



對外經濟貿易大學  
UNIVERSITY OF INTERNATIONAL BUSINESS AND ECONOMICS

# Chapter 2

## Analyzing a Company's External Environment

# Learning Objectives

- The Strategically Relevant Components of a Company's External Environment
- Thinking Strategically About a Company's Industry and Competitive Environment
  - Question 1: What Are the Industry's Dominant **Economic Features**?
  - Question 2: What Kinds of **Competitive Forces** Are Industry Members Facing?
  - Question 3: What Factors Are **Driving Industry Change** and What Impacts Will They Have?
  - Question 4: What Market **Positions Do Rivals** Occupy—Who Is Strongly Positioned and Who Is Not?
  - Question 5: What **Strategic Moves Are Rivals** Likely to Make Next?
  - Question 6: What Are the **Key Factors** for Future Competitive **Success**?
  - Question 7: Does the Outlook for the Industry Present an **Attractive** Opportunity?

# Objective 1

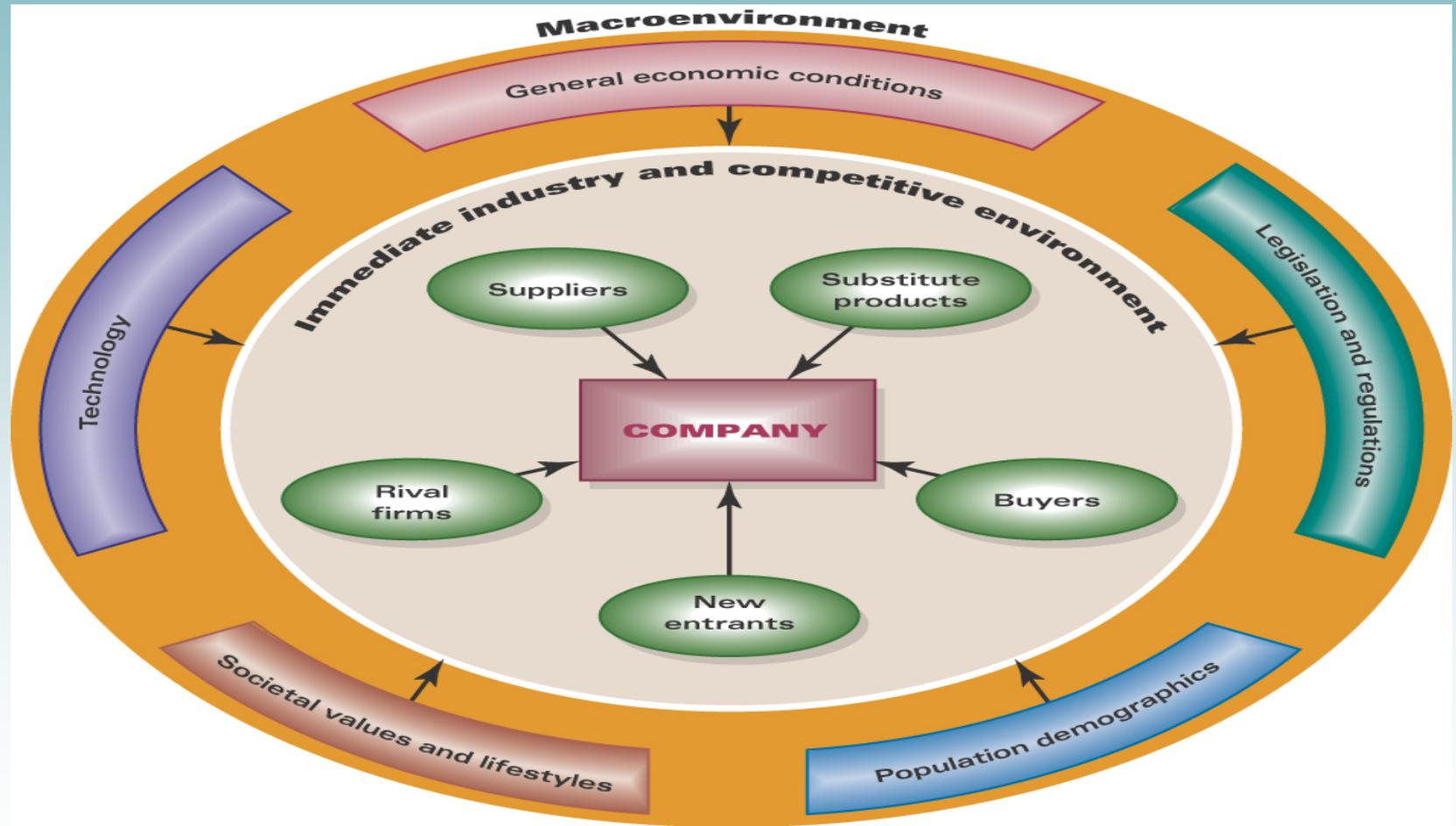
The Strategically Relevant  
Components of a  
Company's External  
Environment



