

4. Environmental analysis – 25 points (approx. 800 words)

- Macro trend analysis focused on explaining 3 PESTEL key drivers of change (based on level of impact), and what they represent in terms of opportunities and threats.
- Short explanation of 2 highly uncertain key drivers of change, followed by brief scenario analysis (focused on outlining opportunities and threats).
- Industry analysis (choose 1 of the following analyses: 5 Forces, strategic groups, strategy canvas/blue oceans). The analysis should conclude with the identification of opportunities and threats for the organisation.



FIVE FORCES

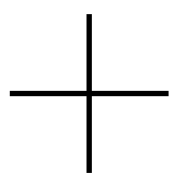


FIVE FORCES

FIVE FORCES

FIVE FORCES



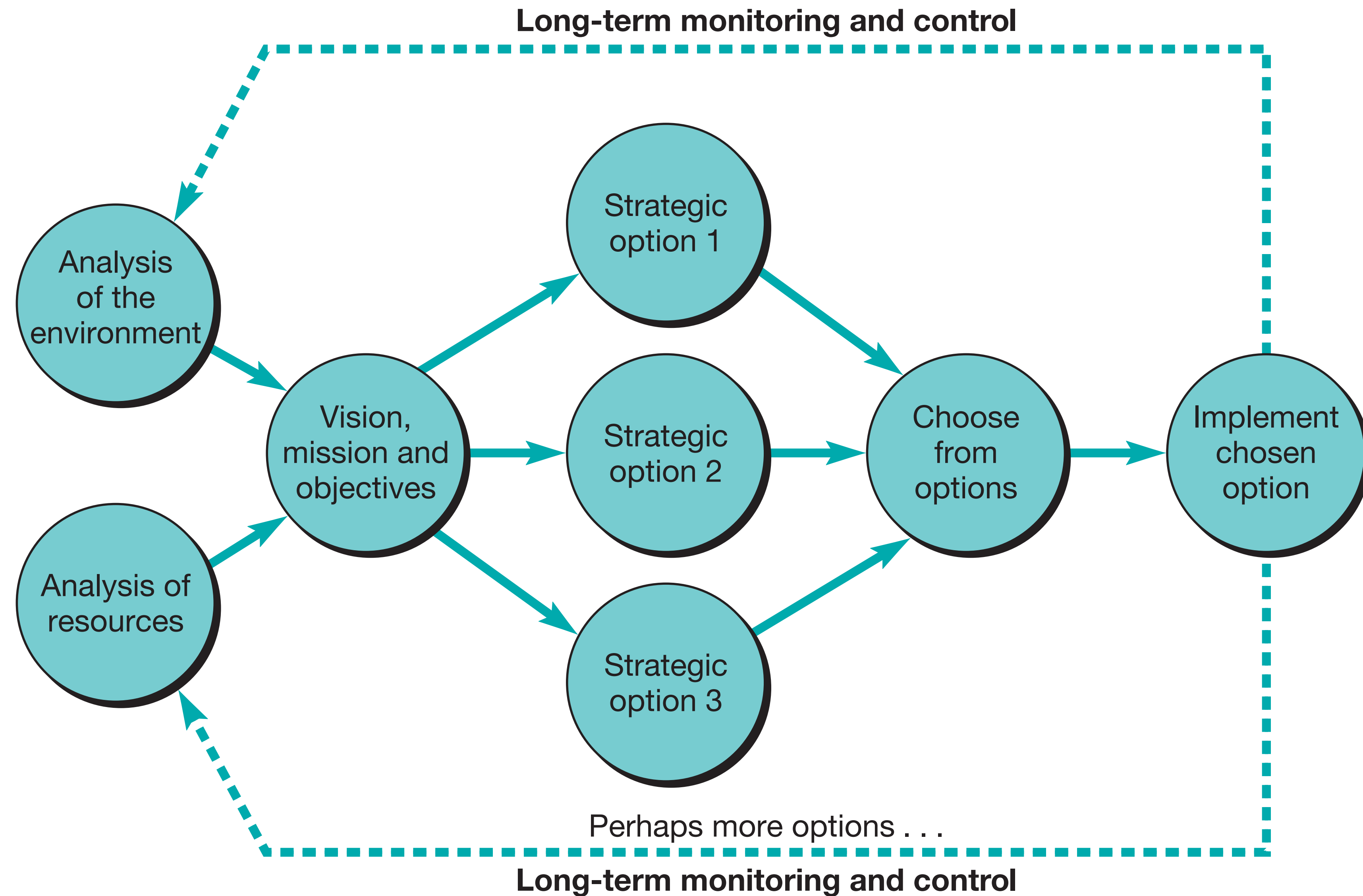
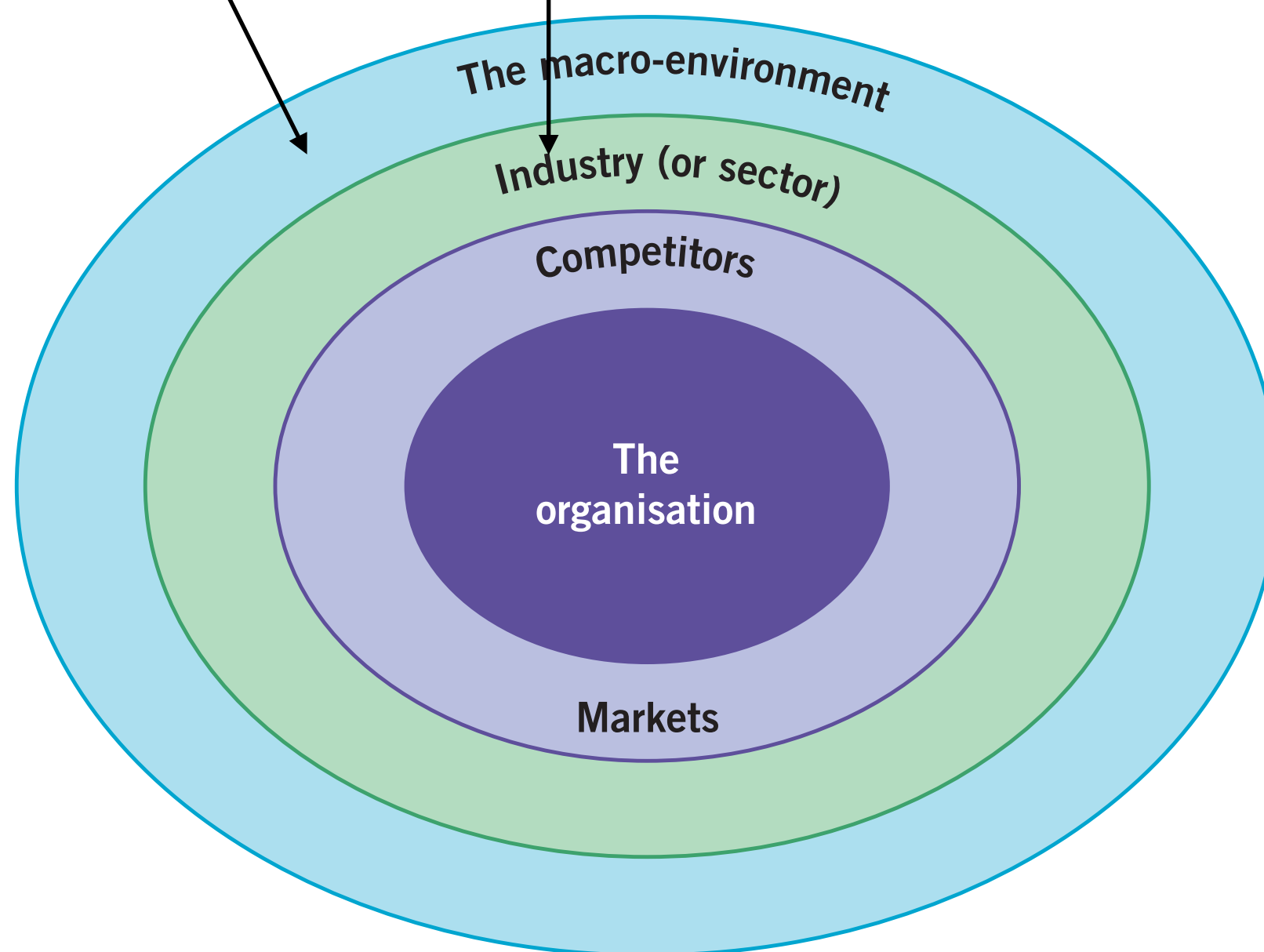
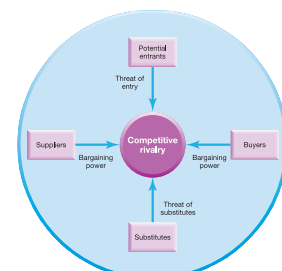


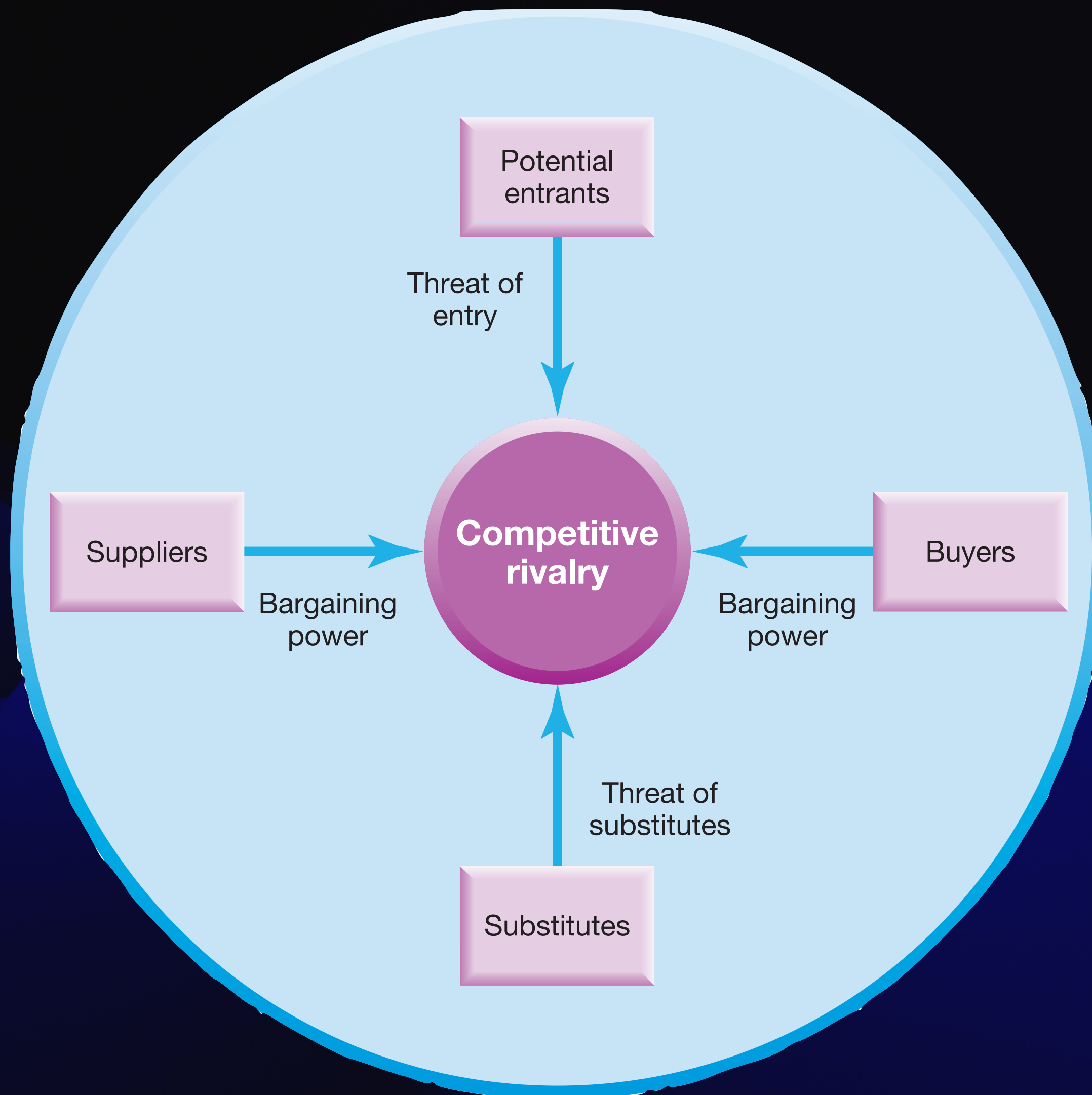
The **prescriptive** strategic purpose

SCENARIO ANALYSIS



PESTLE

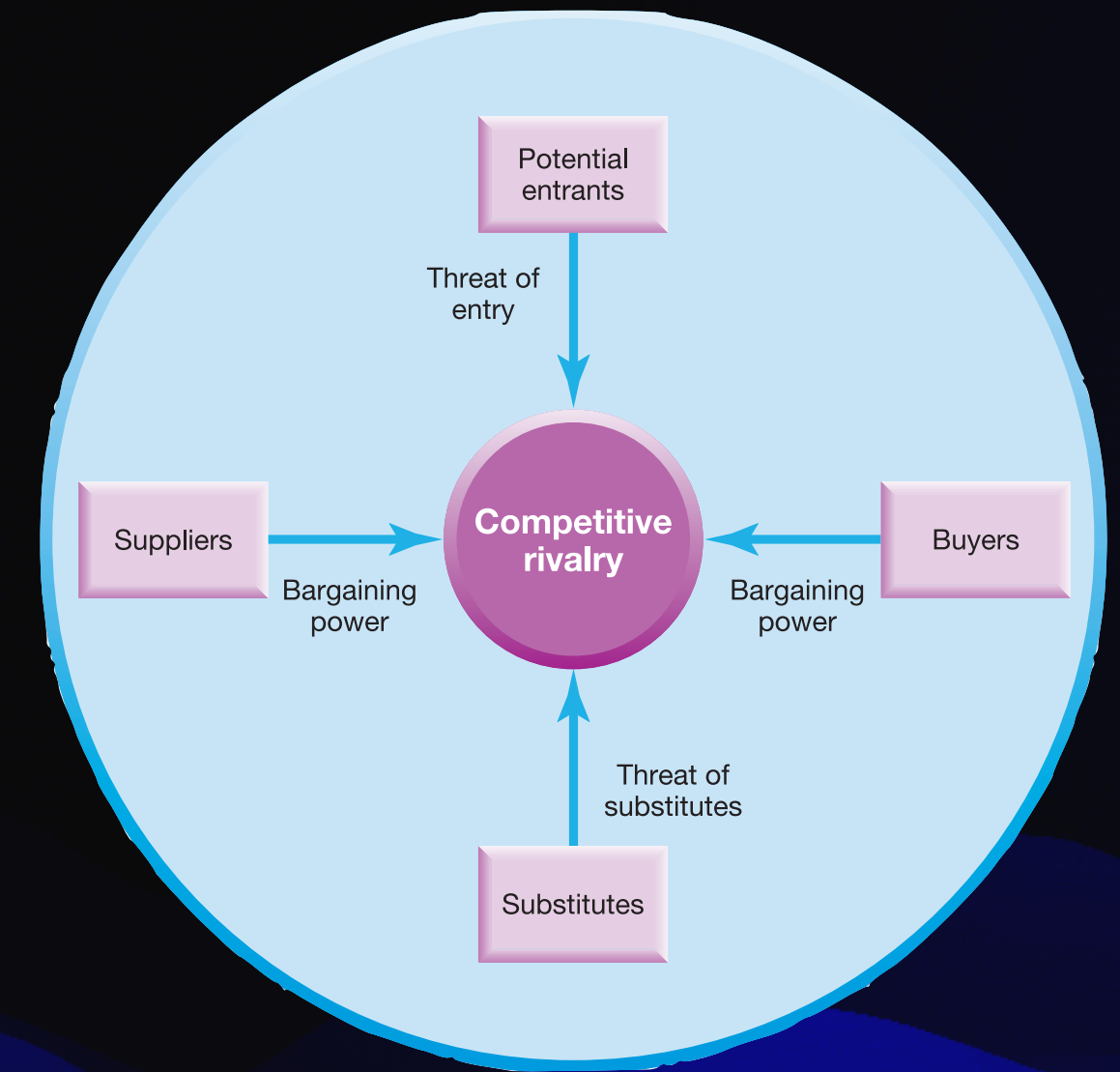




The five forces framework

Barriers to entry make it difficult (or even impossible) for new competitors to enter a market. Barriers to entry include:

- The costs of producing/ providing for the marketplace
- Existing influential brand names within the market
- The size of the market
- Legal/regulatory barriers
- Existing companies that control key resources
- Existing companies that are large enough to benefit from economies of scale – and therefore have lower cost bases
- Potential competitor reactions

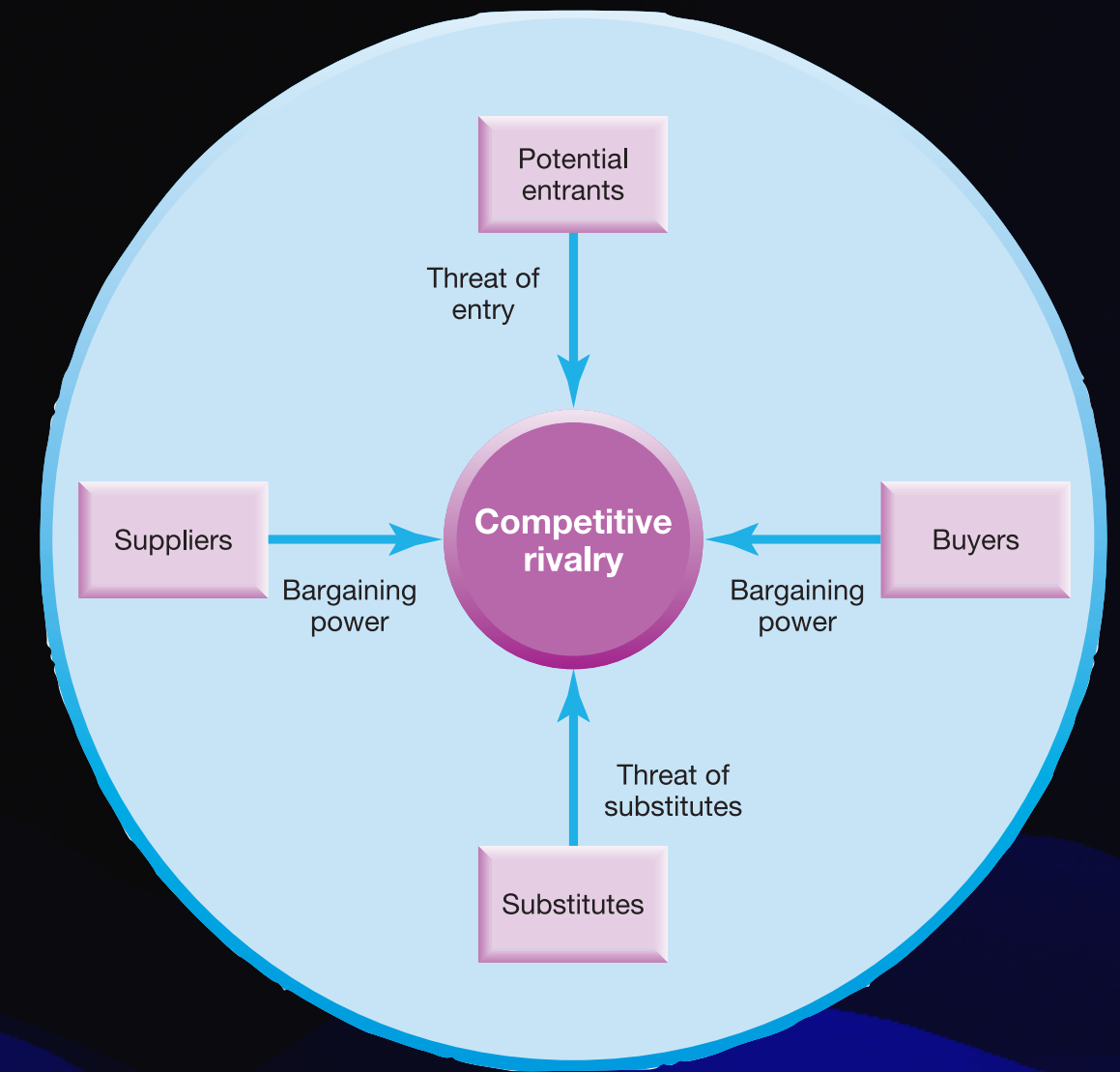


Barriers to entry

Barriers to entry

Buyers are powerful when:

- There are few significant buyers in the marketplace
- Products are commoditised or standardised (little difference between products in the eye of the customer)
- The company is not a key supplier to the customer

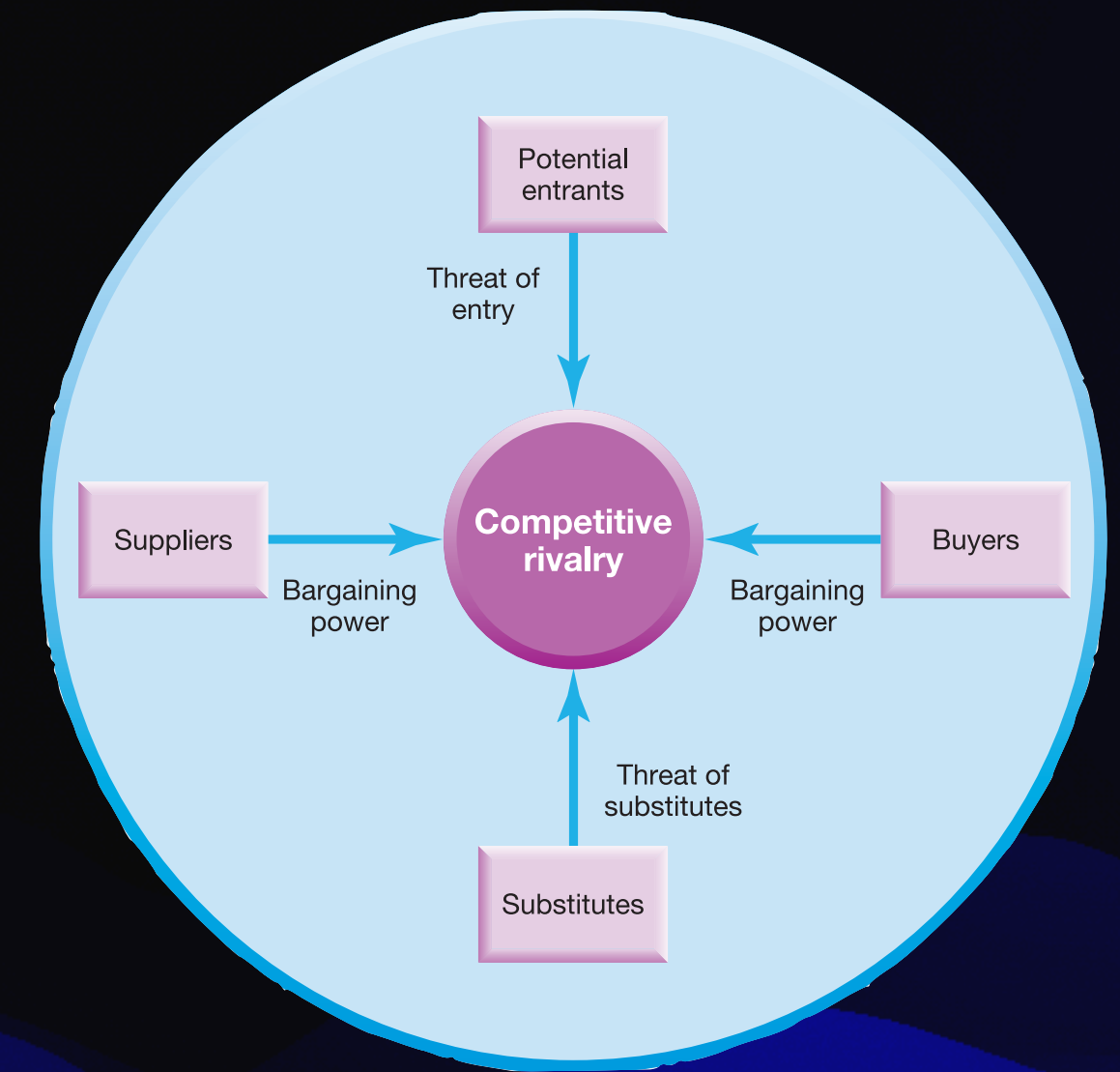


Power of Buyers

Power of Buyers

Substitutes are products or services that offer the same or a similar function and benefit to an industry's products or services but have a different nature.

For example, aluminium is a substitute for steel; a tablet computer is a substitute for a laptop; charities can be substitutes for public services.



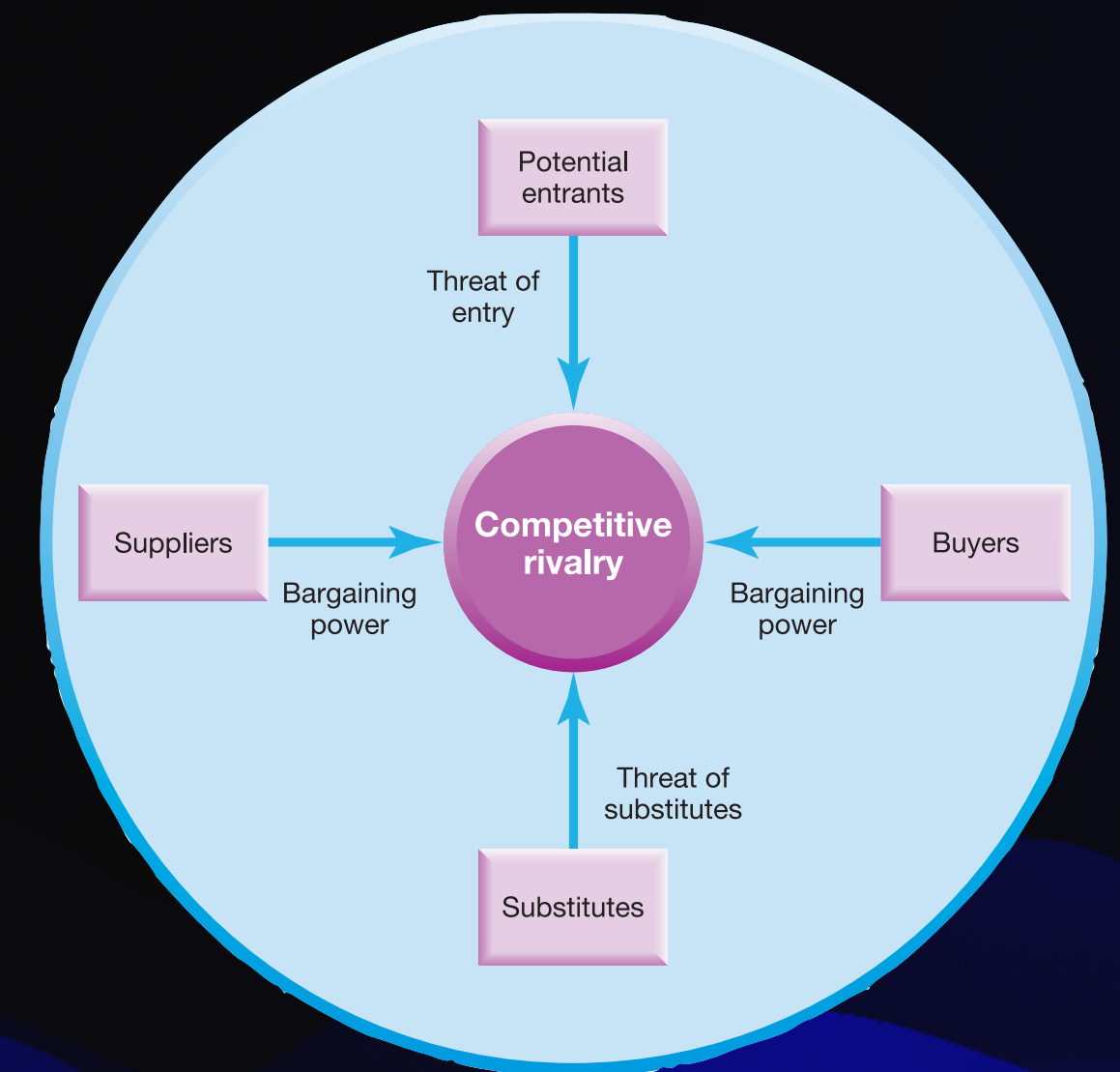
Threat of Substitutes

Threat of Substitutes

If raw materials or ingredients are scarce, their suppliers can dictate terms. Companies with strong brands can also do this – i.e. market leaders with a distinct advantage.

Suppliers are powerful when:

- There are few other sources of supply
- The suppliers threaten to move along the supply chain and become a competitor
- The cost of switching to other suppliers is great
- The company's business is not key to the supplier

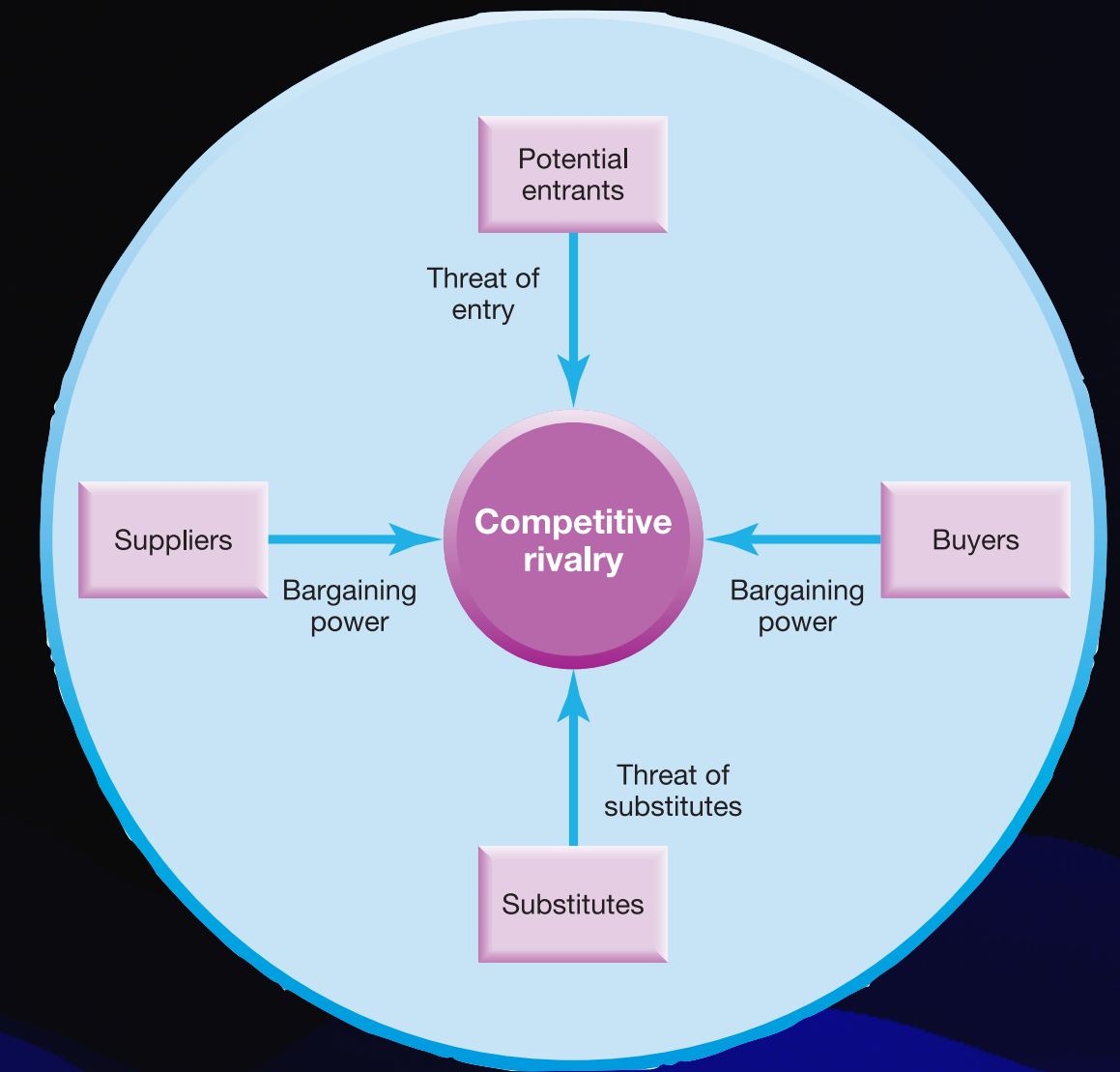


Threat of Substitutes

Power of Suppliers

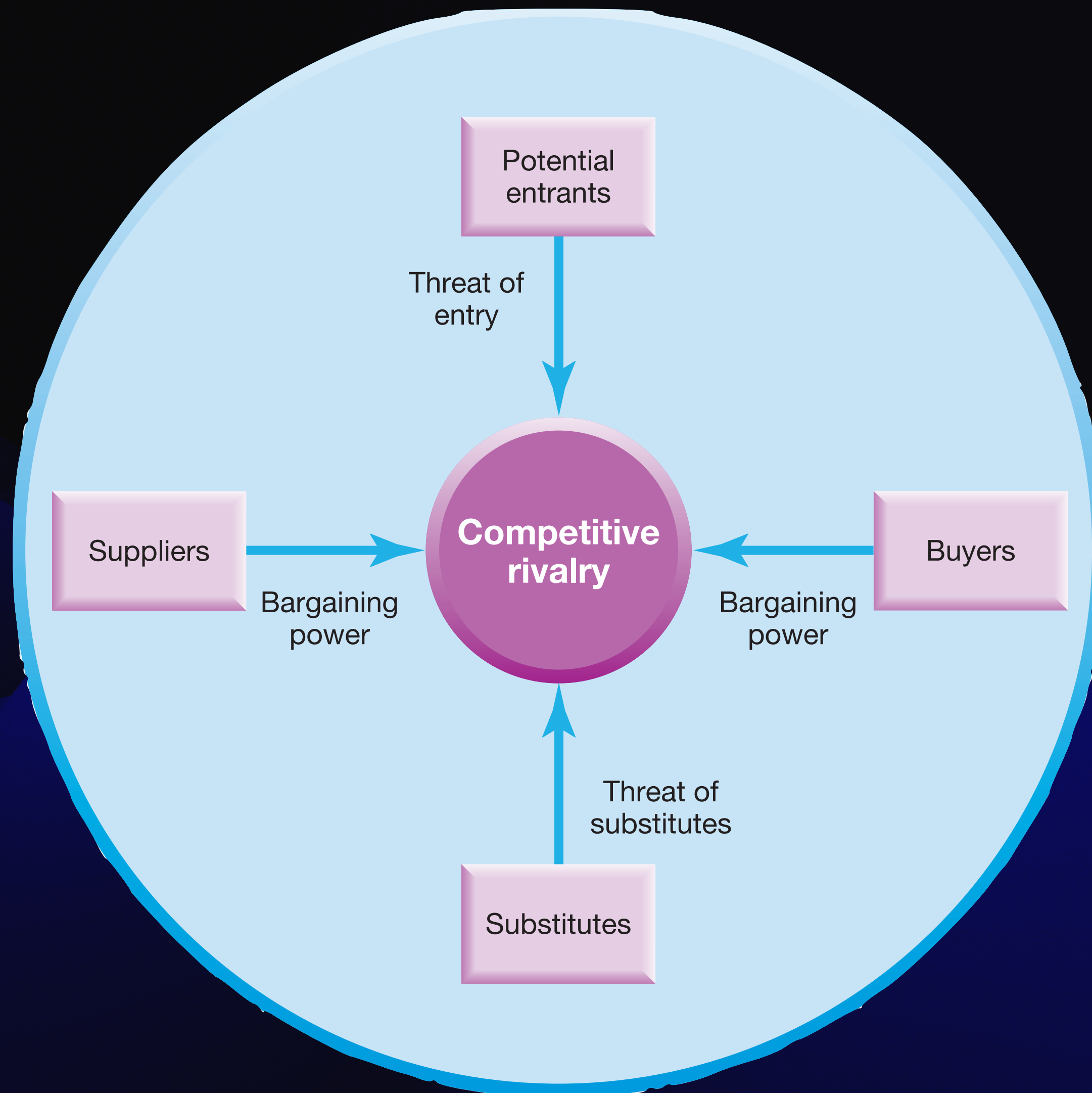
Some companies and markets are more competitive than others. The intensity of rivalry may depend on:

- The number of competitors in the market
- The cost structure
- The differential advantages between market offerings
- The costs involved with customer switching
- The strategic objectives being pursued by competitors
- The exit barriers



