Limited market knowledge
- Limited applicability
  - Not applicable for small firms/ fragmented markets / retailers
- Alternative theatrical approaches
  - Should apply a resource – based approach
  - Process is flexible

# Further reading

- Porter, M.E. (1985). *Competitive Advantage*. New York: Free Press.
- Porter, M.E. (1998). *Competitive Strategy*. New York: Free Press.
- Porter, M.E. (1996). What is strategy? *Harvard Business Review* 74(6), 61-78.



# References

- Cox, A. (2001). Understanding buyer and supplier power: a framework for procurement and supply competence. *Journal of Supply Chain Management*, 37(1), 8-15.
- Garau, C. (2007). Porter's generic strategies: a re-interpretation from a relationship marketing perspective. *The Marketing Review* 7(4), 369-383.
- Grimm, H. (2006). "Entrepreneurship Policy and Regional Economic Growth: Exploring the Link and Theoretical Implications." In Rihoux, B. and Grimm, H. (eds.) *Innovative Comparative. Methods for Policy Analysis Beyond the Quantitative-Qualitative Divide* USA: Springer.
- MacIntosh, R. and MacLean, D. (2015). *Strategic Management: Strategists At Work*. London: Palgrave Macmillan.
- Porter M.E. (1980). *Competitive Strategy*. New York: Free Press.
- Porter, M.E. (1979). How Competitive Forces Shape Strategy. *Harvard Business Review* 57(2), 137-145
- Porter, M.E. (1985). *Competitive Advantage*. New York: Free Press.
- Porter, M.E. (2008) The five competitive forces that shape strategy. *Harvard Business Review* 86(1), 25-40.
- Shugan, S.M. (2005). Brand Loyalty Programs: Are They Shams? *Marketing Science* 24(2), 185-193
- Speed, R.J. (1989). Oh Mr Porter! A re-appraisal of competitive strategy. *Marketing Intelligence & Planning* 7(5/6), 8-11.