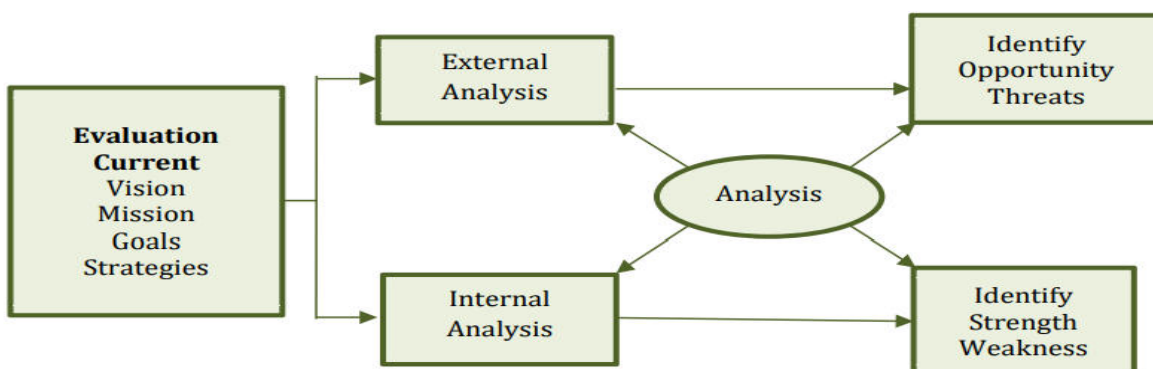


CHAPTER 2

STRATEGIC ANALYSIS: EXTERNAL ENVIRONMENT

1. STRATEGIC ANALYSIS



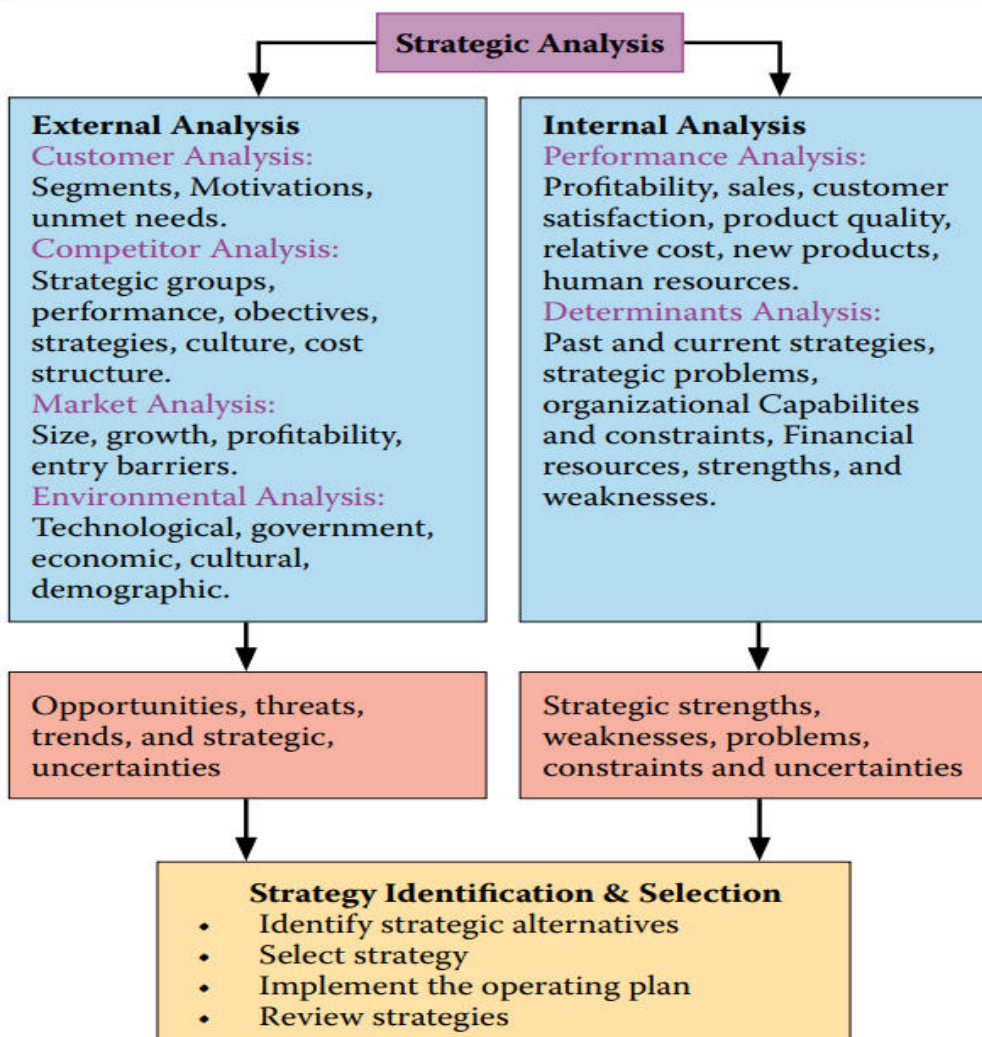
- Strategy formulation is not a task based on intuition, opinions and instincts of managers. Judgments about what strategies to pursue need to flow directly from analysis of a firm's external environment and its internal resources and capabilities.
- The process of strategic formulation begins with a strategic analysis.
- Strategic analysis refers to analysis of both internal as well as external environment of business based on which strategic plans can be developed.
- The two important situational considerations are:
 - a) Industry and competitive conditions, and
 - b) Organization's strength and weakness.
- It helps in evaluation of alternatives to choose sound winning strategy.
- It is a continuous process.
- **Limitations of strategic analysis**
 - a) It gives a lot of innovative options but doesn't tell which one to pick.
 - b) The options can be overlapping, confusing or difficult to implement.
 - c) It can be time-consuming, thus hurting overall organisational functioning.

