

# International Marketing



## Chapter 7

### Global competitive strategy

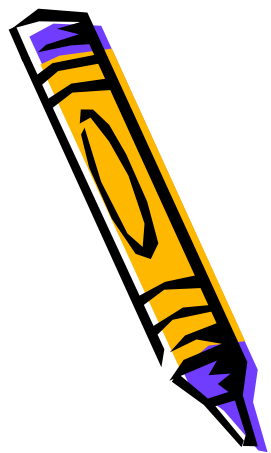


- **Industry analysis  
(Five Forces Model)**

- **Competitive advantage and strategy**

- **Global competition**

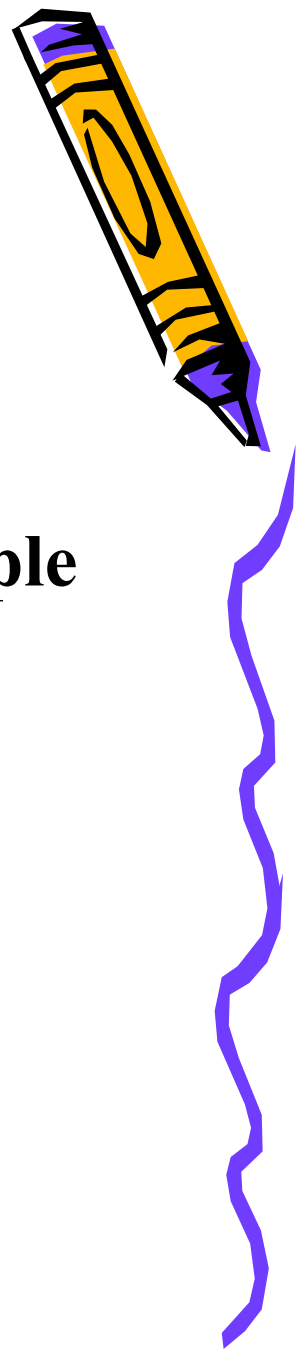




## **A. .Industry analysis**

### **Five Forces model**

**Michael Porter's famous Five Forces of Competitive Position model provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization.**





The five forces are environmental forces that impact on a company's ability to compete in a given market.

The purpose of five-forces analysis is to diagnose the principal competitive pressures in a market and assess how strong and important each one is.



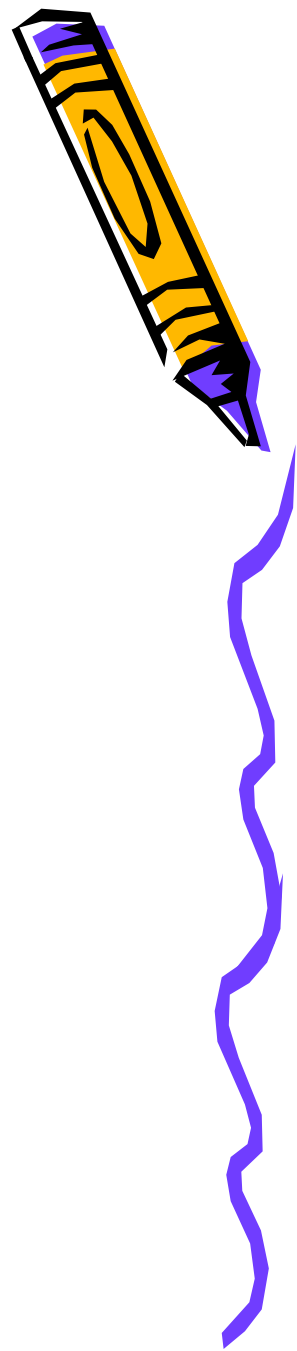
- Q1:** For what reasons the rivalry among the industry will be increased?
- Q2:** How to set barriers to new entrants?
- Q3:** In which situation buyers have strong bargaining power?
- Q4:** In which situation suppliers have strong bargaining power?
- Q5:** What determine the threat of Substitute Products?



# 1. Rivalry Among Existing Competitors

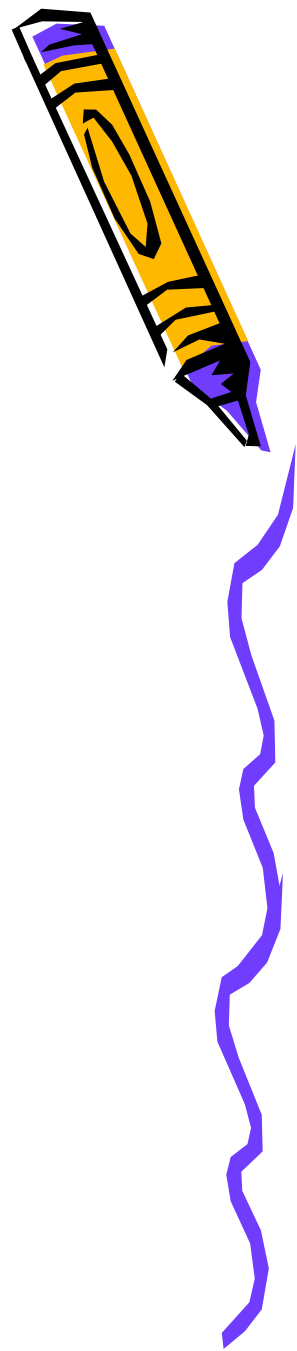
What cause the increase of rivalry among the industry?

