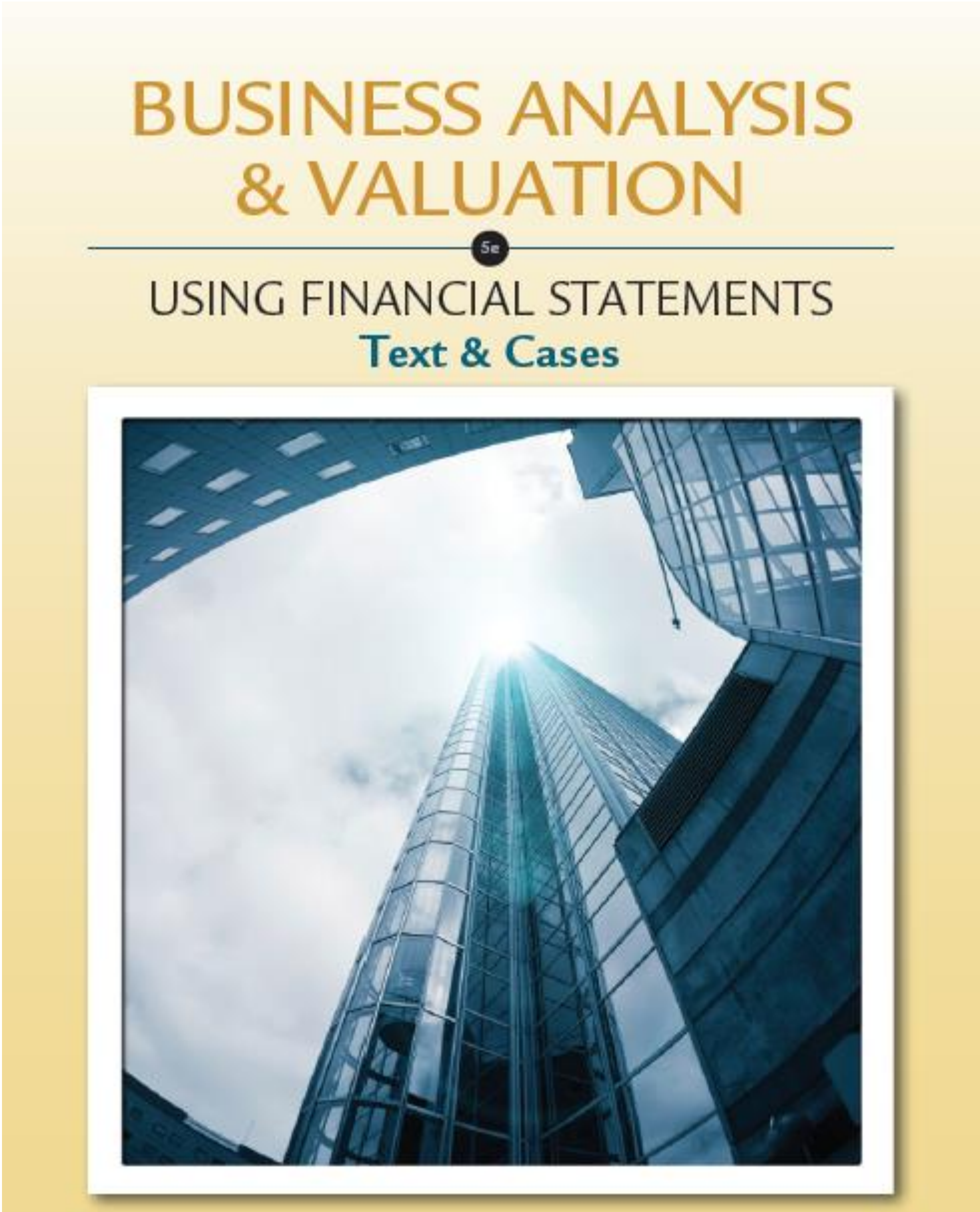


Chapter 2: Strategy Analysis

The Importance of Strategy Analysis

- Strategy drives the actions of an organization.

