

BUS359

Contemporary Strategic Analysis

Lecture 4: Further topics in industry analysis

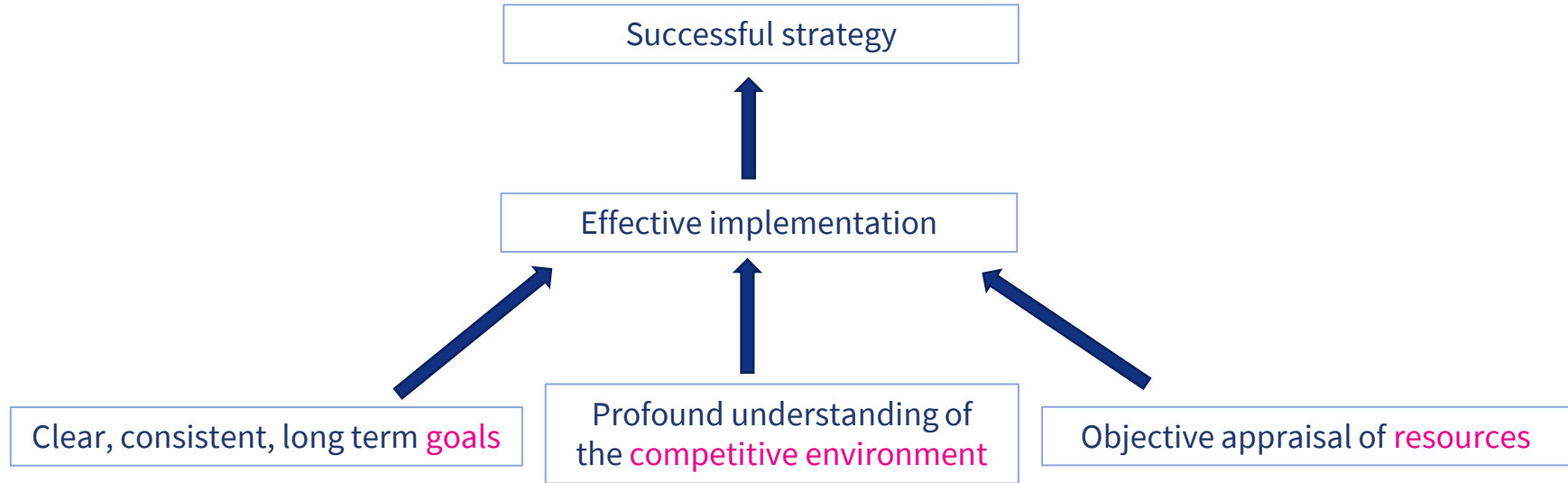
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Recap: Macro-environment analysis & industry analysis

Think-pair-share (5 minutes):

- How does PESTEL analysis examine the macro-environment?
- Who are the central stakeholders influencing an organisations long-term survival & success?
- What are Porter's Five Forces of competition?
- You are a CEO of X organisation, what conditions make an industry attractive to join? (Think Porter's Five Forces)
- What are Key Success Factors?