# What Is Situation Analysis?

- Two considerations
  - Company's **external or macro-environment**
    - Industry and competitive conditions
  - Company's **internal or micro-environment**
    - Competencies, capabilities, resource strengths and weaknesses, and competitiveness

# Fig. 2.2: The Components of a Company's Macro-Environment



# Objective 2

Thinking Strategically About  
a Company's Industry and  
Competitive Environment



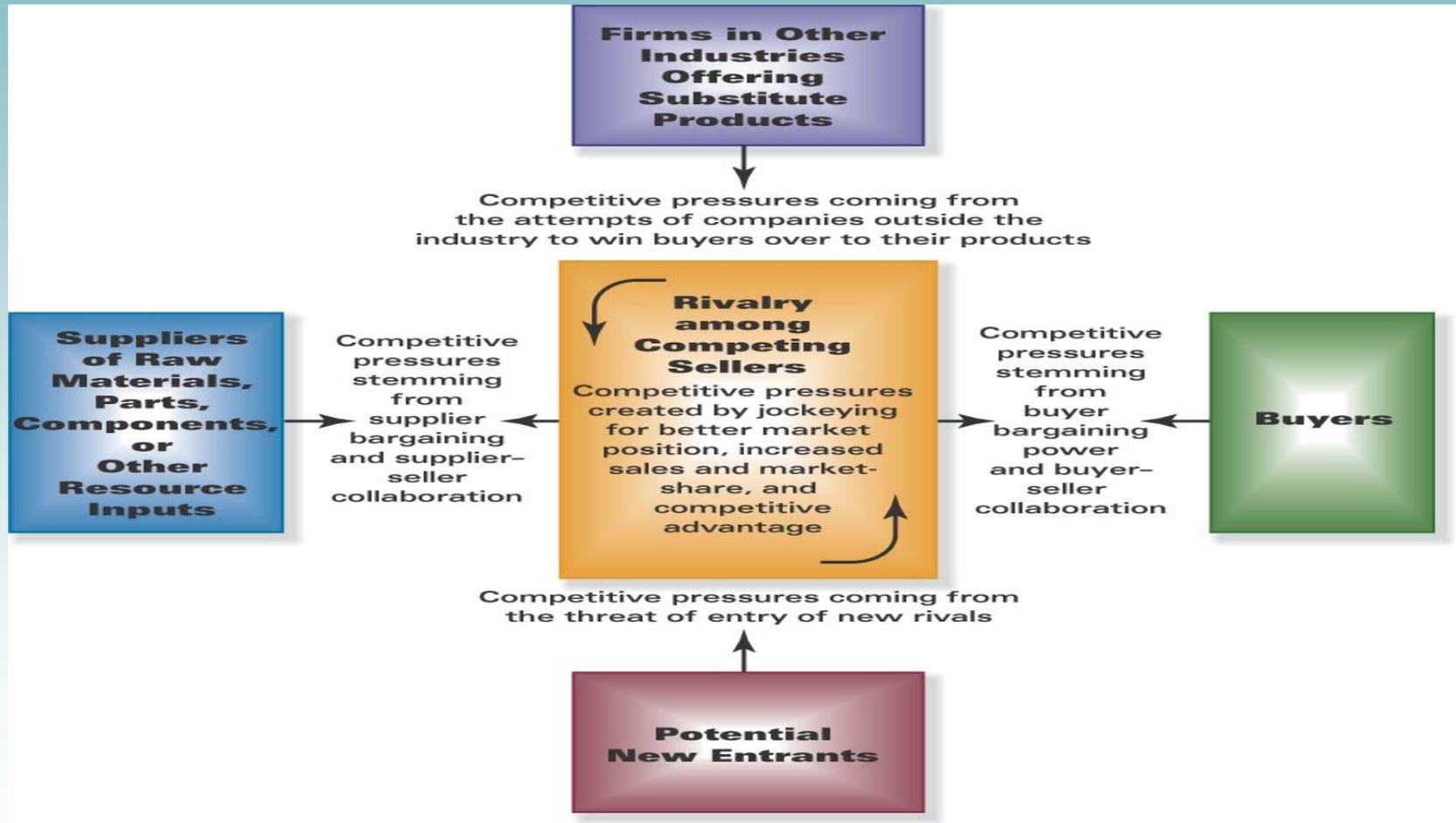
# Q #1: What are the Industry's Dominant Economic Traits?

