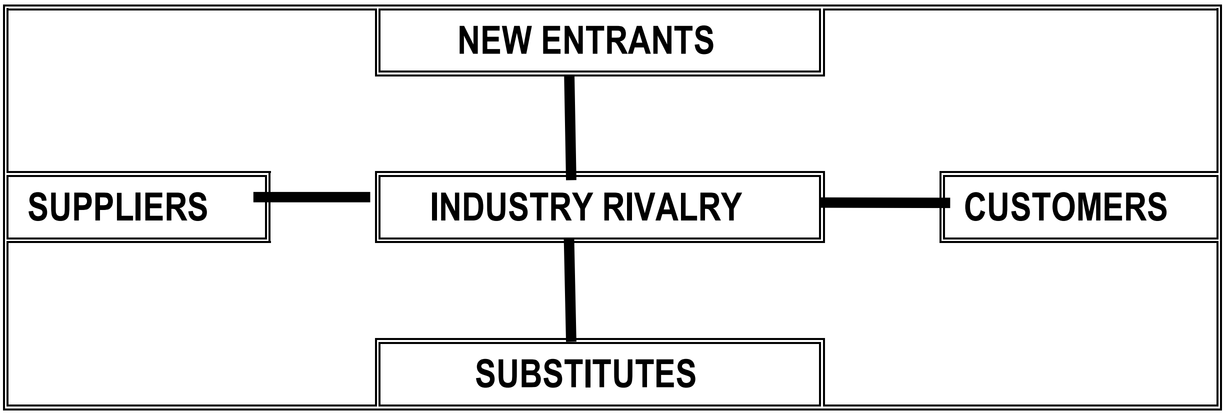
TECHNIQUE PORTER'S COMPETITIVE ANALYSIS – MODIFIED

*DETERMINANTS OF THE 5 FORCES OF PORTER'S COMPETITIVE ANALYSIS*i*



Notes

i) Need to keep in mind the roles of government and environment

Threat of new	Bargaining power of	
Entrant	**Suppliers**	**Buyers**
Economies of scale	Differentiation of inputs	Differentiation of outputs
Proprietary product differences	Switching costs of supplier & firms in industry	Switching costs of buyers
Brand identity	Presence of substitutes	Presence of substitutes
Switching costs	Supplier concentration relative to industry concentration	Industry concentration relative to buyer concentration
Capital requirements	Presence of substitute inputs	Presence of substitute inputs
Access to distribution	Importance of volume to suppliers	Importance of volume to buyer
Absolute cost advantages	Cost relative to total supplier purchases in the industry	Supplier concentration relative to industry concentration
Government policy	Impact of inputs on supplier costs or supplier differentiation	Cost relative to total buyer purchases in the industry
Expected retaliation	Information about supplier's products	Impact of outputs on buyer costs or buyer differentiation
	Supplier profitability	Buyer information about industry products
	Decision-makers' incentives	Buyer profitability
	Threat of forward integration	Decision-makers' incentives
		Threat of backward integration

Substitutes	Industry rivalry
Switching costs	Industry growth rates
Relative price and performance of substitute	High fixed costs
Buyer propensity to substitute	Intermittent over-capacity
	Product differences
	Brand identity
	Switching costs
	Information complexity
	Concentration & balance
	Diversity of competitors
	Corporate stakes
	Exit barriers

Questions to be asked to reduce the impact of each of the 5 forces

1. **What action will the organisation take?**
2. **What actions could competitors be taking?**
3. **What would have the greatest impact?**
4. **What is already happening in medium-and long-term trends?**

More specific questions on industry rivalry

(consider the impact of the factors that drive the degree of rivalry)

- Industry growth rates (if high, reduces rivalry)
- High fixed costs (if high, reduces competitor opportunities)
- Intermittent over-capacity (increases rivalry)
- Product differences (low differentiation leads to increased competition)
- Brand identity (reduces competitive pressures)
- Switching costs (if low, increases rivalry)

- Product complexity (reduces rivalry)
- Concentration of competitors (few and satisfied competitors mean less competition)
- Diversity of competitors (if high, increases competitive pressures)
- Extent of corporate "stake" (diversified conglomerates have a lesser commitment to remaining in any given industry)
- Exit barriers (if high, increases competition)