Issues to consider for Strategic Analysis:

- | | |
|---|--|
| a) Strategy evolves over a period of time | Strategy of a Firm is a result of series of small decisions taken over an extended period of time. |
|---|--|

	Strategy evolves from experience and needs constant review and revision as the results start showing up. Thus, it evolves over a period of time.										
b) Balance of external and internal factors	<p>Strategy formulation involves matching internal strengths and weaknesses with external opportunities and threats.</p> <p>E.g. There may be pressures to enter a new market due to high growth potential while there may be constraints like lack of funds.</p> <p>In reality, perfect match between them is not possible. Hence, strategic analysis uses workable balance.</p>										
c) Risk	Competitive market, globalization, Booms & recessions, technology advancement, etc. affect businesses and pose risk. Various strategic risks are as given below:										
		<table border="1"> <thead> <tr> <th></th> <th>Short Term</th> <th>Long Term</th> </tr> </thead> <tbody> <tr> <td>External</td> <td>Error in interpreting the environment that causes strategic failure</td> <td>Changes in environment lead to obsolescence of strategy</td> </tr> <tr> <td>Internal</td> <td>Organizational capacity is unable to cope up with demand</td> <td>Inconsistencies with the strategy is developed on account of change in internal capacities</td> </tr> </tbody> </table>		Short Term	Long Term	External	Error in interpreting the environment that causes strategic failure	Changes in environment lead to obsolescence of strategy	Internal	Organizational capacity is unable to cope up with demand	Inconsistencies with the strategy is developed on account of change in internal capacities
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Framework of Strategic Analysis



2. STRATEGY AND BUSINESS ENVIRONMENT

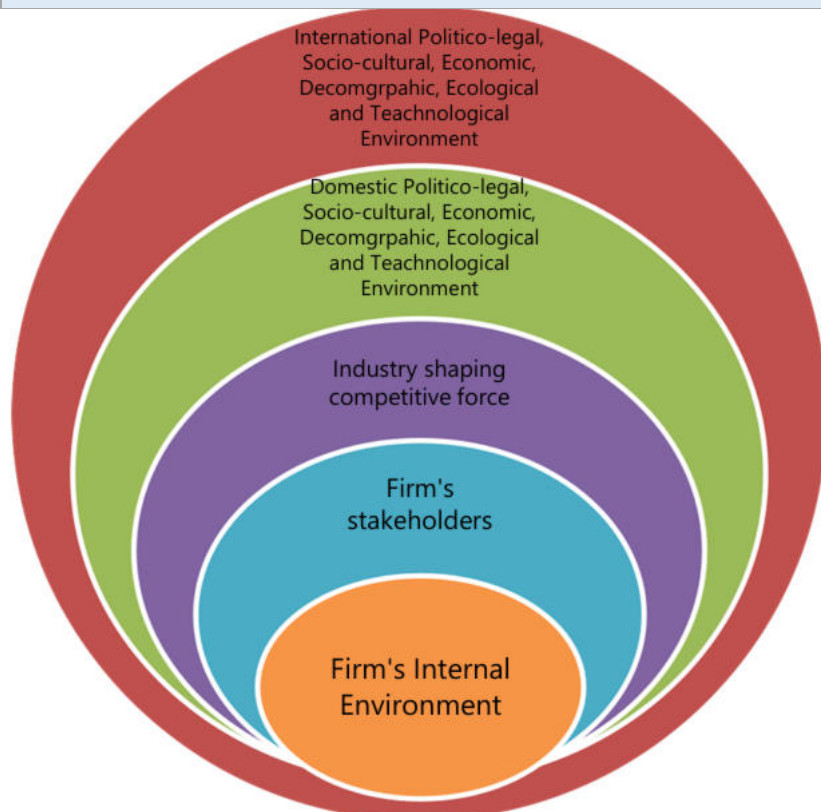
"Business environment" refers to all external factors, influences, or situations that in some way affect business decisions, plans, and operations.

It is highly dynamic and continuously evolving & often determines Organisational success.

There is a close and continuous interaction between a business and its environment. This interaction helps the business in the following ways:

a) Determine opportunities and threats	It helps to find new needs and wants of the consumers, changes in laws, changes in social behaviours, and tells what new products the competitors are bringing in the market to attract consumers.
b) Give direction for growth	It enables the business to identify the areas for growth and expansion of their activities.
c) Continuous Learning	It motivates the managers to continuously update their knowledge, understanding and skills to meet the predicted changes in the realm/scope of business.
d) Image Building	Environmental understanding helps the business organizations to improve their image by showing their sensitivity to the environment in which they operate. <i>For example</i> , in view of the shortage of power, many companies have set up captive power plants with their factories to meet their own requirement of power as well as extend surplus capacities in the vicinity. This creates a positive image and helps it to prosper and win over the competitors.
e) Meeting Competition	It helps the businesses to analyse the competitors' strategies and formulate their own strategies accordingly.

To flourish, a business must be aware of, assess, and respond to the many opportunities and threats present in its environment. The business must continuously evaluate its environment and modify its operations in order to thrive and expand.



Layers of Business Environment

2.1. MICRO AND MACRO ENVIRONMENT

The environment in which an organization exists can be described in terms of the opportunities and threats operating in the external environment apart from the strengths and weaknesses existing in the internal environment.

The external environment can be categorised in two major types as follows:

Micro environment

It is related to small area or immediate periphery of an Org. These are specific to a business & influences/affect its working on a direct and regular basis.

Consists of suppliers, consumers, marketing intermediaries, competitors, etc.

Within the micro or the immediate environment, we need to address the following issues:

- a) The employees of the firm, their characteristics and how they are organised.
- b) The existing customer base.
- c) The ways in which the firm can raise its finance.
- d) Who are the firm suppliers?
- e) The local community within which the firm operates.
- f) The direct competition and their comparative performance.

Macro environment

The macro environment is the portion of the outside world that significantly affects

- how an organisation operates but is
- typically much beyond its direct control and influence.

Macro environment has broader dimensions as it consists of economic, socio-cultural, technological, political and legal factors.

2.2. ELEMENTS OF MACRO ENVIRONMENT

a) Demographic Environment

Demographics refers to the **characteristics of a population** in terms of criteria, such as age, gender, and income.

Demographical analysis considers factors such as race, age, income, possession of assets, house ownership, job position, region, and the degree of education.

Marketers and other social scientists regularly divide up populations based on their demographic makeup. Many multinationals are interested in India considering its population size.

Business Organizations need to study different demographic factors to address following issues:

- i) What demographic trends will affect the market size of the industry?
- ii) What demographic trends represent opportunities or threats?

India has relatively younger population as compared to many other countries. Many MNCs are interested in India due to its population size.

b) Socio-Cultural Environment

It represents a complex group of factors such as social traditions, values and beliefs, level and standards of literacy, the ethical standards and state of society, the extent of social stratification, conflict and cohesiveness.

It differs from demographics in the sense that it is not the characteristics of the population, but it is the **behaviour and the belief system** of that population.

The core beliefs of a particular society tend to be persistent and it is difficult for a business to change these core values.

Accordingly, businesses have to adjust to social norms and beliefs to operate successfully.

