GLOBAL BUSINESS STRATEGIES

Analysis of the Global Competitive Environment

Lecture 2
Analysis of the global competitive environment

• **External analysis** can be divided into 2 linked processes:
  – **Micro-environmental analysis**
    • competitive or near environment - industry, market & strategic group
  – **Macro-environmental analysis**
    • broad business or far environment STEP analysis

• External analysis identifies *opportunities and threats* through continuous learning about the global and local business environments
Industries and markets

• **An industry** consists of a group of businesses *producing* / *supplying* similar products (goods or services) using similar:
  – resources, skills, competences, technology
  – processes and value adding activities
  – materials
  – supplier channels and distribution channels
Markets

• **A market** is defined in terms of shared:
  – products or services
  – customers
  – customer needs
  – distribution channels
  – Competitors
Why the distinction between industry and market?

• Businesses develop core competences within an industry which are then deployed in markets to satisfy customer demands
  – An industry can serve more than one market
  – A market can be served by more than one industry
Analysis of the competitive environment

• This involves assessing:
  – *the extent of globalisation* in the industry and market - Yip’s globalisation driver framework
  – *the nature and extent of competition* - Porter’s five forces or the resource-based framework
  – strategic groups
Yip’s globalisation drivers

• Analyse which aspects of industries and markets are global and which are local

• Industry globalisation depends upon 4 drivers:
  – market
  – cost
  – competitive
  – government
Industry globalisation
Yip’s drivers

Social Factors

Technology

Globalisation of Industry

Market drivers

Cost drivers

Government drivers

Economic Factors

Competitive drivers

Political Factors
Globalisation drivers - market drivers

• Assess the extent to which there are:
  – *Common customer needs*
  – *Lead countries*
  – *Global brands and global marketing*
  – *Global distribution*

• This will determine which market characteristics are global or local
Globalisation drivers - competitive drivers

• Assess the extent to which there are:
  – *global competitors*
  – *high imports and exports*
  – *country interdependence*

which push towards industry globalisation or localisation
Globalisation drivers - cost drivers

• Assess the extent to which the cost factors push towards industry globalisation:
  – *Scale economies*
  – *High product development costs*
  – *Sourcing advantages*
  – *Logistical advantages*
Globalisation drivers - government drivers

• Assess the extent to which governments have:
  – *reduced trade barriers*
  – *created uniform technical standards*
which push towards industry globalisation
Globalisation drivers

• The strength of the globalisation drivers will determine which aspects of a market and industry are global and which are local

• Global strategy must contain global and local features in accordance with the strength of the drivers
Application of the globalisation driver framework

• The Consumer Electronics Industry
  – Market drivers:
    • Customer needs - common in all countries
    • Lead countries - Japan
    • Global brands and global marketing
    • Distribution - NOT global networks

The market is largely global but strategy must take account of local distribution
Consumer electronics

• Competitive drivers
  – there are global competitors - Sony, Panasonic etc.
  – imports and exports are high
  – competition is interdependent

• Cost drivers
  – there are economies of scale in production
  – product development costs are high
  – transport costs are low

• Government drivers
  – trade barriers are reducing
  – technical standards are becoming uniform

• Global strategy in the consumer electronics industry
  – most aspects will be global
  – only distribution must be localised
Industry structure

The state of competition in an industry depends on five basic forces, the collective strength of which determines the ultimate profit potential of the industry. (Porter)

By determining the relative importance of each of these forces, an organisation can identify where to position itself to take advantage of opportunities and overcome or circumvent threats.
Industry profitability
Porter’s 5 forces

- Technology
- Social Factors
- Economic Factors
- Political Factors

Competitive rivalry in industry

- Buyer power
- Supplier power
- Threat of substitutes
- Threat of new entrants
Threat of entry - barriers to entry

Barriers to entry are:

1. **Economies of Scale** - entrant must either enter on a large scale or accept a cost disadvantage.

2. **Differentiation** - brand identification and customer loyalty to overcome.

3. **Capital requirements** - how much finance is needed to enter and compete?

4. **Cost disadvantages** independent of size - the learning curve, access to cheaper labour, patents, etc.

5. **Access to distribution channels** - can new entrants gain access?