Inter-rivalry of Competitors

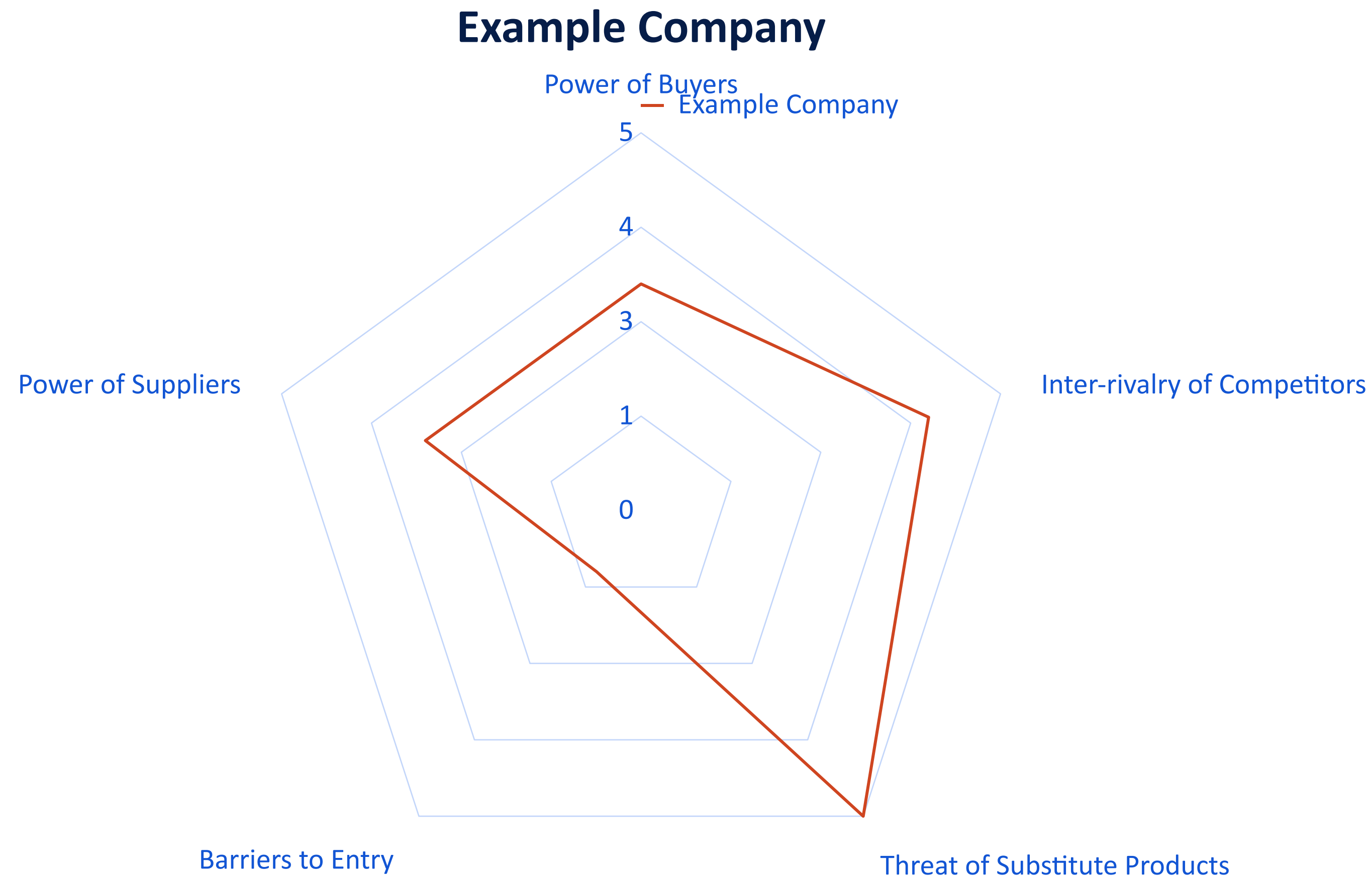
Inter-rivalry of Competitors

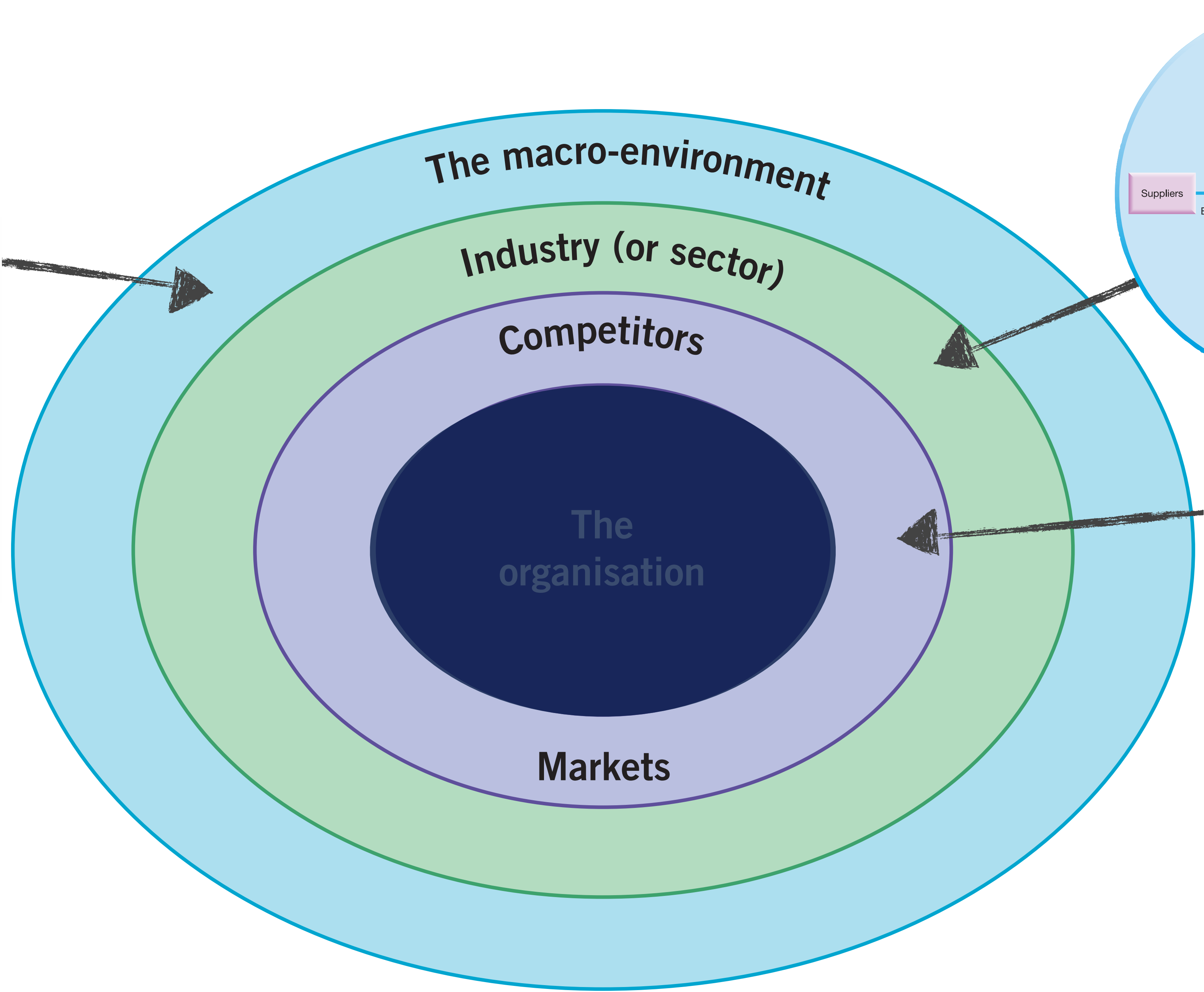
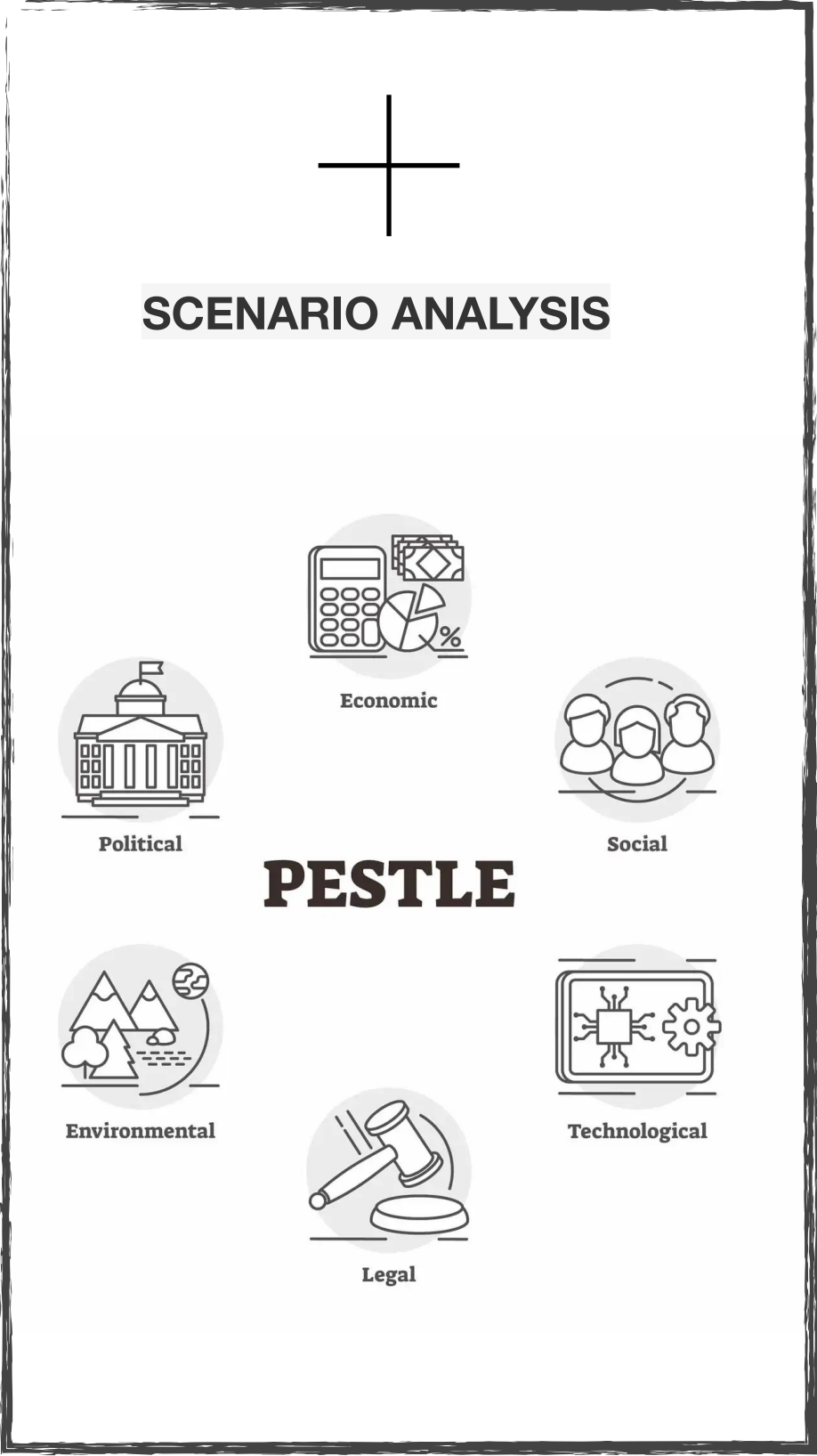


The five forces framework

Competitive – Porter's 5 Forces

- Porter's 5 Forces Model (Porter, 1985) analyses competitive activity by helping companies determine the strength (intensity) of competitive threats





Competitive strategy

Competitive strategy is concerned with how a company, business unit or organisation achieves a competitive advantage in its domain of activity. Competitive strategy therefore involves issues such as costs, product and service features and branding. In turn, **competitive advantage** is about how a company, business unit or organisation creates value for its users both greater than the costs of supplying them and superior to that of rivals.

Competitive strategy

There are **two fundamental means** of achieving a competitive advantage. An organisation can have structurally **lower costs than its competitors**. Or it can have products or services that are **differentiated from competitors** products or services in ways that are so valued by customers that it can charge higher prices that cover the additional costs of the differentiation.