Common elements in successful strategy



Outline

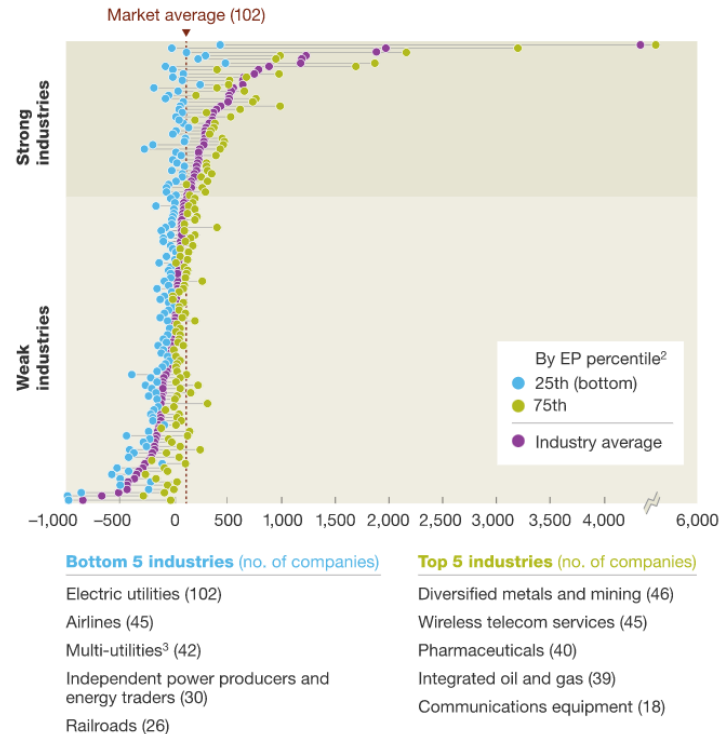
- Extending Porter's Five Forces
- Limitations of Porter's Five Forces
- Analysing dynamic competition
 - Game theory
 - Segmentation analysis
 - Strategic group analysis

Does industry matter?

- It is true that profitability differences *within industries* are greater than profitability differences *between industries*.
- Industry analysis is important because, without a deep understanding of their competitive environment, firms cannot make sound strategic decisions.
- Industry effects have minor role on profitability.
- Yet, industry analysis helps firms understand their competitive environment
 - Which industries?
 - Which segments?
 - Which strategic groups?

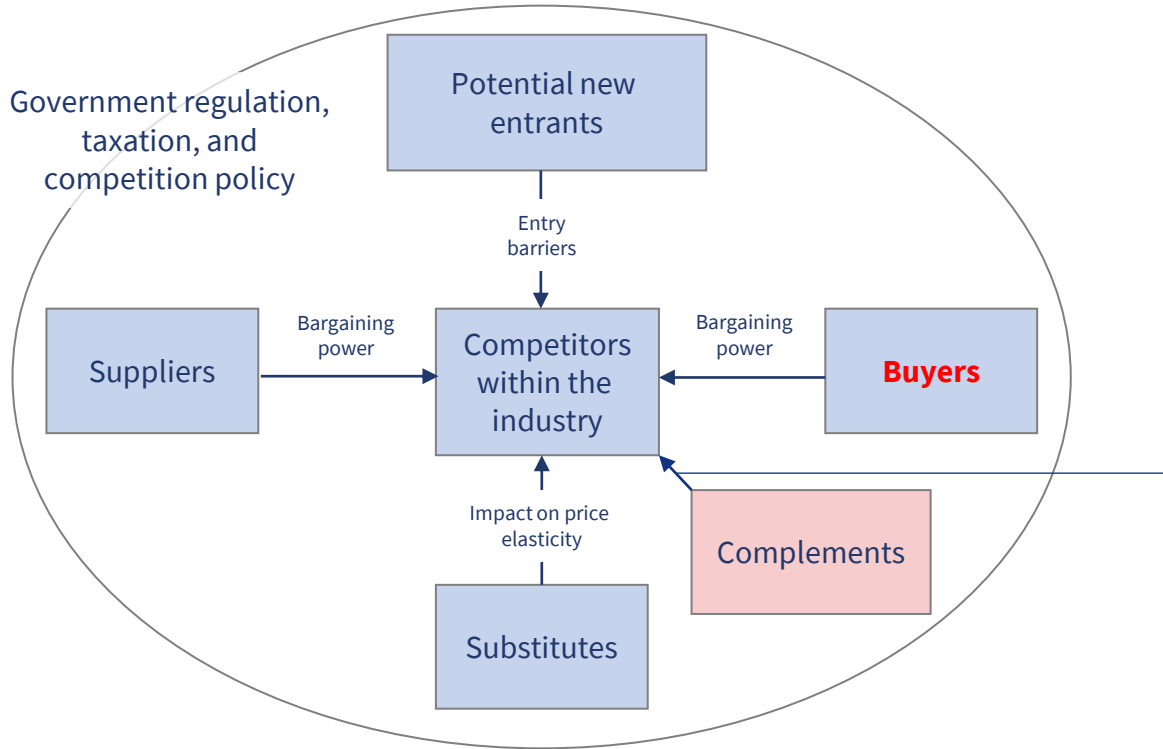
Distribution of company economic profit within industry

