



Strategic Analysis; Industry Analysis and Environmental Scanning

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Outline

- Competitive Advantage
- E-Business Strategies
- Strategy Formulation?
- Strategy and the Environment
- The Five Competitive Forces
 - Defining your Industry
 - Industry Analysis: Evaluating the Competitive Forces and Opportunities for Profit
 - Challenges and Objectives of Industry Analysis
- Achieving 'Strategic Fit'
- Environmental Scanning

Competitive advantage

- An attribute or set of attributes that allows an organization to outperform its rivals.
 - Can be; Cost, Quality, Delivery, Flexibility, Variety, Customer service, Innovativeness, Location
 - Sustainable competitive advantage — one that is difficult for competitors to imitate.
- **Strategic analysis** — process of analyzing the organization, the environment, its competitive position and current strategies

E-Business Strategies

- The strategic use of the Internet to gain competitive advantage.
- Popular e-business strategies
 - **B2B (business-to-business) strategies** use information technology and Web portals to vertically link organizations with members of their supply chains.
 - **B2C (business-to-customer) strategies** use information technology and Web portals to link organizations with their customers.
- Web based business models

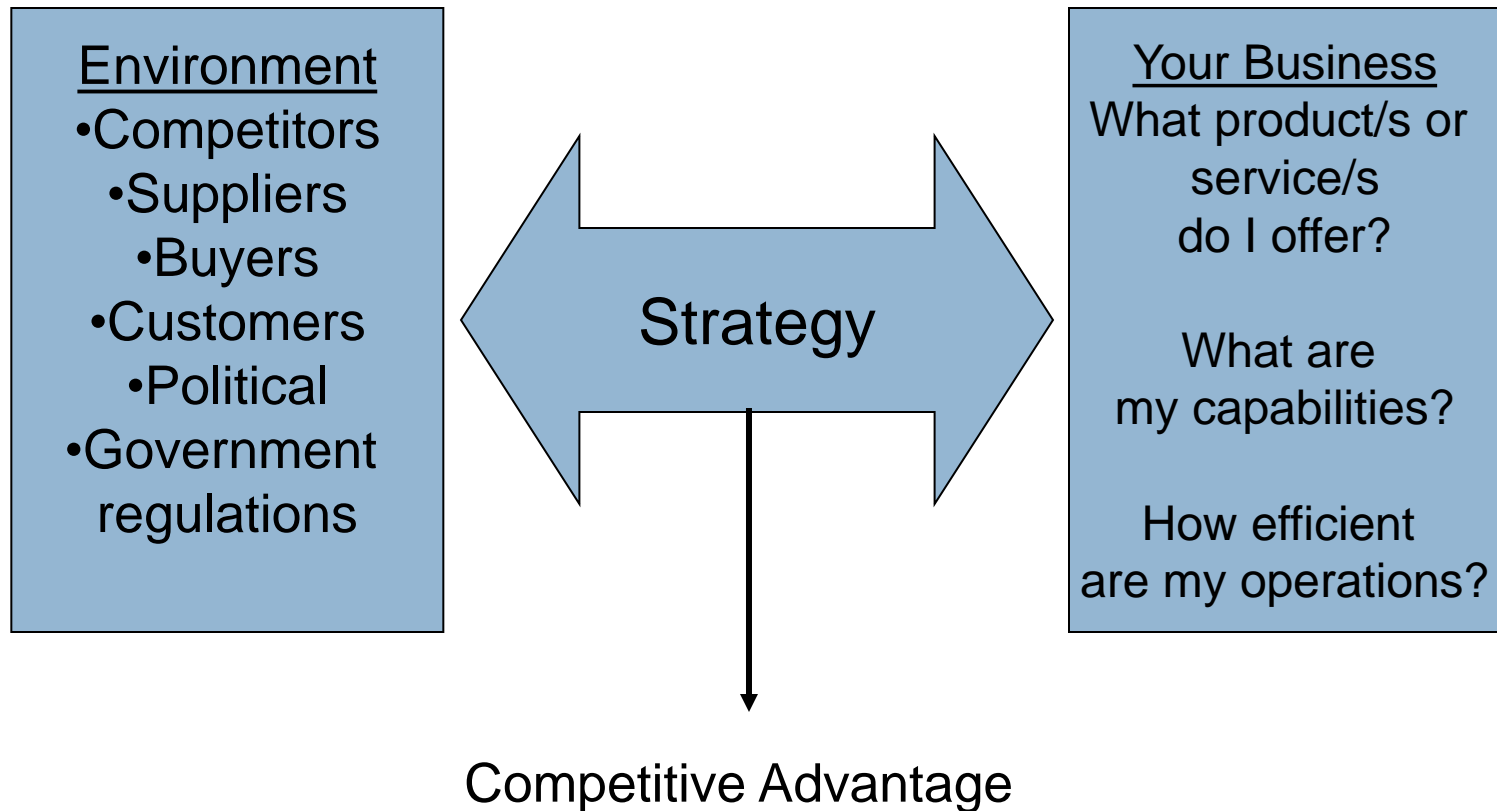
Web-based business models:

- **Brokerage model** — bringing buyers and sellers together to make transactions.
- **Advertising model** — providing information or services while generating revenue from advertising.
- **Merchant model** — selling products wholesale and retail through the Web.
- **Subscription model** — selling access to a Web site through subscription.
- **Infomediary model** — collecting information on users and selling it to other businesses.
- **Community model** — supporting the site by donations from community of users.

Strategy Formulation

- A **strategy** is a plan of action designed to achieve a particular goal
- **Formulating a strategy** includes determining where you are now, determining where you want to go, and then determining how to get there (strategic planning)
- Strategic management is **an ongoing process** that evaluates and links the business and the environment

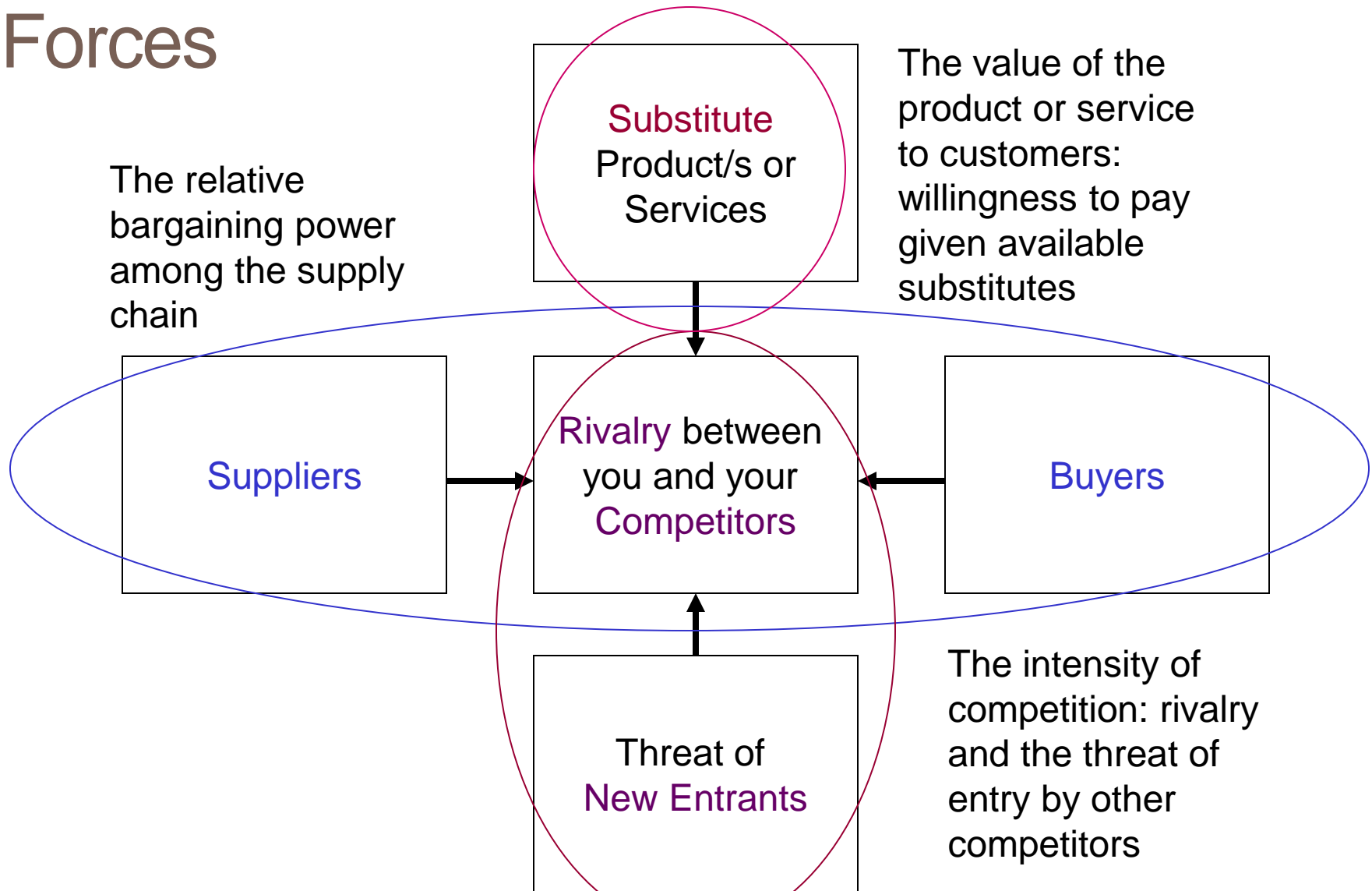
Linking your Company to the Environment



The Competitive Forces

- **Porter's five forces analysis** is a framework for the industry analysis and business strategy development developed by Michael E. Porter of Harvard Business School
 - A qualitative evaluation of a firm's strategic position
 - They are the forces close to a company that affect its ability to serve its customers and make a profit.
 - The five forces model should be used at the industry level
 - A change in any of the forces usually invokes the need for a company to reassess the marketplace.

The Five Competitive Forces



Objectives of Industry analysis

Identify:

- Who in the supply chain captures the value generated by the industry?
- What are the factors affecting the intensity of competition?

Strategic choices:

- Should we enter the market?
- What position in the industry will allow our firm to make money?
- Should we exit the market?

Managing important relationships:

- Rivals, buyers, suppliers, potential entrants

Steps of Industry analysis

Step 1:

- Define your industry

Step 2:

- Evaluate forces shaping profit potential

Step 3:

- Consider dynamics and identify trends

Defining your Industry (Exercise)

- Define your Market:
 - What product/s or service/s do you offer?
 - Who are your customers? Are they segmented
 - Where will you offer your products or services?
- Define your Competitors:
 - Who are your main competitors?
 - Do they come from different industries?
 - Group your competitors (segmentation)

Defining your Industry

- I am in the business of (industry) where I offer (product A /service A) and (product B /service B) to (customer A) and (customer B) in (location) .
- My main competitors are (competitor A name) and (competitor B name) from (industry/location) and (industry/location).

Industry Analysis

- To what extent do the following factors affect profitability of your company:
 - Individual suppliers have the ability to negotiate high input prices
 - Individual buyers have the ability to negotiate lower purchase prices
 - Rivalry among existing competitors
 - Competition from substitute products or services from outside the industry
 - Threat or incidence of new entrants

