

PART **1**

STRATEGIC
MANAGEMENT
INPUTS

CHAPTER 2

*The External Environment:
Opportunities, Threats,
Industry Competition,
and Competitor Analysis*

Strategic Management

*Competitiveness and Globalization:
Concepts and Cases*

Seventh edition

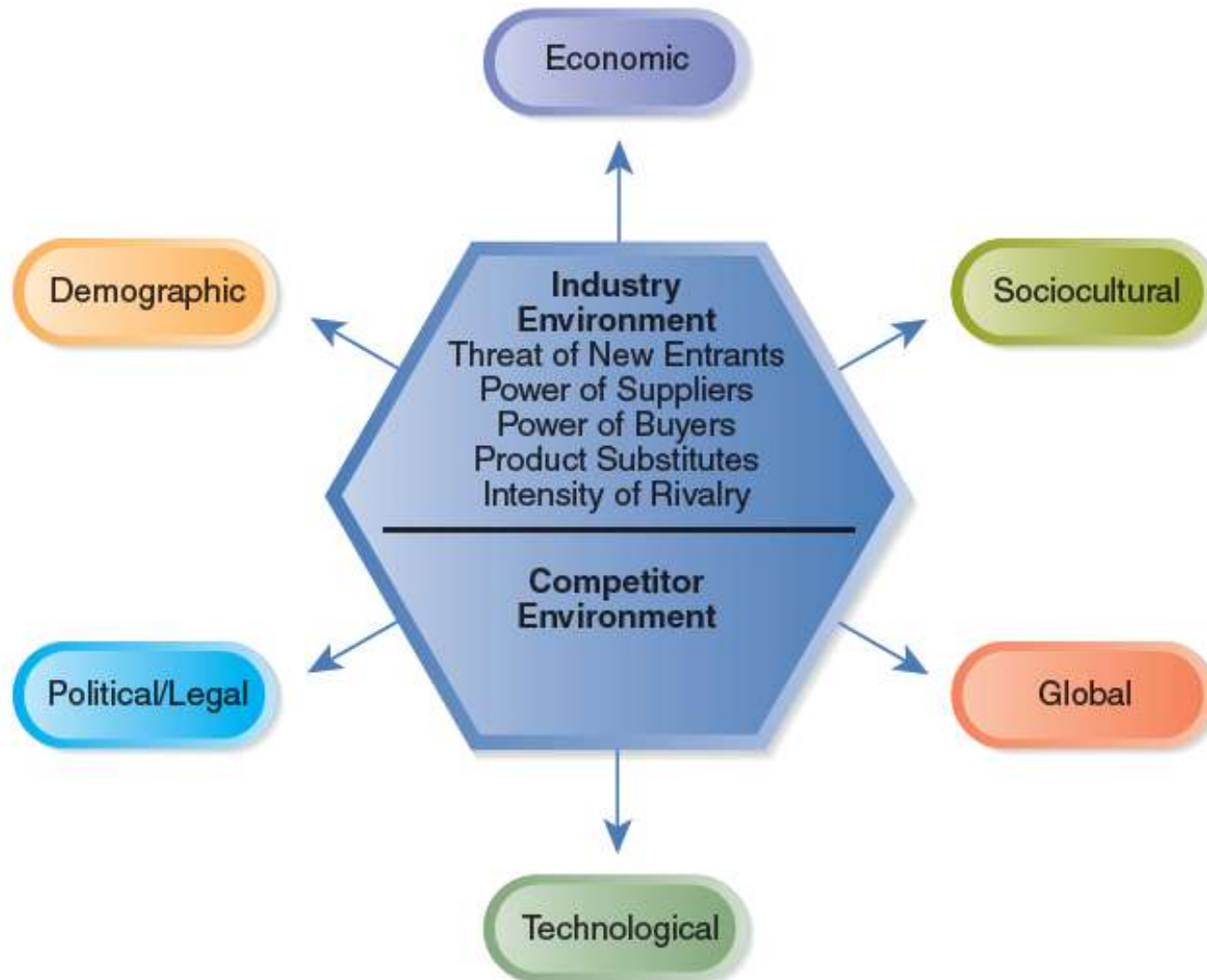
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PowerPoint Presentation by Charlie Cook
The University of West Alabama