<p>c) Economic Environment</p>	<p>Economic environment refers to the overall economic situation around the business and include conditions at the regional, national and global levels.</p> <p>It has effect on the supply of inputs and outputs of the business, their costs, and the dependability, quality, and availability.</p> <p>It also affects the business as it determines the strength and size of the market. The purchasing power in an economy depends on current income, prices, savings, debt and credit availability.</p> <p>Example: Higher interest rates are detrimental for the businesses with high debt. In the real estate market, they reduce the capability of the prospective buyers to avail loan and pay instalments, thus lower the demand.</p> <p>Income distribution pattern determine the business possibilities.</p> <p>Economic factors that have great influence on business organizations include:</p> <table border="1" data-bbox="373 660 1493 817"> <tr> <td>i) gross domestic product</td> <td>ii) per capita income</td> <td>iii) markets for goods services</td> </tr> <tr> <td>iv) availability of capital</td> <td>v) forex reserve</td> <td>vi) interest rates</td> </tr> <tr> <td>vii) disposable income</td> <td>viii) unemployment</td> <td>ix) inflation</td> </tr> </table>	i) gross domestic product	ii) per capita income	iii) markets for goods services	iv) availability of capital	v) forex reserve	vi) interest rates	vii) disposable income	viii) unemployment	ix) inflation
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<p>d) Political-Legal Environment</p>	<p>Political-legal environment refers to elements like the</p> <ul style="list-style-type: none"> ➤ general level of political development, ➤ the degree to which business and economic issues have been politicised, ➤ the degree of political morality, ➤ the state of law and order and political stability, ➤ the political ideology and practices of the ruling party and ➤ the scope and type of governmental intervention in the economy and industry. <p>Business is highly guided and controlled by government policies. Hence the type of government running a country is a powerful influence on business.</p> <p>Businesses must understand the relevant laws, taxes and consider the changes in the regulatory framework and their impact on the business.</p> <p>Businesses prefer to operate in a country where there is a sound legal system.</p>									
<p>e) Technological Environment</p>	<p>Technology and business are linked and are interdependent on one another.</p> <p>Technology has impacted on how businesses are conducted. With use of technology, many organisations are able to reduce paperwork, schedule payments more efficiently, are able to coordinate inventories efficiently and effectively.</p> <p>This helps to reduce costs of companies, and shrink time and distance, thus, capturing a competitive advantage for the company.</p> <p>Changes in technology have an effect on how a business runs its operations. Technological advancements might require a business to drastically alter its operational, production and marketing strategies.</p> <p>Technologies like Artificial intelligence, machine learning, robotic process, automation offers many new business opportunities as well as threat and business need to adapt.</p>									

2.3. PESTLE ANALYSIS – A TOOL TO ANALYSE MACRO ENVIRONMENT

Refers to framework for analysis of macro environmental factors.

PESTLE analysis involves

- identifying the political, economic, socio-cultural, technological, legal and environmental influences on

an organization and

- providing a way of analysing the environmental influences that have affected or are likely to affect an organization or its policy.

It is simple to understand and quick to implement. Advantage of PESTLE is that it encourages management to take proactive and structured thinking in its decision making.

a) Political factors	These factors determine how and to what extent the government intervenes in the economy and the activities of business firms. Political factors may also influence goods and services which the government wants to provide or be provided and those that the government does not want to be provided.	
	By analyzing following factors, an entity can assess the political risks associated with entering the new market.	
	i) Political stability	ii) Political principles and ideologies
	iii) Current and future taxation policy	iv) Regulatory bodies and processes
	v) Government policies	vi) Government term and change
b) Economic factors	By analyzing following factors, the entity can understand the economic environment of the new market and its potential impact on business operations.	
	For example , interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy. The money supply, inflation, credit flow, per capita income, growth rates have a bearing on the business decisions.	
	i) Economy situation and trends	ii) Market and trade cycles
	iii) Specific industry factors	iv) Strength of consumer spending
	v) Interest and exchange rates	vi) Inflation and unemployment
c) Social factors	These factors influence consumer behaviour and demand for the product. Understanding these factors can help the company tailor its marketing strategies to the new market.	
	i) Lifestyle trends	ii) Demographics
	iii) Consumer attitudes and opinions	iv) Brand, technology image
	v) Consumer buying patterns	
d) Technological factors	These factors determine barriers to entry and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation. Understanding these factors can help an entity to determine the technological requirements for entering the new market.	
	i) Technological advancement	ii) Level of Technology adoption
	iii) Maturity of technology	iv) Innovation potential
	v) Technology access, licensing, patents, property rights and copyrights	
e) Legal factors	These factors affect how a company operates, its costs, & ease of doing business. By analyzing these factors, the company can ensure compliance with legal requirements in the new market.	
	i) Business and Corporate Laws	ii) Employment Law
	iii) Competition Law	iv) Health & Safety Law
	v) International Treaty and Law	vi) Regional Legislation

f) Environmental factors	<i>These factors affect industries such as tourism, farming, and insurance. Growing awareness to climate change is affecting how companies operate and the products they offer- it is both creating new markets and diminishing or destroying existing ones.</i>	
	i) <i>Climate change</i>	ii) <i>Environmental legislation</i>
	iii) <i>Energy consumption</i>	iv) <i>Waste disposal</i>
	v) <i>Ecological hazards</i>	

2.4. INTERNATIONALIZATION OF BUSINESS

Internationalization has emerged as the dominant commercial trend over the last couple of decades. It enables a business to enter new markets in search of greater earnings and less expensive resources. It enable a business to achieve greater economies of scale and extend the lifespan of its products. One method for an organization to identify opportunities and threats in global markets is by scanning the external environment. The development of effective strategies and the formulation of global strategic objectives are made feasible by internationalisation.

2.4.1. Characteristics of Global Company

Common ownership	<i>It is a conglomerate of multiple units located in various part of the world but linked by common ownership.</i>
Common pool of resources	<i>Multiple units use common pool of resource such as</i> ➤ <i>Money; Technology/ patents; Brand name etc.</i>
Common strategy	<i>Units of global company follow common strategy.</i>

2.4.2. Why do Companies Go Global?

- a) **Need to grow.** *Organizations exploit opportunities in other countries to grow own business.*
- b) **Domestic market no longer adequate (saturated domestic market).**
For example: Japanese have flooded the U.S. market with automobiles and electronics because the home market was not large enough to absorb whatever was produced.
- c) **Shrinking of time and distance across globe [faster modes of communication and transportation]**
- d) **Cost effective [lower cost of labour and raw material in other countries]**
For example: Hyundai got competent engineers at lower cost, industry friendly Maharashtra Govt. which allowed them to setup a unit in India which supplies spare parts for all Hyundai Cars across the world.
- e) **Companies often set up overseas plants to reduce high transportation costs.**
For example: Making a car in Korea and exporting it in Europe and America is expensive and time consuming therefore India as a manufacturing hub for Hyundai proved to be better place.
- f) **Reducing international trade barriers, greater privatization and lesser Government interference.**
- g) **Export incentives.**

2.4.3. Developing internationally

International development is expensive & challenging. Steps in international strategic planning are:

- a) *Evaluate global opportunities and threats and compare them with the internal capabilities.*

- b) Describe the scope of the firm's global commercial operations.
- c) Create the firm's global business objectives.
- d) Develop distinct corporate strategies for the global business and whole organisation.