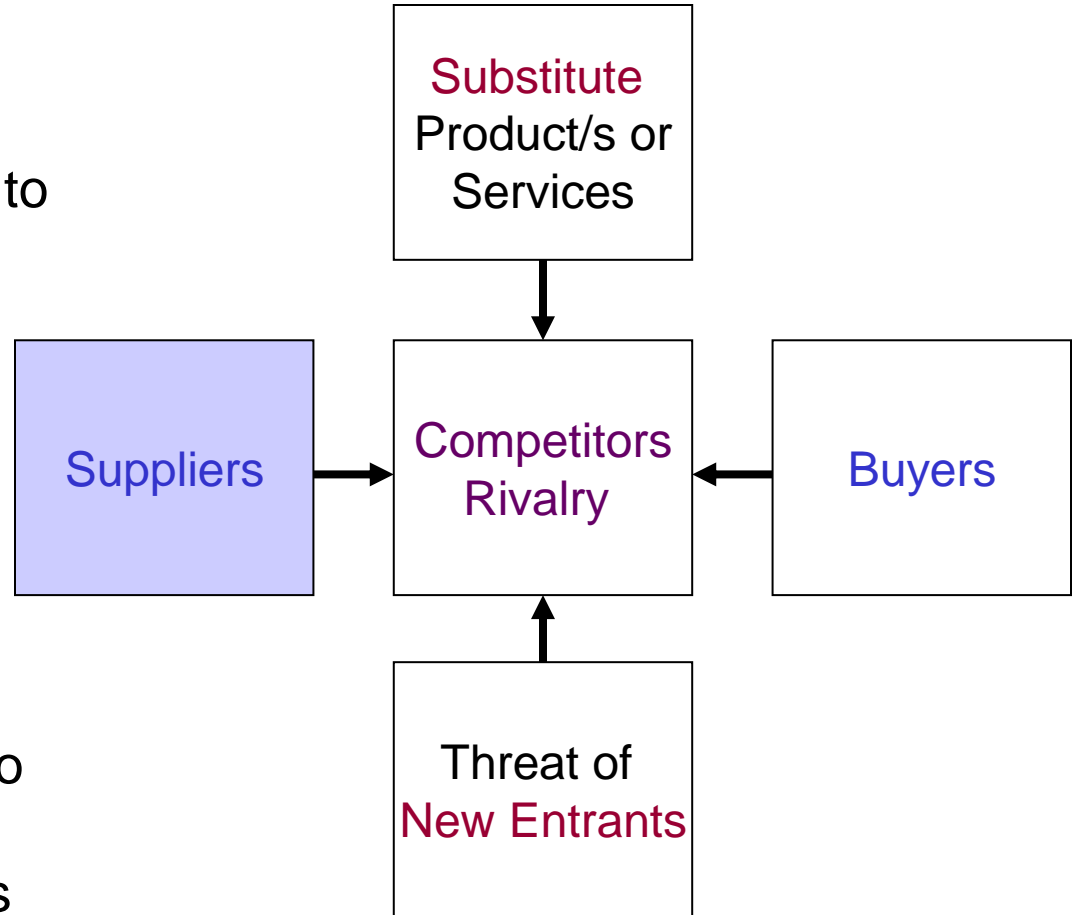
Supplier Power

Adds Power

- + Few suppliers
- + Cost of inputs large relative to total costs
- + Switching costs to change supplier are high
- + Threat of forward Integration by suppliers

Reduces Power

- A lot of suppliers
- High importance of volume to Supplier
- Presence of substitute inputs
- Threat of backward integration by manufacturers



Supplier Power

To what extent do individual suppliers have the ability to negotiate high input prices:

Example: Wood carpenter to the hand made furniture industry

Factor	Rating	Effect on Power
Cost of suppliers inputs relative to industry's total costs	High	Low: Reduce power to supplier High: Add power to supplier
Switching costs to change to other suppliers	Low	Low: Reduce power to supplier High: Add power to supplier
Threat of forward integration by supplier	High	Low: Reduce power to supplier High: Add power to supplier
Importance of industry volume to the supplier	High	High: Reduce power of supplier Low: Add power to the supplier
Number of suppliers	Low	High: Reduce power of supplier Low: Add power to the supplier
Presence of substitute inputs	High	High: Reduce power of supplier Low: Add power to the supplier
Threat of backward integration by the industry	High	High: Reduce power of supplier Low: Add power to the supplier

