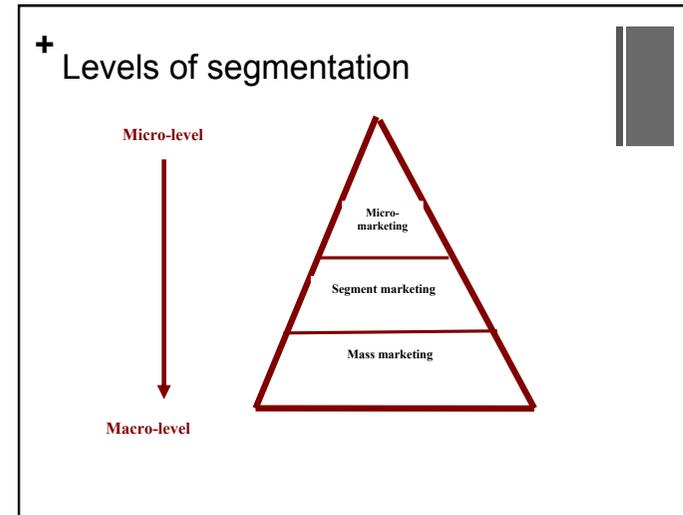
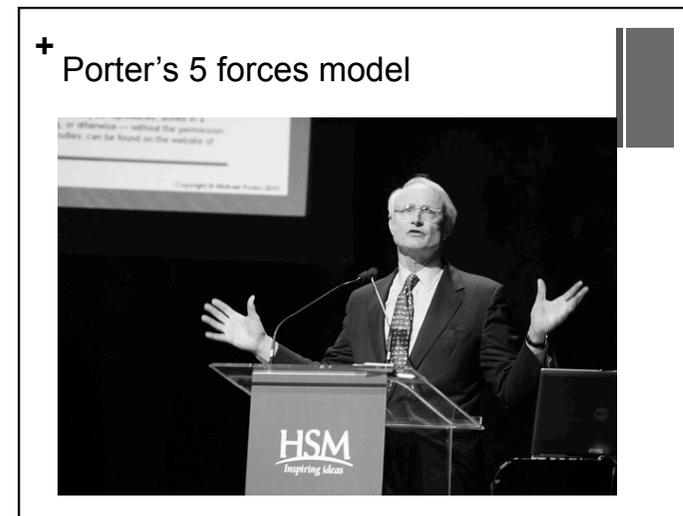


**+**

Topic 3.  
**Competition analysis**

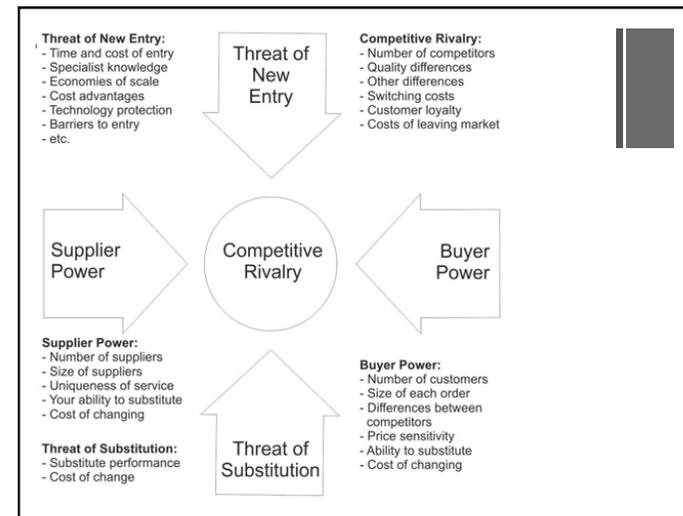


- +** Factors determining the attractiveness of a segment
- Size and growth potential
  - Growth rate
  - Profitability
  - **Competition**



## + Five Forces model of Porter

- Porter's five forces analysis is a framework for industry analysis and business strategy development formed by Michael E. Porter.
- It determines the competitive intensity.
- It also determines the ultimate profit potential of the industry



## + 5 forces: Threat of new entrants

- It is important because they can threaten the market share of existing competitors;
- When the threat of new firms entering the market is strong, incumbent firms generally fortify their positions and take actions to deter new entrants.
- Economies of Scale
- Product Differentiation
- Capital Requirements
- Customer Switching Costs
- Access to Distribution Channels
- Government Policy
- Expected Retaliation

