3 chapter

Strategic Analysis

Quick Revision Notes

*"Water shapes its course according to the nature of the ground over which it flows; the soldier works out his victory in relation to the foe that he is facing." - **Sun Tzu, The Art of War***

3 Industry and Competitive Analysis

Meaning of Industry

⇨ **A group of companies or organisations producing similar products orservices**that are considered to be close substitutes of each other and satisfy thesame basic customer needs.

Why Industry and Competitive Analysis?

Industry and competitive analysis is done to get a clear picture of

1. Dominant economic features of the industry
2. Nature and strength of competition
3. Likely strategic moves of rival companies
4. Industry's Key Success Factors, and
5. Triggers of industry change
6. Prospects and financial attractiveness of industry

1 Dominant economic features of the industry

1. Market Size and Growth Rate
2. Scope of Competitive Rivalry
3. Stage in Life Cycle
4. Competitors
5. Customers
6. Distribution Channels
7. Technology/Innovation
8. Product Characteristics
9. Scale Economies
10. Learning and Experience Effects
11. Capital Requirements
12. Industry Profitability

2 Nature and strength of competition

Study the market positions of rival companies.

Strategic Group Mapping

- ⇨ A technique used for **comparing the market positions of each firm separately or for grouping them into like positions** when an industry has many competitors which cannot be examined individually in depth.
- ⇨ Strategic Group -**groups of companies in which each company followsa strategy that is similar to that pursued by other companies in the group**

Steps in Strategic Group Mapping

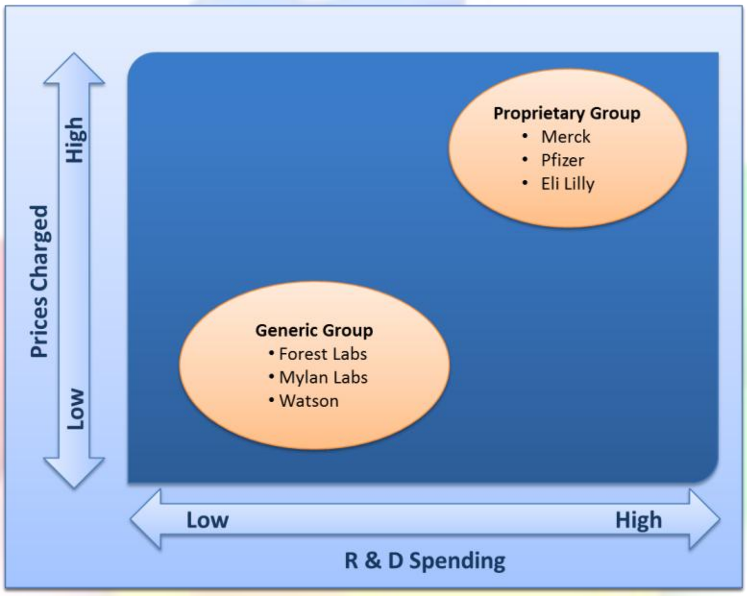
Strategic groups in a particular industry are mapped by plotting the market positionsof industry competitors on a two-dimensional graph, using two strategic variables as the verticaland horizontal axes.

Step 1 -Identify the competitive characteristics that differentiate firms in the industry.

Step 2 -Select two broad characteristics, such as price and R&D Spending

Step 3 -Plot the firms, using these two characteristics as the dimensions.

Step 4 -Draw a circle around those companies that are closest to one another as one strategicgroup, varying the size of the circle in proportion to the group's share of total industrysales.



3 Likely strategic moves of rivals – Competitive Intelligence

- ⇨ Competitive intelligence is **a formal program of gathering information on a company'scompetitors**.
- ⇨ Sources of Information:
  - o **information brokers**
  - o **own in-house libraries and computerized information systems**
  - o **industrial espionage**
  - o **competitors' current or former employees andprivate contractors**

4 Industry's Key Success Factors

- ⇨ **Variablesthat can significantly affect the overall competitive positions of companies within anyparticular industry**.
- ⇨ A company can gain sustainable competitive advantage by **founding its strategy on industry KSFs**and **devoting its energies on one or more of these factors**.

5 Triggers of change

- ⇨ All **industries are characterized by trends and new developments**that gradually produce changes important enough to require a strategic response from participating firms.
- ⇨ The **most dominant forces are called driving forces**
- ⇨ The **most common driving forces**:
  - ▪ The internet and the new e-commerce opportunities and threats it breeds in the industry.
  - ▪ Increasing globalization.
  - ▪ Changes in the long-term industry growth rate.

- Product innovation.
- Marketing innovation.
- Entry or exit of major firms.
- Diffusion of technical know-how across more companies and more countries.
- Changes in cost and efficiency.

6 Prospects and financial attractiveness of industry

⇨ As a general proposition, if an industry's overall **profit prospects are above average**, the industry can be considered **attractive**; if its **profit prospects are below average**, it is **unattractive**.