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FIGURE 2.1

The External Environment



General Environment

- Dimensions in the broader society that influence an industry and the firms within it:
 - Demographic
 - Economic
 - Political/legal
 - Sociocultural
 - Technological
 - Global

TABLE 2.1

The General Environment: Segments and Elements

Demographic Segment	<ul style="list-style-type: none"> • Population size • Age structure • Geographic distribution 	<ul style="list-style-type: none"> • Ethnic mix • Income distribution
Economic Segment	<ul style="list-style-type: none"> • Inflation rates • Interest rates • Trade deficits or surpluses • Budget deficits or surpluses 	<ul style="list-style-type: none"> • Personal savings rate • Business savings rates • Gross domestic product
Political/Legal Segment	<ul style="list-style-type: none"> • Antitrust laws • Taxation laws • Deregulation philosophies 	<ul style="list-style-type: none"> • Labor training laws • Educational philosophies and policies
Sociocultural Segment	<ul style="list-style-type: none"> • Women in the workforce • Workforce diversity • Attitudes about the quality of work life 	<ul style="list-style-type: none"> • Concerns about the environment • Shifts in work and career preferences • Shifts in preferences regarding product and service characteristics
Technological Segment	<ul style="list-style-type: none"> • Product innovations • Applications of knowledge 	<ul style="list-style-type: none"> • Focus of private and government-supported R&D expenditures • New communication technologies
Global Segment	<ul style="list-style-type: none"> • Important political events • Critical global markets 	<ul style="list-style-type: none"> • Newly industrialized countries • Different cultural and institutional attributes

Industry Environment

- The set of factors directly influencing a firm and its competitive actions and competitive responses
 - Threat of new entrants
 - Power of suppliers
 - Power of buyers
 - Threat of product substitutes
 - Intensity of rivalry among competitors

Competitor Analysis

- Gathering and interpreting information about all of the companies that the firm competes against.
- Understanding the firm's competitor environment complements the insights provided by studying the general and industry environments.



Analysis of the External Environments

- General environment
 - Focused on the future
- Industry environment
 - Focused on factors and conditions influencing a firm's profitability within an industry
- Competitor environment
 - Focused on predicting the dynamics of competitors' actions, responses and intentions

- | | |
|--------------------|--|
| Scanning | <ul style="list-style-type: none">• Identifying early signals of environmental changes and trends |
| Monitoring | <ul style="list-style-type: none">• Detecting meaning through ongoing observations of environmental changes and trends |
| Forecasting | <ul style="list-style-type: none">• Developing projections of anticipated outcomes based on monitored changes and trends |
| Assessing | <ul style="list-style-type: none">• Determining the timing and importance of environmental changes and trends for firms' strategies and their management |

Opportunities and Threats

- Opportunity

- A condition in the general environment that, if exploited, helps a company achieve strategic competitiveness.

- Threat

- A condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness.



Segments of the General Environment

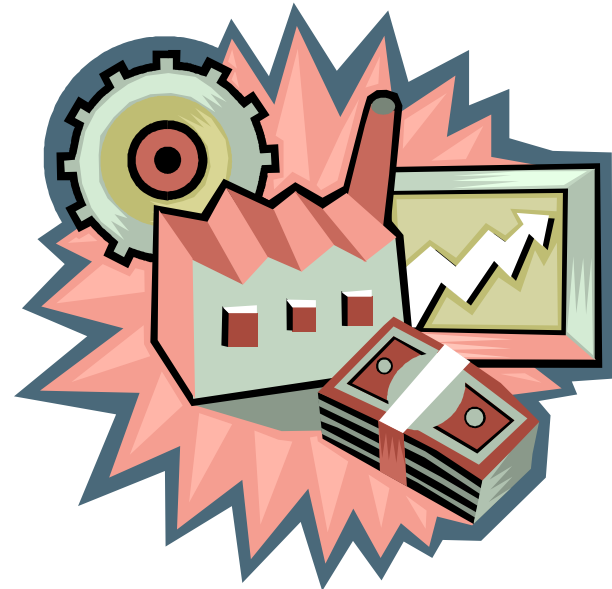
- The Demographic Segment

- Population size
- Age structure
- Geographic distribution
- Ethnic mix
- Income distribution



Segments of the General Environment (cont'd)

- The Economic Segment
 - Inflation rates
 - Interest rates
 - Trade deficits or surpluses
 - Budget deficits or surpluses
 - Personal savings rate
 - Business savings rates
 - Gross domestic product