- A larger number of firms
- Slow market growth
- High fixed cost
- High storage cost





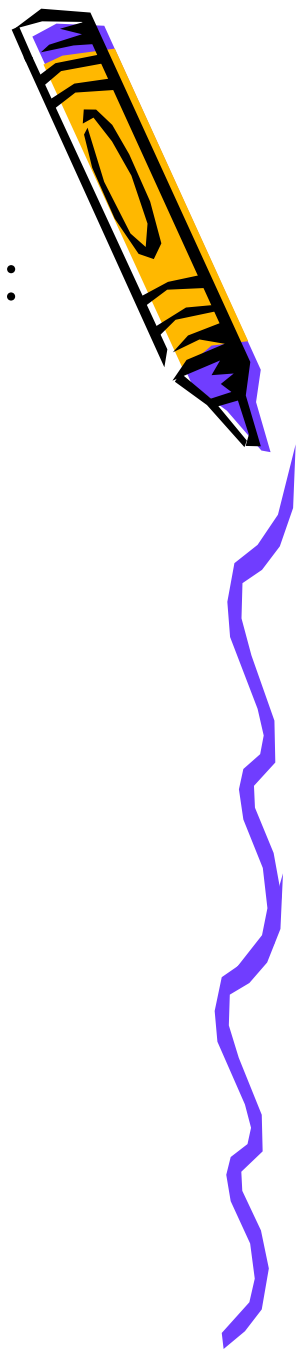
- Low switching cost
- Low level of product differentiation
- Strategic stakes are high
- High exit barriers



In pursuing an advantage over its rivals.

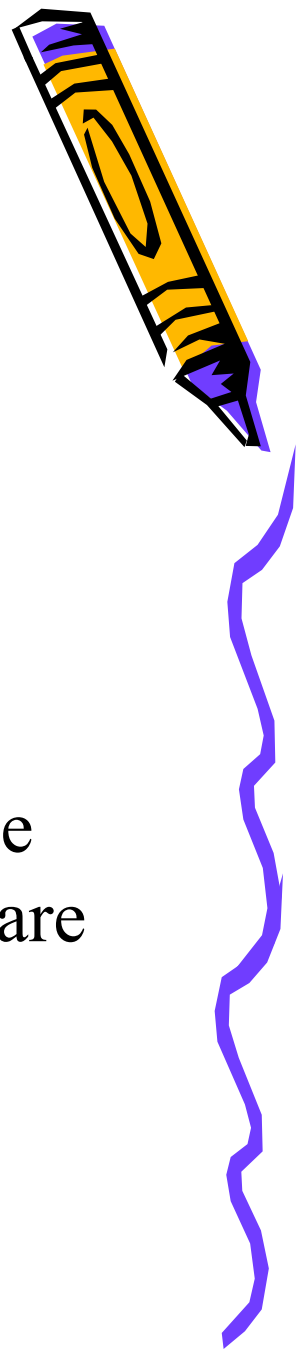
A firm can choose from several competitive moves:

- ✓ Changing prices
- ✓ Improving product differentiation
- ✓ Creatively using channels of distribution
- ✓ Exploiting relationships with suppliers



## 2. Threat of New Entrants

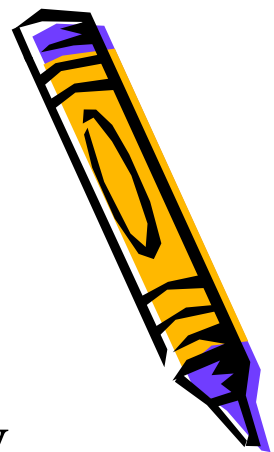
- Profitable markets that yield high returns will attract new firms. This results in many new entrants, which eventually will decrease profitability for all firms in the industry.
- Industries possess characteristics that **protect** the high profit levels for firms in the market. There are **barriers to entry**.





## Barriers to Entry

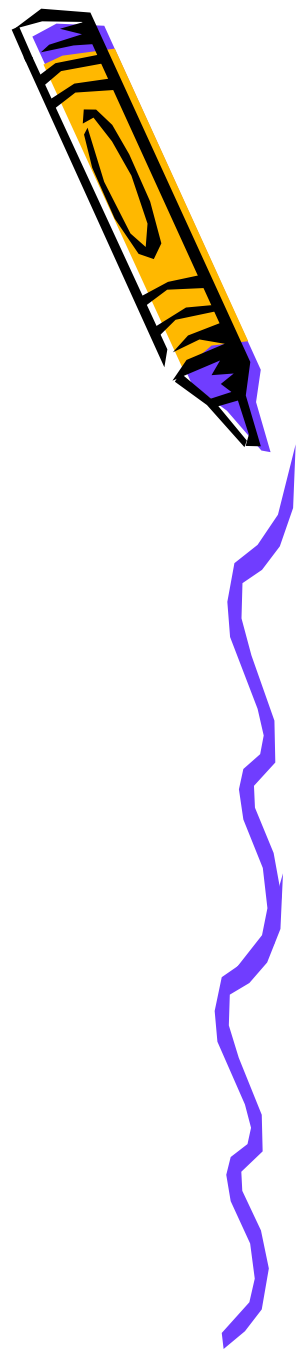
- ◆ Capital Requirements
- ◆ Patented or proprietary know-how
- ◆ Difficult in brand switching
- ◆ Restricted distribution channels
- ◆ High economies of Scale
- ◆ Government policy



