

Business Strategy

Topic 2

The External Environment: Opportunities, Threats, Industry Competition, and Competitor Analysis

H. Volberda, R. Morgan, P. Reinmoller, R. Ireland, R. Hoskisson,
Strategic Management. Competitiveness and Globalization. Concepts and Cases,
Cengage Learning, 2016.

KNOWLEDGE OBJECTIVES

- Explain the importance of firm's **external** environment
- Describe the general **environment** and the **industry environment**.
- Describe the general environment's six segments.
- Define the five competitive forces
- Define **strategic groups**
- Perspective on competitors analysis

The External Environment

- The **general environment** is composed of dimensions in the broader society that influence an industry and the firms within it. Firms cannot directly control the general environment's segments and elements.
- The **industry environment** is the set of factors that directly influences a firm and its competitive actions and competitive responses. The challenge is to locate a position within an industry where a firm can favorably influence those factors or where it can successfully defend against their influence.
- The **competitor environment** relates to the specific competitors and gathering and interpreting information about competitors is called competitor analysis.

The External Environment

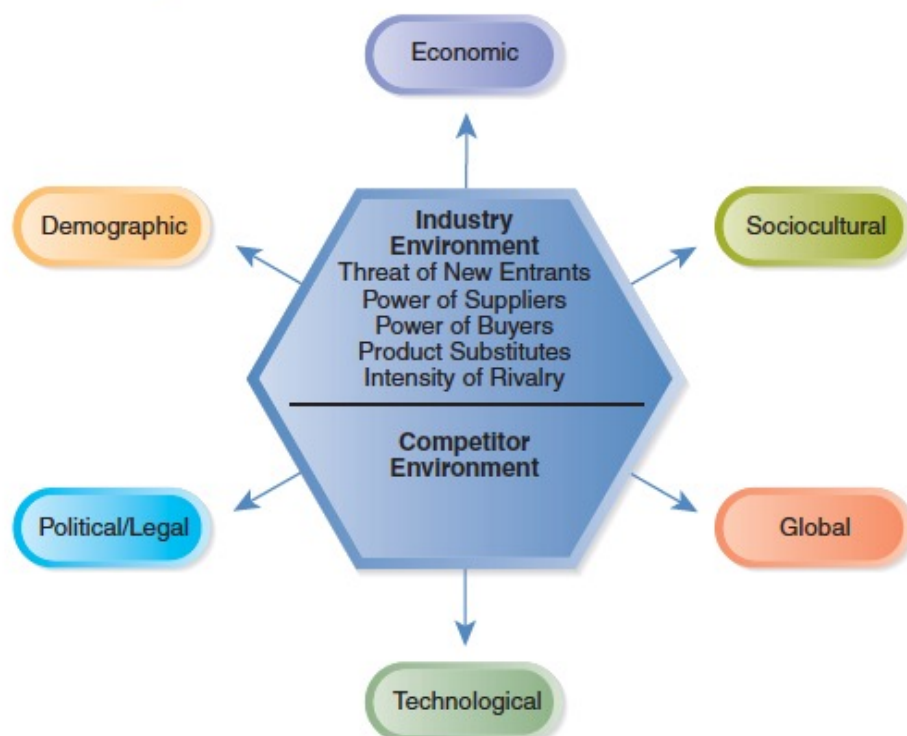


FIGURE 2.1 The External Environment

External Environmental Analysis

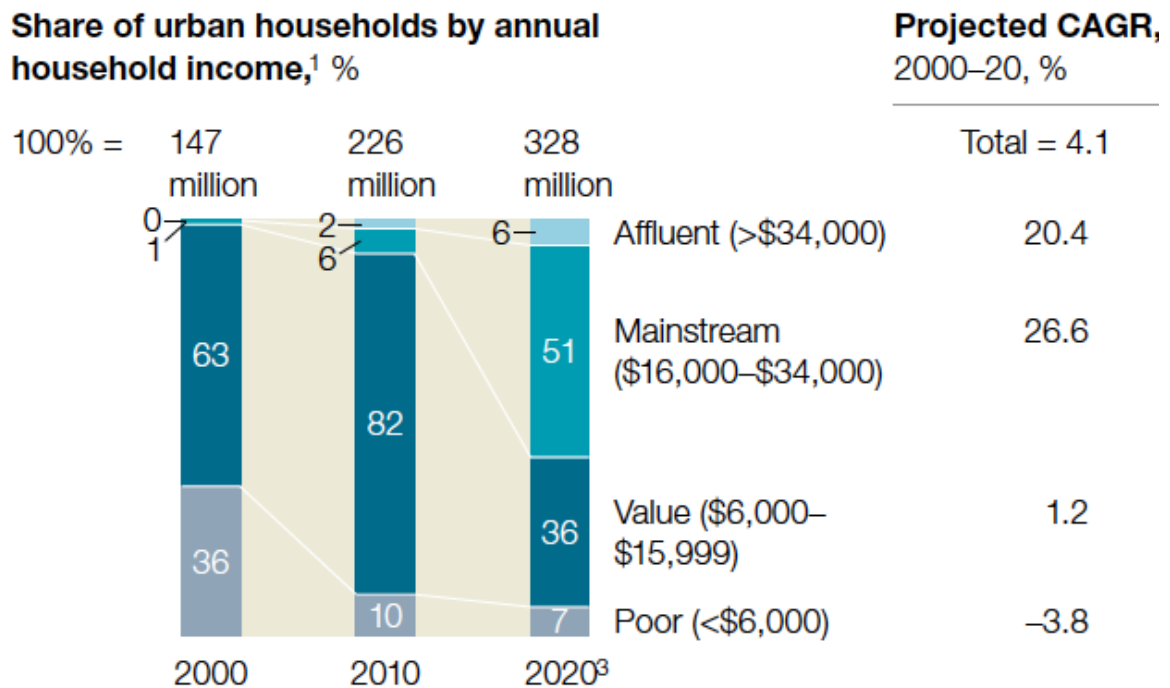
- Most firms face highly turbulent/complex external environments. To increase their understanding of the general environment, firms engage in a process of **external environmental analysis**.
- An **opportunity** is a condition in the general environment that, if exploited, helps a company achieve strategic competitiveness.
- A **threat** is a condition in the general environment that may hinder a company's efforts to achieve strategic competitiveness.

External Environmental Analysis Activities

Scanning	Identifying early signals of environmental changes and trends
Monitoring	Detecting meaning through ongoing observations of environmental changes and trends
Forecasting	Developing projections of anticipated outcomes based on monitored changes and trends
Assessing	Determining the timing and importance of environmental changes and trends for firms' strategies and their management