2.4.4. INTERNATIONAL ENVIRONMENT ANALYSIS

International environment has become an inherent part of strategic management for businesses of all sizes with global interests.

It essentially involves various global aspects like political risks, cultural differences, exchange rate fluctuations, legal compliances and taxation issues.

The PESTLE factors that an international organisation faces are nearly limitless, and the number and complexity of these factors increase manifold as the number of products produced and geographic areas served increase.

Thus, it becomes more important for the people at the decision-making levels to focus on factors comprising the international environment.

An assessment of the external environment is the first step toward internationalization. Such assessment helps company in SWOT analysis & can be done at three levels:

a) Multinational environmental analysis	It involves identifying, anticipating, and monitoring significant components of the global environment on a large scale. Governments may have free or interventionist tendencies in economies that needs to be carefully considered.
b) Regional environmental analysis	It is a more in-depth evaluation of critical factors in a specific geographical area. The emphasis would be on discovering market opportunities for a goods, services, or innovations in the chosen location.
c) Country environmental analysis	It Involves deeper look at the important environmental factors like economic, legal, political, and cultural dimensions. The analysis must be customised for each of the countries to develop effective market entrance strategies.

3. UNDERSTANDING PRODUCT AND INDUSTRY

A product can be either a good or a service. It might be physical good or a service, an experience.

Business products have certain characteristics as follows:

a) Products are either tangible or intangible.	<p>A tangible product can be handled, seen, and physically felt, such as a car, book, pen, table, mobile handset and so on.</p> <p>Tangible aspects of a product includes high-quality materials & innovative designs.</p> <p>An intangible product is not a physical good, such as telecom services, banking, insurance, or repair services.</p> <p>Intangible aspects of a product includes excellent customer service and a strong brand reputation for reliability and durability.</p>
b) Product has a price	<p>The price is determined by the market, quality, marketing, and the targeted group. It is influenced by supply and demand of an item or service.</p> <p>The market price is the price at which quantity provided equals quantity desired.</p> <p>On account of competition, businesses are not able to fix market price by adding profit margin on the costs. Rather, need to follow the market determined price and work on reducing the costs to earn profitability.</p>
c) Products have certain features	Product feature is a component of a product that satisfies a consumer need. It distinguishes a product in terms of its function, design, quality & overall experience.

that deliver satisfaction	Companies should ensure that their products deliver maximum satisfaction to their target customers . It also determines product pricing.
d) Product is pivotal for business	The product is at the centre of business around which all strategic activities revolve. Companies should ensure that all business processes, from production to sales and marketing, are aligned to meet customer needs and expectations by providing better product. It is the driving force behind business activities.
e) Product has a useful life	Every product has a <ul style="list-style-type: none"> ➤ usable life after which it must be replaced, as well as a ➤ life cycle after which it is to be reinvented or may cease to exist. Companies should be aware of the life cycle of their products and plan for reinvention or replacement accordingly. Example: Fixed line telephone instruments have been replaced by mobile phones.

3.1. PRODUCT LIFE CYCLE

Product Life Cycle is an important concept for guiding strategic choice.

It is an S-shaped curve which exhibits the relationship of sales with respect of time for a product that passes through the four successive stages as given below.

If businesses are substituted for product, the concept of PLC could work just as well.

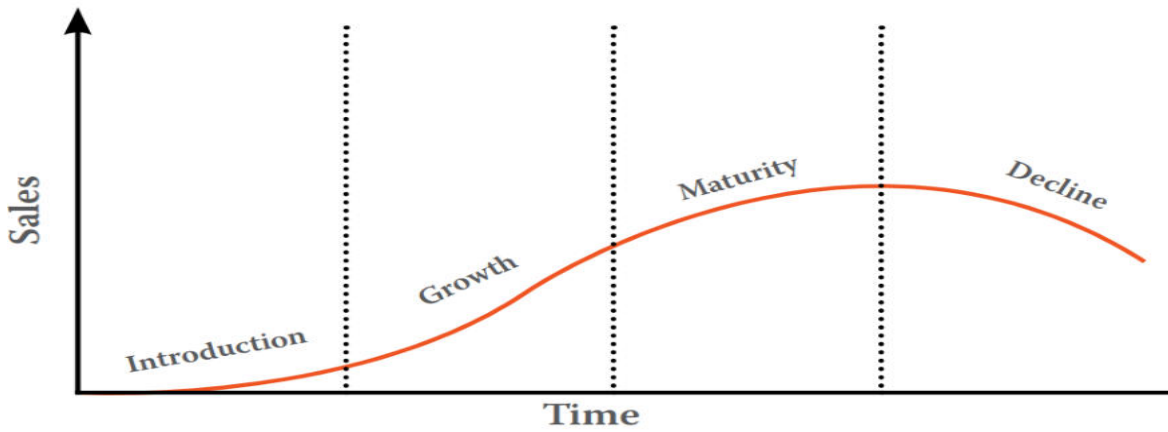
a) Introduction stage	First stage of PLC is characterised with slow sales growth, in which competition is almost negligible, prices are relatively high, and markets are limited. Growth in sales is at a lower rate because of lack of awareness among customers.
b) Growth stage	It is characterised with rapid market acceptance. The demand expands rapidly, prices fall, competition increases, and market expands. The customer has knowledge about the product & shows interest in purchasing it.
c) Maturity stage	In third phase, there is slowdown in growth rate. In this stage, the competition gets tough, and market gets stabilised. Profit comes down because of stiff competition. At this stage, organisations have to work for maintaining stability.
d) Declining stage	In the fourth stage of PLC is declines with sharp downward drift in sales. The sales and profits fall down sharply due to some new product replaces the existing product. So, a combination of strategies can be implemented to stay in the market either by diversification or retrenchment.

Successful businesses must adapt their strategies to each stage to remain profitable.

Main advantage of PLC approach is that it can be used to establish the stage at which each of the Firm's product/business exists.

Special attention should be given to businesses that are in declining stage.

Thus, balanced portfolio of products/ businesses may be built by exercising strategic choice based on PLC.