Companies' average economic profit (EP), 2007–11, n = 2,888,¹ \$ million



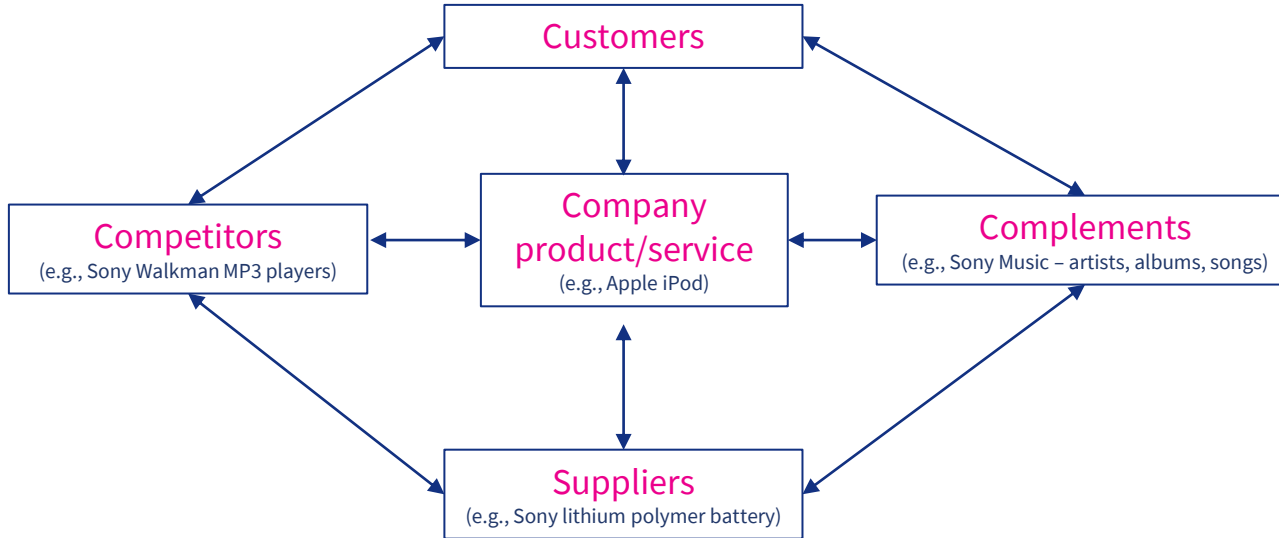
The Strategic Yardstick You Can't Afford to Ignore," McKinsey Quarterly (October 2013)

Five Forces or Six? Introducing complements



The suppliers of complements create value for the industry and can exercise bargaining power.

Complements: The Value Net



Complements when:

- Customers **value** a product more when combined with another product
- More attractive for supplier to provide resources to multiple competitors (not just one)

An organisation can play multiple roles.

Network effects

- The effect an **additional user of a product or service** has on **the value of that product or service for others**.
- More customers = better for everyone in the network



Limitations of Porter's Five Forces (1/2)

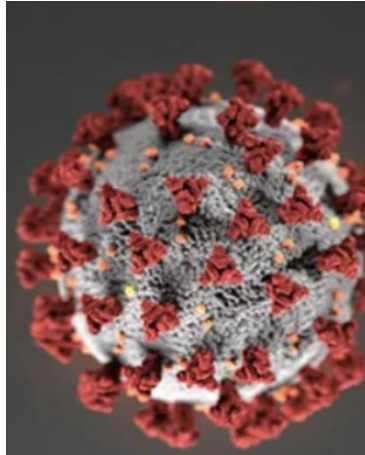
- Porter framework assumes:
 - Industry structure drives competition
 - Industry structure is (fairly) stable
- But, competition also changes industry structure:
 - Innovation & entrepreneurship:
 - Schumpeterian Competition – A “perennial gale of creative destruction” in which market leaders challenged and overthrown by rival’s innovation.
 - Hyper-competition:
 - “Intense & rapid competitive moves” in which competitors must continuously create new competitive advantages and erode the advantages of rivals.