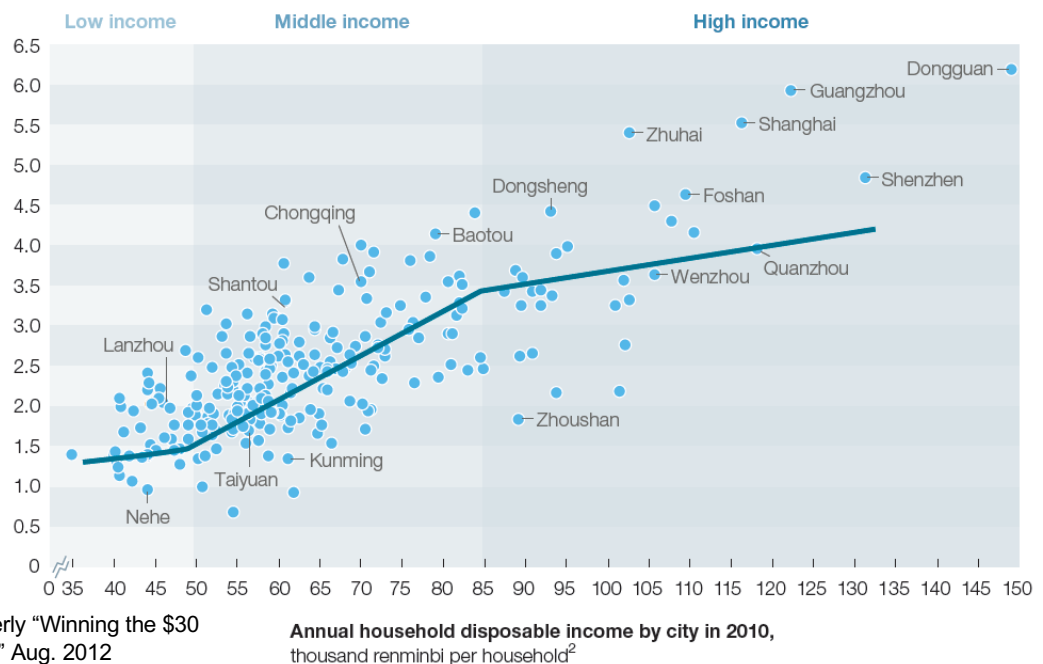
Scanning the emerging markets

- Income distribution in China is changing rapidly



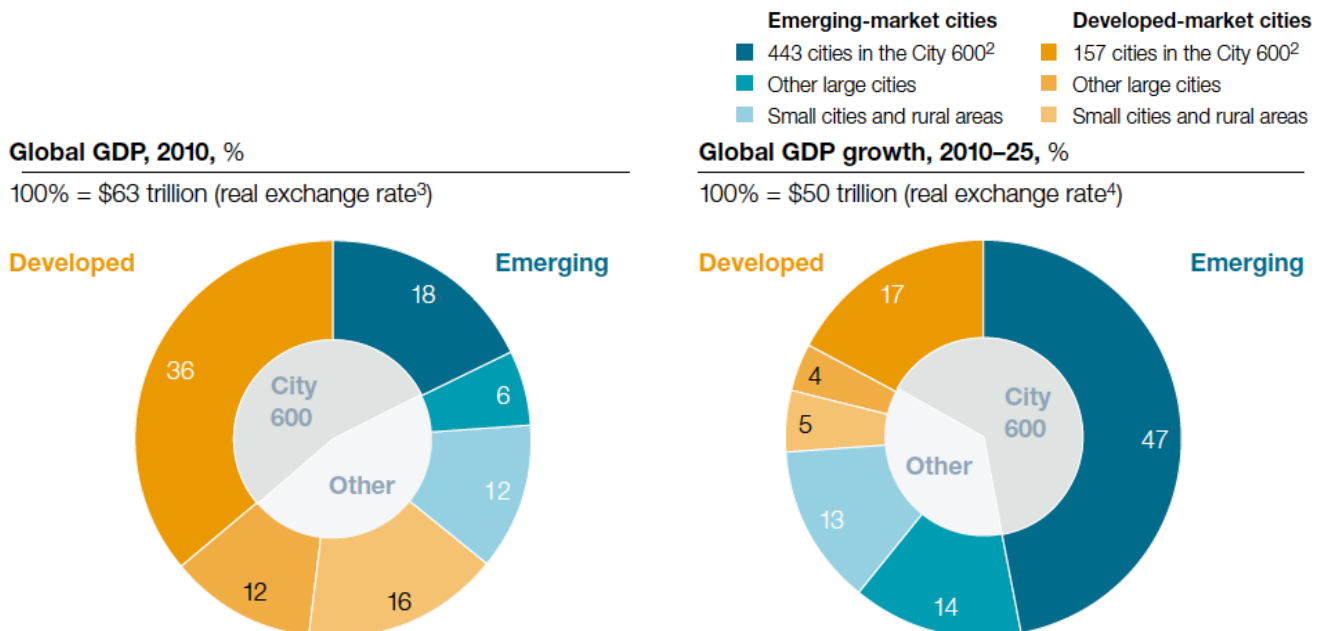
Monitoring the emerging markets

- In emerging market demand for household appliance follow an S-shapes curve based on income



Forecasting the emerging markets

- 443 emerging-market cities are expected to deliver almost 50% of the global GDP growth



Source: McKinsey Quarterly "Winning the \$30 trillion decathlon" Aug. 2012

Assessing "western" companies' position in the emerging markets

- Leading companies in the developed world earn just 17% of total revenues from emerging markets, even though these markets represent 36% of global GDP

Markets' contribution to global GDP vs leading global companies' share of total revenues¹ from given markets, 2010, %

	Developed markets	Emerging markets
Share of global GDP	64	36
Share of revenues	83	17

Source: McKinsey Quarterly "Winning the \$30 trillion decathlon" Aug. 2012

Segments of the General Environment

- The **demographic segment** is concerned with a population's size, age structure, geographic distribution, ethnic mix, and income distribution.
- The **economic environment** refers to the nature and direction of the economy in which a firm competes or may compete.
- The **political/legal segment** is the arena in which organizations and interest groups compete for attention, resources, and a voice in overseeing the body of laws and regulations guiding the interactions among nations.