Basis	Introduction	Growth	Maturity	Decline
Market				
Growth in sales				
Competition				
Prices				
Profit				
Appropriate Strategy				

3.2. VALUE CHAIN ANALYSIS

- Value chain analysis was originally introduced as accounting analysis.
- It is a method of examining each activity in value chain of a business in order to identify areas for improvements.
- Value chain analysis involves two basic steps:
 - Identifying separate activities and
 - Assessing value added by each activity.
- Understanding value chain of an organisation is critical for evaluating how much value it generates.
- This analysis could be used to improve the sequence of operations, enhancing efficiency and creating a competitive advantage.
- Value chain analysis can be used by businesses of all sizes, from sole proprietorships to multinational organisations.
- Michael Porter identified 9 value activities and classified them in two groups as follows:

Primary Activities are grouped into five main areas as given below:

Inbound Logistics	Operations	Outward logistics	Marketing & Sales	Service
Activities concerned with receiving, storing and distributing inputs. Includes material handling, stock,	Activities concerned with transforming inputs into final product or service. Includes manufacturing, packaging, assembly,	Activities concerned with collecting, storing and distributing final product to customers. Includes material handling, stock,	Process whereby consumers are made aware of product/ services & are able to buy it. Includes promotion, advert.,	Activities which enhance or maintain value of product/ service. Includes installation, training, repairs, after sale support

transport etc.	testing etc.	transport etc.	selling etc.	etc.
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Support Activities – Each of Primary activities are linked to following support activities:

Procurement	Technology Development	HR Management	Infrastructure
Refers to process of acquiring various inputs to primary activities.	It may be in relation to <ul style="list-style-type: none"> ➤ Product (R&D product design) ➤ Process (process development) or ➤ Particular resource (Raw material improvement) 	It transcends all primary activities. Concerned with recruitment, training, developing & rewarding people.	It supports Org. in executing primary functions. Consists of structures & routines which sustain Org's culture.

4. INDUSTRY ENVIRONMENT ANALYSIS

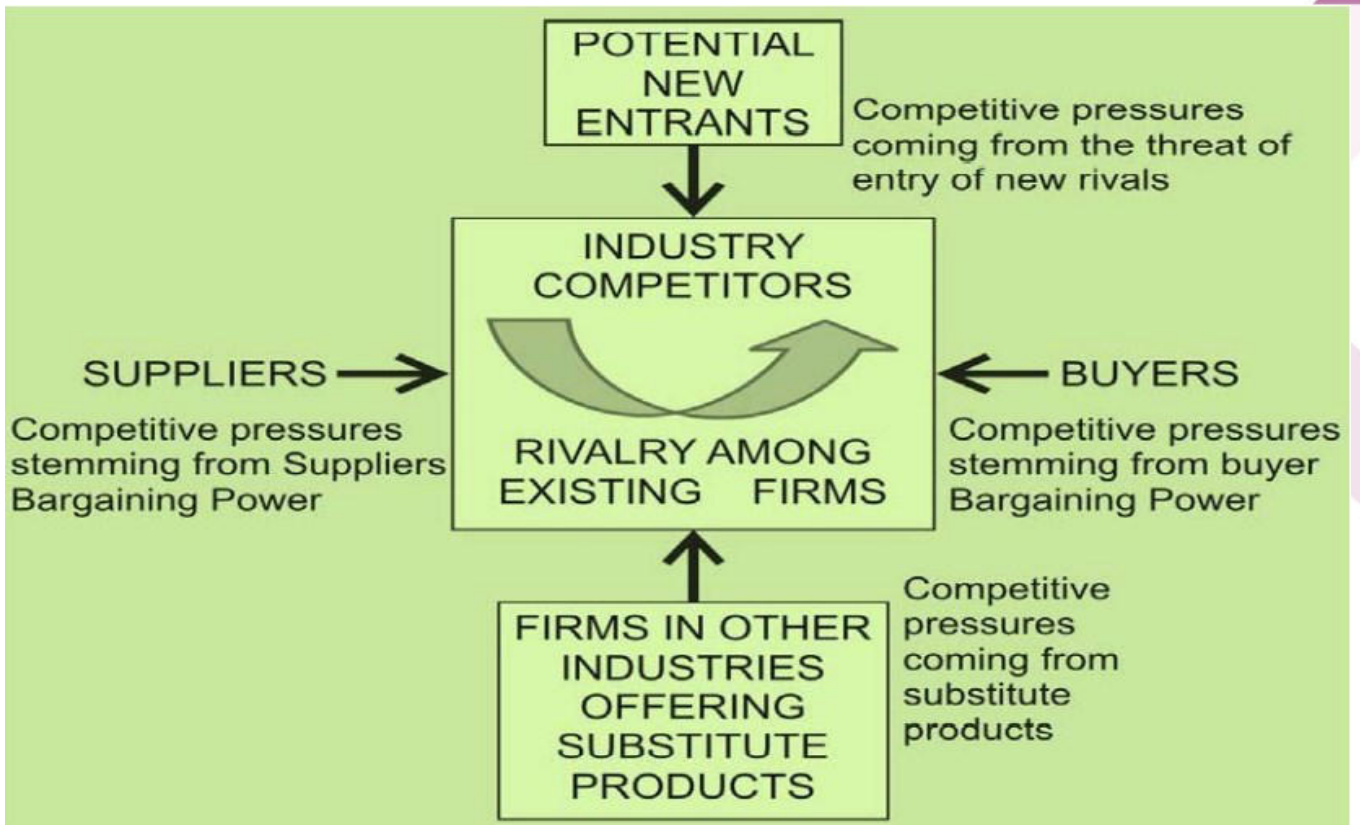
Industry analysis enable strategic understanding about the entire state of any industry and make decisions about whether the industry is a lucrative or not.

The goal of the industry environment analysis to

- estimate the amount of competitive pressures the business is presently facing and is expected to face in the near future and
- to get insight into a wide range of elements within and outside the business so as to make rational strategies.

4.1. PORTER'S FIVE FORCES MODEL

- Every business operates in a competitive environment. Various competitive forces in an industry determine
 - attractiveness and profitability of Industry; and
 - how an Organization develops its business level strategies.
- The character, mix, and intricacies of competitive forces are never the same from one industry to another.
- A powerful and widely used tool for systematic analysis of significant competitive pressures and assessing its importance is Porter's 5 forces model.
- This model reflects that state of competition in an Industry is result of competitive pressures in 5 areas:
 - a) Competitive pressure associated with Threat of New Entrants
 - b) Competitive pressure associated with bargaining power of Buyers
 - c) Competitive pressure associated with bargaining power of Suppliers
 - d) Competitive pressure associated with Nature of Rivalry
 - e) Competitive pressure associated with Substitute products.
- Inter-relation among these five forces gives each Industry its own particular competitive environment.
- These five forces together determine industry attractiveness/profitability.
- By applying Porter's five forces model of industry attractiveness to their own industry, management can gauge their firm's strengths, weaknesses, probable threats and future opportunities.



4.1.1. THREAT OF NEW ENTRANTS

New entrants are powerful source of competition. They reduce industry profitability as they

- add new production capacity leading to increase in supply at lower price.