### 3. Bargaining Power of Suppliers

Suppliers are likely to be powerful if :

- High cost to switch suppliers
- Supplier industry is dominated by a few firms
- Suppliers' products have few substitutes
- Buyer is not an important customer to supplier
- Suppliers' product is an important input to buyers' product
- Suppliers' products are differentiated



## 4. Bargaining Power of Buyers

Buyer groups are likely to be powerful if :

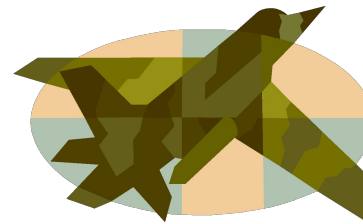
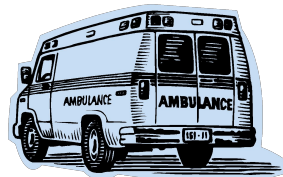
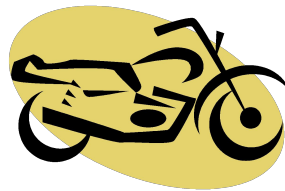
- Buyers are concentrated or purchases are large relative to seller's sales
- Purchase accounts for a significant fraction of supplier's sales
- Products are undifferentiated
- Buyers face few switching costs
- Buyers' industry earns low profits



## 5. Threat of Substitute Products

Products with improving price/performance tradeoffs relative to present industry products

A threat of substitutes exists when a product's demand is **affected** by the price change of a substitute product.

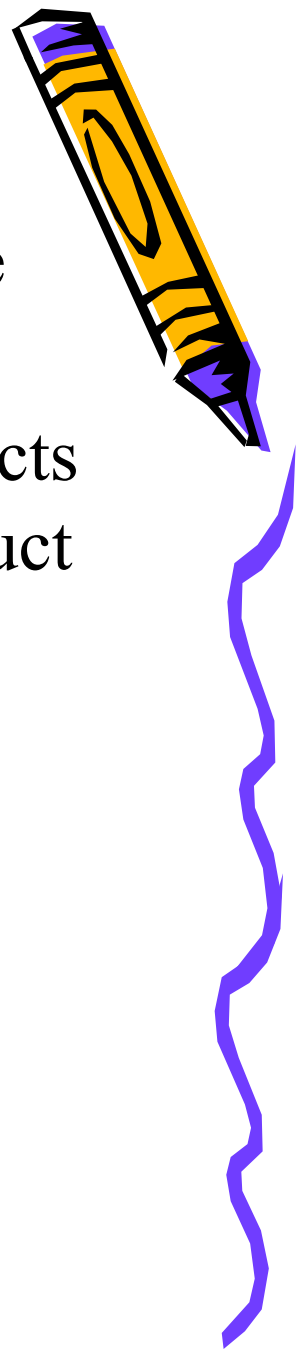


## Factors that determine the threat of substitute products?

- Buyer propensity to substitute
- Relative price performance of substitute
- Buyer switching costs
- Perceived level of product differentiation







- Number of substitute products available in the market
- Ease of substitution. Information-based products are more prone to substitution, as online product can easily replace material product.
- Substandard product
- Quality depreciation



## **B. Competitive advantage**

An advantage that a firm has over its competitors, allowing it to generate greater sales or margins and/or retain more customers than its competition.

There can be many types of competitive advantages including the firm's cost structure, product offerings, distribution network and customer support.







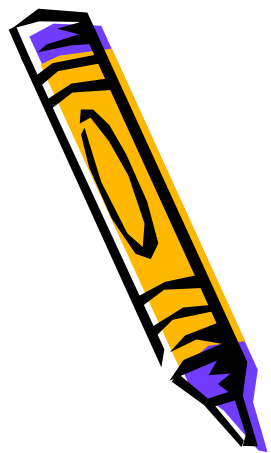
## 1. Cost advantage strategy

It is a firm's ability to produce a good or service at a lower cost than its competitors, which gives the firm the ability sell its goods or services at a lower price than its competition or to generate a larger margin on sales.

