

Forces Driving Industry Change

- Driving forces in an industry are the major underlying causes of changing industry and competitive conditions.
- Industry conditions change because important forces are driving industry participants (competitors, customers, or suppliers)

Driving Forces

- The analysis of driving forces involves 3 steps:
- 1. Identifying the industry's driving forces
- 2. Assessing how the driving forces are making the industry more or less attractive
- 3. Determining the strategic changes that are needed to prepare for the impacts of the driving forces.

Driving Forces

- The most common driving forces are:
- 1. Changes in long term industry growth rate
- 2. Increasing globalisation
- 3 Emerging new internet capabilities and applications
- 4. Changes in who buys the product and how they use it(changes in buyer demographics)

Driving Forces

- 5 Product Innovation eg in industries of cell phones, televisions, digital cameras, video games etc
- 6. Technological changes and manufacturing process innovation
- 7. Marketing innovation
- 8. Entry or exit of major firms
- 9. Diffusion of technical knowhow across more companies and countries

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- 10. Changes in cost and efficiency eg PC makers
- 11. Reductions in uncertainty and business risk
- 12. Regulatory influences and govt policy changes
- 13. Changing societal concerns, attitudes and lifestyles

Assessing the Impact of Driving Forces

- This involves answering the following 3 questions:
- 1. Are the driving forces collectively acting to cause an increase or decrease in the demand for industry products?
- 2. Are the driving forces acting to make competition more or less intense?
- 3. Will the combined effect of the driving forces lead to higher or lower industry profitability?

- The last step in driving forces analysis is for managers to draw some conclusions about what strategy adjustments will be needed to deal with the impacts of the driving forces

Assessing the Market Positions of Rivals

- This is an attempt to answer the question “what market positions do rivals occupy-who is strongly positioned and who is not?”
- This is done through a technique called Strategic Group Mapping which attempts to display the different market and competitive positions that rival firms occupy in the industry.
- This tool is very useful when an industry has so many competitors that it is not practical to examine each one in depth

Strategic Group Analysis

- A strategic group is a cluster of industry rivals that have similar competitive approaches and market positions.
- Companies in the same strategic group can resemble one another in any of several ways:
 - 1. They may have comparable product line breadth
 - 2. They may also sell in the same price or quality range
 - 3. They may emphasise the same distribution channels
 - 4. They depend on identical technological approaches or
- They offer buyers similar services and technical assistance.

Strategic Group Analysis

- When all industry members pursue essentially identical strategies and have comparable mkt positions, that industry will contain one strategic group.(the opp is true)

