**Session 02 BUSA 7800 - Strategic Management Chapter 02**

Learning Outcomes

At the end of this session you should be able to:

1. Describe the elements that make up a firm's general environment and how it impacts on the firm's strategies and performance.
2. Explain how trends and events in the general environment and forces in the competitive environment are interrelated and affect performance.
3. Explain each force in the five forces model.
4. Describe how based on the five forces model a firm can either be in a more competitive or less competitive industry.
5. Outline several limitations of the five forces model.

**Chapter 02 – Analyzing the External Environment of the Firm**

**I. Introduction**

Putting together a successful strategy requires managers to understand their firm's business environment.

How do we know if a factor belongs in an organization's general environment?

Why should we monitor our general environment?

How do we describe an industry?

What is the challenge for managers in defining an industry?

**II. The General Environment**

What are the six segments of the general environment?

*1. Demographic/Psychographic 2. Sociocultural 3. Political/Legal 4. Technological 5. Economic 6. Global*

**A. The Demographic/Psychographic Segment**

What are demographics?

How can an aging population impact an industry?

What do Psychographics capture?

**B. The Sociocultural Segment**

What types of issues would fall under the sociocultural segment?

**C. The Political/Legal Segment**

What are types of issues are covered in the Political/Legal segment?

**D. The Technological Segment**

Why do businesses adopt new technologies?

**E.** **The Economic Segment**

What are some examples of *economic conditions* that can affect most organizations?

**F. The Global Segment**

What types of issues are included as part of the Global Segment?

**G. Relationships among the Elements of the General Environment**

How can the impact of a trend or an event vary across industries?

**III. The Competitive Environment**

**A. Five Forces Model**

Why do we also focus on a firm's competitive environment?

* + *The nature of competition as well as the profitability of a particular firm are more directly impacted by factors in the competitive environment*

What do we learn from Michael Porter's Five Forces model?

Michael Porter's Five Forces Model is the most popular tool to assess an industry's competitive forces.

The Five Forces are:

1. Threat of New Entrants
2. Bargaining Power of Suppliers
3. Bargaining Power of Buyers
4. Threat of Substitute Products or Services
5. Rivalry Among Existing Competitors

**B. Threat of New Entrants**

How easy is it for another firm or a new firm to enter into your industry and start selling similar products to your customers?

What are barriers to entry? Why is it important to have barriers to entry?

What is the most common barrier to entry?

What are economies of scale and why do they provide a barrier to entry?

How do strong brand preferences and a high degree of customer loyalty act as barriers to entry?

Why would it be difficult to build a network of distributors-retailers and to secure adequate space on a retailer’s shelves?

**C.** **Bargaining Power of Suppliers**

In what situations would you have strong bargaining power over your supplier?

In what situations would your suppliers have strong bargaining power over you?

Who makes the majority of the profits in the personal computer (PC) industry?

**D. Bargaining Power of Buyers**

The other side of the coin from the "Bargaining Power of Suppliers" is the "Bargaining Power of Buyers".

What would be an ideal situation for our firm when it comes to the bargaining power of buyers?

How has Apple reduced buyer bargaining power?

How can bargaining power shift to buyers when there is low demand?

**E. Threat of Substitute Products or Services**

How do we know if a product is a substitute for what we sell?

What is a general rule with your ability to sustain healthy profits and the number of substitutes?

How have laptop makers dealt with the threat of substitute products?

How do some firms reduce the threat of substitutes?

**F. Rivalry Among Existing Competitors**

The last force tends to be the strongest of the five competitive forces.

How intense is the competition between you and your rivals?

What are some signs of high levels of rivalry?

* + *Frequent price cutting*
  + *Frequent introduction of new products in an industry*
  + *Intense advertising campaigns*
  + *Rapid competitive reactions*

What are some attributes of an industry that are likely to generate high levels of rivalry?

* + *Large numbers of competing firms (most are roughly the same size).*
  + *Slow industry growth*
  + *Lack of product differentiation*
  + *Capacity added in large increments*

Researchers have found that rivalry is weaker in industries comprised of many small rivals as well as in industries where there are fewer than five rivals. Why explains this above phenomena?

**G. Five Forces Summary**

What is the ideal competitive environment for earning superior products?

* + *High barriers to entry*
  + *Both suppliers and customers have weak bargaining power*
  + *No good substitutes*
  + *Low rivalry among present sellers*

**H. Using Industry Analysis: A Few Caveats**

What is a key assumption of the five forces model?

How can zero sum thinking be short-sighted?

How do firms that make complementary products fit into the five forces model?

How can an industry be competitively unattractive with just one of the five factors being unfavourable to a firm? (Each factor is not equal.)

In the area of competitive rivalry why is price competition very different from the other aspects?

Why do we need to factor in the different regions for each industry?

**Next Session:**

Chapter 3: Analyzing the Internal Environment of the Firm