- Market size and growth rate
- Scope of competitive rivalry
- Number of rivals
- Buyer needs and requirements
- Production capacity
- Pace of technological change
- Vertical integration
- Product innovation
- Degree of product differentiation
- Economies of scale
- Learning and experience curve effects

# Q #2: What Kinds of Competitive Forces Are Industry Members Facing?

- Objectives are to identify
  - Main **sources** of competitive forces
  - **Strength** of these forces
- Key analytical tool
  - **Five Forces Model of Competition**

# Fig. 2.3: The Five Forces Model of Competition



# Analyzing the Five Competitive Forces: How to Do It

**Step 1: *Identify*** the specific ***competitive pressures*** associated with each of the five forces

**Step 2: *Evaluate*** the ***strength of each competitive force*** -- fierce, strong, moderate to normal, or weak?

**Step 3: *Determine*** whether the ***collective strength*** of the five competitive forces is conducive to earning attractive profits

# Rivalry Among Competing Sellers

- Usually the **strongest** of the five forces
- Key **factor** in determining **strength of rivalry**
  - How aggressively are rivals using various **weapons of competition** to improve their market positions and performance?
- **Competitive rivalry** is a **combative(好战的) contest** involving
  - **Offensive** actions
  - **Defensive** countermoves

# What Are the *Typical* Weapons for Competing?

- Vigorous price competition
- More or different performance features
- Better product performance
- Higher quality
- Stronger brand image and appeal
- Wider selection of models and styles

- Bigger/better dealer network
- Low interest rate financing
- Higher levels of advertising
- Stronger product innovation capabilities
- Better customer service
- Stronger capabilities to provide buyers with custom-made products

# Competitive Force of Potential Entry

- Seriousness of threat depends on
  - **Size** of **pool of entry candidates** and available resources
  - **Barriers** to entry
  - **Reaction** of existing firms
- Evaluating threat of entry involves assessing
  - How formidable entry barriers are for each type of potential entrant and
  - Attractiveness of growth and profit prospects

# Common Barriers to Entry

- Sizable economies of scale
- Cost and resource disadvantages independent of size
- Brand preferences and customer loyalty
- Capital requirements and/or other specialized resource requirements
- Access to distribution channels
- Regulatory policies
- Tariffs and international trade restrictions

# Competitive Force of Substitute Products

**Substitutes** matter when customers are attracted to the products of firms in **other industries**



# Competitive Pressures From Suppliers and Supplier-Seller Collaboration

- Whether supplier-seller relationships represent a **weak** or **strong** competitive force depends on
  - Whether suppliers can exercise sufficient bargaining leverage to influence terms of supply in their favor
  - Nature and extent of supplier-seller collaboration in the industry

# Competitive Pressures: Collaboration Between Sellers and Suppliers

- Sellers are forging **strategic partnerships** with select suppliers to
  - Reduce inventory and logistics costs
  - Speed availability of next-generation components
  - Enhance quality of parts being supplied
  - Squeeze out cost savings for both parties
- **Competitive advantage potential** may accrue to sellers doing the best job of managing supply-chain relationships