This erodes market share of existing players/ incumbents.

Bigger the new entrant, greater is the threat.

For example, Reliance Jio offered cheap services when it entered the telecom industry in 2016, thus limiting the prices for existing players like Airtel, Vodafone, Idea, etc.

A firm's profitability tends to be higher when new firms are blocked from entering the industry.

To discourage new entrants, existing players try to raise entry barriers.

"Barriers to entry" represent economic forces that slow down entry of new firms. Common barriers include:

i) Capital Requirement	If entry in an Industry requires huge capital, Organizations having less funds are effectively barred from entry. E.g. Huge investments are required to build production facilities & establish brand awareness amongst people for entry into pharmaceutical industry.
ii) Economies of scale	It refers to reduction of cost per unit. As volume increases, large Firms enjoy economies of scale which discourages new entrants. E.g. In the semiconductor industry, large companies, such as IBM & Intel enjoy substantial economies of scale in the production of advanced processors, chips & integrated circuits that power most consumer electronics like computer.
iii) Product differentiation	It refers to uniqueness of a product in eyes of customer. Since cost of creating unique product is high, it also acts as an entry barrier.
iv) Brand identity	Brand building is long process involving substantial resources. It is important in case of products which have high prices and are infrequently purchased.

	<p><i>E.g. It is a huge challenge for car makers to break into the customer base of Maruti Suzuki in the affordable family car segment, because people identified Maruti Suzuki as India's own family car company.</i></p>
<p>v) Possibility of aggressive retaliation by incumbent</p>	<p><i>Sometimes, mere threat of aggressive retaliation by incumbent may also act as an entry barrier for new entrants.</i></p> <p><i>E.g. Introduction of products by a new firm may lead incumbents' firms to reduce their product prices and increase their advertising budgets.</i></p> <p><i>The same way Hindustan Unilever and Palmolive spent huge sums of money in advertisement to fight Patanjali's Dant Kanti Toothpaste.</i></p>
<p>vi) Switching cost</p>	<p><i>New entrant needs to convince existing customers of other company to switch to its product.</i></p> <p><i>Buyer often incurs financial & psychological cost in switching existing player. When switching cost is high, buyer is reluctant to switch.</i></p> <p><i>For example, high switching costs in moving away from Microsoft's Windows operating systems used in personal computers and corporate servers powered the company's stunning growth over the past decade in the software industry.</i></p>
<p>vii) Access to distribution channel</p>	<p><i>Unavailability of distribution channel is another barrier for new entrants. Despite growing power of internet, many Firms continue to control their physical distribution channels to sustain entry barrier to new entrants.</i></p> <p><i>E.g. Because of control over distribution channels in India by Hindustan Uni lever) and Procter & Gamble, small entrepreneurs find it very difficult to sell their products through the existing channels.</i></p> <p><i>Similarly, with advent of Patanjali and its strong nation-wide distribution channel, new Ayurvedic FMCG companies are facing a challenge.</i></p>

4.1.2. BARGAINING POWER OF BUYER

It means buyers exert some pressure on Organization to reduce its cost and improve its product/services. This force is significant when buyers form group or cartel. Mostly seen in industrial goods.

Buyer's bargaining power is evident when

- a) Buyer has full knowledge of sources of raw material and their substitutes.*
- b) They are big buyers and spend a lot of money on Industry's products.*
- c) Buyers are more concentrated than suppliers.*
- d) Product is not considered critical for buyer's needs who can easily switch to substitutes.*

4.1.3. BARGAINING POWER OF SUPPLIER

It means suppliers exert pressure on Organization by increasing price of its supplies (Raw material). Bargaining power of supplier determines cost of raw material & inputs, thus affecting profitability of industry.

Supplier can have bargaining power when

- a) Their product is critical to buyer and substitutes are not available.*
- b) No. of suppliers is less and they are more concentrated than their buyers.*
- c) There is high switching cost.*

4.1.4. NATURE OF RIVALRY IN THE INDUSTRY

Intensity of rivalry is significant determinant of profitability and attractiveness of Industry. It influences strategies being adopted by Organisation & also cost, price being charged, advertisement etc. More intensive the rivalry, less is the profitability, hence, less attractive is the industry. Rivalry among competitors tends to be cutthroat and an industry's profitability is low when:

a) Industry has no clear leader	Strong leaders discourage price wars by disciplining initiator of price war. <i>E.g. India's domestic air travel industry has no definite leader, and hence, we often see cut throat price wars.</i>
b) Competitors are numerous	If no. of competitors is high, ability of industry leader to control them decreases. <i>E.g. Majorly in unorganised sectors like handicrafts, due to huge number of producers, the internal rivalry is immense.</i>
c) Competitors have higher fixed cost/ production capacity	Hence, they try to utilize the capacity. This increases supply and profitability decreases. <i>E.g. Airline, telecommunications Industry</i>
d) Competitors face high exit barriers	If exit barrier is low, competitors can exit market if they are not profitable. But, if assets of an Organization is specialized and of little value to others, Organization can't sell the asset & therefore, continue to fight for market share.
e) Competitors have little opportunity to differentiate	If there is opportunity for differentiation, increased price may be charged thus increasing profitability. <i>E.g. ONGC and Indian Oil, cannot offer major product differentiation in their products. Hence, the level of competition would always be high.</i>
f) Industry faces slow or diminished growth	If industry's growth is slow, rivals try hard to hold or grow by reducing price further, thus reducing profitability.

4.1.5. THREAT OF SUBSTITUTES

Substitutes are the latent/hidden source of competition. If they offer price advantage or performance advantage, it may constitute major source of competition.
E.g. Coir suffered at the hands of synthetic fibre.

Threat of substitute product increases

- when there is significant investment in research & development
- in highly technological industry.

As per Michael Porter, a final force that can influence an industry's profitability, is the availability of substitutes for that industry's products.

To predict profit pressure from this source of competition, firms must search for products that can perform the same, or nearly the same, functionalities as their own products.

Examples:

- a) Real estate, insurance, bonds and bank deposits are clear substitutes for common stocks, because they represent alternate ways to invest funds.
- b) Introduction of digital film-less cameras virtually replaces the film cameras & threatened the existence of Eastman Kodak and Fujifilm.
- c) Introduction of smart phones has replaced cameras to a great extent.

- d) Rapidly changing education landscape, with the advent of online courses and degrees, is a perfect example of a substitute to the existing educational system, with better approachability and access.

Difference between Rivals & Substitutes: Refer class discussion

Process of Analyzing Competition in an Industry (3 steps)

- Identify the specific competitive pressure associated with each of 5 forces.
- Evaluate strength of each competitive force [fierce, strong, moderate, normal, weak]
- Determine whether collective strength of 5 competitive forces is conducive for earning attractive profits.

