

## SCEQA Framework

### SITUATION

- Where are we now vs. where do we want to be?

### COMPLICATIONS

- What are the hurdles that may prevent us from getting to where we want to be?

### ENABLERS

- What do we have (or face) that can help us get we want to be?

### CORE QUESTION

- Hence, what is the core question that needs to be solved?

### ANSWER

- What actions can we take to address the core question?

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## Maldives Key Takeaways

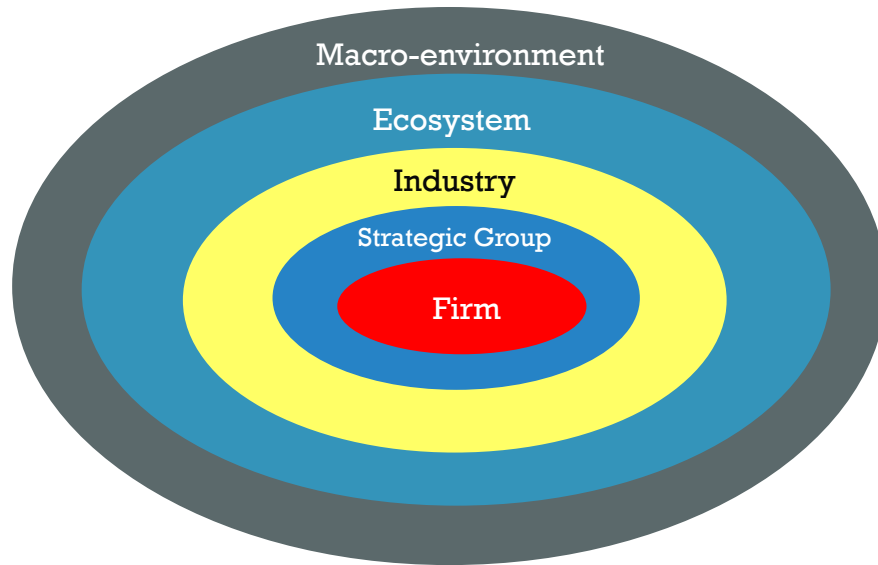
This class is about teaching **you** to solve firms' **complex** problems.

- For **complex** problems, the questions are unclear and the answer is rarely apparent.
  - Looking too narrowly limits creativity.
  - Looking too broadly makes it hard to get started.
  - “Plunging in,” is a trap that can lead you to **solve the wrong problem**.

By applying the right framework and knowing the core concepts of strategy, you can be more **CONFIDENT** that your answer is the right one.

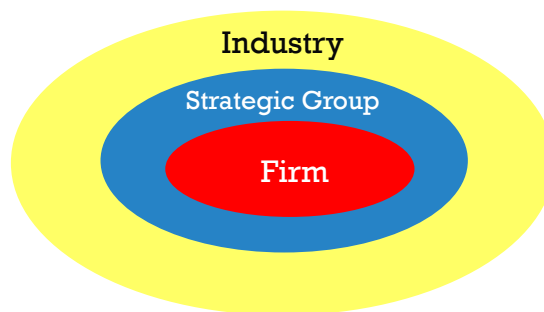
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## Components of a Firm's Environment



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## Components of a Firm's Environment



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## Two Extreme Industry Structures

- **Monopoly**

- One seller and many buyers
- Unique product
- Restrictions on entry



- **Perfect Competition**

- Many buyers and sellers
- Identical product
- Perfect information
- Free entry and exit



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## Four Industry Structures

- **Monopoly**

- One seller and many buyers
- Unique product
- Restrictions on entry



- **Monopolistic Competition**

- **Oligopoly**

- **Perfect Competition**

- Many buyers and sellers
- Identical product
- Perfect information
- Free entry and exit



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## What is Industry Attractiveness?