# Competitive Pressures From Buyers and Seller-Buyer Collaboration

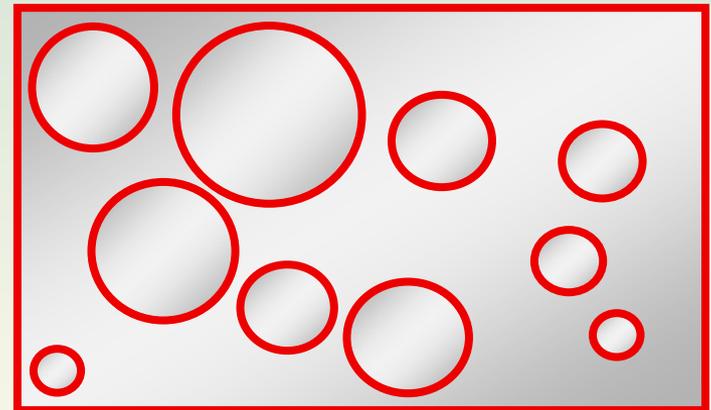
- Whether seller-buyer relationships represent a **weak** or **strong** competitive force depends on
  - Whether buyers have sufficient bargaining leverage to influence terms of sale in their favor
  - Extent and competitive importance of seller-buyer strategic partnerships in the industry

# Q #3: What Factors Are Driving Industry Change and What Impacts Will They Have?

- Industries change because **forces** are **driving** industry **participants** to **alter their actions**
- **Driving forces** are the **major underlying causes** of changing industry and competitive conditions

# Question 4: What Market Positions Do Rivals Occupy?

- One technique to reveal ***different competitive positions*** of industry rivals is ***strategic group mapping***
- A ***strategic group*** is a cluster of firms in an industry with similar competitive approaches and market positions



# Strategic Group Mapping

- Firms in **same strategic group** have two or more **competitive characteristics** in common
  - Have comparable product line breadth
  - Sell in same price/quality range
  - Emphasize same distribution channels
  - Use same product attributes to appeal to similar types of buyers
  - Use identical technological approaches
  - Offer buyers similar services
  - Cover same geographic areas

# Q #5: What Strategic Moves Are Rivals Likely to Make?

- A firm's **best strategic moves** are affected by
  - Current strategies of competitors
  - Future actions of competitors
- Profiling key rivals involves gathering **competitive intelligence** about
  - Current strategies
  - Most recent actions and public announcements
  - Resource strengths and weaknesses
  - Efforts being made to improve their situation
  - Thinking and leadership styles of top executives

# Competitor Analysis

- **Sizing up strategies** and competitive **strengths** and **weaknesses** of **rivals** involves assessing
  - Which rival has the best strategy? Which rivals appear to have weak strategies?
  - Which firms are poised to gain market share, and which ones seen destined to lose ground?
  - Which rivals are likely to rank among the industry leaders five years from now? Do any up-and-coming rivals have strategies and the resources to overtake the current industry leader?

# Q #6: What Are the Key Factors for Competitive Success?

- KSFs are those competitive factors most affecting **every industry member's** ability to prosper. They concern
  - Specific strategy elements
  - Product attributes
  - Resources
  - Competencies
  - Competitive capabilities

that a company needs to have to be competitively successful

- **KSFs** are attributes that spell the **difference** between
  - Profit and loss
  - Competitive success or failure

# Identifying Industry Key Success Factors

- **Pinpointing KSFs** involves determining
  - On what basis do customers choose between competing brands of sellers?
  - What resources and competitive capabilities does a seller need to have to be competitively successful?
  - What does it take for sellers to achieve a sustainable competitive advantage?
- KSFs consist of the **3 - 5 major determinants** of financial and competitive success

# Q #7: Does the Outlook for the Industry Present an Attractive Opportunity?

- Involves assessing whether the industry and competitive environment is **attractive** or **unattractive** for earning good profits
- Under **certain circumstances**, a **firm uniquely well-situated** in an **otherwise unattractive industry** **can** still **earn** unusually good **profits**
  - Attractiveness is relative, not absolute
  - Conclusions have to be drawn from the perspective of a particular company

# Summary

A competently conducted industry and competitive analysis generally tells a clear, easily understood story about the company's external environment.

Managers become better strategists when they know what questions to pose and what tools to use.