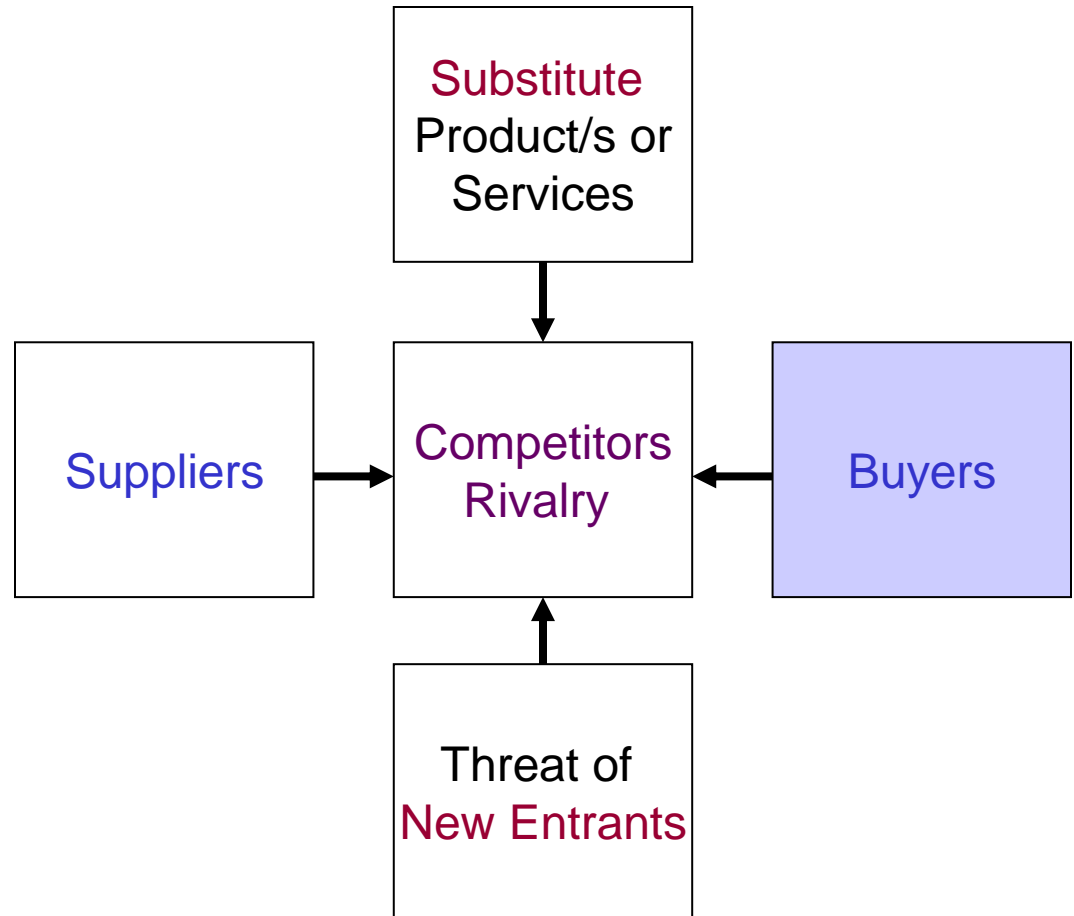
Buyer Power

Adds Power

- + Few Buyers
- + Large buyer volume
- + Availability of substitute products
- + Low buyer switching costs
- + Buyer price sensitivity
- + Negotiable prices
- + Buyer ability to backward integrate

Reduces Power

- Product brand identity
- Product quality or other differences



Buyer Power

To what extent do individual buyers have the ability to negotiate lower purchase prices:

Factor	Rating	Effect on Power
Buyer volume		Low: Reduce power High: Add power