Comments on 5 Forces

Sustainable competitive advantage

- Porter argued that the key to being more profitable than your competitors is by obtaining a **sustainable competitive advantage in relationship to cost of production or through product differentiation**. In addition, **strategic focus** is important by focusing either on the broad customer base or on a much narrower market segment. Based on this, there are 3 generic strategies for gaining competitive advantage, ie

"...- cost leadership

- product/service differentiation

- narrow market focus……there are 2 variants: cost focus or differentiation focus…"

Harry Osman, 2004d

- Internal organisational factors can explain up to 10 times the variations in performance determined by external factors. As management has much more control of the internal factors than external, it should concentrate on the internal factors
- Furthermore, an organisation should develop and maintain its unique capabilities or **core competencies that are valuable, rare, un-substitutable** and **difficult to imitate**

Cost leadership

- The aim is to become the lowest-cost producer within a given industry as buyers prefer to pay less.
- This may relate to having proprietary technology, economies of scale, access to low-cost raw materials, etc.
- Cost leaders have to be careful that they **do not sacrifice other elements for aspects of customer requirements**, such as quality and service.

Differentiation strategy

- This is about creating **uniqueness**, ie able to offer customers something competitors cannot.
- The organisation is able to charge a premium for this uniqueness that exceeds the cost of providing the uniqueness.
- Uniqueness needs to be valued by the customer, such as
  - **product features (exceptional quality)**
  - **features of the services associated with the product (ease of purchase)**
  - **brand image (cutting edge design)**

Focus strategy

- This is about fine-tuning what an organisation delivers to a segment of the market and involves 3 generic strategies, ie cost focus, differentiation focus and narrow market focus (a variant of cost focus and differentiation focus)

  i) the **cost leadership** position captures the specific market segment that is being addressed, such as Aldi supermarkets targets low to median-income families who shop weekly for large volumes of staple items.

  ii) the **differentiation focus** involves creating **uniqueness,** ie offer something to customers that competitors do not have, such as

  - **product features** (exceptional service, eg Bang and Olufsen)
  - **features of service associated with the product** (ease of purchase, eg Amazon)
  - **brand image** (cutting edge, eg Alessi)

  iii) **narrow market focus**, such as Lexus which is Toyota owned and which pursues the prestige market by offering Japanese quality and reliability combined with the style and performance factors that match European competitors (BMW and Mercedes Benz). The Lexus brand is marketed separately from the Toyota brand so that there is no confusion about its position as a prestige car

THE RISKS OF THE 3 GENERIC STRATEGIES

Risks of cost leadership	Risks of differentiation	Risks of focus
Cost leadership is not sustained - competitors imitate - technology changes - other basis of cost leadership erodes	Differentiation is not sustained - competitors imitate - basis for differentiation becomes less important to buyers	The focus strategy is imitated and the target segment becomes structurally unattractive - structure erodes - demand disappears
Proximity in differentiation is lost	Cost proximity is lost	Broadly-targeted competitors overwhelm the segment - the segment's differences from other segments narrow - the advantage of a broad line increase
Cost focusers achieve even lower cost in segments	Differentiation focusers achieve even greater differentiation in segments	The new focusers sub-segment the industry

EXPANDING THE 5 FORCE ANALYSIS

- The 5 forces technique can play a support role in various planning activities, such as

"...- statistical analysis of an industry for a marketplace (for example, in order to determine the attractiveness of an industry, in assessing the industry's profitability levels, and as an aid to making decisions about whether to enter, or exit an industry)

- dynamical analysis (for example, analysing those factors that drive change in industry - economic, social, demographic and technological changes)

- scenario analysis (for example, by developing options and alternatives that may improve the competitive position of the organisation)