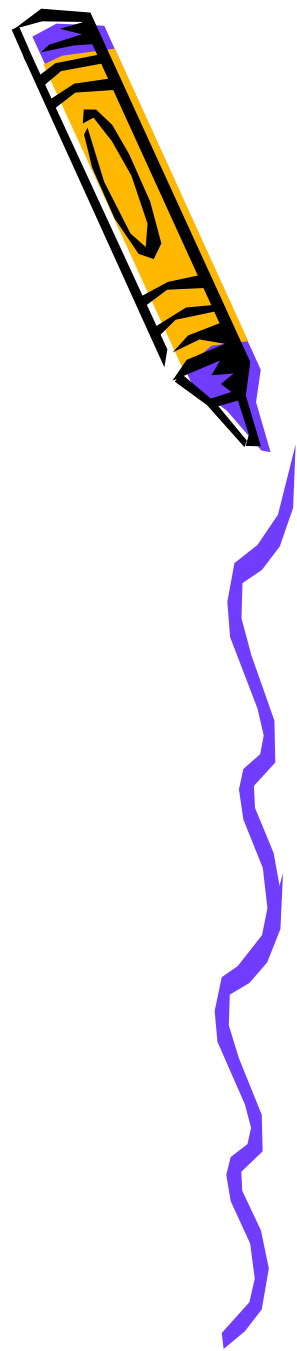


# CASE





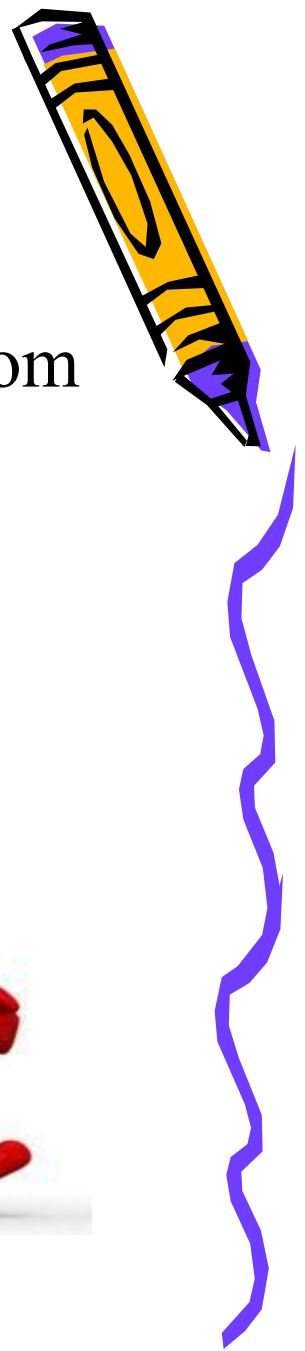
# CASE 2





## Any benefit?

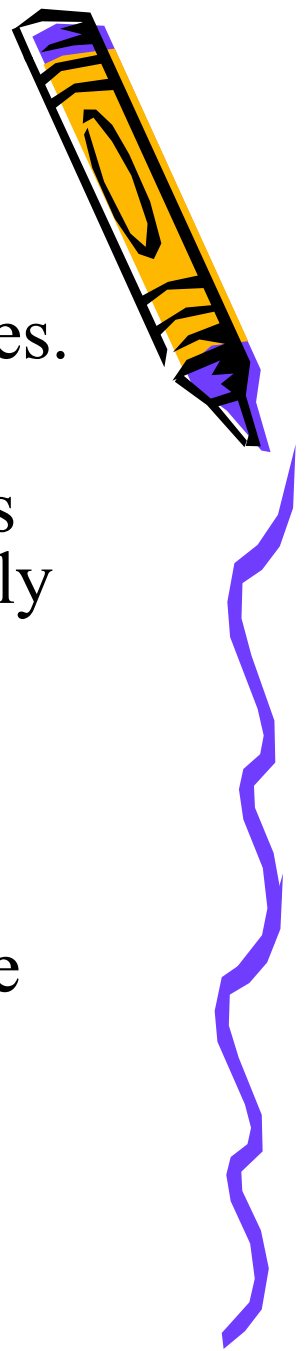
- ✓ Higher profit margin.achieve more earnings from its products
- ✓ Increased market share
- ✓ Sustainability
- ✓ Capital for grwoth





## Risky?

- Focusing on price can make the company lose sight of evolving customer tastes and preferences.
- Once a company introduces a process that saves the business money, other companies can quickly copy that technique and lower their prices.
- The cost leadership strategy does not work in every industry . For instance, consumers purchasing luxury goods do not care about price as much as someone looking to purchase food staples.



## 2. Differential advantage strategy

A differential advantage is created when a firm's products or services differ from its competitors and are seen as better than a competitor's products by customers.