Segments of the General Environment (cont'd)

- The Political/Legal Segment
 - Antitrust laws
 - Taxation laws
 - Deregulation philosophies
 - Labor training laws
 - Educational philosophies and policies



Segments of the General Environment (cont'd)

- The Sociocultural Segment
 - Women in the workplace
 - Workforce diversity
 - Attitudes about quality of worklife
 - Concerns about environment
 - Shifts in work and career preferences
 - Shifts in product and service preferences

Segments of the General Environment (cont'd)

- The Technological Segment
 - Product innovations
 - Applications of knowledge
 - Focus of private and government-supported R&D expenditures
 - New communication technologies

Segments of the General Environment (cont'd)

- The Global Segment
 - Important political events
 - Critical global markets
 - Newly industrialized countries
 - Different cultural and institutional attributes



Industry Environment Analysis

- Industry Defined

- A group of firms producing products that are close substitutes

- Firms that influence one another
- Includes a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above-average returns

FIGURE 2.2

The Five Forces of Competition Model



Threat of New Entrants: Barriers to Entry

- Economies of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale
- Government policy
- Expected retaliation

Barriers to Entry

- Economies of Scale
 - Marginal improvements in efficiency that a firm experiences as it incrementally increases its size
- Factors (advantages and disadvantages) related to large- and small-scale entry
 - Flexibility in pricing and market share
 - Costs related to scale economies
 - Competitor retaliation

Barriers to Entry (cont'd)

- Product differentiation
 - Unique products
 - Customer loyalty
 - Products at competitive prices
- Capital Requirements
 - Physical facilities
 - Inventories
 - Marketing activities
 - Availability of capital
- Switching Costs
 - One-time costs customers incur when they buy from a different supplier
 - New equipment
 - Retraining employees
 - Psychic costs of ending a relationship
- Access to Distribution Channels
 - Stocking or shelf space
 - Price breaks
 - Cooperative advertising allowances

Barriers to Entry (cont'd)

- **Cost Disadvantages Independent of Scale**
 - Proprietary product technology
 - Favorable access to raw materials
 - Desirable locations
- **Government policy**
 - Licensing and permit requirements
 - Deregulation of industries
- **Expected retaliation**
 - Responses by existing competitors may depend on a firm's present stake in the industry (available business options)

Bargaining Power of Suppliers

- Supplier power increases when:
 - Suppliers are large and few in number.
 - Suitable substitute products are not available.
 - Individual buyers are not large customers of suppliers and there are many of them.
 - Suppliers' goods are critical to the buyers' marketplace success.
 - Suppliers' products create high switching costs.
 - Suppliers pose a threat to integrate forward into buyers' industry.

Bargaining Power of Buyers

- Buyer power increases when:
 - Buyers are large and few in number.
 - Buyers purchase a large portion of an industry's total output.
 - Buyers' purchases are a significant portion of a supplier's annual revenues.
 - Buyers' switching costs are low.
 - Buyers can pose threat to integrate backward into the sellers' industry.