Competitive Advantage

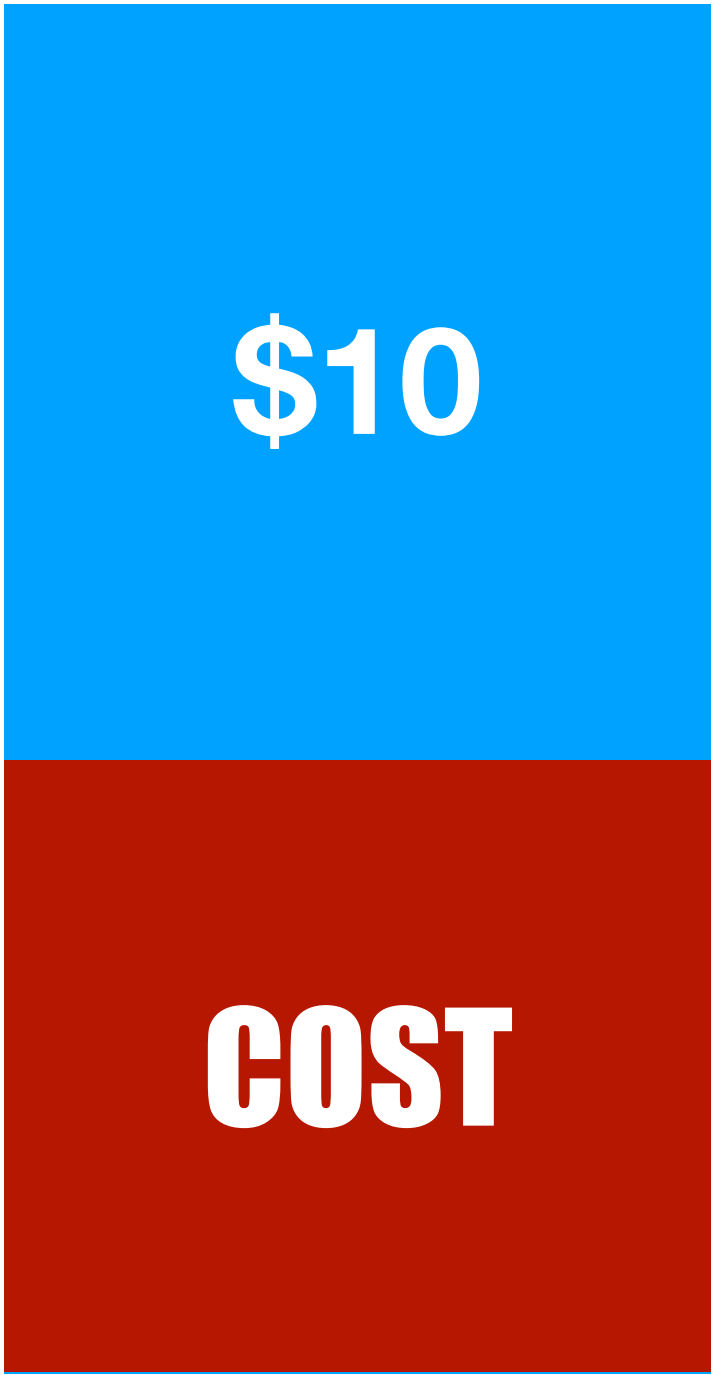
Competitive Scope



COST
LEADER

SP \$15

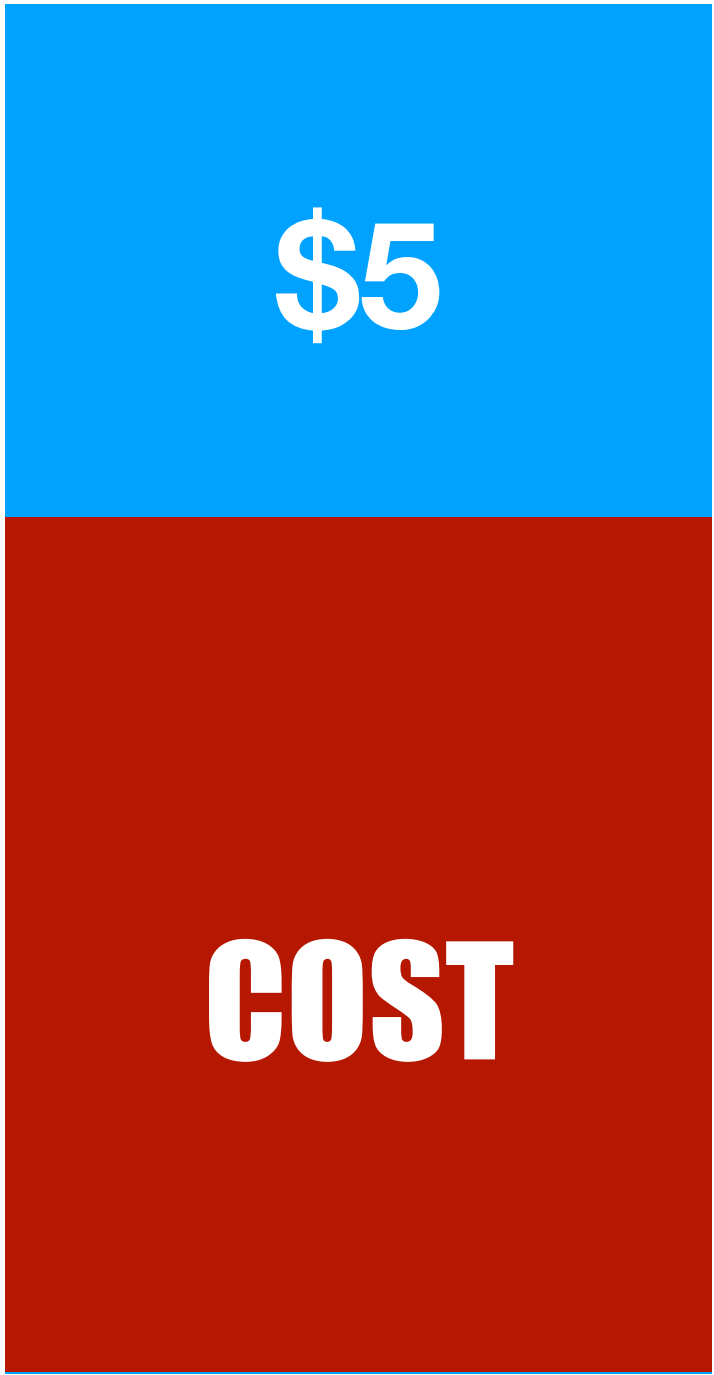
CP \$5



AVERAGE
PRODUCER

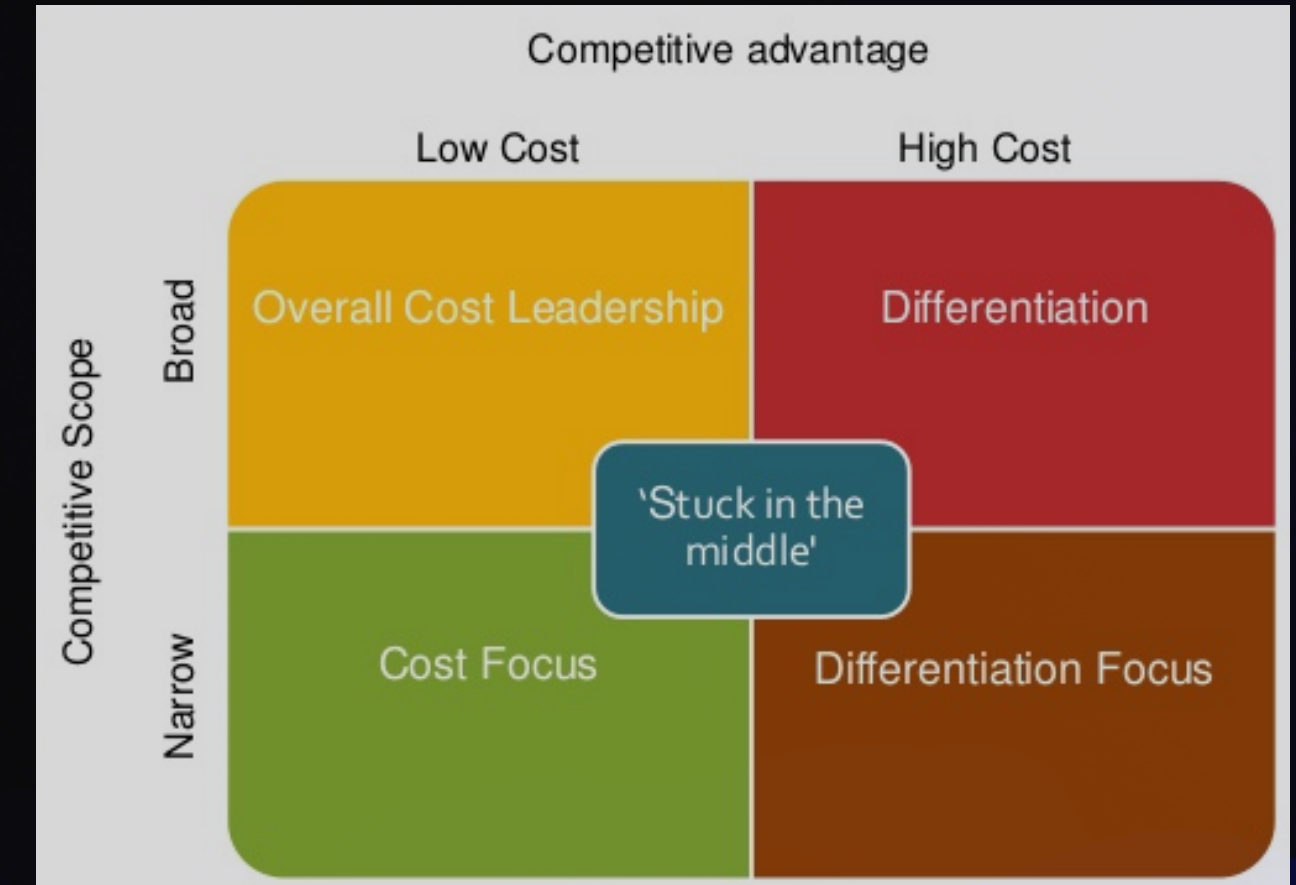
SP \$15

CP \$10



Cost-leadership strategy involves becoming the systematically lowest-cost organisation in a domain of activity. There are four key *cost drivers* that can help deliver cost leadership, as follows:

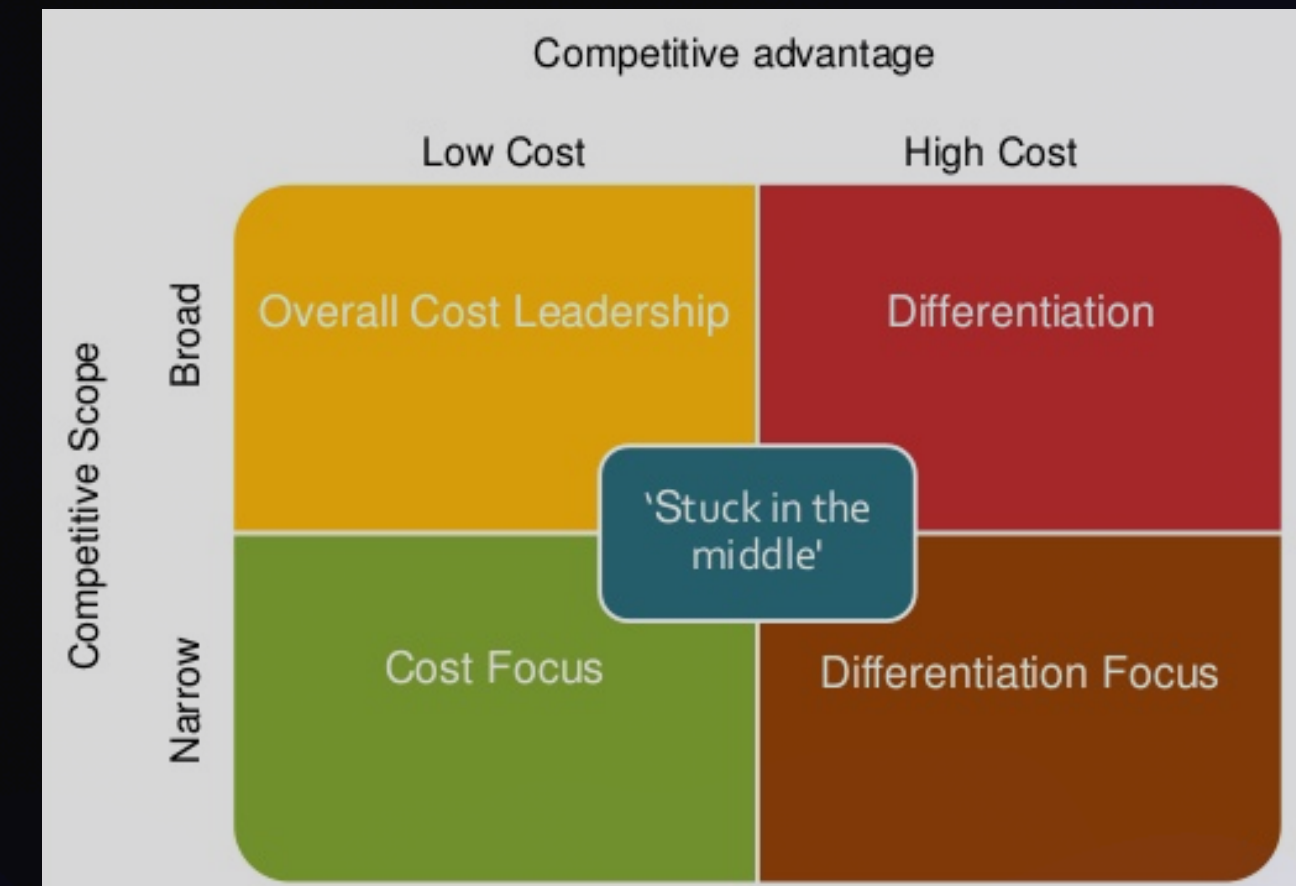
- Input costs
- Economies of scale
- Experience
- Product/process design



Competitive Advantage

Cost-leadership

Input costs, for example, labour or raw materials, are often very important. Many companies seek competitive advantage by locating their labour-intensive operations in countries with low labour costs. Examples might be service call centres in India or manufacturing facilities in Southeast Asia and China.



Competitive Advantage

Cost-leadership

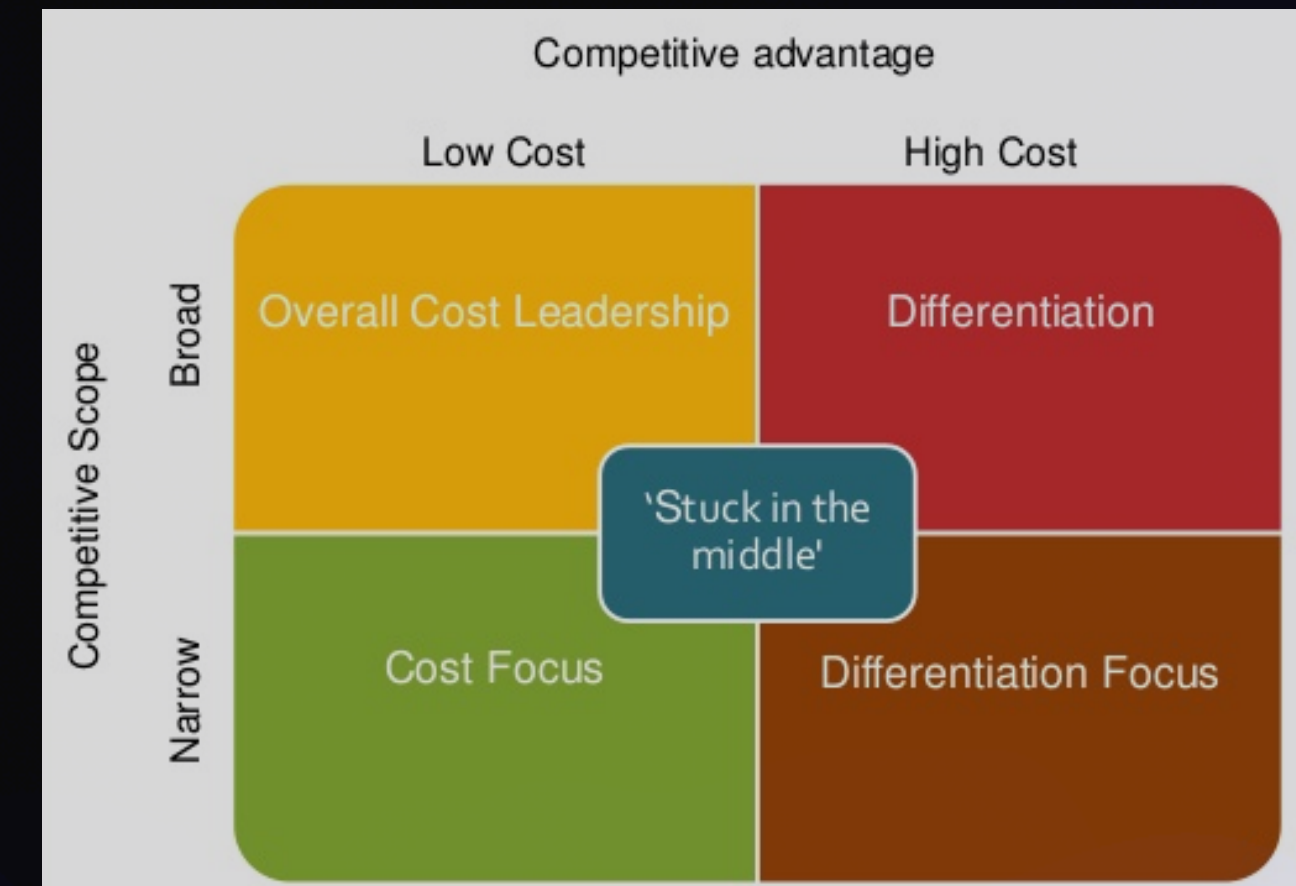
Economies of scale refer to how increasing scale usually reduces the average operation costs over a particular period, perhaps a month or a year. Economies of scale are important wherever there are high fixed costs. Economies of scale come from spreading these fixed costs over high output levels. Economies of scale in purchasing can reduce input costs.



Competitive Advantage

Cost-leadership

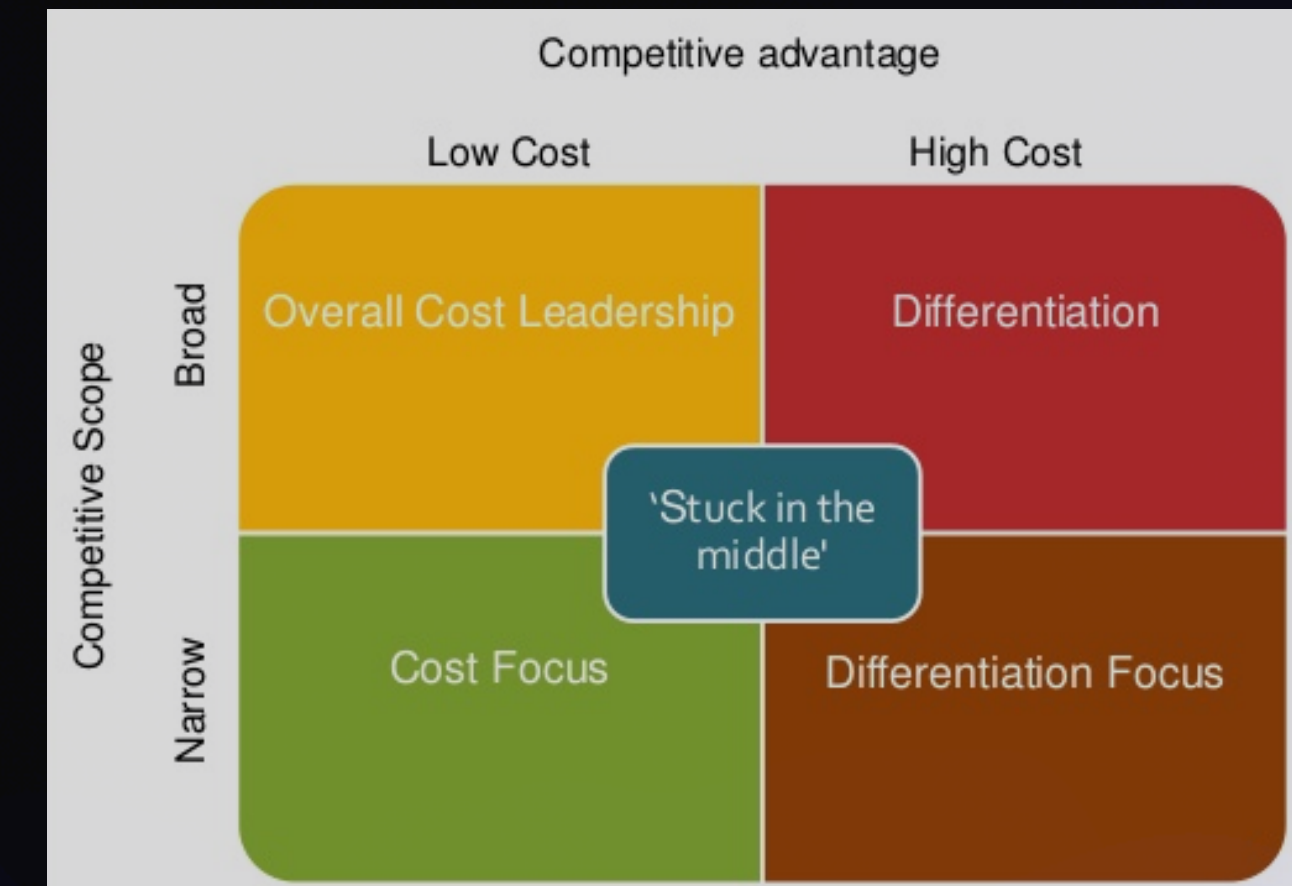
Experience can be a key source of cost efficiency. The experience curve implies that the cumulative experience gained by an organisation with each unit of output leads to reductions in unit costs.



Competitive Advantage

Cost-leadership

Product/ process design also influences the cost. Efficiency can be 'designed in' at the outset. For example, engineers can build a product from cheap standard components rather than expensive specialised components. Organisations can choose to interact with customers exclusively through cheap web-based methods rather than via telephone or stores.