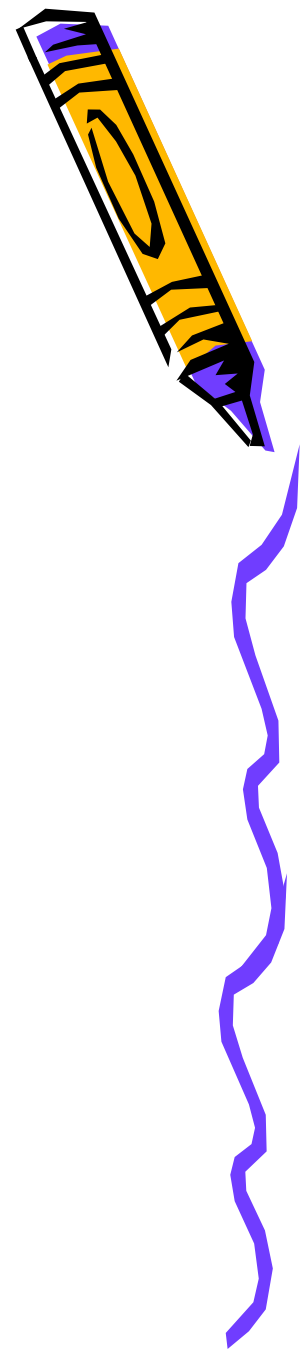


## **A product or service that differs from its rivals:**

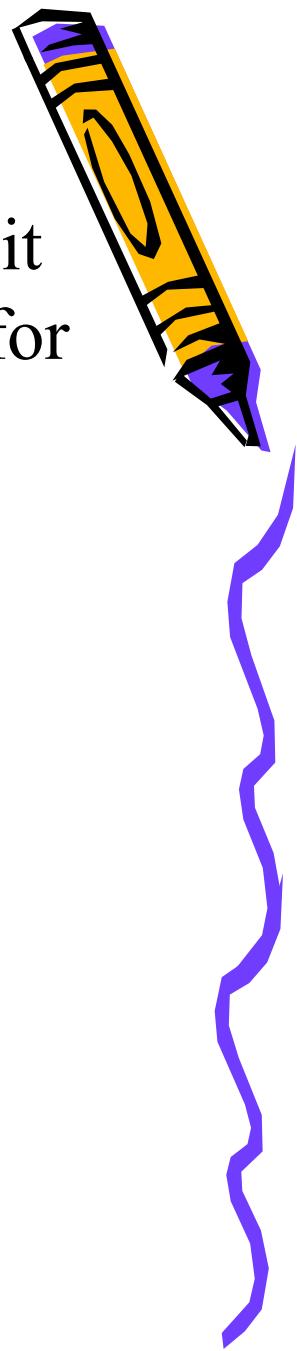
- Differences in quality which are usually accompanied by differences in price
- Differences in functional features or design
- Sales promotion activities of sellers and, in particular, advertising
- Differences in availability (e.g. timing and location).



# CASE 1



- The key to differential advantage is that the customer should not only appreciate the benefit it brings, but be prepared to pay a premium price for it.
- Economic models usually assume the customer makes rational decisions. By this logic, a customer will therefore only see a differential advantage if she believes she couldn't get the same benefit from another company.



# CASE 2





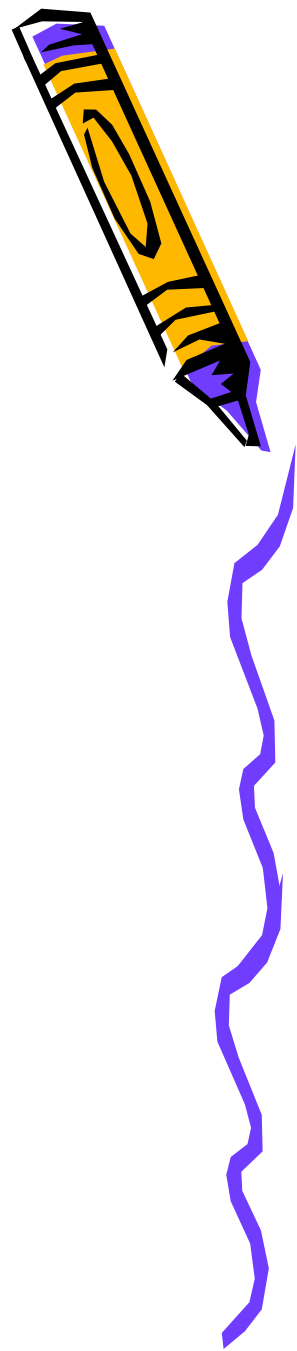
**Differential  
advantage  
= High cost?**



## C. Global competition



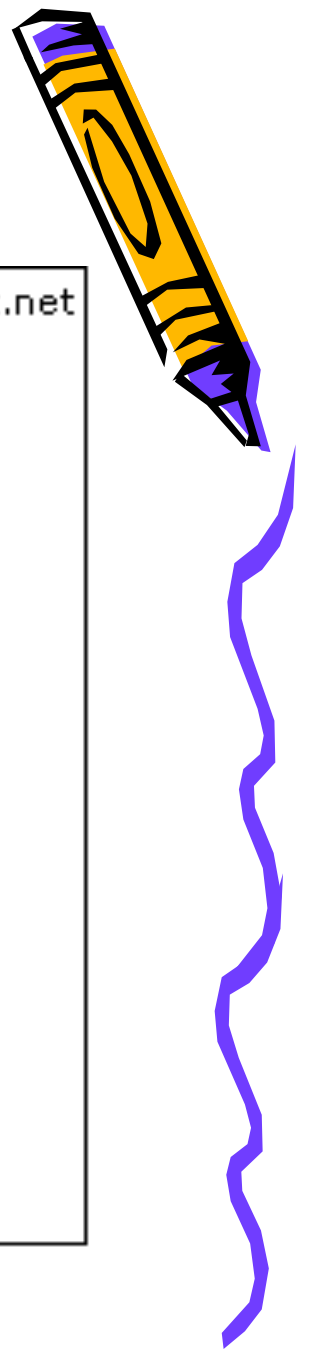
Strategic initiatives should address competitiveness issues not only at the level of the individual product and service sector but at the national level as well.