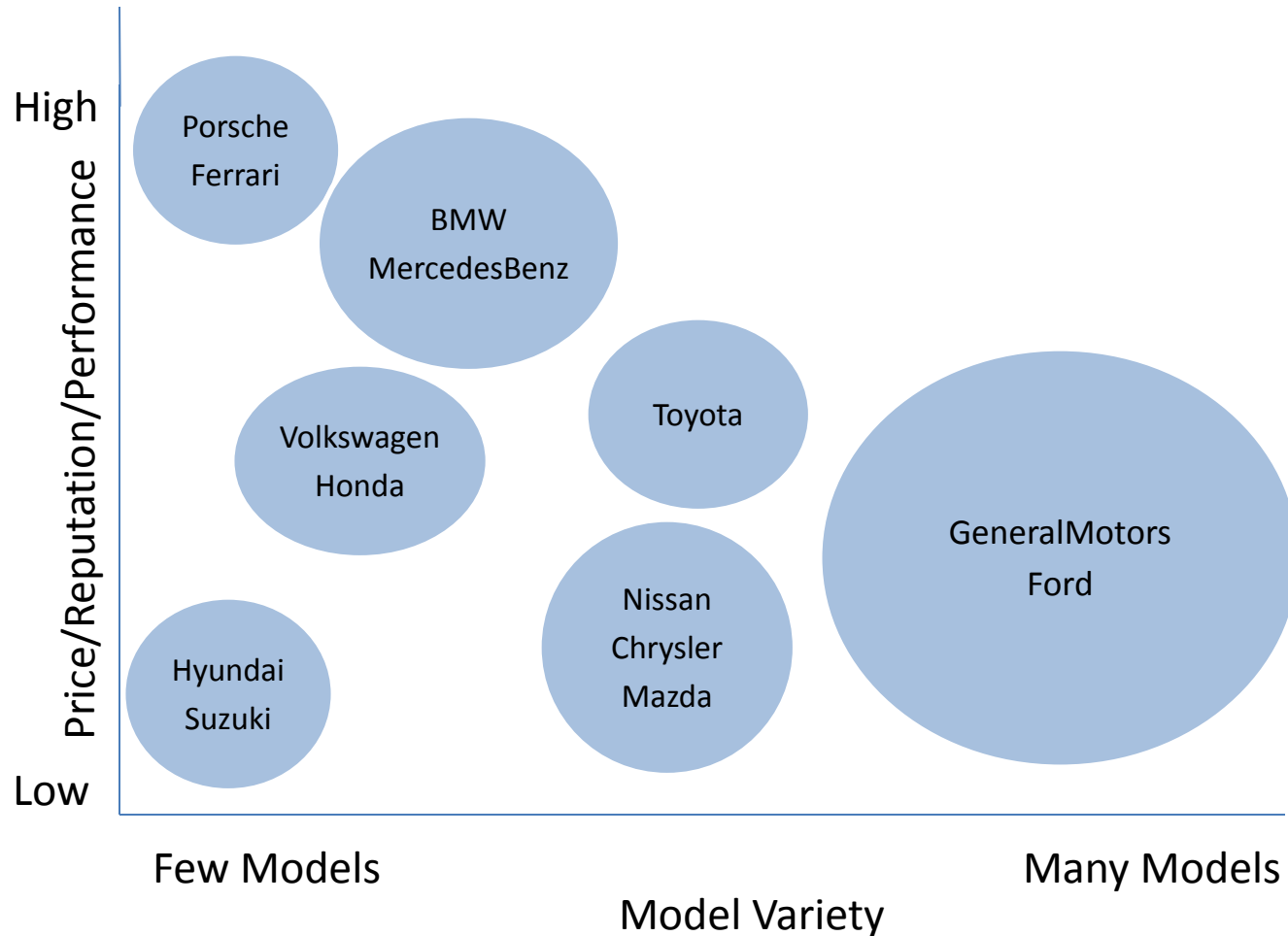
Construction of SGM

- To construct a strategic group map, firstly there is need to identify the competitive characteristics that differentiate firms in the industry;eg
- Price /Quality range(high, medium,low)
- Geographic coverage(local, regional, national)
- Degree of vertical integration(none, partial,full)
- Product line breath(wide,narrow)
- 2. Plot the firms on a two variable map using pairs of the differentiating characteristics

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- 3 Assign firms that fall in about the same strategy space to the same strategic group
- 4. Draw circles around each strategic group, making the circles proportional to the size of the group's share of total industry sales revenue.

A Strategic Group Map of Automobile Manufacturers



Lessons From The SGM

- 1. SGM reveal companies which are close competitors and those which are distant competitors.
- 2. They also reveal that it is not all positions on the map that are equally attractive for 2 reasons:
 - a) Prevailing competitive pressures and industry driving forces favor some strategic groups and hurt others
 - b) The profit potential of different strategic groups varies due to the strengths and weaknesses in each group's market position.

What Strategic moves are Rivals likely to make next?

- This involves carrying out a competitive intelligence about rivals' strategies, their latest actions and announcements, their resources strengths and weaknesses, the efforts being made to improve their situation.
- The above information assists in anticipating the next moves that rivals are likely to make, and to prepare defensive countermoves.
- Managers who fail to study competitors closely risk being overtaken by rivals' fresh strategic moves.

Key Success Factors

- Key success factors are the product attributes, competencies, competitive capabilities and market achievements with the greatest impact on future competitive success in the marketplace.
- Common types of Industry Key Success Factors include:
 - 1. Technology-related KSFs eg expertise in a particular technology or proven ability to improve production processes

Common Types of Industry KSFs ctd

- 2. Manufacturing related KSFs e.g ability to achieve economies of scale; Quality control know-how; high utilisation of fixed assets; high labor productivity; low cost design etc
- 3. Distribution related KSFs eg a strong network of wholesale distributors/dealers; strong direct sales capabilities; ability to secure favorable display space on retailer shelves.

KSFs

- 4. Marketing related KSFs eg a well known and well respected brand name; courteous, personalised customer service; Accurate filling of buyer orders; customer guarantees and warranties; clever advertising
- 5. Skills and capability related KSFs eg talented workforce; design expertise; national or global distribution capabilities, short delivery time capability etc
- 6. Other types of KSFs eg overall low costs; convenient locations; a strong balance sheet and access to financial capital

KSFs

- Correct diagnosis of an industry's KSF raises a company's chances of crafting a sound strategy .
- Thus managers should resist the temptation of labeling a factor that has only minor importance as a KSF.
- Being distinctively better than rivals on one or two KSFs tends to translate into competitive advantage.

Does the outlook for the industry offer the company a good opportunity to earn attractive profits?

- The conclusion to the above question is determined by the following factors:
- The industry's growth potential
- Whether powerful competitive forces are squeezing industry profitability to subpar levels and whether competition appears destined to grow stronger or weaker.
- Whether industry profitability will be favorably or unfavorably affected by the prevailing driving forces.
- The degrees of risk and uncertainty in the industry's future

Out look of the Industry ctd

- Whether the industry as a whole confronts severe problems-regulatory or environmental issues; stagnating buyer demand, industry overcapacity; mounting competition etc
- The company's competitive position in the industry vis-a-vis rivals
- Whether the company has sufficient competitive strength to defend against the factors that make the industry unattractive
- The company's potential to capitalise on the vulnerabilities of weaker rivals