Power of suppliers

Suppliers include suppliers of raw materials, components, labour, power, plant and equipment, finance. Suppliers are powerful if:

1. There is a concentration of suppliers.

2. The costs of switching to another supplier are high - eg. the input is unique or differentiated.

3. There is the possibility of forward integration by the supplier if it does not get the prices it seeks.

4. The industry is not an important customer to the supplier.
Power of buyers

**Buyers (Customers)** include manufacturers, service businesses, retailers, wholesalers and distributors.

**Buyers are powerful if:**

1. There is a concentration of buyers and they purchase large quantities of the product.
2. Buyers can switch easily to alternative sellers
3. The products purchased represent a large portion of the buyer's costs or expenditure (buyer is more likely to shop around).
4. There is a credible threat of backward integration on the part of the buyer.
5. The products of the industry are unimportant to the quality of buyers' products or service.
Threat of substitute products

A substitute can be seen as something which meets the same needs as the product of the industry or competes with it for discretionary expenditure (eg. new car or holiday or cooker?)

Must consider:

1. Relative price and performance of substitutes.
2. Switching costs for buyers.
3. Buyer propensity to substitute.
Competitive rivalry

This takes the form of jockeying for position through tactics such as price competition, product development and advertising.

Intense rivalry can be caused by:

1. The **number of competitors is increasing** and they are becoming more equal in size.

2. The **market is mature** and subject to shake out activities.

3. The products or services feature **little differentiation** and there are low switching costs for buyers.

4. Exit barriers are high.

5. **Competitors are diverse** in terms of strategy, countries of origin and personalities, and have different ideas of how to compete.
Five forces summary

• The strength of the five forces varies from industry to industry and within an industry over time

• The stronger entry barriers, the fewer substitutes, the lower buyer and supplier power, and the less rivalry - less competitive - more profitable

• Vice versa - more competitive - less profitable

• Forces within an industry may contradict each other
Market analysis

• Market identification

• Customer needs and motivations:
  – sensitivity to price
  – sensitivity to quality
  – the extent of brand loyalty
  – unmet needs

• Segmentation analysis
Strategic group and competitor analysis

• **Strategic group analysis** (Porter, 1980) attempts to compare an organisation with its closest competitors

• A strategic group consists of organisations which:
  • possess similar core competences
  • pursue similar strategies
  • serve a similar customer group and similar market segments
  • employ similar technology
  • utilise similar distribution channels
  • produce similar products or services of comparable quality
Comparison of strategic group members

• is based on comparison of:
  – objectives, core competences, strategies, R&D, innovation & culture
  – markets and segments served, market share
  – profitability and price and cost structures
  – access to finance;
  – product quality, customer loyalty & marketing
  – organisation of value adding activities & suppliers and distribution channels;
Role of strategic group analysis

• SG analysis is essential as it:
  – identifies and focuses on an organisation’s closest competitors
  – assists in assessing competitive potential
  – highlights opportunities for development
  – provides external performance benchmarks
  – helps to identify critical success factors
The resource-based framework

• The framework divides analysis into five interlinked areas:
  – the organisation itself
  – the industry
  – product markets
  – resource markets
  – competing industries

• This relates to internal analysis
Resource markets:
 suppliers of human resources, technology, finance, materials services etc.

Product markets:
 customers, customer needs, distributors, competitors

The firm:
 resources, capabilities, core competences, knowledge, value adding activities

Competing industries:
 substitute products, firms with similar competences

The industry:
 competitors in resource and product markets, strategic groups

Collaboration

Co-ordination

Competition

Intelligence
Industry analysis

• Examines over time:
  – the skills and competences of the companies in the industry
  – the organisation of their value adding activities
  – the technology that they employ
  – the number of competitors in the industry
  – ease of entry to and exit from the industry
  – strategic groupings
Product market analysis

• The market for each product will be analysed in terms of:
  – no. of businesses in the market & their relative market shares
  – no. of customers and their relative purchasing power
  – segments and their profitability, customer motivations, unmet customer needs
  – access to distribution channels, potential for collaboration with customers and distributors
Resource market analysis

• Resource markets analysed in terms of:
  – resource requirements of businesses
  – no. of actual & potential resource suppliers
  – size of suppliers, supplier capabilities and competences, potential for collaboration with resource suppliers
  – access by competitors to suppliers
Competing industry analysis

• Those industries which produce substitute products or services - analysed for:
  – substitutability of the product - how close the substitute is to satisfying the same consumer demands as the original product or service
  – key competences of the businesses in the industry
  – the number and size of the businesses in the industry
Critical success factors (CSFs)

- CSFs are factors fundamental to success of all businesses in an industry & associated markets and
  - dictate the skills which a business must possess to ensure survival in the context of its competitive environment
  - differ from industry to industry and from market to market
  - are shaped by the competitive environment