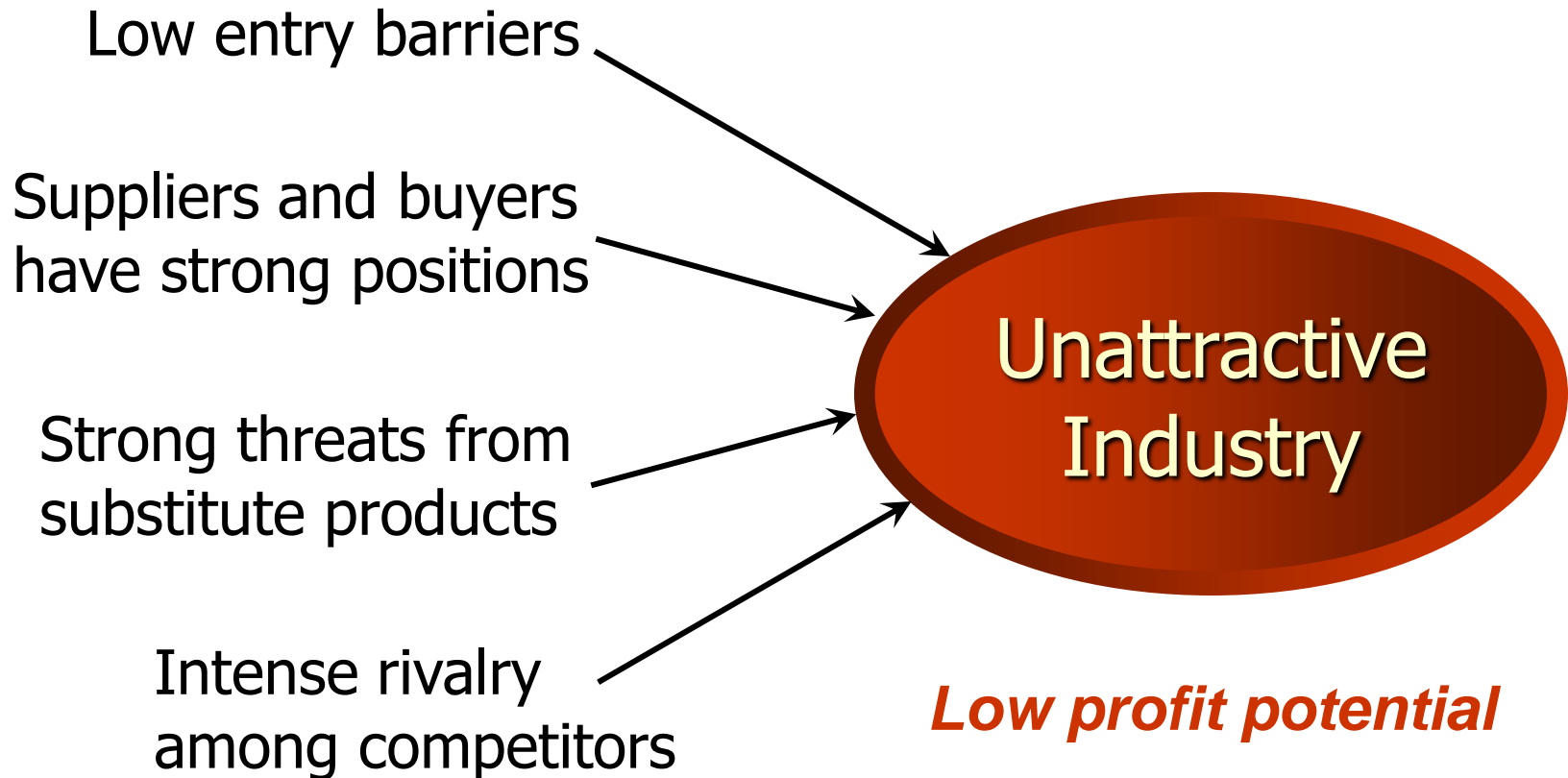
Threat of Substitute Products

- The threat of substitute products increases when:
 - Buyers face few switching costs.
 - The substitute product's price is lower.
 - Substitute product's quality and performance are equal to or greater than the existing product.
- Differentiated industry products that are valued by customers reduce this threat.