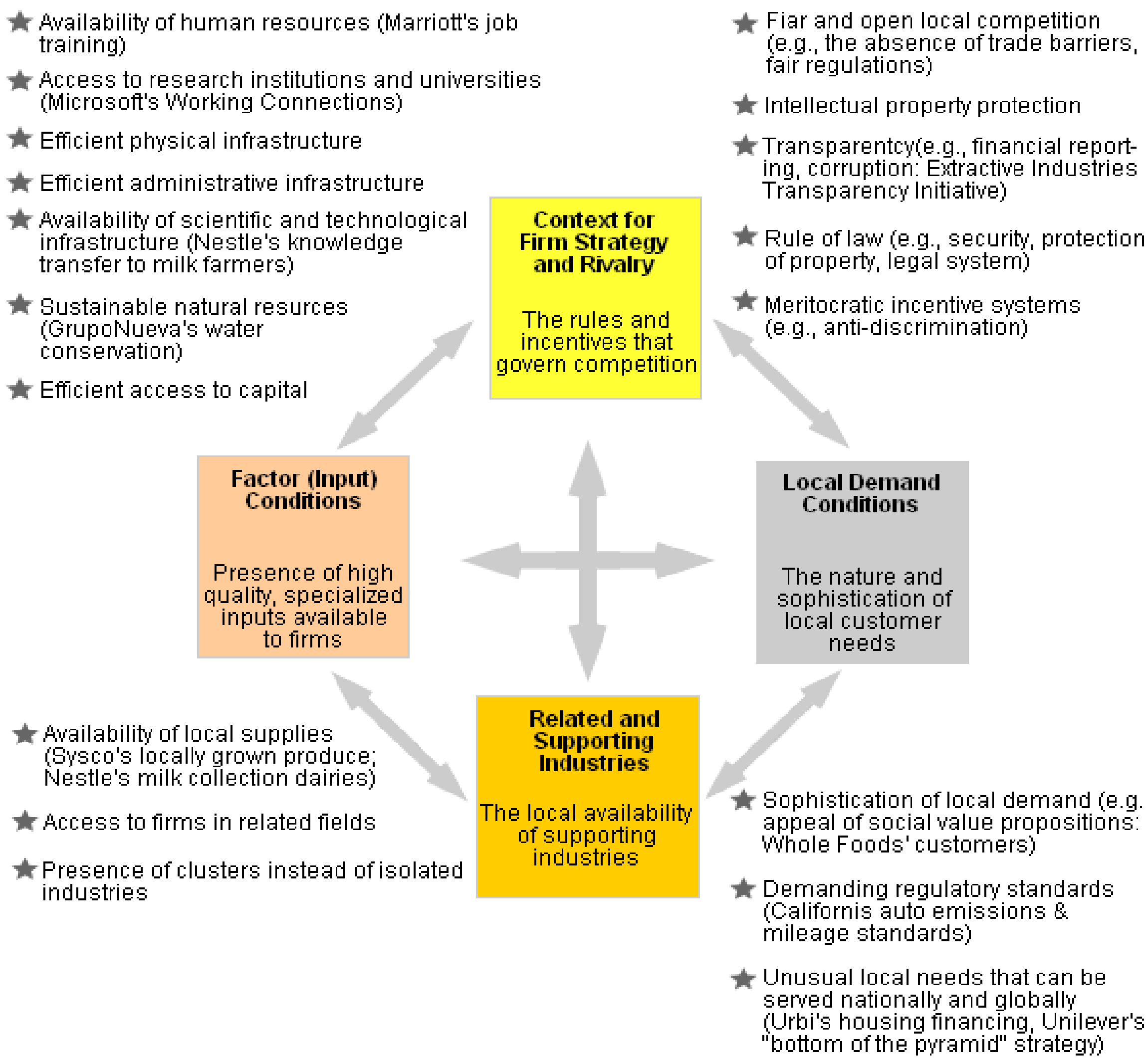
Technically speaking, the 5 forces model takes a microeconomic view of the world. To make sense of the world, it relies on factors such as supply and demand; complementary products and substitutes; the relationship between volume of production and cost of production; the market structure like monopoly, oligopoly or petty competition. Some will argue that this is a very limited view of the world…"

Harry Osman, 2004d

- Weaknesses - the analysis does **not**
  - look at industry trends (it is a static analysis, ie as it is now)
  - consider the environment surrounding an organisation's market and industry, eg role and impact of government, as governments can prevent certain activities, such as takeovers and mergers
  - consider the roles of buyer's buyers and suppliers' suppliers
  - deal with industry turbulence
  - focus on real variables and less on financial
  - explain the internal workings of an organisation

(NB The 5 force analysis is best done in conjunction with a SWOT analysis)

AN EXAMPLE OF THE 5 FORCES – UNDERSTANDING THE SOCIAL RAMIFICATIONS OF AN ORGANISATIONS' COMPETITIVE POSITION



(sources: Michael Porter, 1980; Harry Osman, 2004d; Michael Porter et al, 2006; John Forster, 2010)

Extracted from: Organisational Change Management 50+ Frameworks and 200+ Techniques
For more information go to:
http://www.billsynnotandassociates.com.au/centre-of-excellence/organisational-change-management-cd.html