- Studying a firm's strategy provides:
  - An understanding of what drives risks, profitability, and competitive advantages
  - A basis for future performance to be forecasted
  - An idea of how to measure the success of a firm's actions

Key Concepts in Chapter 2

- The importance of industry-level analysis
- Porter's five forces framework for industry analysis
- Competitive strategy analysis of the firm
- Corporate strategy analysis for multi-business organizations

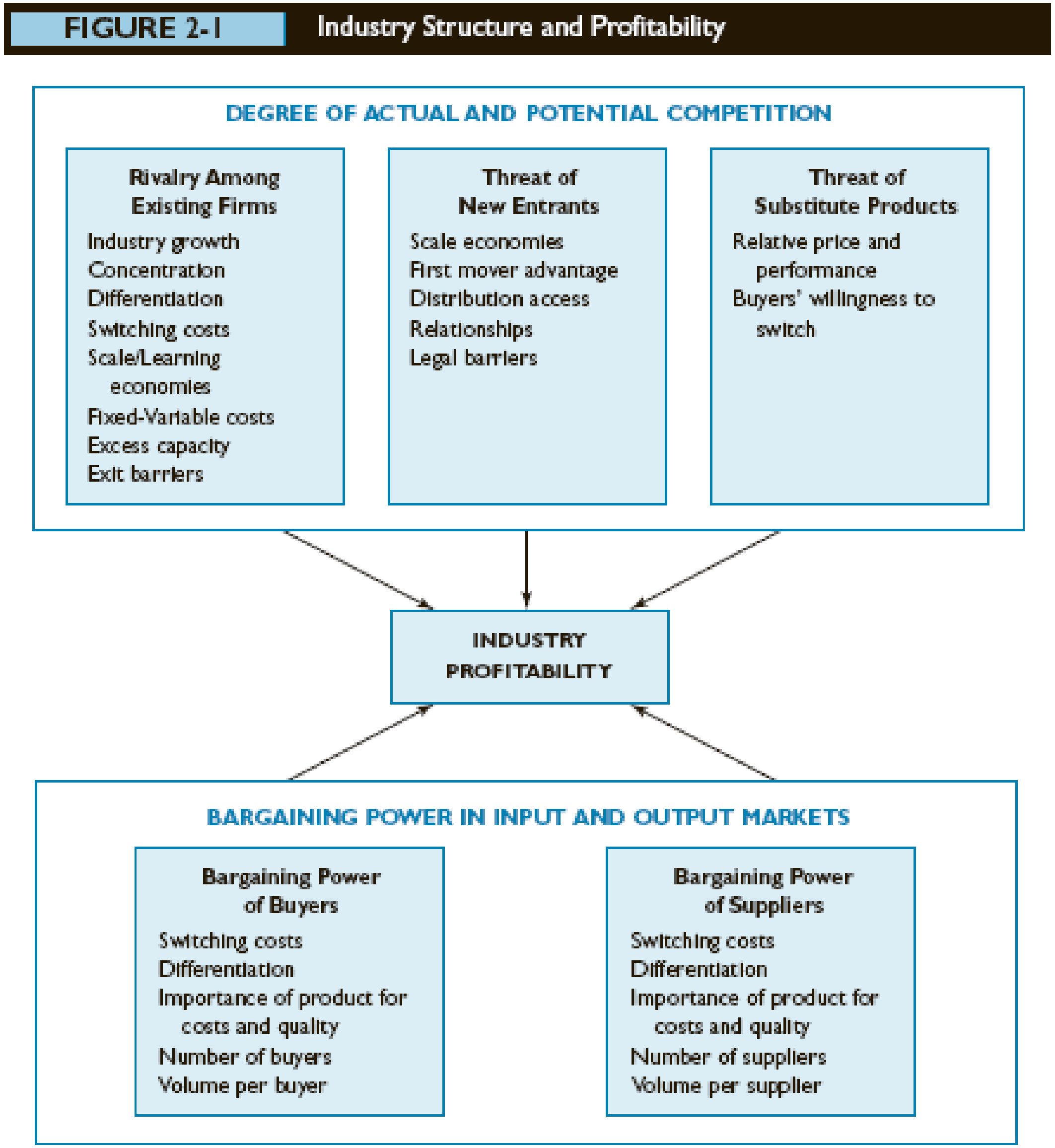
The Importance of Industry-Level Analysis