Availability of substitute products		Low: Reduce power High: Add power
Buyer price sensitivity		Low: Reduce power High: Add power
Ability to negotiate prices		Low: Reduce power High: Add power
Buyer ability to backward integrate		Low: Reduce power High: Add power
Buyer switching costs		High: Reduce power Low: Add power
Number of buyers		High: Reduce power Low: Add power
Brand identity		High: Reduce power Low: Add power

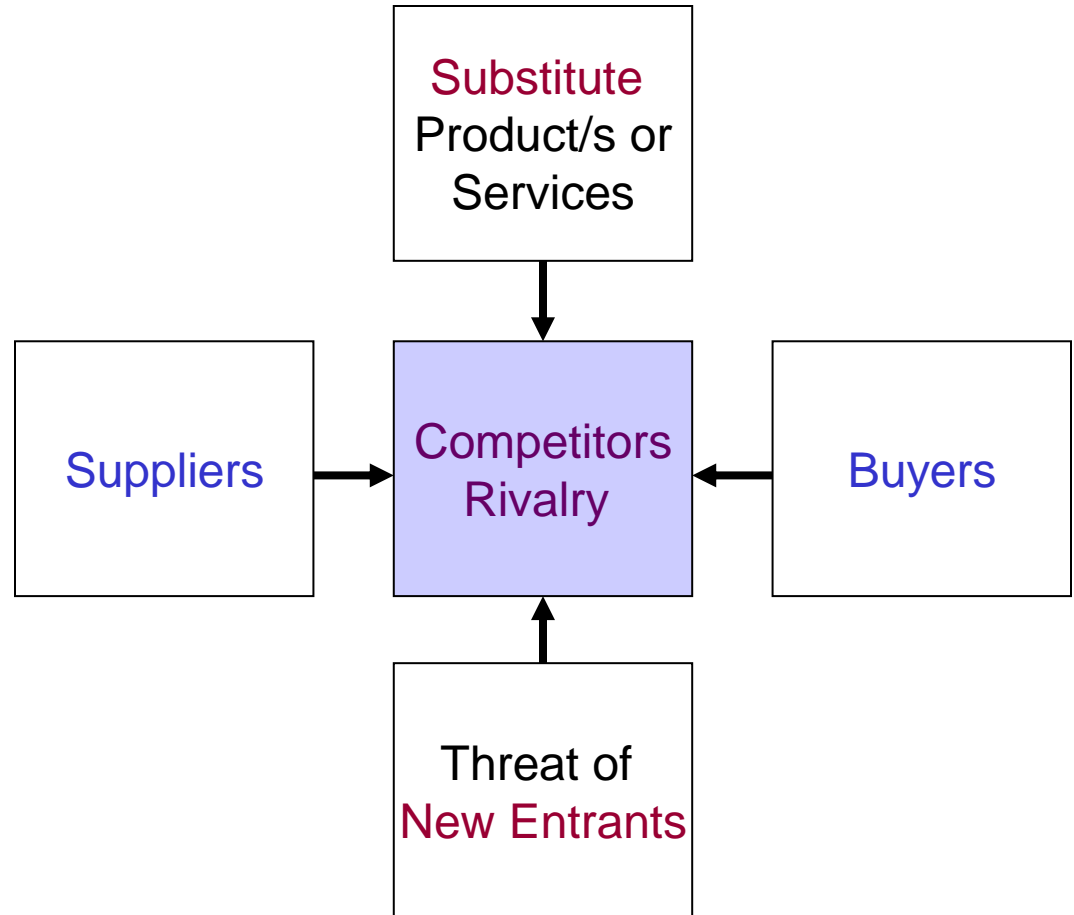
Rivalry among Competitors

Adds Power

- + Declining industry growth
- + Excess capacity
- + High exit barriers
- + High fixed costs