Limitations of Porter's Five Forces (2/2)

- **Time – industry structure evolves**

Convergence – separate industries come together

- **Macro-factors change**



(Source: Barcelona SE)



(Source: Bloomberg)



(Source: NY Times)

Tools of dynamic competition

- Game theory
- Segmentation analysis
- Strategic group analysis

Game theory (1/3)

- Provides key insights into competitor interaction
- **Useful:**
 - Frames strategic decisions as interactions between competitors
 - Predicts outcomes of competitive situations involving a few, evenly-matched players
 - 'Interdependent' competitors
- Encourages an organisation to consider competitors' likely moves & the implications of these moves for its own strategy
- **How?**
 - Get into the mind of competitors
 - Think forwards & reason backwards

Game theory (2/3)

		Boeing	
		Hold price	Cut price
Airbus	Hold price	500 / 500	100 / 700
	Cut price	700 / 100	300 / 300

Game theory (3/3)

- Highlights the value of cooperation over aggressive competition
- Cooperation can also be encouraged by:
 - **Deterrence** – impose undesirable costs on competitors (require credibility)
 - **Commitment** – irrevocable deployment of resources to product or service
 - **Changing the Structure of the Game**
 - **Signalling** – selective communication to influence a competitors decision

Problems

- Weak in predicating future behaviour
- Sensitive to small changes in assumption



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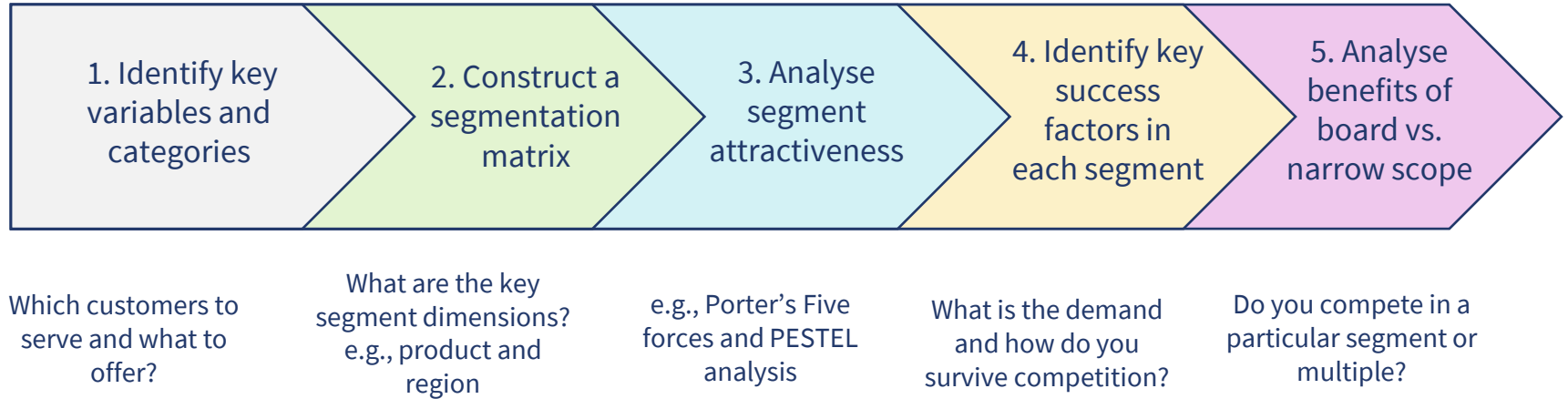
Segmentation analysis