## + 5 forces: Threat of Substitution

- These are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces.
- Determinants of substitution threat:
- Relative price performance if substitutes
  - Switching costs
  - Buyer propensity to substitute

## + 5 forces: Bargaining power of suppliers

Suppliers exert power in the industry by threatening to raise prices or to reduce quality. Powerful suppliers can squeeze industry profitability if firms are unable to recover cost costs increases. Suppliers are likely to be powerful if:

1. It is dominated by a few large companies and is more concentrated than the industry to which it sells;
2. Satisfactory substitute products are not available to industry firms;
3. Industry firms are not a significant customer for the supplier group;
4. Suppliers' goods are critical to buyers' marketplace success;
5. The effectiveness of suppliers' products has created high switching costs for industry firms;
6. It poses a credible threat to integrate forward into the buyers' industry. Credibility is enhanced when suppliers have substantial resources and provide a highly differentiated product.

## + 5 forces: Bargaining power of consumers

Customers are powerful when:

1. They purchase a large portion of an industry's total output;
2. The sales or product being purchased account for a significant portion of the sellers annual revenues;
3. They could switch to another product at little cost;
4. The industry's products are undifferentiated or standardized, and the buyers pose a credible threat if they were to integrate backward into the sellers' industry.

## + 5 forces: Competitive rivalry

**It is the most powerful of the five competitive forces;**

Competitors rivalry intensifies when a firm is challenged by a competitors' actions or when a company recognizes an opportunity to improve its market position.

**Common mistakes in identifying competitors**

1. Overemphasizing current and known competitors while giving inadequate attention to potential entrants;
2. Overemphasizing large competitors while ignoring small competitors;
3. Overlooking potential international competitors
4. Assuming that competitors will continue to behave in the same way they have behaved in the past;

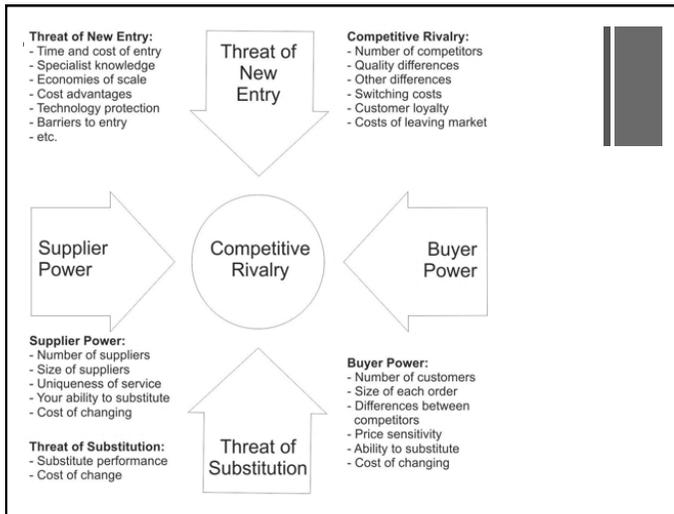
## + 5 forces: Competitive rivalry

5. Misreading signals that may indicate a shift in the focus of competitors or a refinement of their present strategies or tactics;

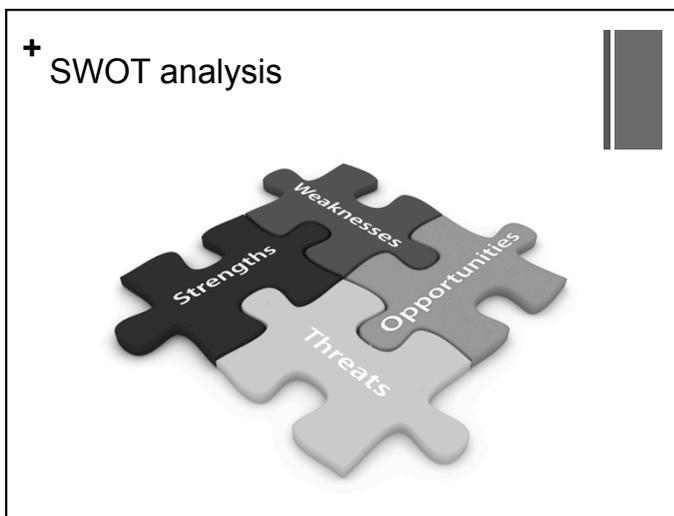
6. Overemphasizing competitors' financial resources, market position, and strategies while ignoring their intangible assets, such as a top management team;

7. Assuming that all of the firms in the industry are subject to the same constraints or are open to the same opportunities;

8. Believing that the purpose of strategy is to outsmart the competition, rather than to satisfy customer needs and expectations.