4.2. ATTRACTIVENESS OF INDUSTRY

Companies invest capital and should be careful in choosing an industry.

Whether an Industry is attractive or unattractive is relative & depends on various factors like

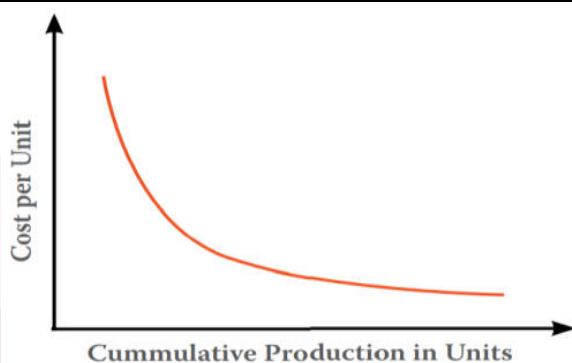
- Industry's growth potential, is it futuristically viable?
- Impact of driving forces of Industry i.e. triggers of change on Industry's profitability.
- Impact of competition on Industry's profitability and whether competitive forces will become stronger or weaker?
- Competitive position of Firm in the Industry and whether it is likely to become stronger or weaker?
- The potential to capitalize on the vulnerabilities of weaker rivals (perhaps converting an unattractive industry situation into a potentially rewarding company opportunity).
- Whether the company is able to defend against or counteract the factors that make the industry unattractive?
- Severity of problems faced by Industry as a whole.
- Whether continued participation in this industry is important to the Firm's ability to be successful in other industries in which it may have interests?

Generally, if an industry's overall profit prospects are above average, the industry can be considered attractive; if its profit prospects are below average, it is unattractive.

However, attractiveness is relative, not absolute. Industry environments unattractive to weak competitors may be attractive to strong competitors.

Further, Weak companies in unattractive industries may consider merging with a rival to bolster market share and profitability or, alternatively, begin looking outside the industry for attractive diversification opportunities.

4.3. EXPERIENCE CURVE



It is similar to learning curve which means efficiency of workers increases due to repetitive work. It is based

on the concept, “we learn as we grow”.

It means cost per unit declines as cumulative production increases.

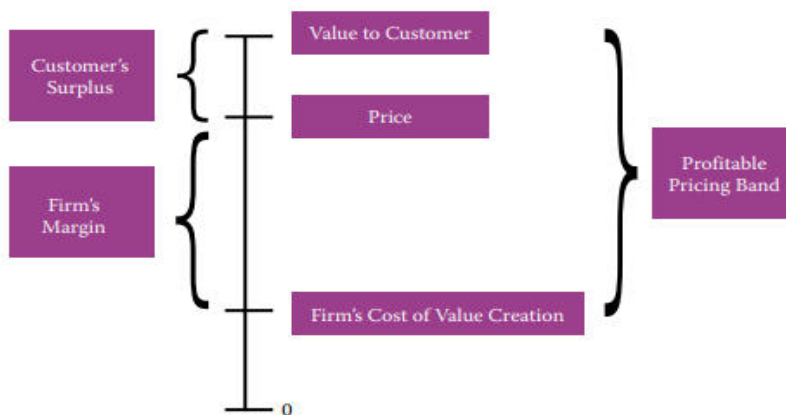
The implication is that larger firms would tend to have lower unit costs as compared to smaller companies, thereby gaining a competitive cost advantage.

Reduction in cost per unit may be due to learning effect, economies of scale, technology improvement, process improvement etc.

Characteristics of Experience curve

- a) As business organisation grows, it gains experience.
- b) Experience provides an advantage over competition. Experience is key entry barrier.
- c) Large and successful organizations possess strategic experience effect.

4.4. VALUE CREATION



- Value is measured by product’s feature, quality, availability, durability and performance for which customer is willing to pay.
- Value creation is an activity by Firm to create value that increases worth of goods, service and business.
- Value creation may be in terms of creating better value for
 - customers as well as
 - stakeholders who want to see their investment in business appreciate in value.
- Value creation gives rise to competitive advantage and helps Firm to earn higher profitability than other Organizations in the industry.
- Profitability of a company depends on
 - cost of creating product;
 - price charged by company for its product; and
 - value customer places on company’s product i.e., utility a customer gets from the goods/ services.
- The excess amount customer wants to pay, over and above the price that business wants to charge is called value creation.
- According to Michael porter, company can generate competitive advantage in two ways: (Refer Ch 5)

- a) Cost Advantage
- b) Differentiation

5. MARKET AND CUSTOMER

A market is a place for interested parties, buyers and sellers, where items and services can be exchanged for

a price.

The market might be

- a) physical, such as a departmental store where people engage in person; or
- b) virtual, such as an online market where buyers and sellers do not meet in person but use tools of technology to strike a deal.

It has a wide interpretation and can apply to a wide range of contexts. For example, it might be used to describe the stock exchange, where securities are traded.

Marketing is a process of identifying the customers, determining their needs and how to satisfy those needs and deliver satisfaction.

It encompasses a wide range of operations, including research, designing, pricing, promotion, transportation, and distribution.

Market activities are often categorised and explained in terms of four Ps– Product, Place, Pricing, & Promotion. Delivering the best customer experience and establishing, maintaining, and growing relationships with customers are the.

Four dimensions/orientation of product marketing are as follows:

a) Product orientation	b) Production orientation	c) Sales orientation	d) Customer orientation
<p>Businesses that have product orientation think that</p> <ul style="list-style-type: none"> ➤ buyers will choose those products that have the best quality, performance, design, or features. 	<p>Businesses that have production orientation believe that</p> <ul style="list-style-type: none"> ➤ customers choose low price products. 	<p>Businesses that have sales orientation believe</p> <ul style="list-style-type: none"> ➤ if they spend enough money on advert., sales & promotion, customers can be persuaded to make a purchase. 	<p>Businesses that have customer or market orientation believe</p> <ul style="list-style-type: none"> ➤ in prioritising efforts on their customers & creating better value for them. <p>In present times success of many business lies in customer centric approach.</p>

5.1. CUSTOMER

A customer is a person or business that buys products or services from another organisation.

Customers are important because they provide revenue and organisations cannot exist without them.

All businesses vie for customers, either by aggressively marketing their products or by lowering their pricing to boost their customer bases.

Difference between consumer & customer

Consumer refers to individuals or businesses that consume or utilise products and services.

Customers are the purchasers of products and services in the economy, and they might exist as consumers or only as customers.

Customer Analysis

It is an essential marketing component of any strategic business plan.

It identifies target clients, determines their wants, and then defines how the product meets those needs.

Thus, it involves the examination and evaluation of consumer needs, desires, and wants.