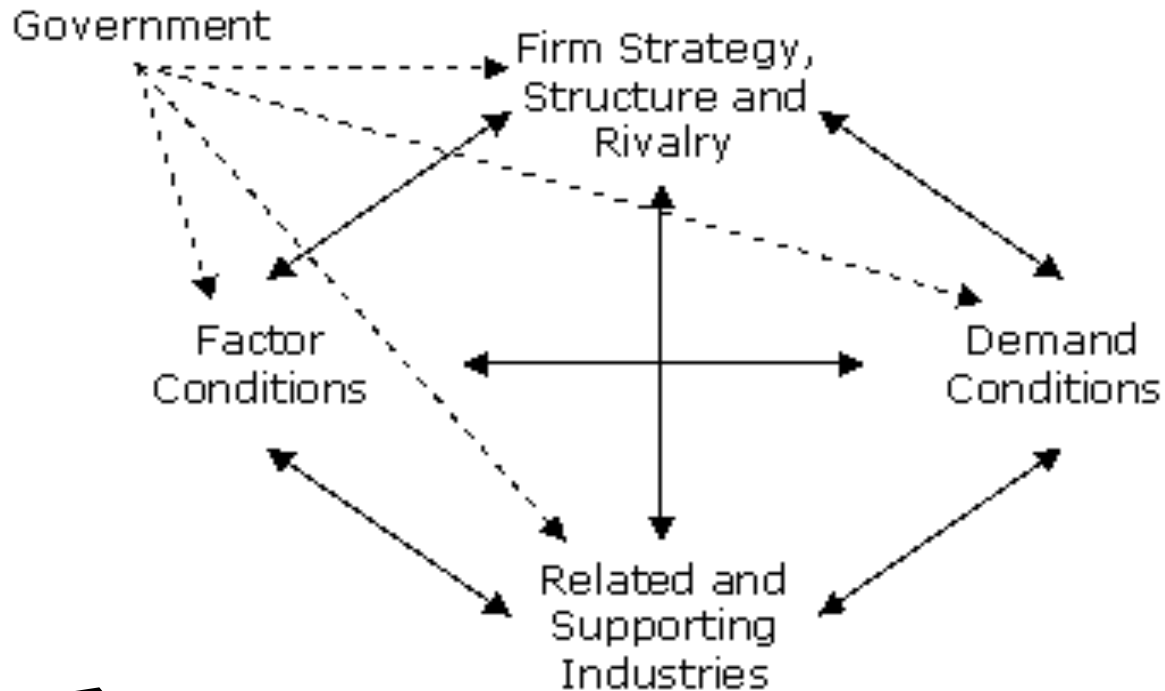
# National competitive advantage

## Diamond model

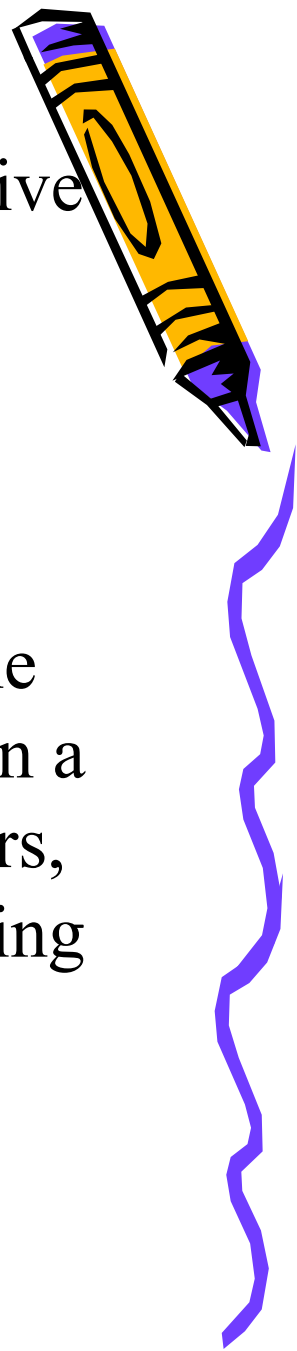


[www.valuebasedmanagement.net](http://www.valuebasedmanagement.net)

### Porter's Diamond Model for the Competitive Advantage of Nations

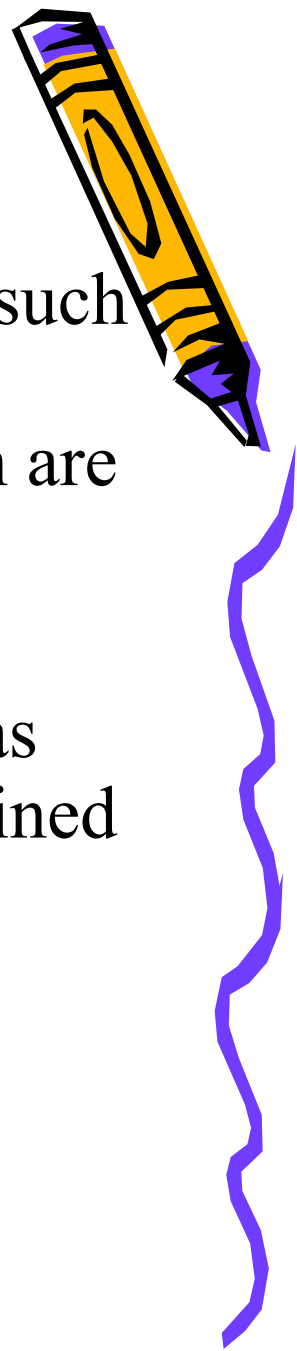


- It analyzing why some nations are more competitive than others are, and why some industries within nations are more competitive than others are .
- It suggests that the national home base of an organization plays an important role in shaping the extent to which it is likely to achieve advantage on a global scale. This home base provides basic factors, which support or hinder organizations from building advantages in global competition.