Competitive Advantage

Cost-leadership



Competitive Advantage

Cost-leadership

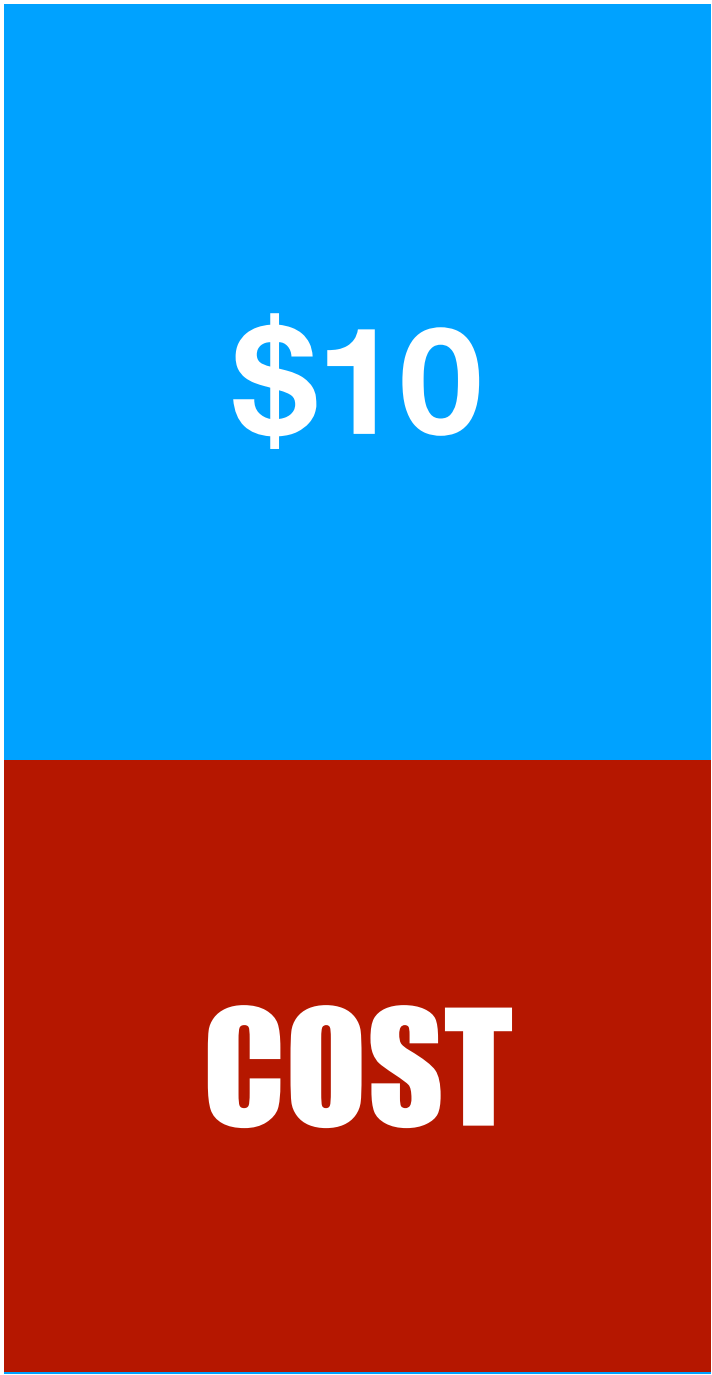
Competitive Scope



COST
LEADER

SP \$15

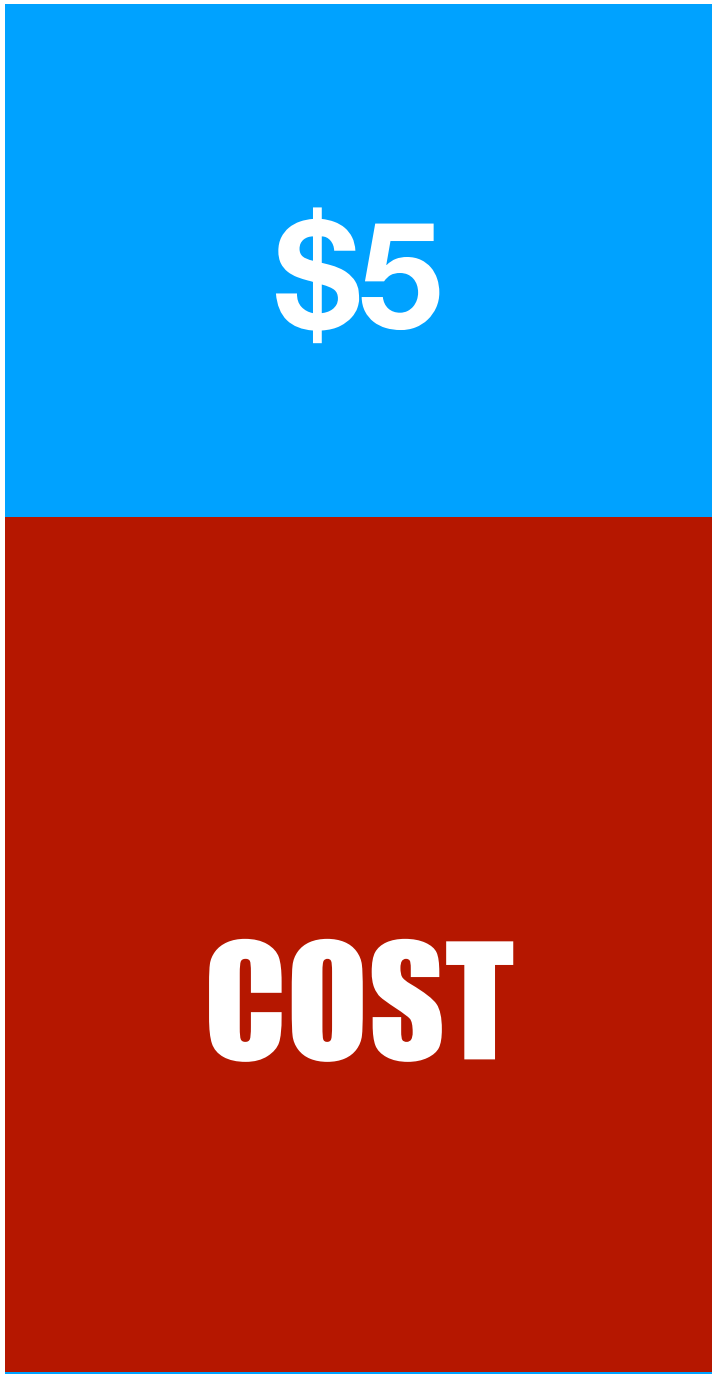
CP \$5



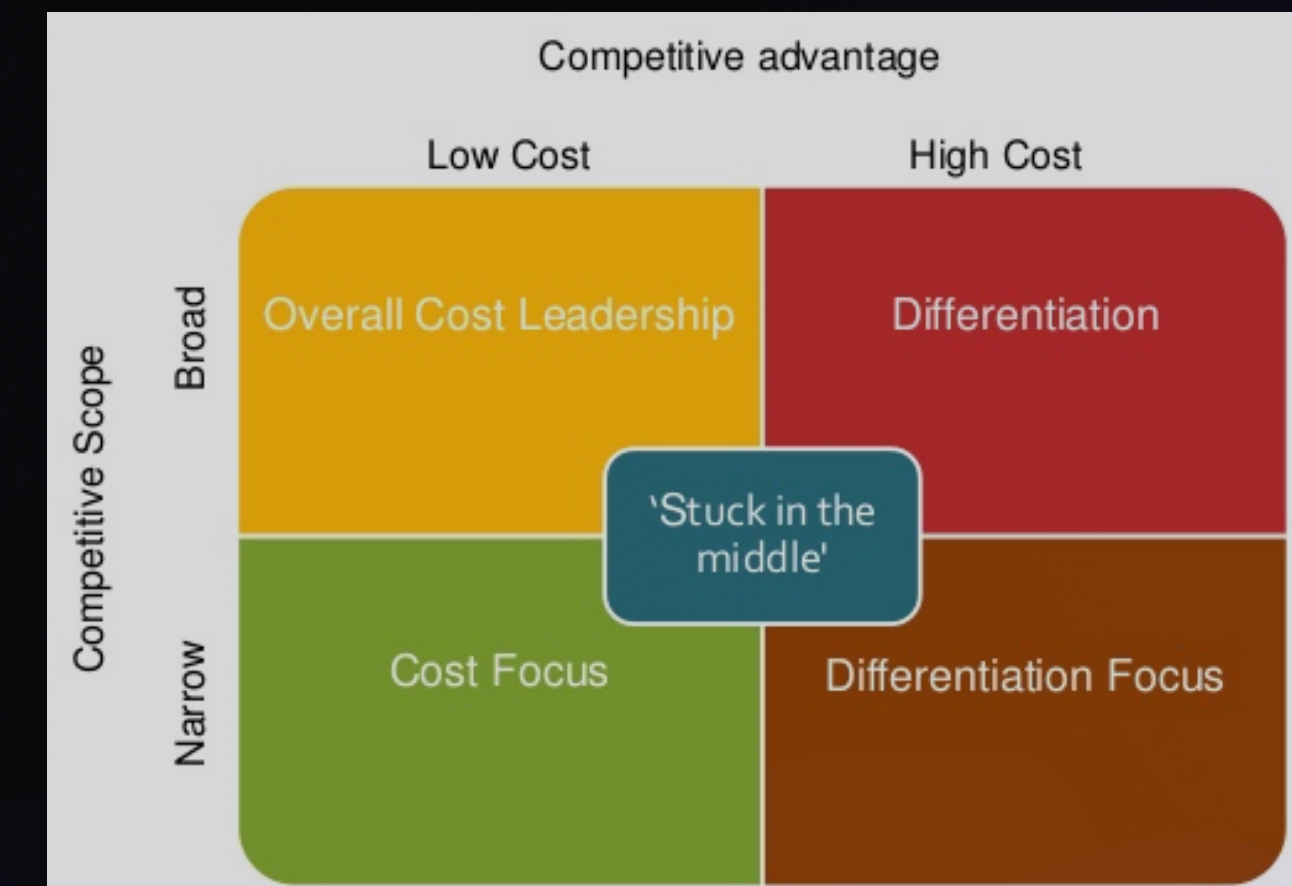
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SP \$15

CP \$10



The principal alternative to cost leadership is **differentiation**. Differentiation strategy involves uniqueness along some dimension that is sufficiently valued by customers to allow a price premium.



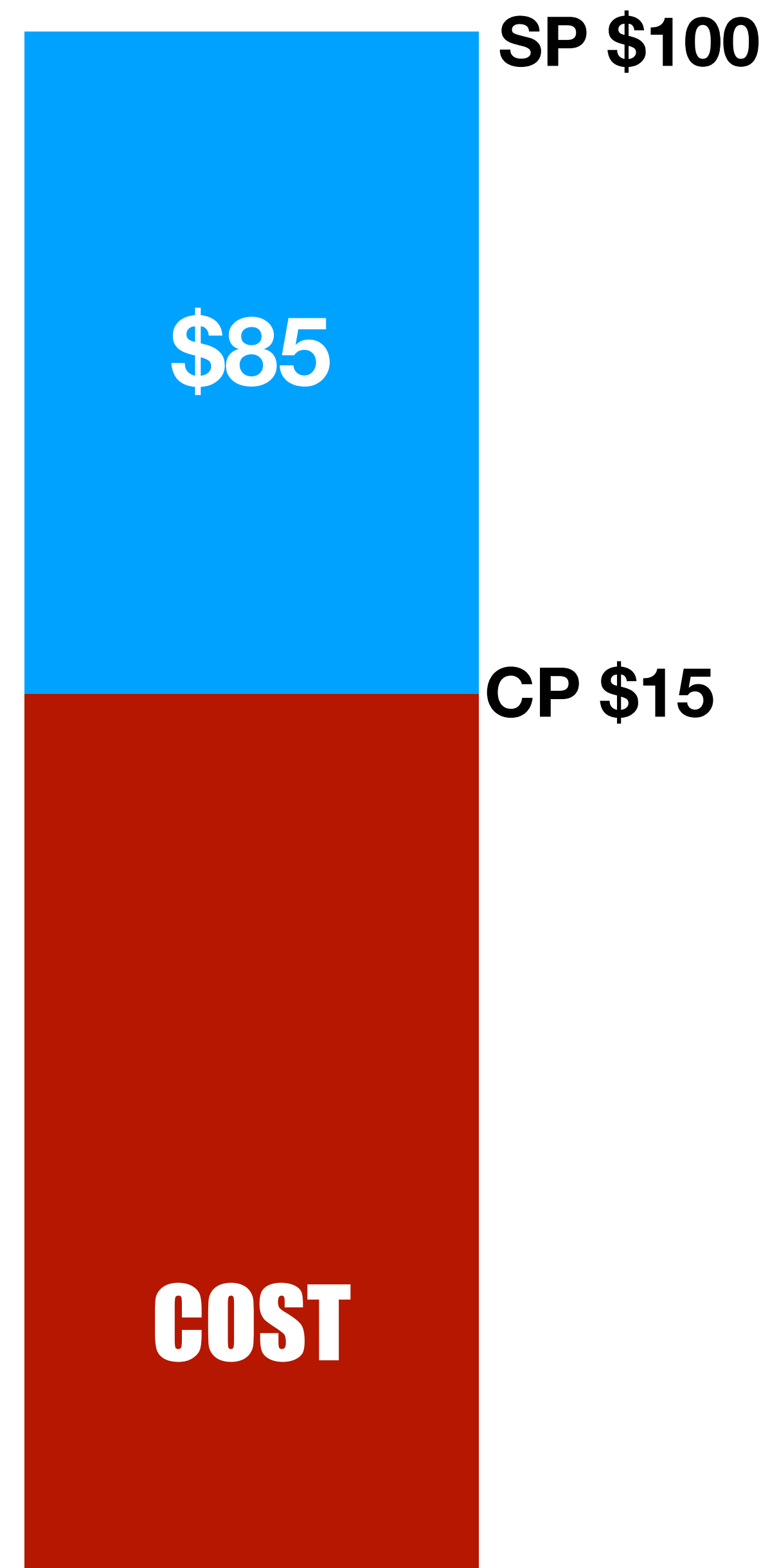
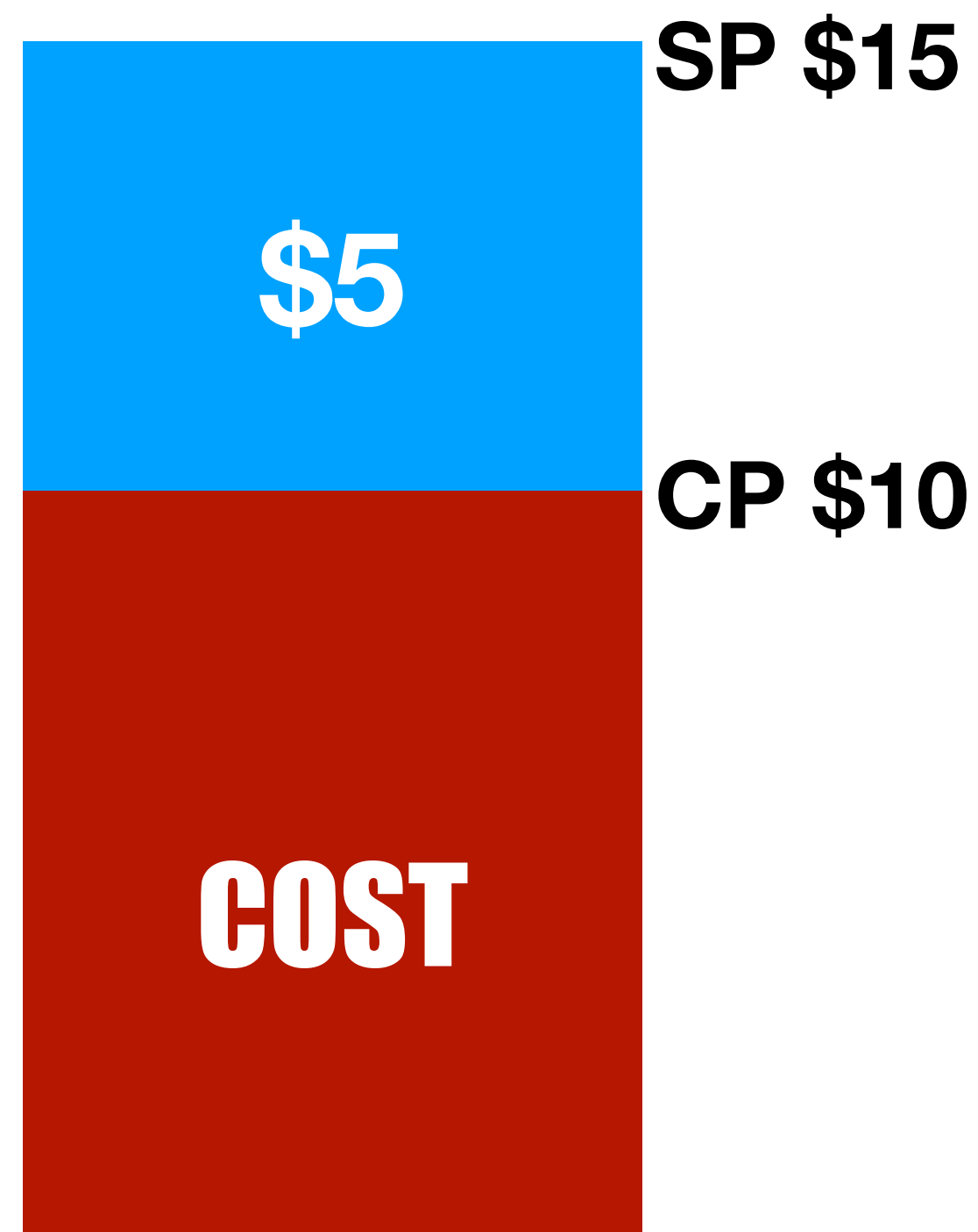
Competitive Advantage

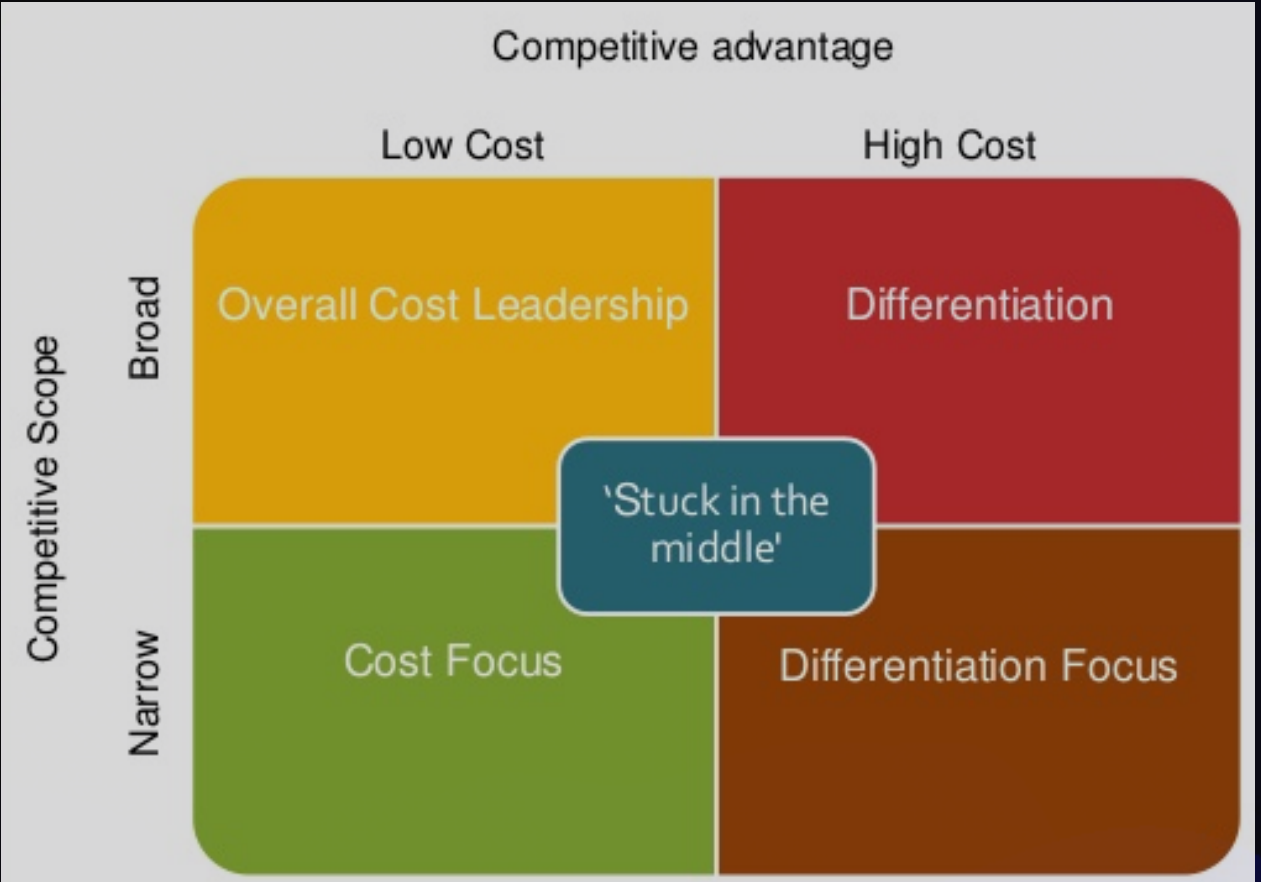
Differentiation



DIFFERENTIATION

AVERAGE PRODUCER





Competitive Advantage

Differentiation



For example, German manufacturer Miele pursues a differentiation strategy in the domestic appliance industry. Its European-manufactured, high-quality, durable dishwashers, washing machines and stoves are targeted at higher-income households at a price premium.