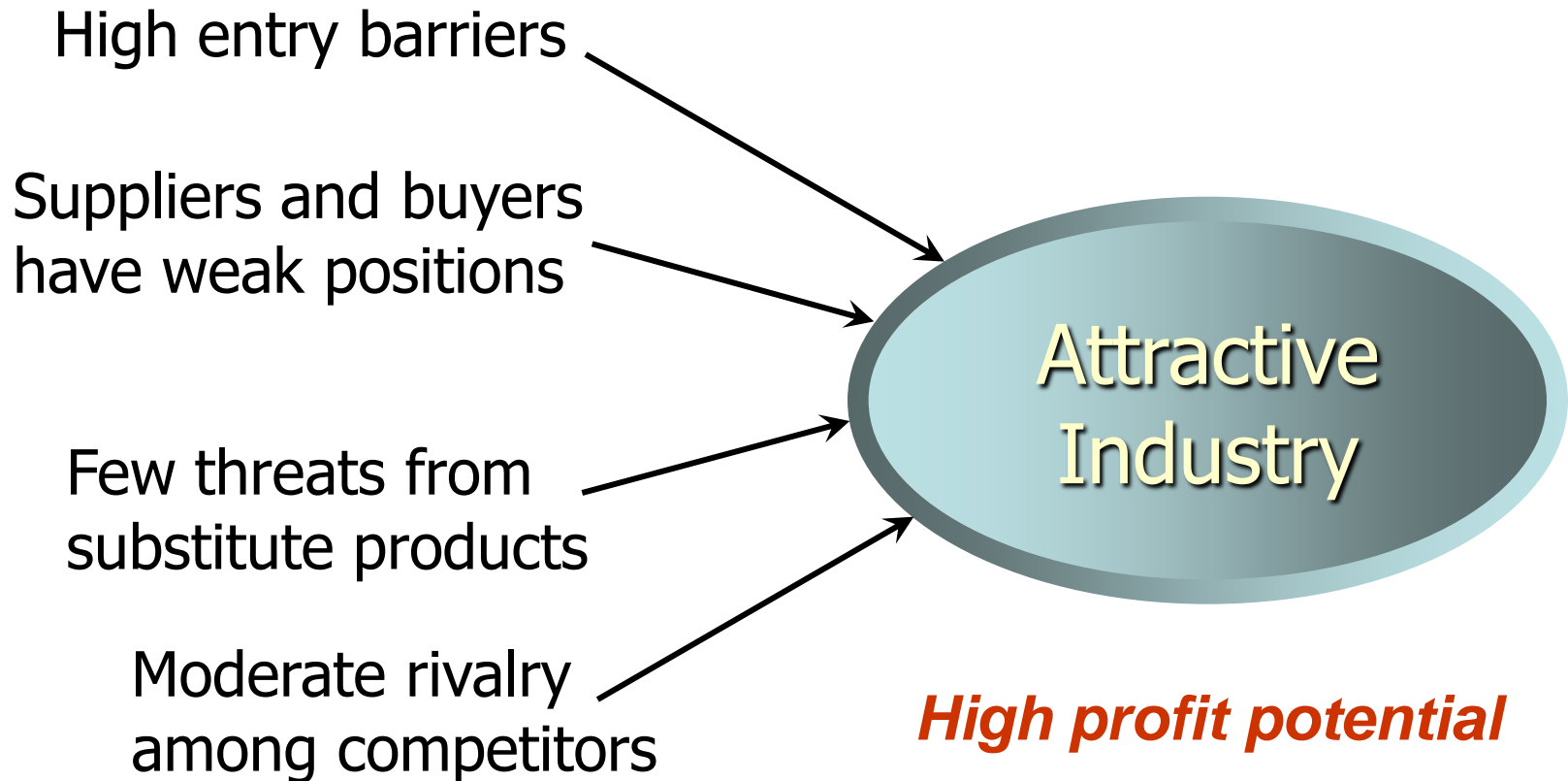
Intensity of Rivalry Among Competitors

- Industry rivalry increases when:
 - There are numerous or equally balanced competitors.
 - Industry growth slows or declines.
 - There are high fixed costs or high storage costs.
 - There is a lack of differentiation opportunities or low switching costs.
 - When the strategic stakes are high.
 - When high exit barriers prevent competitors from leaving the industry.

Interpreting Industry Analyses



Interpreting Industry Analyses (cont'd)



Strategic Groups

- Strategic Group Defined

- A set of firms emphasizing similar strategic dimensions and using similar strategies

- Internal competition between strategic group firms is greater than between firms outside that strategic group.
- There is more heterogeneity in the performance of firms within strategic groups.
 - Similar market positions
 - Similar products
 - Similar strategic actions

Strategic Groups

- Strategic Dimensions
 - Extent of technological leadership
 - Product quality
 - Pricing Policies
 - Distribution channels
 - Customer service