Segments of the General Environment

- The **sociocultural segment** is concerned with a society's attitudes and cultural values.
- The **technological segment** includes the institutions and activities involved with creating new knowledge and translating that knowledge into new outputs, products, processes, and materials.
- The **global segment** includes relevant new global markets, existing markets that are changing, important international political events, and critical cultural and institutional characteristics of global markets.

Segments of the General Environment

Demographic Segment	<ul style="list-style-type: none"> • Population size • Age structure • Geographic distribution 	<ul style="list-style-type: none"> • Ethnic mix • Income distribution
Economic Segment	<ul style="list-style-type: none"> • Inflation rates • Interest rates • Trade deficits or surpluses • Budget deficits or surpluses 	<ul style="list-style-type: none"> • Personal savings rate • Business savings rates • Gross domestic product
Political/Legal Segment	<ul style="list-style-type: none"> • Antitrust laws • Taxation laws • Deregulation philosophies 	<ul style="list-style-type: none"> • Labor training laws • Educational philosophies and policies
Sociocultural Segment	<ul style="list-style-type: none"> • Women in the workforce • Workforce diversity • Attitudes about the quality of work life 	<ul style="list-style-type: none"> • Concerns about the environment • Shifts in work and career preferences • Shifts in preferences regarding product and service characteristics
Technological Segment	<ul style="list-style-type: none"> • Product innovations • Applications of knowledge 	<ul style="list-style-type: none"> • Focus of private and government-supported R&D expenditures • New communication technologies
Global Segment	<ul style="list-style-type: none"> • Important political events • Critical global markets 	<ul style="list-style-type: none"> • Newly industrialized countries • Different cultural and institutional attributes

Industry Environment Analysis

- An **industry** is a group of firms producing products that are close substitutes.

The Five Forces That Shape Industry Competition



Source: Porter, The five forces that shape the industry, HBR, 2008

Industry profitability

Return on Invested Capital (ROIC) is the appropriate measure for strategy formulation.

The average ROIC varies markedly from industry to industry
(Porter, 2008)

Source: Porter, The five forces that shape the industry, HBR, 2008



Threat of New Entrants

- New entrants pose such a threat is that they bring additional production capacity.
- **Barriers to Entry**
 - Economies of Scale
 - Access to Distribution Channels.
 - Product Differentiation
 - Capital Requirements
 - Switching Costs
 - Disadvantages Independent of Scale
 - Government Policy
- **Expected Retaliation**

Bargaining Power of Suppliers

- Increasing prices and reducing the quality of their products are potential means used by suppliers to exert power over firms competing within an industry.
- A supplier group is powerful when
 - There are few suppliers.
 - No satisfactory substitute products.
 - The company is not the main customer.
 - Suppliers' goods are critical to buyers' marketplace success.
 - There are high switching costs.
 - It poses a credible threat to integrate forward into the buyers' industry. Credibility is enhanced when suppliers have substantial resources and provide a highly differentiated product.

Bargaining Power of Buyers

- Buyers bargain for higher quality, greater levels of service, and lower prices.
- Customers (buyer groups) are powerful when
 - They purchase a large portion of an industry's total output.
 - The sales of the product being purchased account for a significant portion of the seller's annual revenues.
 - They could switch to another product at little, if any, cost.
 - The industry's products are undifferentiated or standardized, and the buyers pose a credible threat if they were to integrate backward into the sellers' industry.

Threat of Substitute Products

- Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces.
- Product substitutes present a strong threat to a firm when customers face few, if any, switching costs and when the substitute product's price is lower or its quality and performance capabilities are equal to or greater than those of the competing product.