- A firms strategy is heavily influenced by the industry it belongs to.

- Understanding the environment and competitive forces within an industry helps with evaluating the quality of a particular firm's strategy.

- Porter created a useful framework to evaluate the competitive forces at work in an industry, as Seen in figure 2-1.

Industry Structure and Profitability



Competitive Force 1: Rivalry Among Existing Firms

- Higher degrees of competition among firms:
  - Push prices towards the marginal cost of production.
  - Make non-price dimensions of products or services more important.

- Determinants of the intensity of competition among firms:
  - Industry growth rate.
  - Concentration and balance of competitors.

Rivalry Among Existing Firms, continued

- Determinants of the intensity of competition among firms:
  - Degree of differentiation in products and services and switching costs.
  - Scale/Learning economies and ratio of fixed to variable costs.
  - Excess capacity and exit barriers.

Competitive Force 2:
Threat of New Entrants

- The ease which a new firm can enter an industry will affect the profitability of other firms within the industry.

- Factors affecting the barriers to entry are:
  - Economies of scale
  - First mover advantage
  - Relationships with suppliers and customers
  - Legal barriers

Competitive Force 3:
Threat of Substitute Products

- The degree to which substitute products or services exist affects the industry's bargaining power with suppliers and customers, and ultimately profitability.

- The degree to which substitutes exist depends upon the relative price and performance of competing products or services, and the willingness of customers to accept substitutes.

Competitive Force 4:
Bargaining Power of Buyers

- Buyer bargaining power can exert downward pressure on prices.

- Factors that can affect this bargaining power are:
  – Buyer price sensitivity to product or service
  – Relative bargaining power of buyers

Competitive Force 5:
Bargaining Power of Suppliers

- A mirror image of the bargaining power of buyers.

  – Suppliers have bargaining power when there are few substitutes and/or few suppliers relative to the number of customers demanding a product or service.

Applying Industry Analysis to the Personal Computer Industry

- Despite the sales volume and ubiquity of the product, profitability in the industry was low.
  - Competitive forces
  - Bargaining power of suppliers and buyers