- + 5 forces: using the model
1. Identify key aspects or elements of each competitive force that impact the firm;
  2. Evaluate how strong and important. Each element is for the firm;
  3. Decide whether the collective strength of the elements is worth the firm entering or staying in the industry.



- SWOT: Introduction
- **A technique** that enables a group or individual to **move** from everyday problems and traditional strategies to a **fresh perspective**.
  - SWOT analysis looks at your *strengths and weaknesses, and the opportunities and threats your business faces*.
  - As a basic tool its mastery is a **fundamental requirement for the marketer**, entrepreneur or business person.
  - A clear understanding of SWOT is required for business majors.

## SWOT: History

- The origins of the SWOT analysis technique is credited by **Albert Humphrey**, who led a research project at Stanford University in the **1960s and 1970s** using data from many top companies.
- The goal was to identify why corporate planning failed.
- The resulting research identified a number of key areas and the tool used to explore each of the critical areas was called **SOFT analysis**. Humphrey and the original research team used the categories —What is good in the present is Satisfactory, good in the future is an Opportunity; bad in the present is a Fault and bad in the future is a Threat.
- In 1964 Urick and Orr at a conference changed the F to a W, and it has stuck as that, soFt to sWot

## SWOT: Strengths

- Characteristics of the business or a team that give it an advantage over others in the industry.
- Positive tangible and intangible attributes, internal to an organization.
- Beneficial aspects of the organization or the capabilities of an organization, process capabilities, financial resources, products and services, customer goodwill and brand loyalty.

### Examples:

- Abundant financial resources,
- Well-known brand name,
- Economies of scale,
- Lower costs [raw materials or processes],
- Superior management talent,
- Better marketing skills,
- Good distribution skills,
- Committed employees.

## SWOT: Weaknesses

- Characteristics that place the firm at a disadvantage relative to others.
- Detract the organization from its ability to attain the core goal and influence its growth.
- Weaknesses are the factors which do not meet the standards we feel they should meet.
- However, weaknesses are controllable. They must be minimized and eliminated.

### Examples:

- Limited financial resources,
- Weak spending on R & D,
- Very narrow product line,
- Limited distribution,
- Higher costs,
- Out-of- date products / technology,
- Weak market image,
- Poor marketing skills,
- Limited management skills,
- Undertrained employees.

## SWOT: Opportunities

- Chances to make greater profits in the environment
- External attractive factors that represent the reason for an organization to exist & develop.
- Arise when an organization can take benefit of conditions in its environment to plan and execute strategies that enable it to become more profitable.
- Organization should be careful and recognize the opportunities and grasp them whenever they arise.

### Examples:

- Rapid market growth,
- Rival firms are complacent,
- Changing customer needs/tastes,
- New uses for product discovered,
- Economic boom, Government deregulation,
- Sales decline for a substitute product .

## SWOT: Threats

- External elements in the environment that could cause trouble for the business
- External factors, beyond an organization's control.
- Arise when conditions in external environment jeopardize the reliability and profitability of the organization's business.
- Compound the vulnerability when they relate to the weaknesses.
- Threats are uncontrollable. When a threat comes, the stability and survival can be at stake.

### Examples:

- Entry of foreign competitors,
- Introduction of new substitute products,
- Product life cycle in decline,
- Changing customer needs/tastes,
- Rival firms adopt new strategies,
- Increased government regulation,
- Economic downturn.

## SWOT: On its own

- On its own, it is said that a SWOT is meaningless.
- SWOT works best when part of an overall strategy or in a given context or situation.

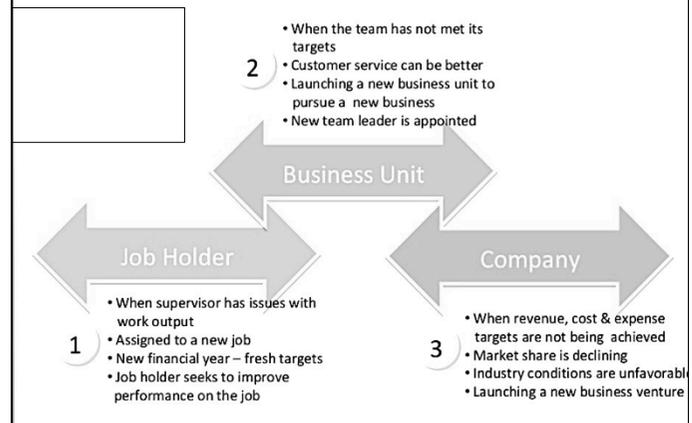
This strategy may be as simple as:

- Goal or objective
- **SWOT analysis**
- Evaluation or measures of success strategy
- Action

## SWOT: AIMS

- To help decision makers share and compare ideas.
- To bring a clearer common purpose and understanding of factors for success.
- To organize the important factors linked to success and failure in the business world.
- To provide linearity to the decision making process allowing complex ideas to be presented systematically.

## SWOT: WHO NEEDS IT?



## SWOT: Application

An analysis can be used for:

- Workshop sessions
- Brainstorm meetings
- Problem solving
- Planning
- Product evaluation
- Competitor evaluation
- Personal Development Planning
- Decision Making (with force field analysis)

The SWOT is a great tool that can be used in association with PESTLE & PRIMO-F

## SWOT: Aims (2)

- A SWOT analysis is a process to identify where you are strong and vulnerable — where you should defend and attack.
- The result of the process is a “plan of action”, or “action plan”.
- The analysis can be performed on a product, on a service, a company or even on an individual.
- Done properly, SWOT will give you the BIG PICTURE of the MOST IMPORTANT FACTORS that influence SURVIVAL and PROSPERITY. As well as a PLAN to ACT ON.

## SWOT: STAGES

1. Analyze Internal & External Environment
2. Perform SWOT Analysis & Document
3. Prepare Action Plans

## SWOT: 1. Information collection

Internal factors	External factors
<b>Strengths:</b> <ul style="list-style-type: none"> <li>• People</li> <li>• Resources</li> <li>• Innovation</li> <li>• Marketing/ Communications</li> <li>• Operations</li> <li>• Finance</li> </ul>	<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• Political</li> <li>• Economic</li> <li>• Social</li> <li>• Technical</li> <li>• Legal</li> <li>• Environmental</li> </ul>
<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>• People</li> <li>• Resources</li> <li>• Innovation</li> <li>• Marketing/ Communications</li> <li>• Operations</li> <li>• Finance</li> </ul>	<b>Threats</b> <ul style="list-style-type: none"> <li>• Political</li> <li>• Economic</li> <li>• Social</li> <li>• Technical</li> <li>• Legal</li> <li>• Environmental</li> </ul>

## SWOT: pitfalls

- **Can be very subjective.**

Two people rarely come up with the same final version of a SWOT. **Use it as a guide and not as a prescription.**

- **May cause organizations to view circumstances as very simple due to which certain key strategic contact may be overlooked.**
- **Categorizing aspects as strengths, weaknesses, opportunities & threats might be very subjective as there is great degree of uncertainty in market.**

## SWOT: pitfalls

- **To be effective, SWOT needs to be conducted regularly.**

The pace of change makes it difficult to anticipate developments.

- **The data used in the analysis may be based on assumptions that subsequently prove to be unfounded [good and bad].**
- **It lacks detailed structure, so key elements may get missed.**

## SWOT: tips

• DO's	Don'ts
<ul style="list-style-type: none"> <li>• Be analytical and specific.</li> <li>• Record all thoughts and ideas.</li> <li>• Be selective in the final evaluation.</li> <li>• Choose the right people for the exercise.</li> <li>• Choose a suitable SWOT leader or facilitator.</li> <li>• Think out of the box</li> <li>• Be open to change</li> </ul>	<ul style="list-style-type: none"> <li>• Try to disguise weaknesses</li> <li>• Merely list errors and mistakes.</li> <li>• Lose sight of external influences and trends.</li> <li>• Allow the SWOT to become a blame- laying exercise.</li> <li>• Ignore the outcomes at later stages of the planning process.</li> </ul>

## + PEST and PESTEL

- An organisation's success is influenced by factors operating in its internal and external environment;
- an organisation can increase its success by adopting strategies which manipulate these factors to its advantage.
- A successful organisation will not only understand existing factors but also forecast change, so that it can take advantage of change within the environments in which it operates.
- PEST analysis is used to identify the external forces affecting an organisation. This is a simple analysis of an organisation's Political, Economical, Social and Technological environment.
- A PEST analysis incorporating legal and environmental factors is called a PESTLE analysis.