In brief, there are various aspects to consider in pursuing a differentiation strategy and below are three primary differentiation drivers to consider: **Product and service attributes, Customer relationships, and Complements.**

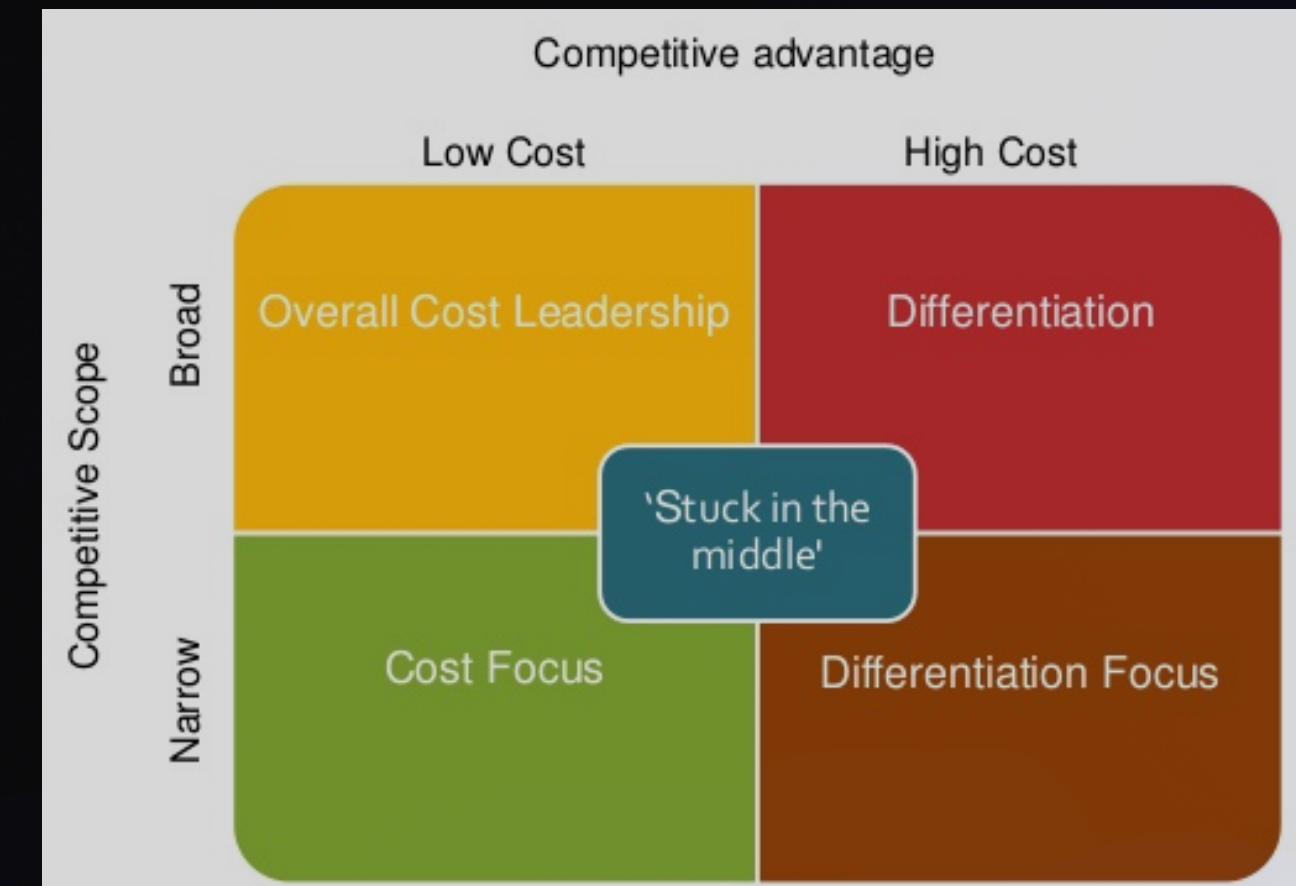


Competitive Advantage

Differentiation

Product and service attributes

Specific product attributes can provide better or unique features than comparable products or services for the customer. For example, the Dyson vacuum cleaner, with its unique technology, provides customers with a better suction performance compared to competitors.



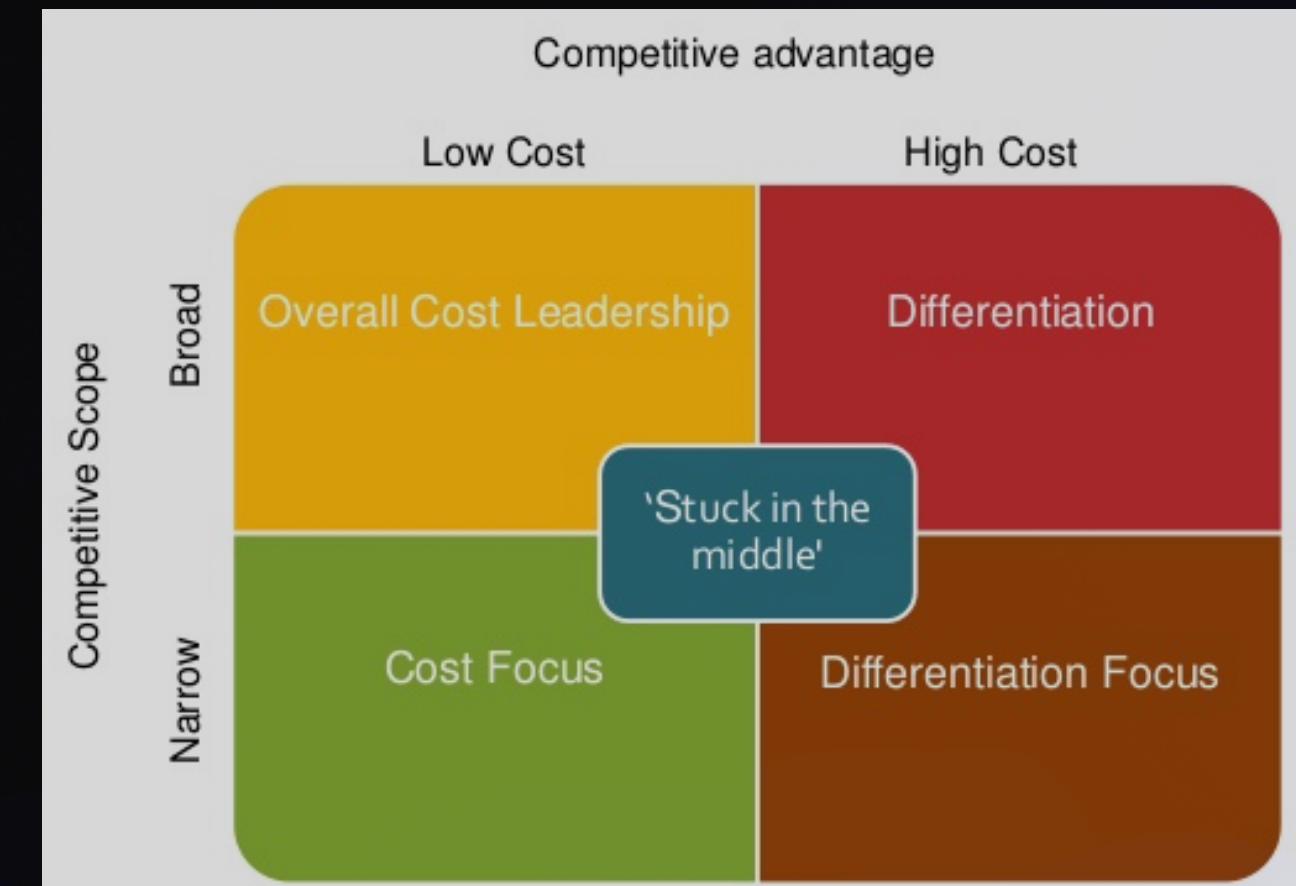
Competitive Advantage

Differentiation

Customer relationships

Besides more tangible differences in product and service characteristics, differentiation can rely on the relationship between the organisation providing the product and the customer. This often relates to how the customer perceives the product. The perceived value can increase through customer service and responsiveness. This can include distribution, payment, or after-sales services, among other things. Products can also be differentiated for the individual customer through *customisation*.

Differentiation

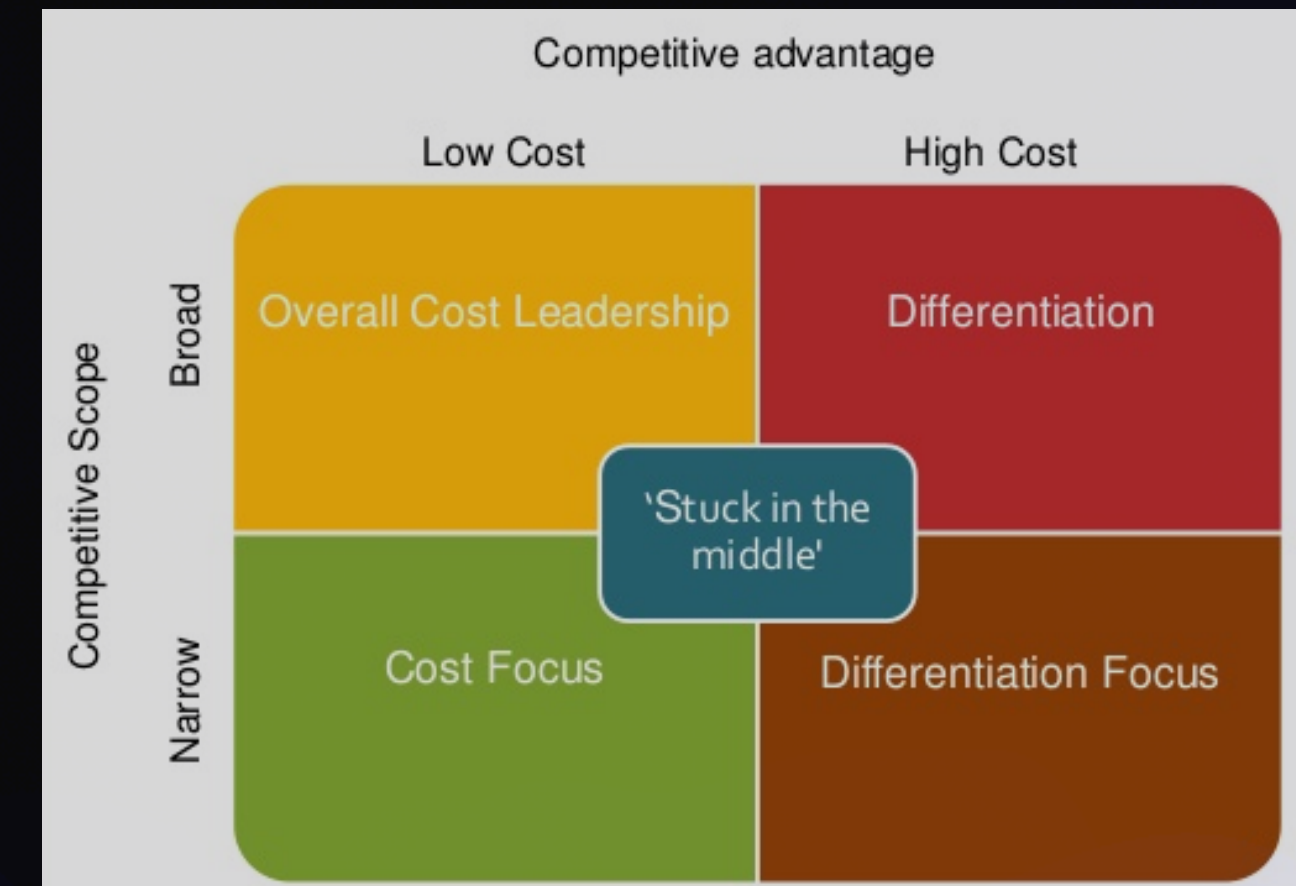


Competitive Advantage

Complements

Complements. Differentiation can also build on linkages to other products or services. The perceived value of some products can be significantly enhanced when consumed with other products or service complements compared to the product alone. Apple has created the complement services iTunes and App Store free of charge for the consumer, differentiating its products (iPhone, iPad, etc.) with the possibility to charge a premium.

Differentiation

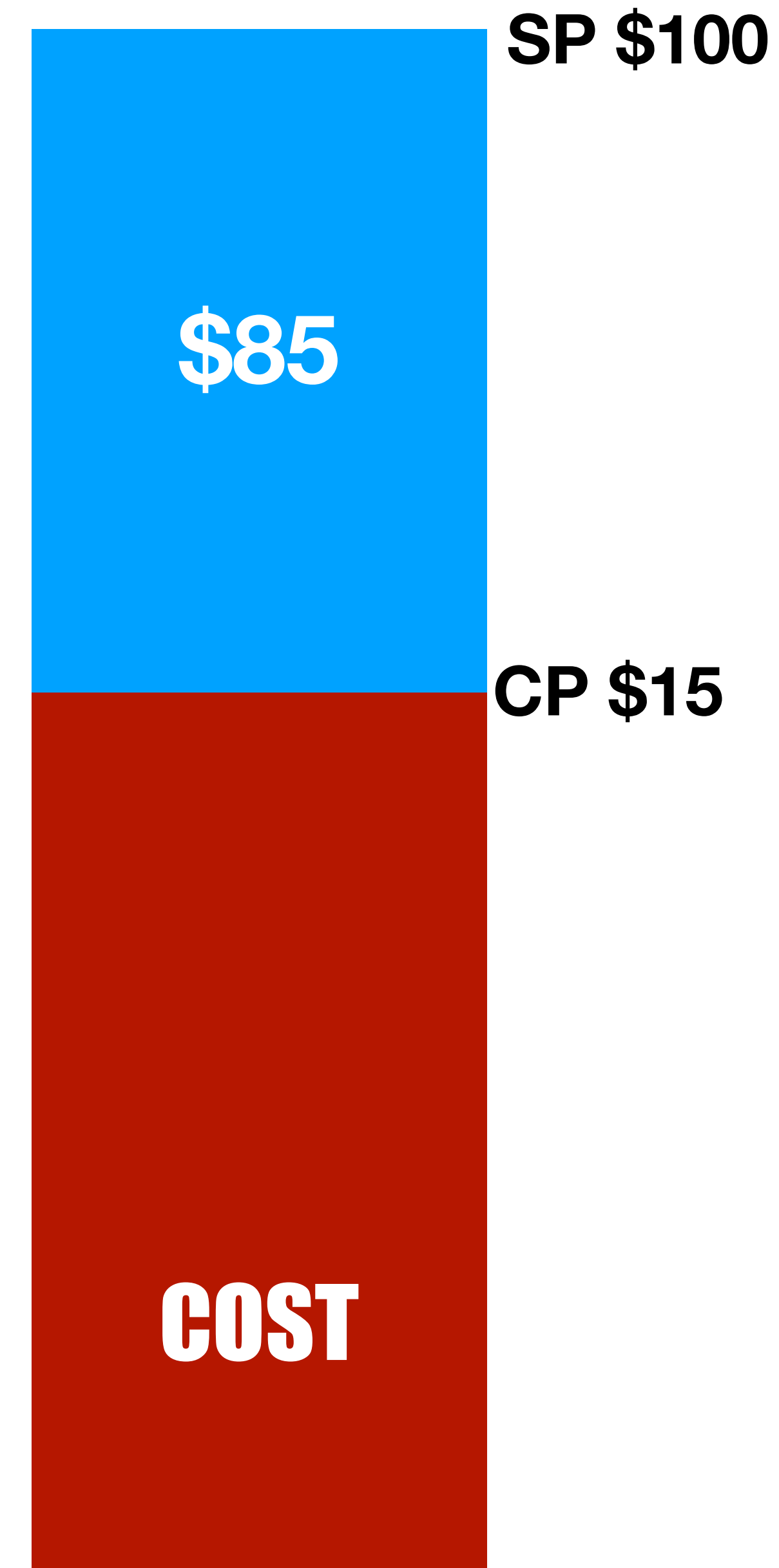
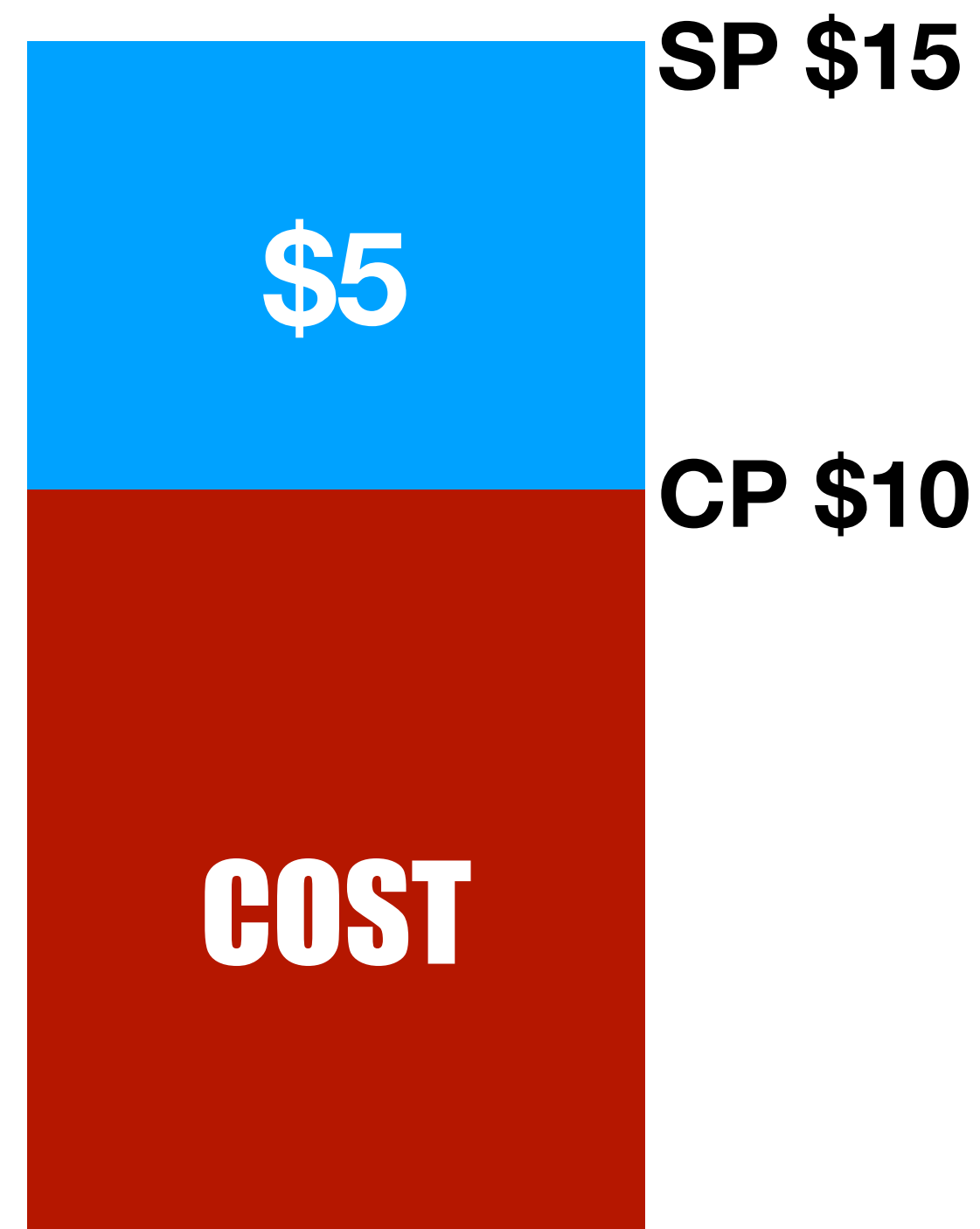


