Industry Analysis: Forces Influencing Competition

- Industry – group of firms that produce products that are close substitutes for each other
- Porter’s Five forces influence competition in an industry

Porter’s Five Forces
Threat of New Entrants

- New entrants mean downward pressure on prices and reduced profitability
- Barriers to entry determines the extent of threat of new industry entrants
  - Economies of Scale
  - Product differentiation
  - Capital requirements
  - Switching costs
  - Distribution channels
  - Government policy
  - Cost advantages independent of scale economies
  - Competitor response

Threat of Substitute Products

- Availability of substitute products places limits on the prices market leaders can charge
- High prices induce buyers to switch to the substitute

Bargaining Power of Buyers

- Buyers seek to pay the lowest possible price
- Buyers have leverage over suppliers when
  - They purchase in large quantities (enhances supplier dependence on buyer)
  - Suppliers’ products are commodities
  - Product represents significant portion of buyer’s costs
  - Buyer is willing and able to achieve backward integration
Bargaining Power of Suppliers

- When suppliers have leverage, they can raise prices high enough to affect the profitability of their customers
- Leverage accrues when
  - Suppliers are large and few in number
  - Supplier's products are critical inputs, are highly differentiated, or carry switching costs
  - Few substitutes exist
  - Suppliers are willing and able to sell product themselves

Rivalry among Competitors

- Refers to all actions taken by firms in the industry to improve their positions and gain advantage over each other
  - Price competition
  - Advertising battles
  - Product positioning
  - Differentiation

Competitive Advantage

- Achieved when there is a match between a firm’s distinctive competencies and the factors critical for success within its industry
- Two ways to achieve competitive advantage
  - Low-cost strategy
  - Product differentiation
Generic Strategies for Creating Competitive Advantage

- Cost Leadership
- Product Differentiation
- Cost Focus
- Focused Differentiation

The Flagship Firm: The Business Network with Five Partners

Creating Competitive Advantage via Strategic Intent

- Building layers of advantage
- Searching for loose bricks
- Changing the rules of engagement
- Collaborating
Global Competition and National Competitive Advantage

Factor Conditions
- Human Resources – the quantity of workers available, skills possessed by these workers, wage levels and work ethic
- Physical Resources – the availability, quantity, quality, and cost of land, water, minerals and other natural resources
- Knowledge Resources – the availability within a nation of a significant population having scientific, technical, and market-related knowledge
- Capital Resources – the availability, amount, cost, and types of capital available; also includes savings rate, interest rates, tax laws and government deficit
- Infrastructure Resources – this includes a nation’s banking, health care, transportation, and communication systems

Demand Conditions
- Composition of Home Demand – determines how firms perceive, interpret and respond to buyer needs
- Size and Pattern of Growth of Home Demand – large home markets offer opportunities to achieve economies of scale and learning in familiar, comfortable markets
- Rapid Home Market Growth – another incentive to invest in and adopt new technologies faster and to build large, efficient facilities
- Products being pushed or pulled – do a nation’s people and businesses go abroad and then demand the nation’s products and services in those second countries
Related and Supporting Industries

- The advantage that a nation gains by being home to internationally competitive industries in fields that are related to, or in direct support of, other industries.

Firm Strategy, Structure, and Rivalry

- Domestic rivalry in a single national market is a powerful influence on competitive advantage.
- Differences in management styles, organizational skills, and strategic perspectives create also advantages and disadvantages for firms competing in different types of industries.
- Capital markets and attitudes toward investments are important components of the national environments.
- Chance events are occurrences that are beyond control; they create major discontinuities.
- Government is also an influence on determinants by virtue of its roles as a: consumer, policy maker, and commerce regulator.

Current Issues in Competitive Advantage

- Today's business environment, market stability is undermined by:
  - short product life cycles
  - Short product design cycles
  - New technologies
  - Globalization
- Result is an escalation and acceleration of competitive forces.
Current Issues in Competitive Advantage

- Hyper-competition is a term used to describe a dynamic competitive world in which no action or advantage can be sustained for long.
- Competition unfolds in a series of dynamic strategic interactions in four areas: cost quality, timing and know-how, entry barriers, and deep pockets.

Current Issues in Competitive Advantage

- In today’s world, in order to achieve a sustainable advantage, companies must seek a series of unsustainable advantages.
- The role of marketing is innovation and the creation of new markets.
- Innovation begins with abandonment of the old and obsolete.