### + PEST: Political factors



- Legislation such as the minimum wage or anti discrimination laws.
- Voluntary codes and practices
- Market regulations
- Trade agreements, tariffs or restrictions
- Tax levies and tax breaks
- Type of government regime eg communist, democratic, dictatorship

### + PEST: Economic factors



- Home economy situation and trends
- Overseas economies and trends
- General taxation issues
- Market routes and distribution trends
- Interest and exchange rates
- International trade/monetary issues

### + PEST: Social factors



- Lifestyle trends
- Demographics
- Consumer attitudes and opinions
- Brand, company, technology image
- Consumer buying patterns
- Fashion and role models
- Ethnic/religious factors
- Advertising and publicity
- Ethical issues

### + PEST: Technological factors



- Competing technology development
- Associated/dependent technologies
- Replacement technology/solutions
- Manufacturing maturity and capacity
- Information and communications
- Technology access, licencing, patents
- Consumer buying mechanisms/technology

## + PEST: McDonald's case

### Political challenges:

#### Health and Safety Guidelines

- fast food consumption has been shown to increase calorie intake, promote weight gain and elevate risk for diabetes
- criticised for caloric content, trans fats and portion sizes

#### Ecological/environmental issue

- one of the largest consumers of paper products in the US leading to millions of pounds of food packaging waste littering roadways, clogging landfills and spoiling quality of life.

## + PEST: McDonald's case

### Political challenges (2):

#### Home market and international pressure groups

- pushing for increased regulations to make companies more responsible

#### Wars and conflicts

- war between countries where the company operates
- symbol of capitalism

## + PEST: McDonald's case

### Economic challenges

- low set up costs leading to rapid expansion
- keeping the prices low for the customers.
- franchising facilitates set ups
  - McDonald's corporation provides financing assistance and training for new franchise owners to manage cash flow and keep businesses profitable.

## + PEST: McDonald's case

### Social challenges

- Health fears
  - customers now opting for more healthier options like SUBWAY which offers more variety for health conscious customers.
- Emphasis on food safety

## + PEST: McDonald's case

### Technological advantages

- Streamlining of processes to improve efficiency
  - through technology enhancements such as FPIs Help Desk Service, network and application consolidation and other technology implementations, operations of the company are greatly improved
- Marketing done by means of television advertisements
- Implemented technology to improve supply chain management

## + PEST: McDonald's case

### Strategies adopted

- McDonalds changed its image vastly by evaluating the current menu and making changes to it from using organic products to revising the whole menu entirely by offering salads and vegetarian burgers. The accurate and accessible nutrition information help guests make informed menu choices.

## + PEST: McDonald's case

### Strategies adopted (2)

- Incorporated safety management systems, including Good Manufacturing Practices (GMP), a verified Hazard Analysis Critical Control Point (HACCP) plan and crisis management, food security and other applicable programs
- Locally focused menu choices | In India – McAloo Tikki, Paneer Salsa Wrap, McVeggie | In China - Szechwan-style spicy chicken wings, seafood soup, oriental sauces etc

## + PEST: McDonald's case

### Strategies adopted (3)

- Increase presence in Asian countries
- When the first McDonalds opened in Beijing more than a dozen years ago, 40,000 people lined up to observe a Big Mac. It is growing faster in China than in the United States. It owns & operates more than 600 stores across 105 cities in China. More than 100 more McDonalds stores will be added annually to Chinese cities within the coming years.

## Evaluating the attractiveness of segments

Factor	10	5	0	Score	Weight	Evaluation
Size	High	Low	Low	5	0,2	1,0
Growth rate	>10	5-9	<5	10	0,3	3,0
Competition	Low.	Mid.	High	0	0,1	0,0
Profitability	>15	10-14	<10	5	0,3	1,5
Entry barriers	Low.	Mid	High	5	0,1	0,5
				Total	1,0	6,0

## Evaluating the strength of the companies position in the segments

Factor	10	5	0	Score	Weight	Evaluation
Market share (%)	>25	10-24	<10	10	0,3	3,0
Profitability (%)	>15	10-14	<10	5	0,2	1,0
Differentiation	High.	Mid	Low	10	0,1	1,0
Product quality	High.	Mid	Low	5	0,3	1,5
Level of innovation	High.	Mid	Low	5	0,1	0,5
				Total	1,0	7,0

## Combining the attractiveness of the segment and the strength of the company