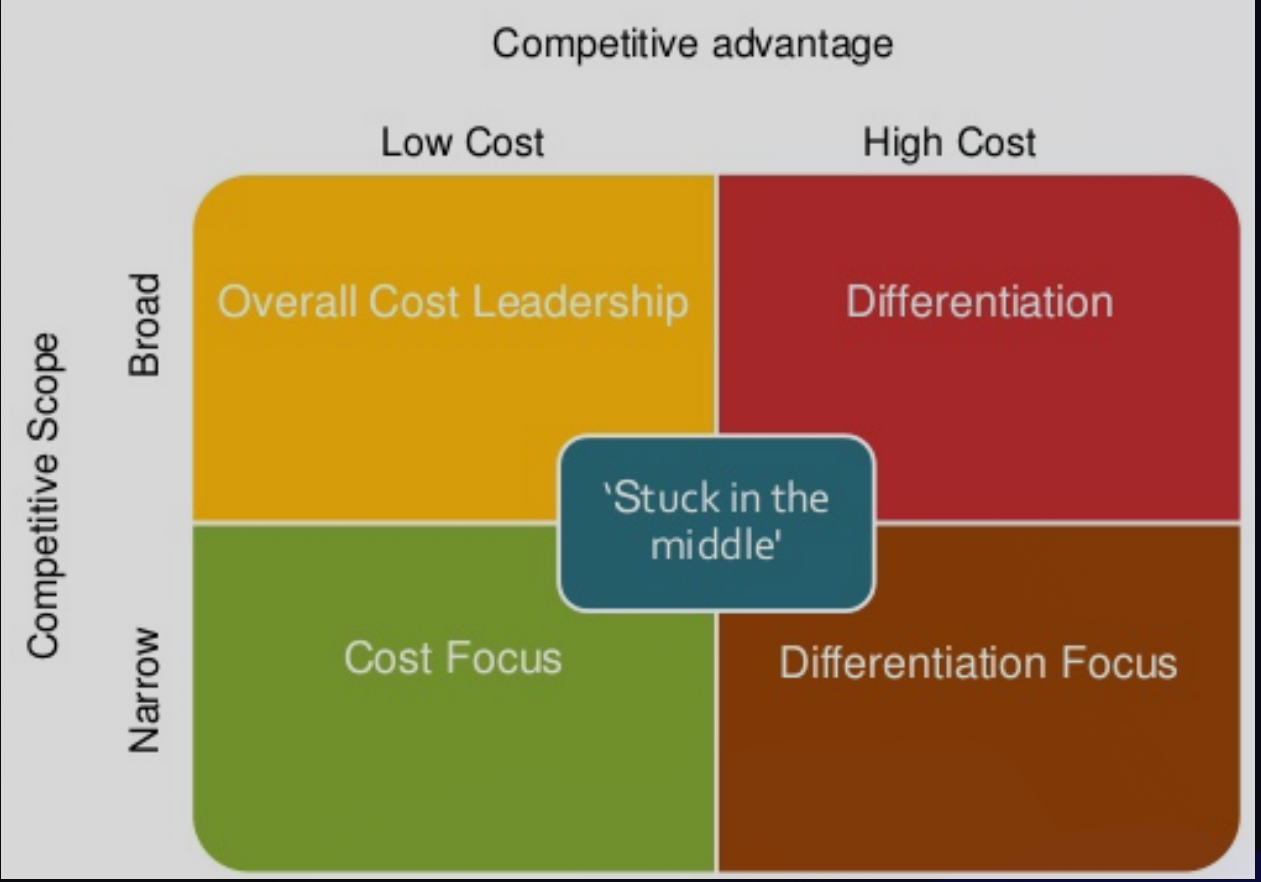
Competitive Advantage



DIFFERENTIATION

AVERAGE PRODUCER



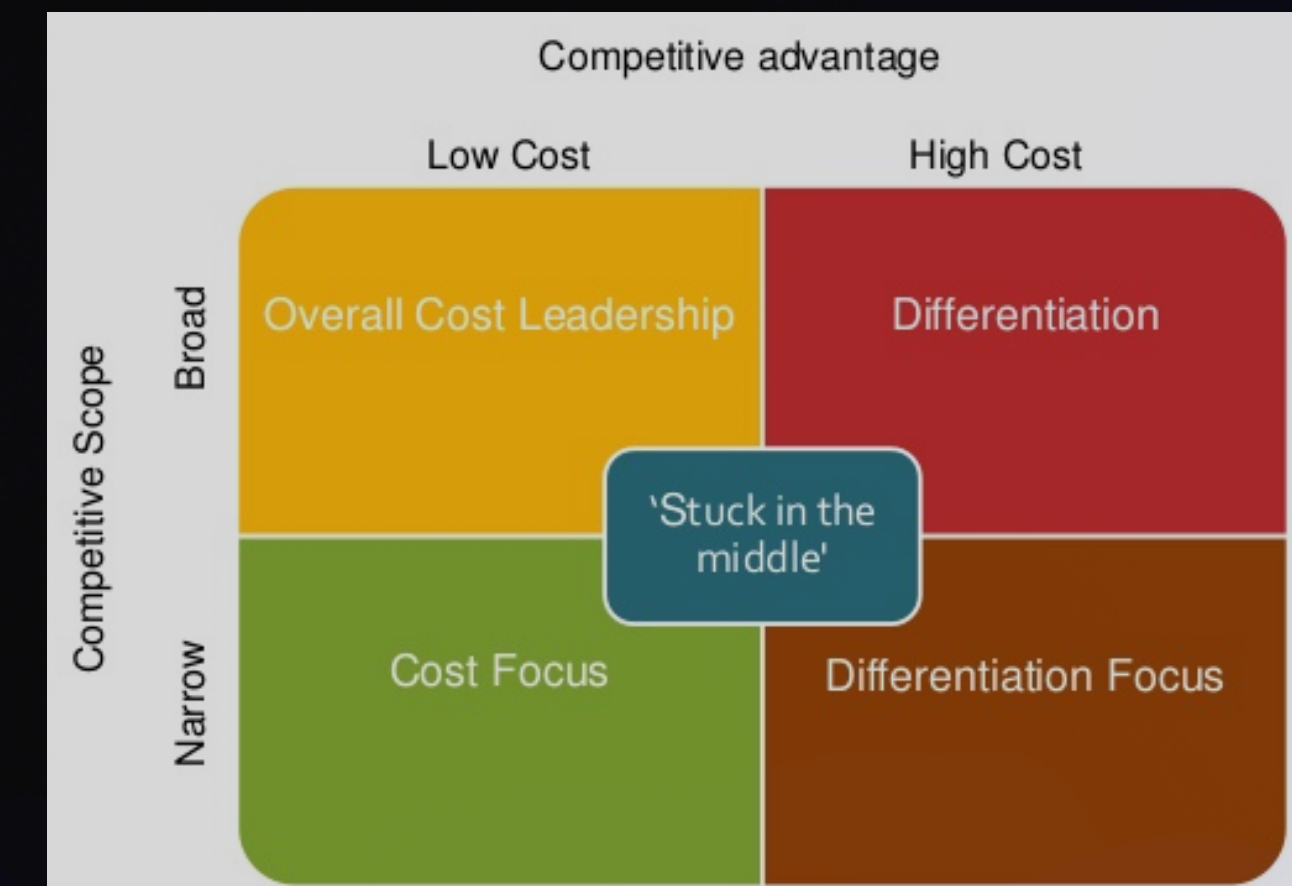


Competitive Advantage

Differentiation - Louis Vuitton

SELFRIDGES & CO





Competitive Advantage

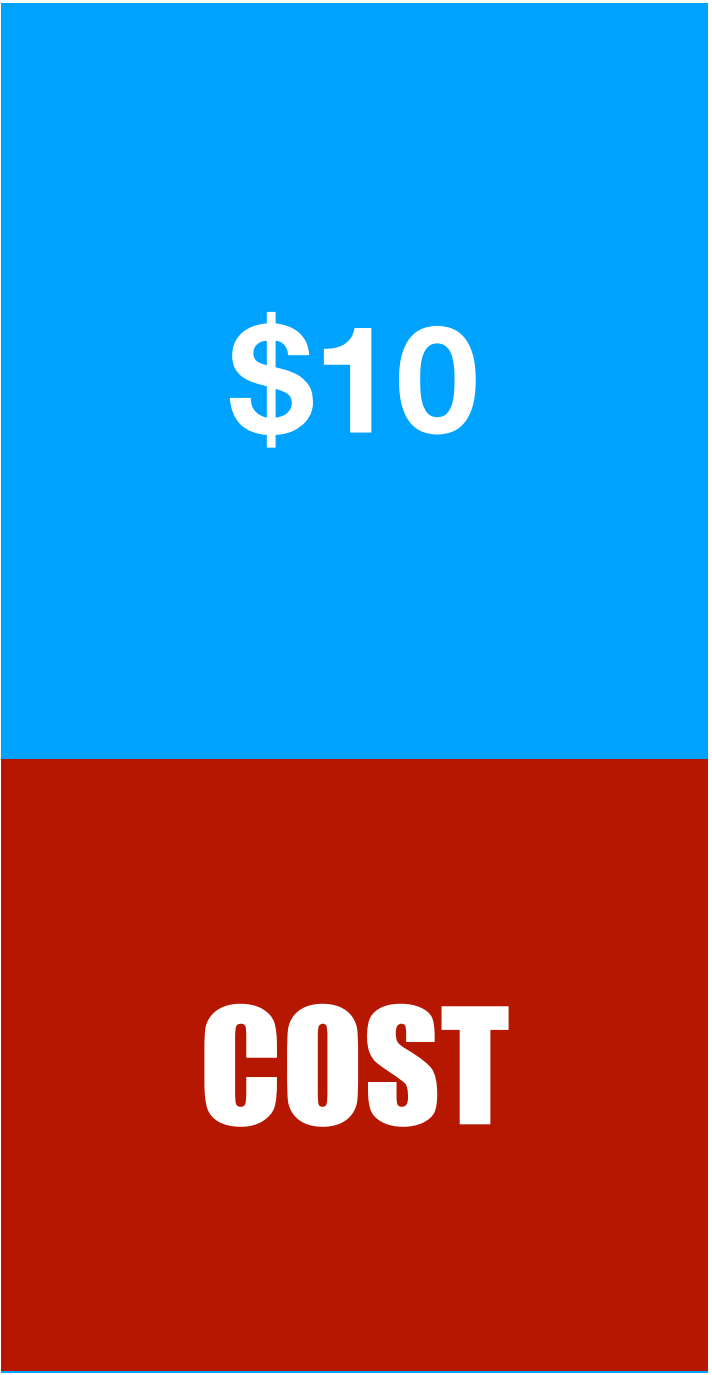
Differentiation - Selfridges & Co



COST LEADER

SP \$15

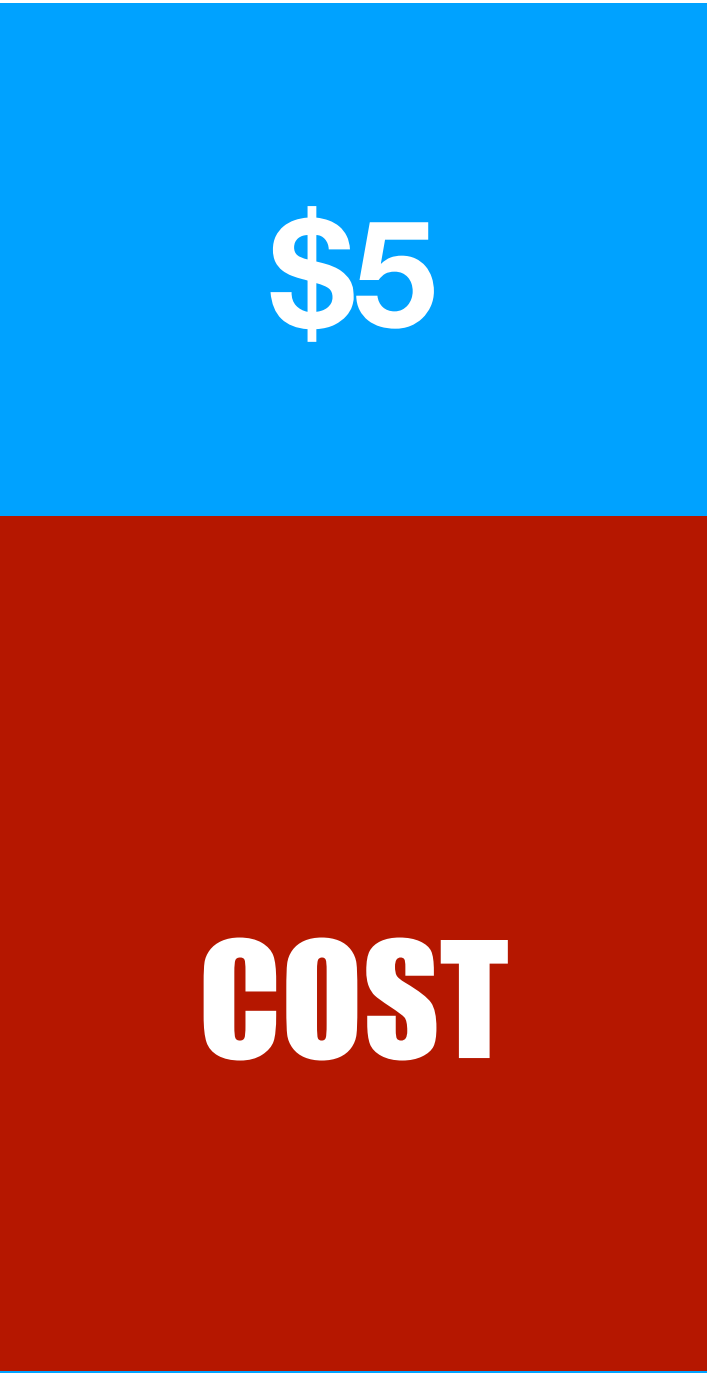
CP \$5



AVERAGE PRODUCER

SP \$15

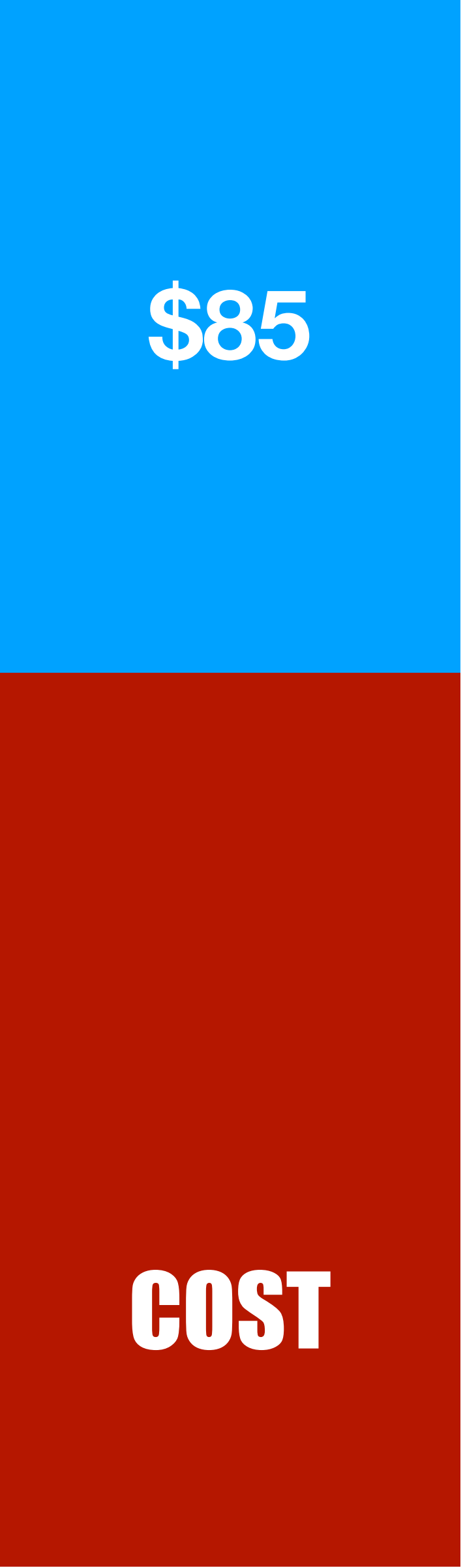
CP \$10



DIFFERENTIATION

SP \$100

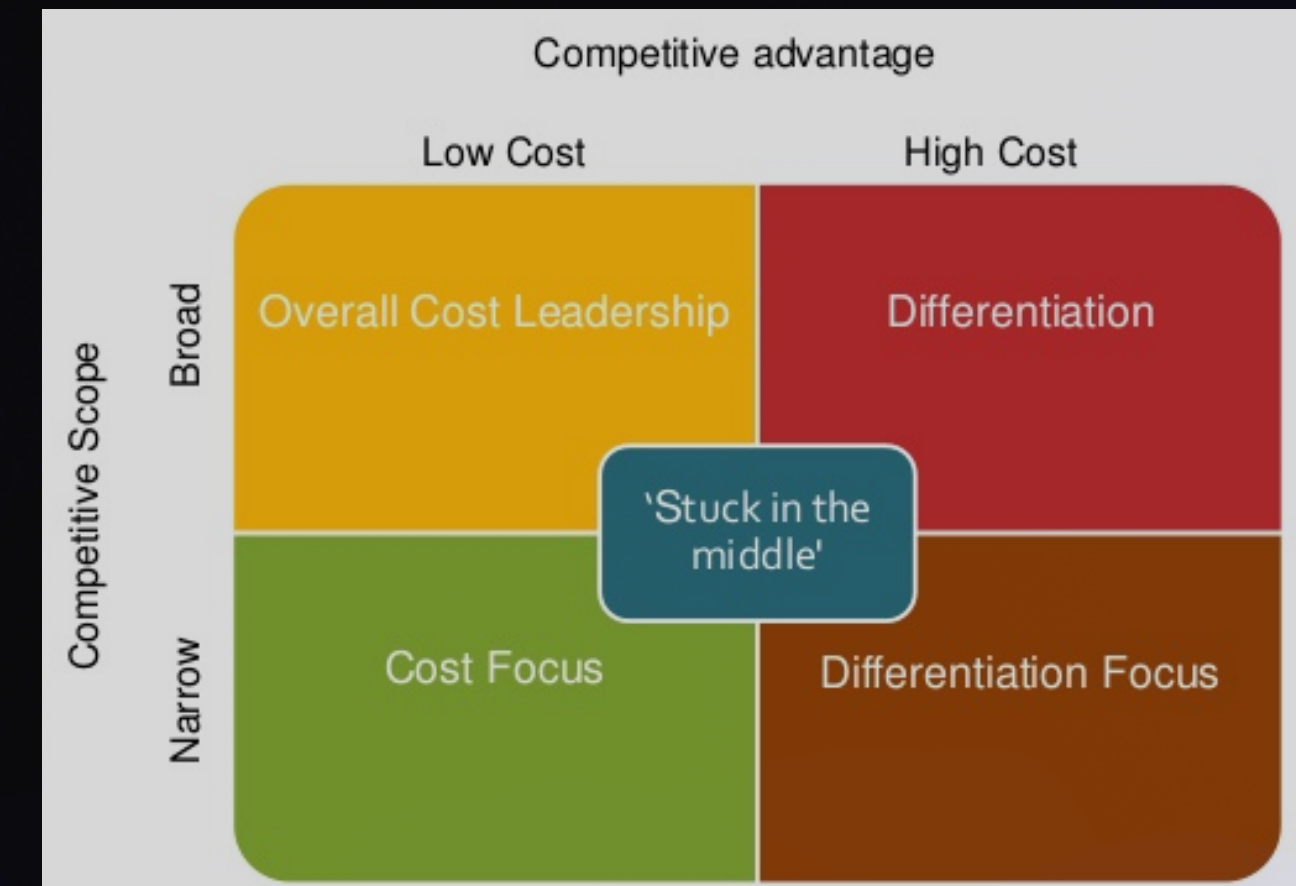
CP \$15



Competitive advantage



Porter distinguishes **focus** as the third generic strategy based on competitive scope. A focus strategy targets a narrow segment or domain of activity and tailors its products or services to the needs of that specific segment to the exclusion of others. Focus strategies come in two variants, according to the underlying sources of competitive advantage, **cost** or **differentiation**.