Reduces Power

- High industry growth
- Important product differences
- Few number of rivals



Competitors Power

To what extent does competitive rivalry reduce the profitability in the industry:

Factor	Rating	Effect on Power
Number of rivals		Low: Reduce power High: Add power
Exit barriers		Low: Reduce power High: Add power
Excess capacity		Low: Reduce power High: Add power
Fixed costs		Low: Reduce power High: Add power
Industry growth		High: Reduce power Low: Add power
Important product differences		High: Reduce power Low: Add power

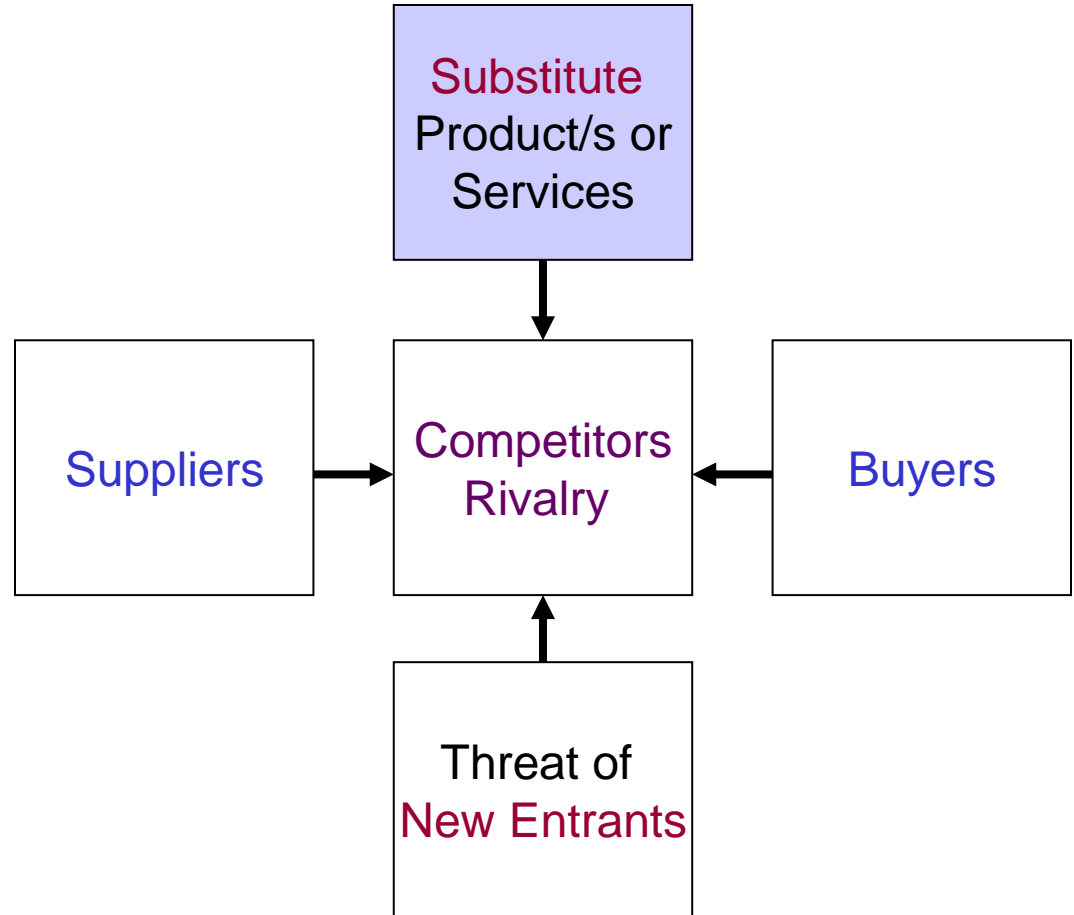
Substitutes

Adds Power

- + Availability of close substitutes
- + Price-value characteristics of substitutes