# 1. Factor conditions

- It refers to inputs used as factors of production such as **labour, land, natural resources, capital and infrastructure**. Specialized factors of production are skilled labour and capital
- "Non-key" factors or general use factors, such as unskilled labour and raw materials, can be obtained by any company and, hence, do not generate sustained competitive advantage.



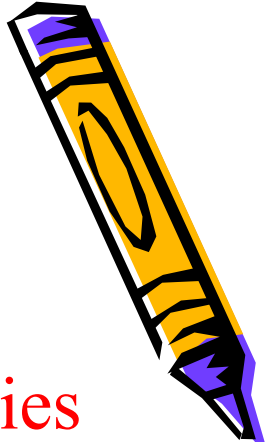
## 2. Demand Conditions

- Demand conditions in the **domestic market** provide the primary driver of growth, innovation and quality improvement
- Firms that face a sophisticated domestic market are likely to sell superior products because the market demands high quality and a close proximity to such consumers enables the firm to better understand the needs and desires of the customers

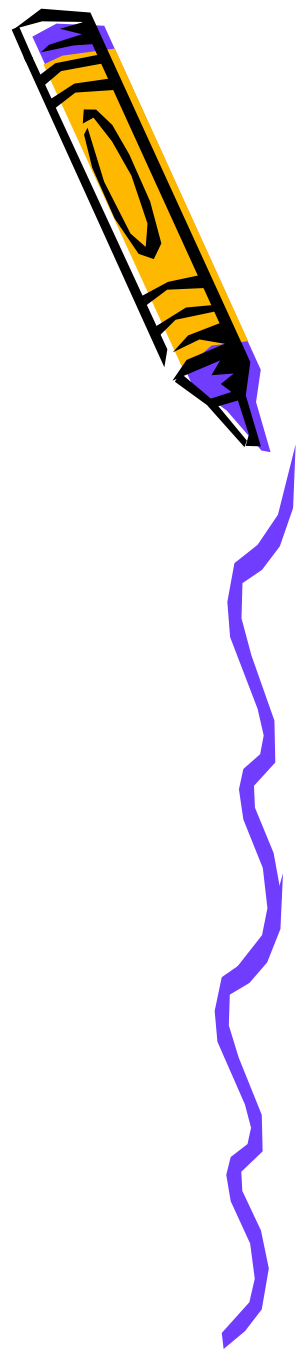


# CASE 1

The French are sophisticated wine consumers. These consumers force and help **French wineries** to produce high quality wines.



# CASE 2



# CASE 3



MCXB.COM





# CASE 4





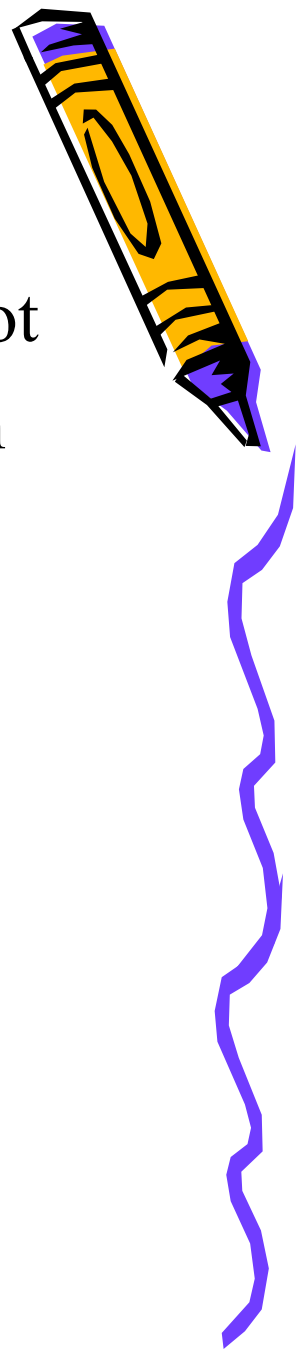
### 3. Related and Supporting Industries

- a set of strong related and supporting industries is important to the competitiveness of firms.
- This includes suppliers and related industries. This usually occurs at a regional level as opposed to a national level.

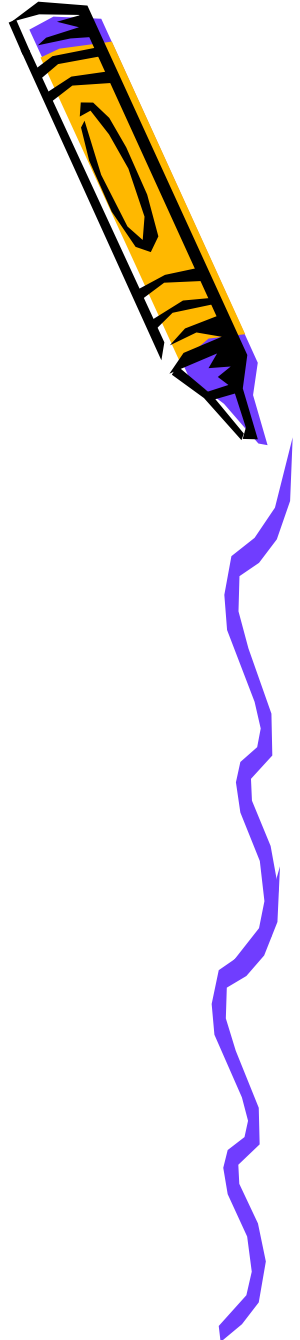


# CASE 1

The shoe and leather industry in Italy. Italy is not only successful with shoes and leather, but with related products and services such as **leather working machinery, design, etc.**