Competitive Strategy Analysis

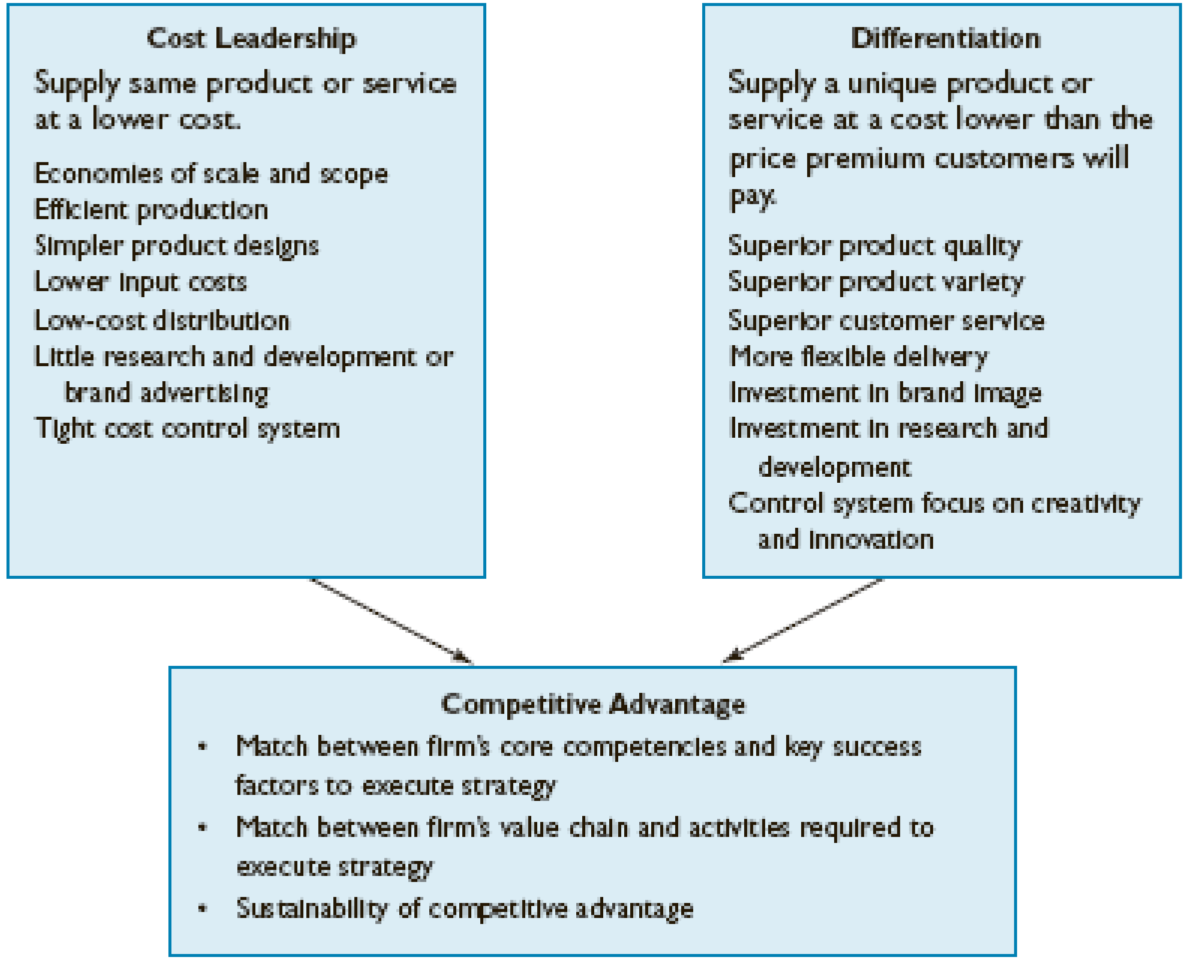
- Individual firms must choose appropriate strategies to succeed within their industry segment

- Two basic competitive strategies are:
  - Cost leadership
  - Product / service differentiation

- Figure 2-2 conveniently summarizes aspects of cost leadership and differentiation

Strategies for Creating Competitive Advantage

FIGURE 2-2 Strategies for Creating Competitive Advantage



Achieving and Sustaining Competitive Advantage

- Choice of strategy is an important first step for a firm. The likelihood of achieving and sustaining competitive advantage must be evaluated.

- Factors to evaluate include:
  - Resources and capabilities to implement strategies.
  - Whether the firm's activities, infrastructure, and other operating elements consistent with its competitive strategy.

Applying Competitive Strategy Analysis to the TJX Companies

- How was TJX's growth in income and market share achieved and sustained?

  - Low-cost competitive strategy
  - Distribution channel
  - Mass customization
  - Outsourcing service
  - Cash management
  - Investment in R&D

Corporate Strategy Analysis

- Companies with multiple business segments require an analysis how the separate segments are managed within the corporate governance structure.
- Factors to analyze include:
  - Transaction costs
  - Specific benefits to operating under one corporate umbrella

- The case of Tata Group.

Concluding Comments

- The industry analysis approach has notable strengths and some limitations.
- Porters five forces framework is valuable in evaluating the strategy and actions of firms within an industry.