- Overall profit prospects above average = Attractive
- Overall profit prospects below average = Unattractive

Note: Point of industry analysis is to determine source/s of profitability, not just attractiveness

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## R.T.E. Cereal in 1994

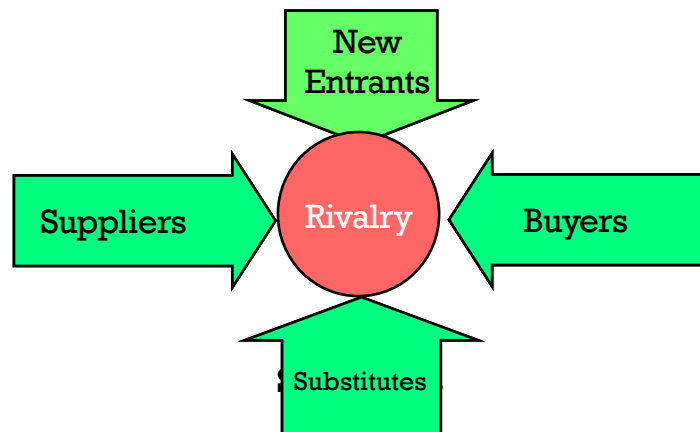
### **In Your Teams:**

Construct part of a 5-Forces Analysis of the RTE Cereal Case.

- Teams 1 & 2: Suppliers
- Teams 3 & 4: Buyers
- Teams 5 & 6: New Entrants
- Teams 7 & 8: Substitutes

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## Porters Five Forces Model



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## Power of Suppliers

- Depends on the relative bargaining leverage of suppliers
- Questions to ask:
  - How concentrated are the suppliers?
  - How crucial is a supplier's product?
  - What are the buyers' switching costs?
  - What is the threat of vertical integration?

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# Threat of New Entrants

- Based on barriers to entry

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# Threat of New Entrants



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## Threat of Substitutes

- Substitutes are products from different industries that may attract customers

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## Power of Buyers

- Depends on the relative bargaining leverage of buyers
- For RTE Cereals, who are the buyers?

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## Power of Buye



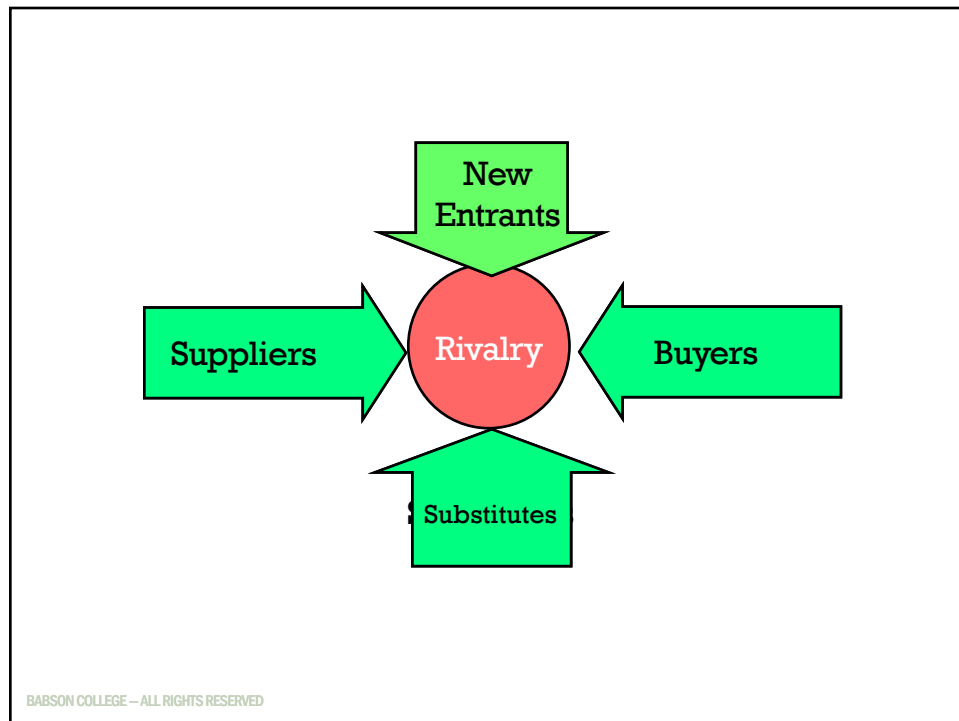
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## Rivalry

- Typically the most powerful force

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## Go to the Exhibits...

- Exhibit 7: What are the margins for the largest companies?
- Exhibit 6: Who has the market share (power)?

How does Kellogg's Feel?