# CASE 2



i n v e n t

Loongs.com

Apple iMac



## 4. Firm Strategy, Structure and Rivalry

- National performance in particular sectors is inevitably related to the strategies and the structure of the firms in that sector. **Competition** plays a big role in driving innovation and the subsequent upgradation of competitive advantage.
- Since domestic competition is more direct and impacts earlier than steps taken by foreign competitors, the stimulus provided by them is higher in terms of innovation and efficiency.

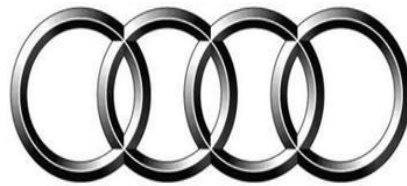


# CASE

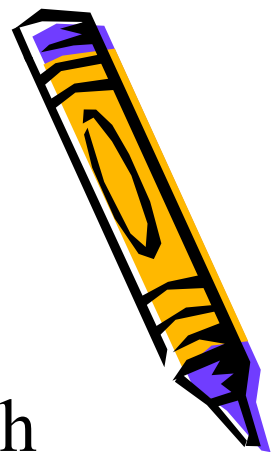
It provide intense competition in the domestic market, as well as the foreign markets in which they compete.



Mercedes-Benz



**Audi**

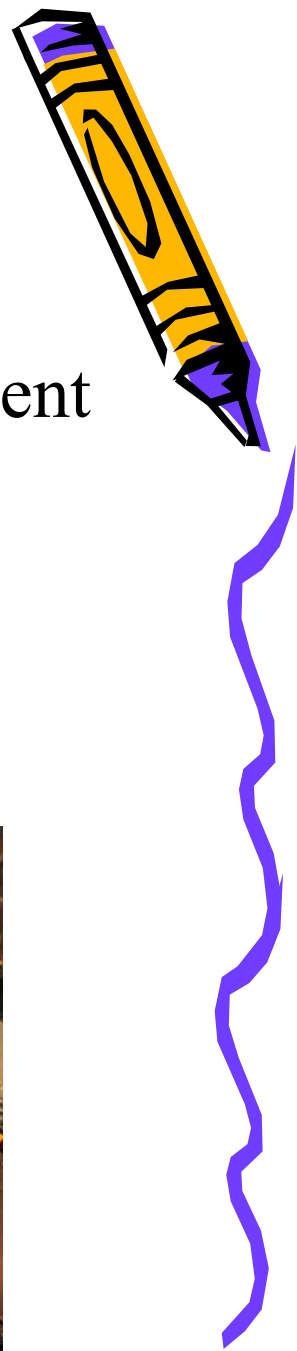


- ALSO. **Cultural** aspects play an important role. In different nations, factors like **management structures**, working morale between companies are shaped differently.
- Some countries may be oriented toward a particular style of management. Those countries will tend to be more competitive in industries for which that style of management is suited.



# CASE

Germany tends to have hierarchical management structures composed of managers with strong technical backgrounds and Italy has smaller, family-run firms.



## 5. Government

The government plays an important role in diamond model. "Government's proper role is as a catalyst and challenger; it is to encourage - or even push - companies to raise their aspirations and move to higher levels of competitive performance "





Governments can influence all four of determinants through a variety of actions:

- Subsidies to firms
- Tax codes applicable to corporation
- Educational policies that affect the skill level of workers.
- They should enforce tough standards.



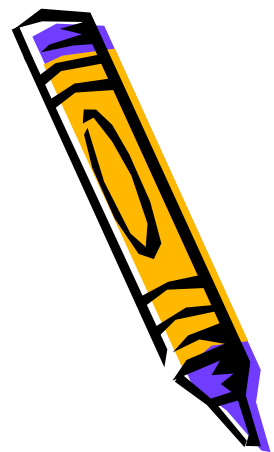
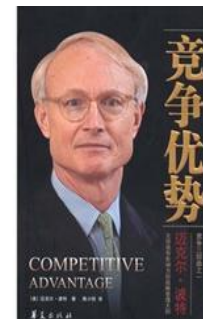
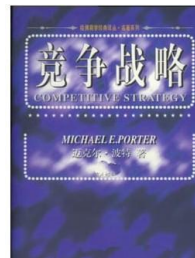
# Summary

- **Five Forces Model:** Rivalry Among Existing Competitors. Threat of New Entrants. Bargaining Power of Suppliers. Bargaining Power of buyers. Threat of Substitute Products
- **Competitive advantage and strategy:** Cost advantage strategy. Differential advantage strategy
- **Diamond model:** Factor conditions. Demand Conditions. Related and Supporting Industries. Firm Strategy, Structure and Rivalry. Government



# Reference

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- **海尔中国造之竞争战略与核心能力** 胡泳 海南出版社
- <http://www.ceconlinebbs.com/> (世界经理人互动社区 国家竞争优势案例分析)





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谢谢

