

TU-A1300

Introduction to Industrial Engineering and Management

Week 2 Pre-lecture Reading

How to Cope with Competition?

The profitability of a business is based on the company's ability to meet the needs of its customers. In order to function, a company must, on one hand, identify and define the customer needs that it seeks to satisfy in order to create value for its customers, and on the other hand, organize its operations so that it is able to do so in an economically sustainable manner. While a company's offering – that is the complementary range of products and services it offers - must be both valuable to the customer and economically feasible from a production perspective, the viability of the company is also determined by its competitiveness.

Porter's model is useful for understanding the overall profitability of companies. The model helps a company understand its business environment by highlighting the factors that influence its success and which it should monitor when considering how it should develop itself. However, it should be noted that the model is industry-centric. An industry consists of companies that produce fairly similar products aimed at customers in fairly similar ways. If a company relied solely on monitoring the factors in Porter's model, it would end up thinking about its future in terms of existing customers and competitors. This could lead to missed opportunities, and to being caught off guard by unexpected threats.

To avoid this, we can expand our analysis of the business environment, for example, by looking at the markets in which our business is involved. Whereas an industry is a cluster of similar companies, the market is determined by products and services. Similar products can be seen as constituting a market. Industries such as car manufacturers (industry) and markets such as passenger cars (market), tend to correspond well to each other. However, there may be several solutions that satisfy the same customer need. While these solutions can be very similar, or they may be so different that it is difficult for a company to identify competing alternatives to its own solutions. For example, if the customer wants a hamburger, the hamburger restaurants compete with each other to satisfy that need, but if the customer is hungry, the hamburger restaurants also face competition from other restaurants, hotdog carts, ready-to-go meals, and any other products through which the customer can satisfy his or her hunger.

This creates a distinction between direct and indirect competition. Direct competition comes from companies that respond to the same need with similar products. Car brands are in direct competition with each other, as are bicycle manufacturers. Indirect competition comes from companies that address the same customer need but does so through a different product. Cars and bicycles are competing solutions for mobility, and for example small city cars and electric bicycles are very different as products but may for some customers be equivalent solutions to their needs.

The source of indirect competition is in customer needs and their evolution. As direct competition is generally very obvious to companies, and it is straightforward to identify and compare oneself to competing companies' products, it is typically very challenging for companies to monitor indirect competition. Hence, analyzing the business environment from a

customer value point of view, is complementary to Porter's industry analysis, especially with respect to indirect competition. Further, the business environment can also be analyzed in terms of wider societal changes. Various changes in legislation (such as caps for instant loans), moral values (such as attitudes on fur farming), and technology (Uber's influence on the taxi industry) can redefine competition or create new competitors (both direct and indirect). Societal change can be understood for example through the PESTEL framework, which divides change into political, economic, social, technological, environmental and legal aspects. Major societal changes shape the values and needs of consumers, potentially changing the requisites of long-term success for entire industries.