Competitor Analysis

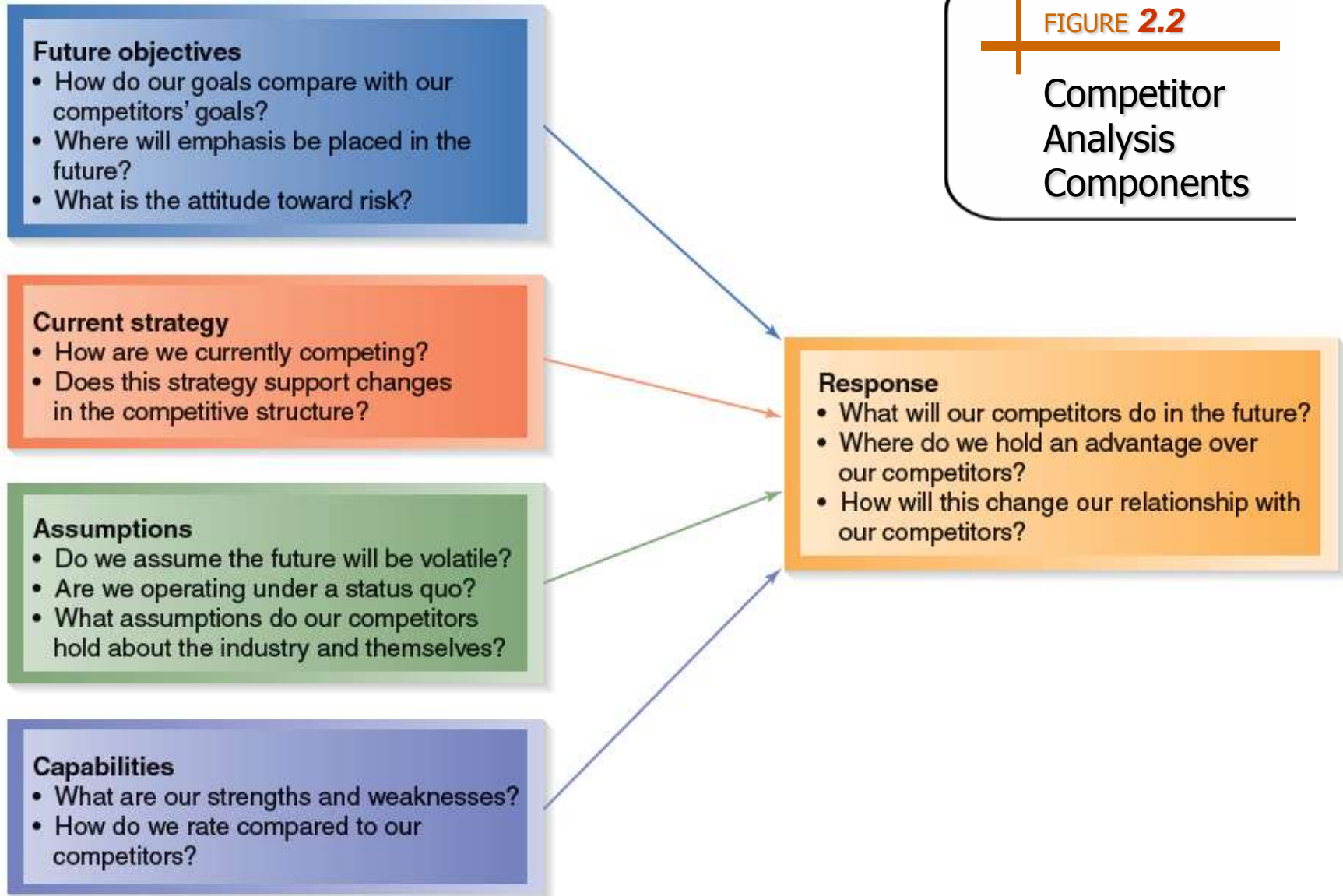
- Competitor Intelligence

- The ethical gathering of needed information and data that provides insight into:

- A competitor's direction (*future objectives*)
 - A competitor's capabilities and intentions (*current strategy*)
 - A competitor's beliefs about the industry (*its assumptions*)
 - A competitor's *capabilities*

FIGURE 2.2

Competitor Analysis Components



Competitor Analysis (cont'd)

Future Objectives

- How do our goals compare with our competitors' goals?
- Where will the emphasis be placed in the future?
- What is the attitude toward risk?

Competitor Analysis (cont'd)

Future Objectives

Current Strategy

- How are we currently competing?
- Does this strategy support changes in the competitive structure?

Competitor Analysis (cont'd)

Future Objectives

Current Strategy

Assumptions

- Do we assume the future will be volatile?
- Are we operating under a status quo?
- What assumptions do our competitors hold about the industry and themselves?