Reduces Power

- High switching costs for buyers



Substitutes Power

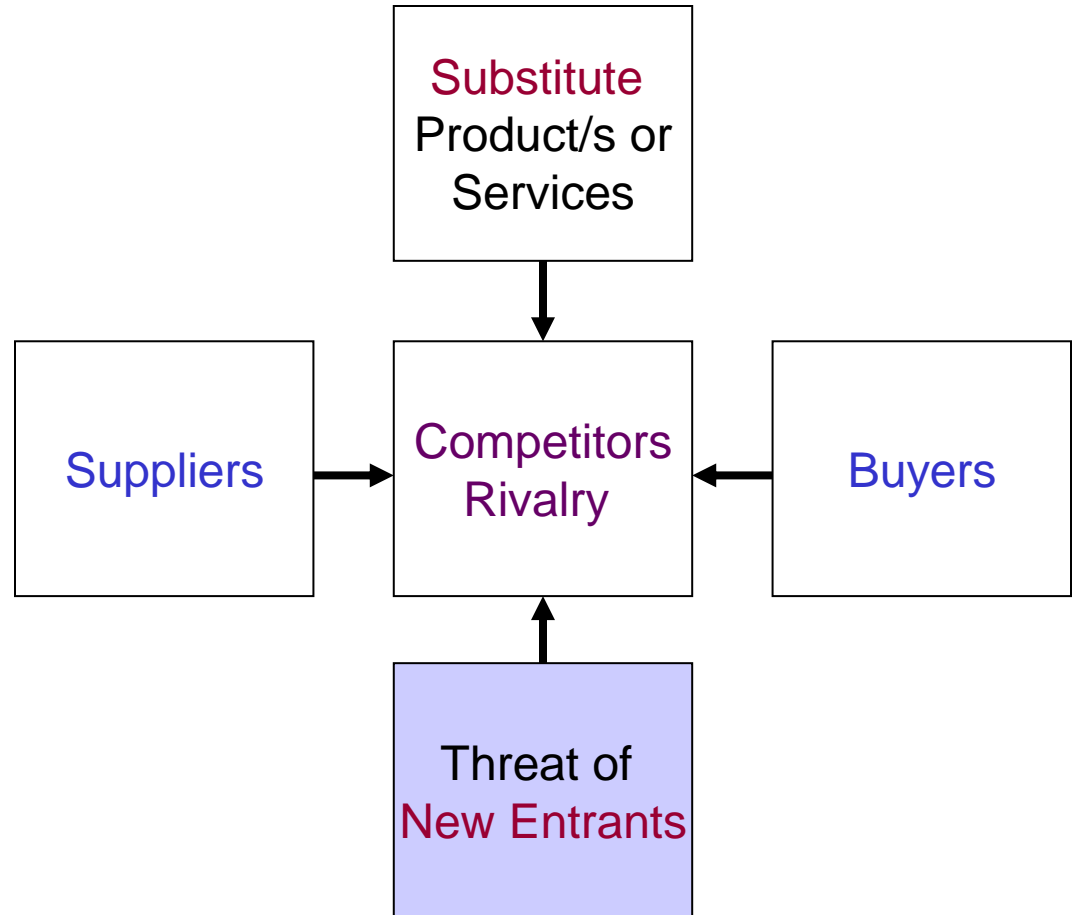
To what extent does competition from substitute products outside the industry reduce the profitability in the industry:

Factor	Rating	Effect on Power
Availability of close substitutes		Low: Reduce power High: Add power
Price-value characteristics of substitutes		Low: Reduce power High: Add power
Switching costs for buyers		High: Reduce power Low: Add power

Threat of New Entrants

Reduces Power

- Economies of scale
- Brand identity of existing participants
- Proprietary (e.g., trademarks, patents)
- Access to raw materials
- Expected retaliation against entrants
- Access to distribution
- High capital requirements



New Entrants Power

To what extent does the threat or incidence of new entrants affect the profitability of the industry:

Factor	Rating	Effect on Power
Economies of scale		High: Reduce power Low: Add power
Brand identity of existing participants		High: Reduce power Low: Add power
Proprietary (e.g., trademarks, patents)		High: Reduce power Low: Add power
Access to raw materials		High: Reduce power Low: Add power
Expected retaliation against entrants		High: Reduce power Low: Add power
Access to distribution		High: Reduce power Low: Add power
High capital requirements		High: Reduce power Low: Add power

Objectives of Industry analysis

Identify:

- Who in the supply chain captures the value generated by the industry?
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Strategic choices:

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Challenges to strategy making

- A good strategy involves **trade-offs** and hard choices
 - You cannot be all things to all people
- A good strategy depends not just on your company and its actions
 - Actions by other actors in the market matter
- A good strategy is not just about today, but about the future
 - And the future is unknown

Key messages from last session

1. Pay attention to your environment

- It is not enough to focus on your own business
- Need to understand your buyers, suppliers and competitors
- Think about how the environment either constrains or an opportunity

2. Choose a competitive position

- You cannot be all things to all people
- Need to make tough choices and think about trade offs

Strategy as Achieving “Fit”