It includes the

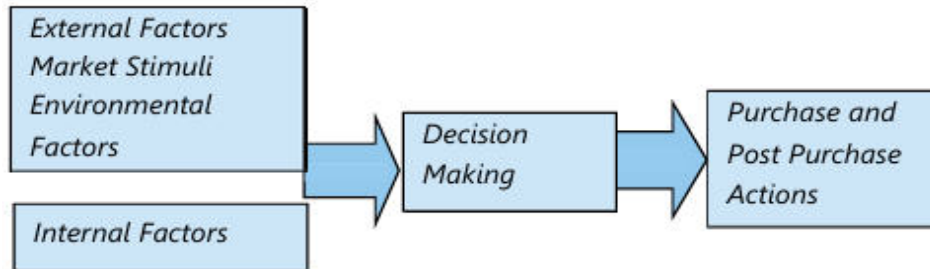
Customer Behaviour

It moves beyond the identification of customers to explain how they purchase products.

It examines elements like

- shopping frequency,
- product preferences, and the
- perception of your marketing, sales, and service offerings.

<ul style="list-style-type: none"> ➤ administration of customer surveys, ➤ the study of consumer data, ➤ the evaluation of market positioning strategies, ➤ development of customer profiles, and the ➤ selection of best market segmentation techniques. 	<p>Understanding these details allows businesses to</p> <ul style="list-style-type: none"> a) communicate with customers in an effective manner and b) develop effective marketing and advertising campaigns, provide products and services that meet their needs, and retain customers for repeat sales.
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Process of Consumer Behaviour

Consumer behaviour may be influenced by a number of things.

These elements are categorised into following three conceptual domains/ factors/ elements/ influences:

a) External Influences	<p>External influences, like advertisement, peer recommendations or social norms, have a direct impact on the decisions taken by consumers to determine</p> <ul style="list-style-type: none"> ➤ which needs to satisfy and which products to use to do so. <p>Organisations should utilize online platforms, other forums & marketing tools to generate buzz around the new product..</p>
b) Internal Influences	<p>Internal processes are psychological factors internal to customer and affect consumer decision making.</p> <p>Organisations should highlight the unique selling points of the new product as per needs of consumers.</p>
c) Decision Making	<p>A rational consumer, as decision maker seek information about potential decisions and integrate this with the existing knowledge about the product.</p> <p>After weighing advantages and disadvantages of each option, they would make a decision.</p> <p>The stages of decision-making process can be described as:</p> <ul style="list-style-type: none"> ➤ Problem recognition, i.e., identify an existing need or desire that is unfulfilled ➤ Search for desirable alternative and list them ➤ Seeking information on available alternatives and weighing their pros and cons. ➤ Make a final choice. <p>The above process mostly applies when the purchase is significant to the customer, such as when the product could have a significant influence on their health or self-image.</p> <p>Example: The process is valid when purchasing a car, television or a refrigerator in contrast to purchase of ice creams or soft drinks.</p>
Post-decision Processes	<p>After making a decision and purchasing a product, the final phase in the decision-making process is evaluating the outcome based on the satisfaction derived from the product.</p> <p>While a happy customer may make repeat purchase and recommend to others, customer with dissonance will neither purchase the product again nor recommend it to others.</p> <p>Entities should offer excellent customer service and support to address any issues. Encourage customers to provide feedback & reviews to build credibility & trust among consumers.</p>

6. COMPETITIVE STRATEGY

- Competition is a fundamental attribute of economic systems and business, and it is faced by all types of organisations. Businesses compete with each other for the same set of resources and customers.
- Competitive strategy of a business is concerned with how to compete in the business areas in which the organization operates.
- It defines how a firm expects to create and sustain a competitive advantage over competitors.
- The competitive strategy of a firm within a certain business field is analysed using two criteria:
 - a) the creation of competitive advantage and
 - b) protection of competitive advantage.
- Porter's five forces model is useful in understanding the competition.
- **Objective of competitive strategy:** It helps to
 - create competitive Advantage;
 - increase market share; and
 - beat competition.
- Examples: Cost leadership strategy, Differentiation strategy, Focus strategy.

6.1. COMPETITIVE LANDSCAPE

- Competitive landscape is a business analysis which identifies competitors, both direct and indirect.
- Patanjali and Hindustan Unilever are direct competitors, but Lodha Builders and BMW Motors are indirect competitors that are competing to attract the affluent consumer to buy their product/service.
- Competitive landscape is about
 - identifying and understanding competitors and
 - comprehension of their vision, mission, values, niche market, strengths & weaknesses.
- Understanding competitive landscape enables a Firm to develop competitive strategy to give competitive advantage.
- Understanding of competitive landscape requires an application of “competitive intelligence”.

Steps to understand competitive landscape:

a) Identify the competitors	Need to identify competitors in firm's Industry & their actual market share. This answers the question “Who are the competitors and how big are they?”
b) Understand the competitors	Once competitors are identified, Strategists need to understand them through market research reports, newspapers, social media industry reports etc. This answers the question “What are their products and services”?
c) Determine the strengths of competitors	This answers the questions <ul style="list-style-type: none"> ➤ What are their financial positions? ➤ What gives them cost & price advantage? ➤ How strong is their distribution network? ➤ What are their human resource strengths?

<p>d) Determine the weaknesses of competitors</p>	<p>through consumer reports and reviews appearing in various media. This answers the question 'Where are they lacking'?</p>
<p>e) Put all information together</p>	<p>Strategist puts all information together to draw conclusion/inference about what competitor is not offering and how they can fill the gap. The strategist can also know the areas which need to be strengthened by the firm. This answers the questions</p> <ul style="list-style-type: none"> ➤ What improvements does Firm needs to make. ➤ How can Firm exploit the weaknesses of the competitors?

6.2. KEY FACTORS FOR COMPETITIVE SUCCESS

Industry's Key Success Factors (KSFs) are things like product attributes, competencies, resources etc. that most affect industry member's ability to succeed in the market.

Key success factors are the prerequisites for industry success.

KSFs are the factors that shape whether a company will be financially and competitively successful.

KSFs vary from industry to industry. Key success factors in

- Retail Industry → Location , product range, price
- Apparel Industry → Appealing design, colour combinations and price
- IT Industry → Technology, Efficiency, price

Generally, there are 3 to 4 key success factors in an Industry. Managers should resist the temptation to include factors that have only minor importance on their list of KSFs.

Identifying KSFs - Answer to 3 question helps identify an Org's KSF:

- a) On what basis customers choose between competing sellers?
- b) What resources & competitive capabilities does a seller need to have to be competitive successful, better human capital, better quality of product, better quantity, cost etc. ?
- c) What does it take to achieve sustainable competitive advantage?