Competitor Analysis (cont'd)

Future Objectives

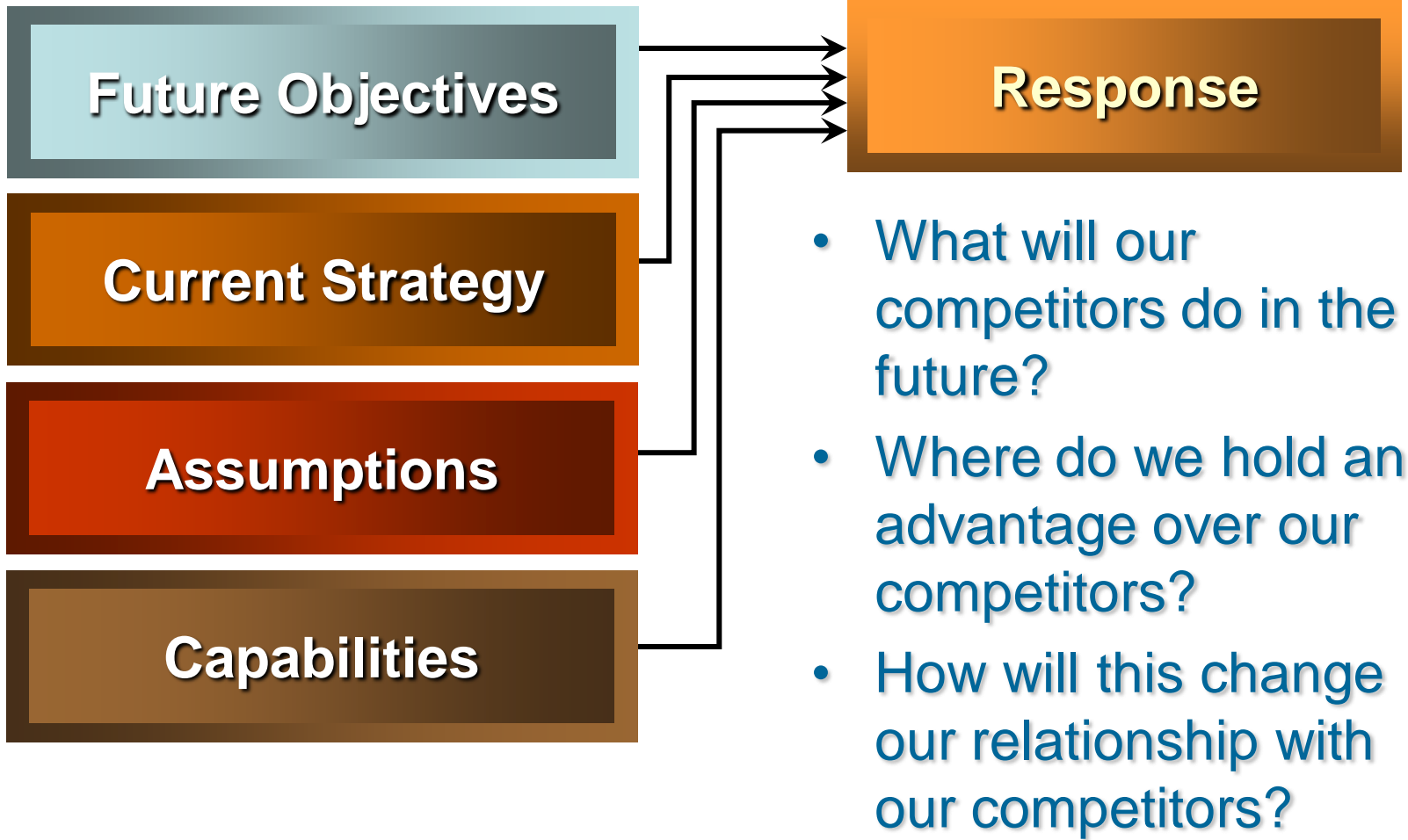
Current Strategy

Assumptions

Capabilities

- What are our strengths and weaknesses?
- How do we rate compared to our competitors?

Competitor Analysis (cont'd)



Complementors

- Complementors

- The network of companies that sell complementary products or services or are compatible with the focal firm's own product or service.
 - If a complementor's product or service adds value to the sale of the focal firm's product or service, it is likely to create value for the focal firm.
 - However, if a complementor's product or service is in a market into which the focal firm intends to expand, the complementor can represent a formidable competitor.

Ethical Considerations

- Practices considered both legal and ethical:
 - Obtaining publicly available information
 - Attending trade fairs and shows to obtain competitors' brochures, view their exhibits, and listen to discussions about their products
- Practices considered both unethical and illegal:
 - Blackmail
 - Trespassing
 - Eavesdropping
 - Stealing drawings, samples, or documents