Intensity of Rivalry among Competitors

- Competitive rivalry intensifies when a firm is challenged by a competitor's actions or when a company recognizes an opportunity to improve its market position.
- The most prominent factors that experience shows to affect the intensity of firms' rivalries:
 - Numerous or Equally Balanced Competitors
 - Lack of Differentiation or Low Switching Costs
 - Slow Industry Growth
 - High Strategic Stakes
 - High Fixed Costs or High Storage Costs
 - High Exit Barriers

Strategic Groups

- A strategic group is a set of firms emphasizing similar strategic dimensions to use a similar strategy.
- The strategic groups can be useful for analyzing an industry's competitive, and diagnosing competition, positioning, and the profitability of firms within an industry.
- The strengths of the five industry forces differ across strategic groups.
- The closer the strategic groups are in terms of their strategies, the greater is the likelihood of rivalry between the groups.

Competitor Analysis

- Competitor intelligence is the set of data and information the firm gathers to better understand and better anticipate competitors' objectives, strategies, assumptions, and capabilities.

Competitor Analysis

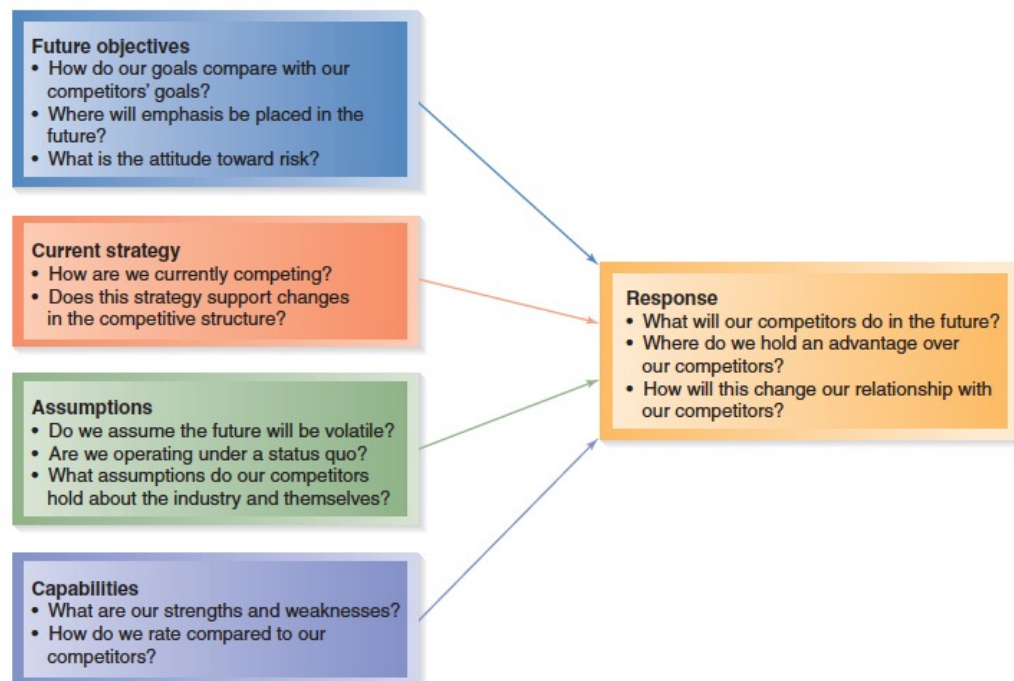


FIGURE 2.3 Competitor Analysis Components

Changes in industry structure

- Industry structure might change – even drastically – over time:
 - Shifting threat of new entry
 - Changing supplier or buyer power
 - Shifting threat of substitution
 - New basis of rivalry
- The company should take strategic actions with respect to these changes:
 - Repositioning the company
 - Exploiting industry change
 - Shaping the industry structure

Management Consulting industry analysis

Management consulting can be defined as:

- an independent professional advisory service assisting managers and organizations
- to achieve organizational purposes and objectives
- by solving management and business problems, identifying and seizing new opportunities, enhancing learning and implementing changes (Kubr, 2002)

Management consulting includes a mix of:

- Advisory
- Support to implementation

A Management consulting firm qualifies with respect to:

- specific topics/tools
- specific industries

Definition

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(Kubr, 2002: 10)

Management consulting includes a mix of:

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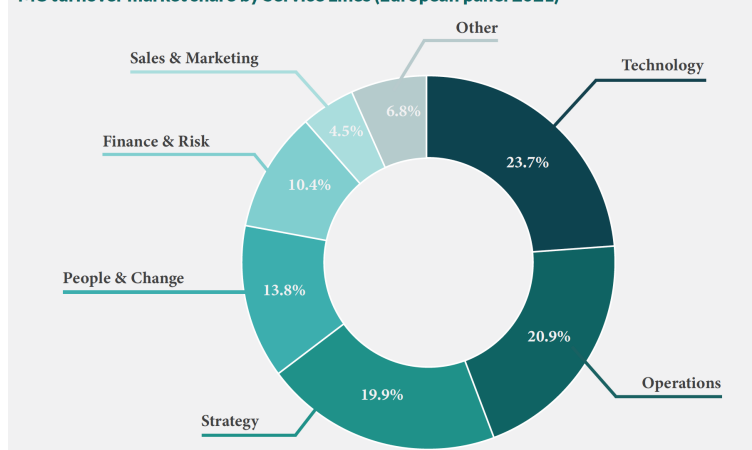
Assessing the Management Consulting industry

COUNTRY	MC turnover annual trend				MC turnover CAGR
	2020	2021	2022 (prel.)	2023 (exp.)	(2020-22)
Austria	-8.4%	10.0%	13.6%	n.a	4.6%
Denmark	-1.1%	16.3%	13.6%	n.a	9.3%
France	-5.0%	11.5%	11.5%	n.a	5.7%
Germany	-4.4%	10.3%	10.5%	n.a	5.2%
Greece	8.5%	19.6%	17.5%	14.9%	15.1%
Hungary	4.8%	0.0%	5.7%	2.7%	3.5%
Italy	-4.2%	10.9%	11.4%	6.5%	5.8%
Romania	15.2%	-2.6%	-4.4%	0.0%	2.4%
Slovenia	4.0%	9.8%	6.2%	7.1%	6.6%
Spain	-5.0%	8.0%	7.0%	3.0%	3.2%
UK	10.6%	15.2%	20.0%	20.0%	15.2%
European panel*	-1.1%	11.2%	12.2%	10.2%	7.4%

Source: FEACO-Tor Vergata "Management Consulting in Europe" January 2023

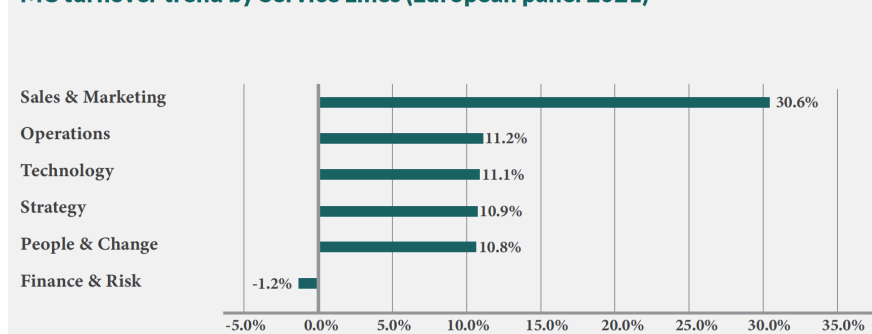
Assessing the Management Consulting industry

MC turnover market share by Service Lines (European panel 2021)



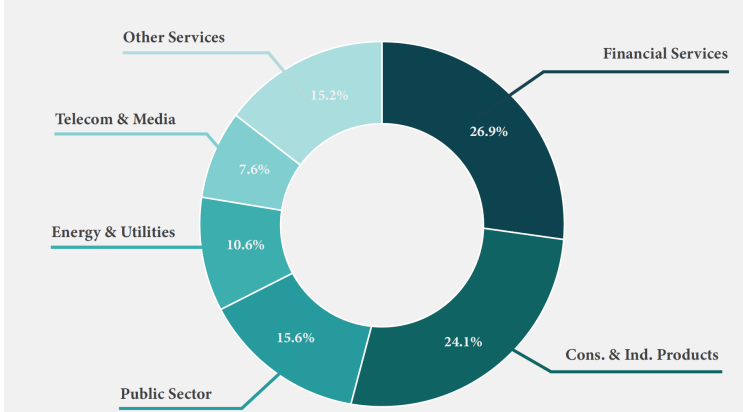
Source: FEACO-Tor Vergata "Management Consulting in Europe" January 2023