- A group of customers who have **similar needs** that are **different from customer needs** in **other parts of the market**.
- Two issues are particular important:
 - Variation in customer needs and characteristics – find distinctive set
 - Specialisation within a market experience & relationships



Segmentation analysis

- Purpose:
 - To identify attractive segments, to select strategies for different segments, and to determine how many segments to serve



Strategic group analysis

- Aims to identify a group of firms with similar strategic characteristics, following similar strategies or competing on similar bases.

e.g., grocery retailing industry: supermarkets, convenience stores, service stations, corner shops

- Two major characteristic categories
 - Scope of activities (e.g., product/service range, geographical coverage, etc.)
 - Resource commitment (e.g., marketing effort)

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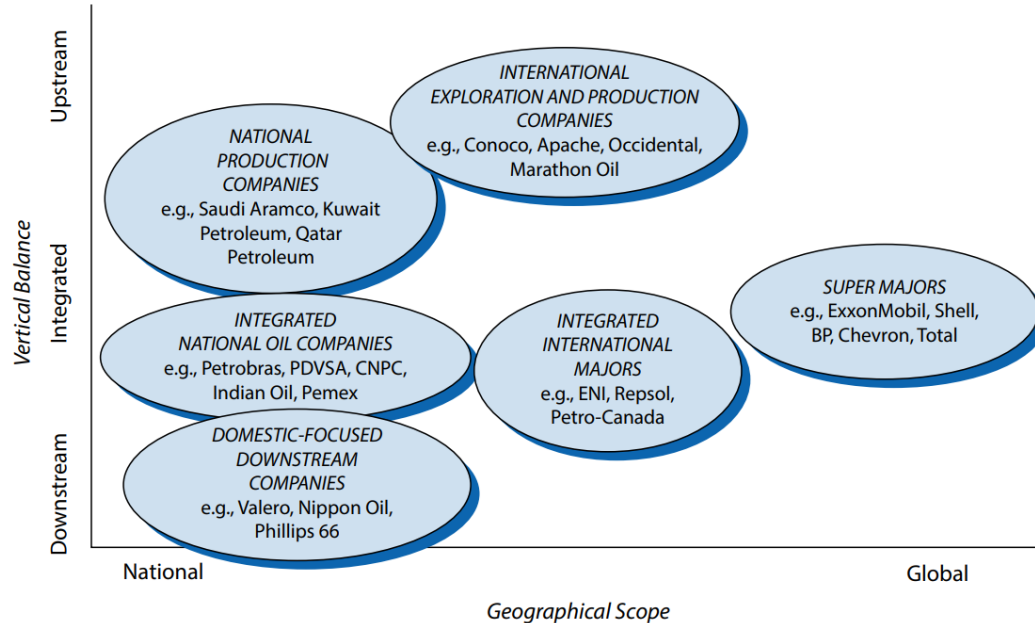
(Source: Retail Gazette)



BBC - A cultural history of the beloved corner shop (Source: BBC)

England's best and worst service stations revealed (Source: Independent)

Strategic groups within the world petroleum industry



Useful:

- Understanding competition.
- Analysis of strategic opposition – white spots (seek) vs. black spots (avoid).
- Analysis of mobility drivers.

(Source: Grant, R. M. (2018). *Contemporary strategy analysis*. John Wiley & Sons, page 102)

What is the difference between segmentation analysis and strategic group analysis?

- **Segmentation** analysis uses **the characteristics of product markets** as the basis for dividing industries
- **Strategic group** analysis uses **the characteristics of firms** as the basis for division.

Summary and next week

Recap:

- Complements as a 6th force in industry analysis
- Limitations of Porter's Five Forces
- Competition is a dynamic process – it shapes firm strategy and transforms industry structure
- Game theory, segmentation analysis, and strategic group analysis

Forthcoming:

- Lecture 5: Resources & capabilities
- Identify & diagnose strategic capabilities
- Resource-based view

Seminar session 4:

- Required reading: Case study on the QMPlus
- Discussion questions, refer to the QMplus module page



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