Competitive Advantage

Differentiation



COFFEE PRESS
A THREE PART SYSTEM
FOR BREWING THE PERFECT
FILTERED COFFEE. THE FIRST PART
PLACES THE COFFEE IN THE PRESS
AND THE SECOND PART POURS
THE COFFEE INTO THE CUP.



R

STARBUCKS RESERVE

We search the world for the rarest small lot coffees and
artfully roast them at our Starbucks Reserve Roasteries.

COFFEE PRESS
A THREE PART SYSTEM
FOR BREWING THE PERFECT
FILTERED COFFEE. THE FIRST PART
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Competitive Advantage

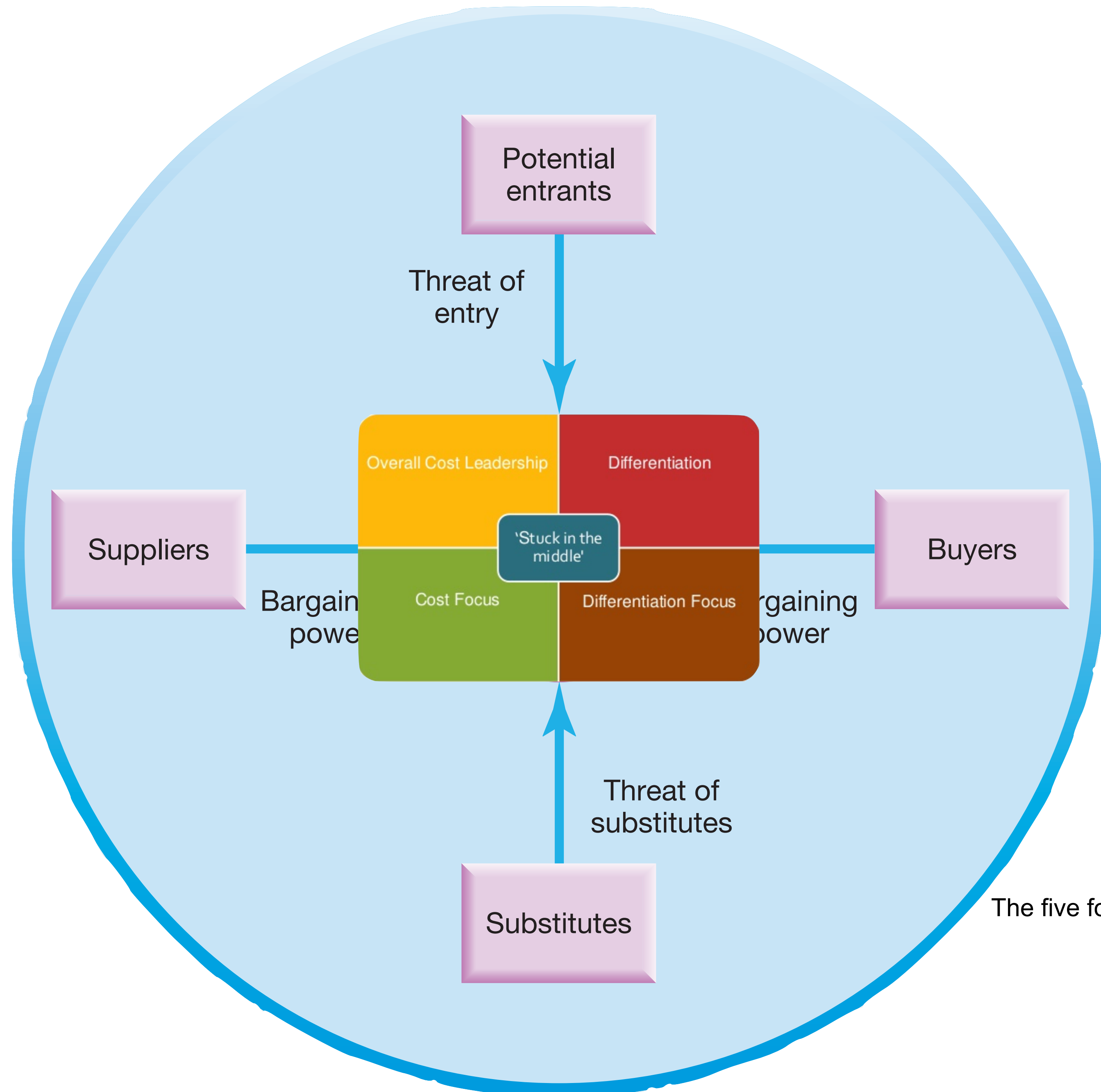
Differentiation - Focus



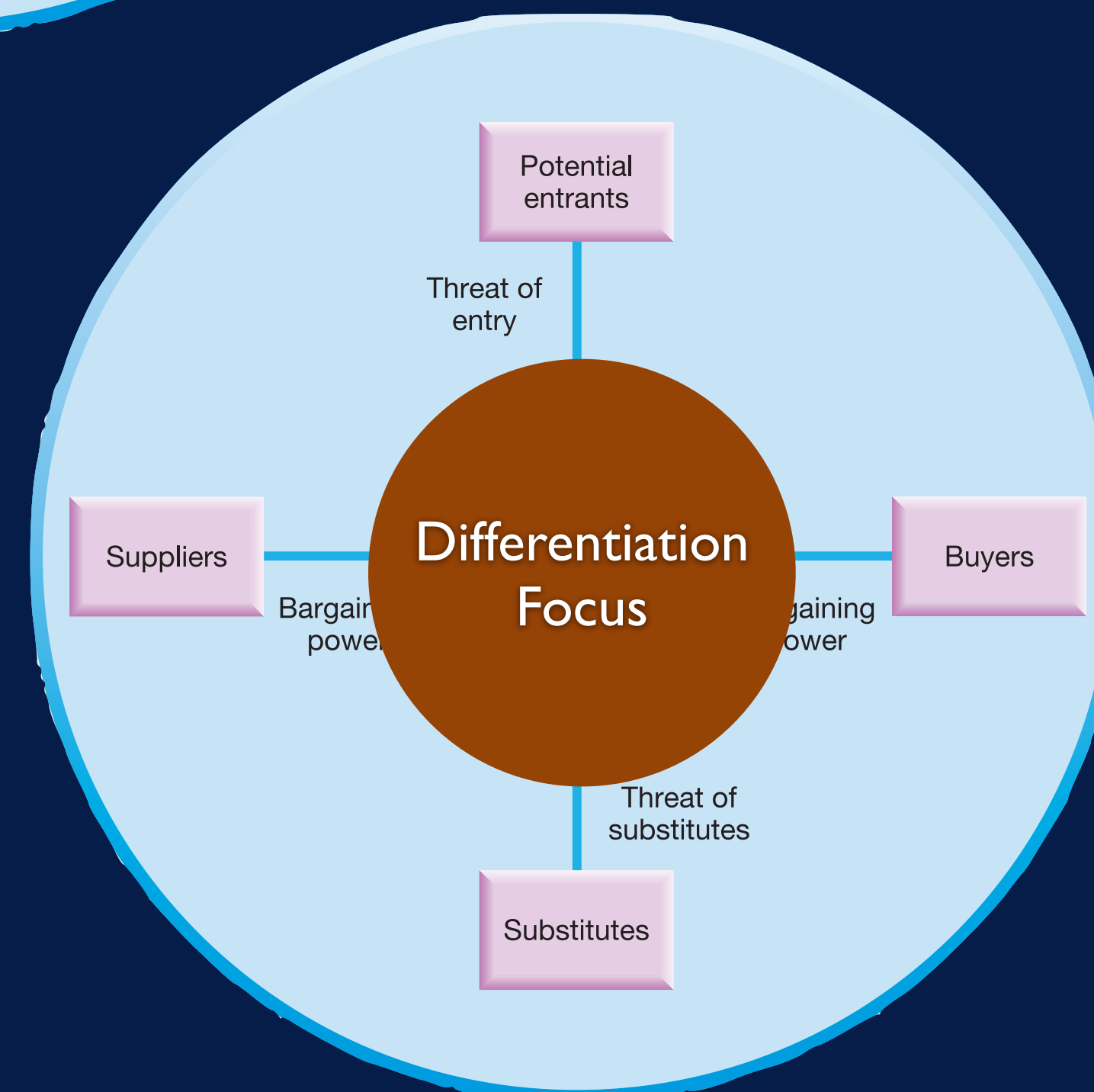
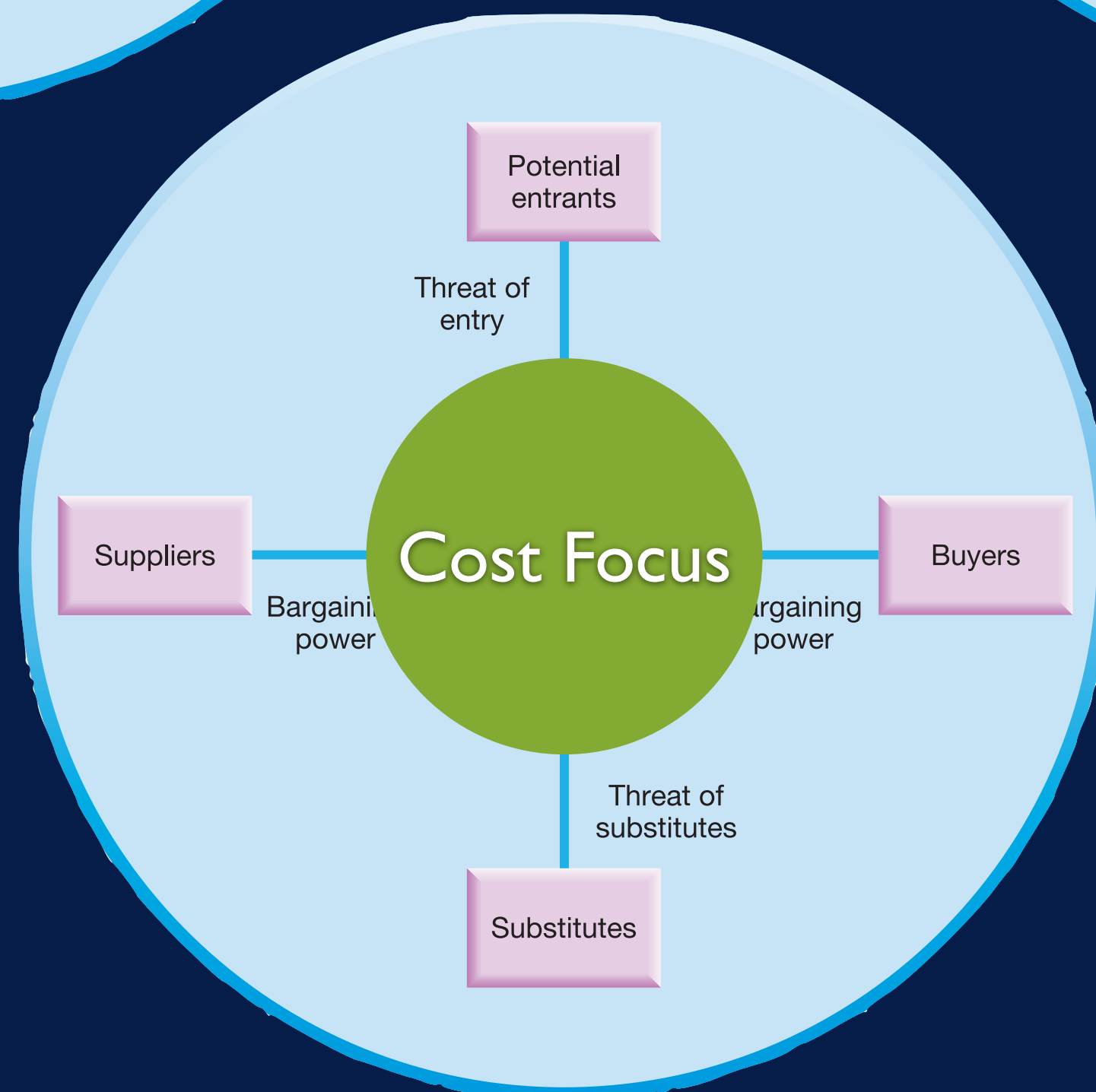
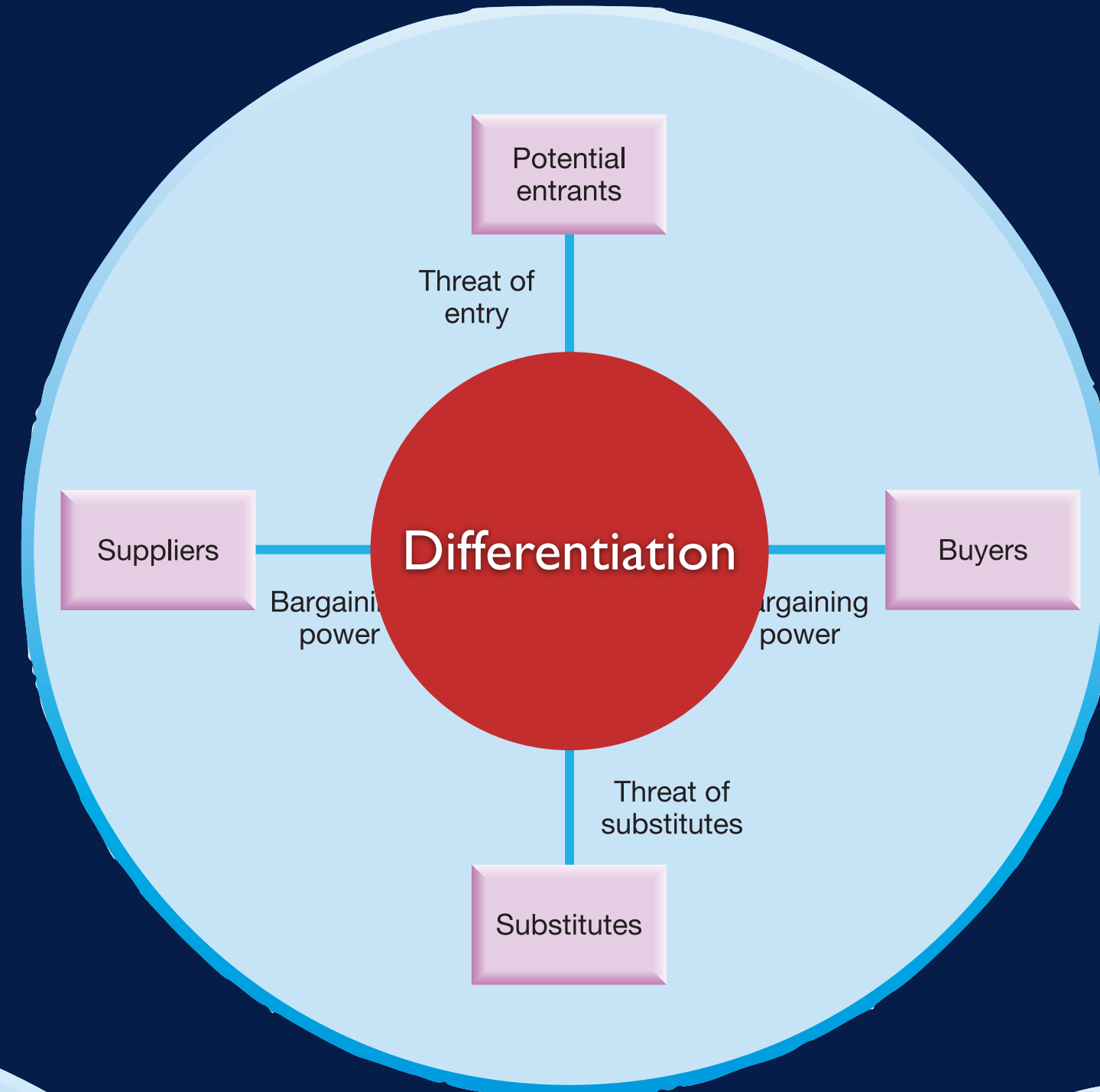
Competitive Advantage

Low Cost - Focus

5 Forces/ Competition



The five forces framework.



Competitive advantage



Competitive advantage

Low Cost

High Cost

Broad

Narrow

Competitive Scope

Overall Cost Leadership

Differentiation

'Stuck in the middle'

Cost Focus

Differentiation Focus

DIFFERENTIATION