MC turnover trend by Service Lines (European panel 2021)



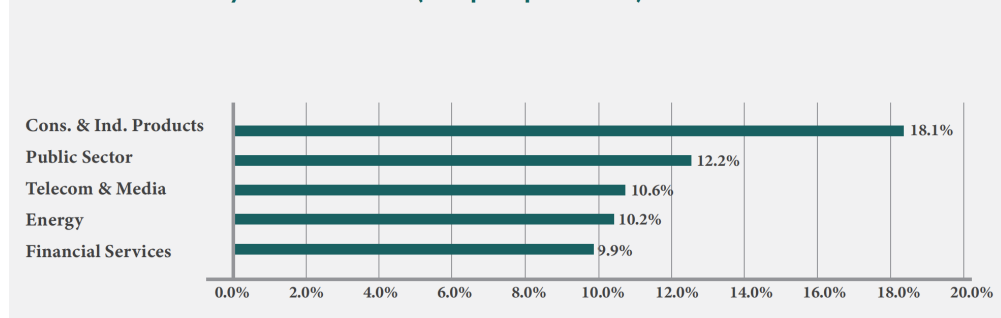
Assessing the Management Consulting industry

MC turnover market share by Client Industries (2021)

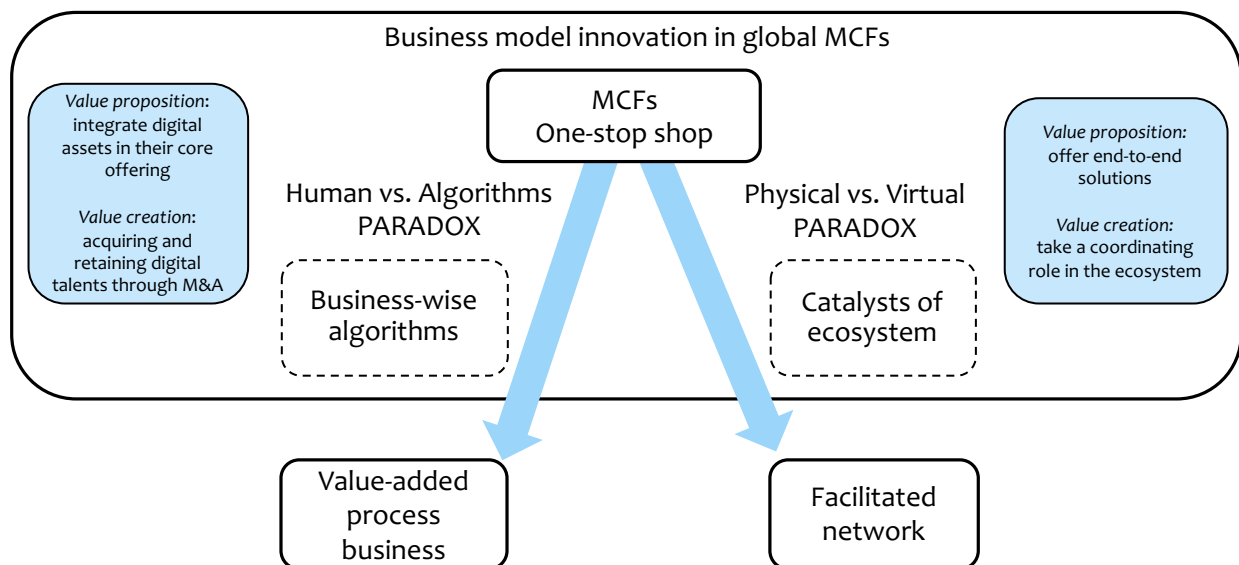


Source: FEACO-Tor Vergata
"Management Consulting in Europe" January 2023

MC turnover trend by Client Industries (European panel 2021)



Changes in MC industry structure



Source: Tavoletti, Niloofar, Cerruti, Grieco and Appolloni, Business model innovation and digital transformation in global management consulting firms, 2021