- Fit with the **external** environment
 - Do our products and services allow us to meet customers’ desires?
 - Do they offer value (lower cost or higher willingness to pay) that is superior to that of our competitors?
- **Internal** fit
 - View products and services as consisting of a chain of activities
 - Consider the consistency and linkages among these choices of activities

Positions in the Market – External Fit

- **Cost Leadership:** Competitive advantage based on lowest costs due to:
 - Larger scale
 - More experience
 - More innovation in processes
 - Etc.
- **Differentiation:** Competitive advantage based on superior performance valued by the customer
 - Brand
 - Quality
 - Features
 - Etc.
- Each drives a wedge between cost and willingness to pay in a different way

Challenges to Cost and Differentiation Positions

- Low Cost
 - Too much focus on costs leads to inadequate

benefits to customer

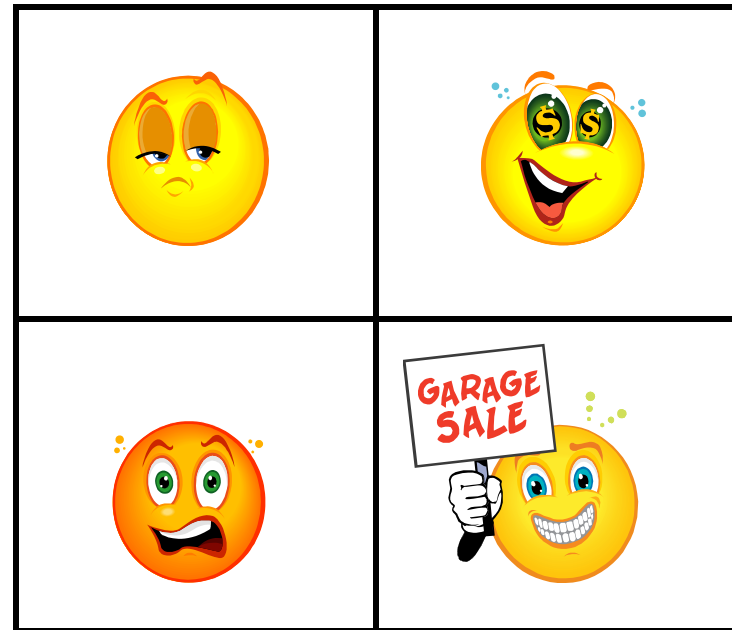
- Differentiation
 - Create features that buyers don't value
 - Charge too much
 - Fail to understand the costs of differentiation
- Hard to do both at the same time → **Trade-off**

Matching Capabilities with Value

- The key to successful differentiation is matching the firms capacity for creating differentiation to the attributes that customers value most
- To do that, we need to consider the set of activities that a firm uses to deliver this value
 - The “internal fit” of activities → The Value Chain

Yes
Of Value
to the
Customer

No



No
Yes
Is the company capable
of supplying it

Environmental Scanning

- A scan of the **Internal** and **External** environment is an important part of the strategic planning process.
- Environmental factors internal to the firm usually can be classified as strengths (**S**) or weaknesses (**W**).
- Environmental factors external to the firm can be classified as opportunities (**O**) or threats (**T**).
- **SWOT analysis.**

Strengths

- A firm's strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage.
- Examples of such strengths include:
 - Good reputation among customers
 - Cost advantages from proprietary know-how
 - Exclusive access to high grade natural resources
 - Favorable access to distribution networks
 - Strong brand names
 - Patents

Weaknesses

- The absence of certain strengths may be viewed as a weakness.
 - Poor reputation among customers
 - High cost structure
 - Lack of access to the best natural resources
 - Lack of access to key distribution channels
 - A weak brand name
 - Lack of patent protection
- In some cases, a weakness may be the flip side of a strength.

Opportunities

- The external environmental analysis may reveal certain new opportunities for profit and growth.
- Some examples of such opportunities include:
 - An unfulfilled customer need
 - Arrival of new technologies
 - Loosening of regulations
 - Removal of international trade barriers

Threats

- Changes in the external environmental also may present threats to the firm.
- Some examples of such threats include:
 - Shifts in consumer tastes away from the firm's products
 - Emergence of substitute products
 - New regulations
 - Increased trade barriers

SWOT Template

<u>Strengths</u>	<u>Weaknesses</u>
<u>Opportunities</u>	<u>Threats</u>

Wrap up

- Sometimes, external market changes force you to take action
- Expansion into a new business area must leverage some existing capabilities (for example, in manufacturing, in customer relationships, in product design).
- As you think about growth in your businesses, you need to ask yourself, what capabilities am I leveraging, and then what capabilities do I not have, that I need to build up quickly, in order be able to compete successfully.
- Must keep in mind competitive reactions to your strategic moves



Thank You!

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