

Strategic Management

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Strategic Leadership: Managing the Strategy Process

Lecture 3

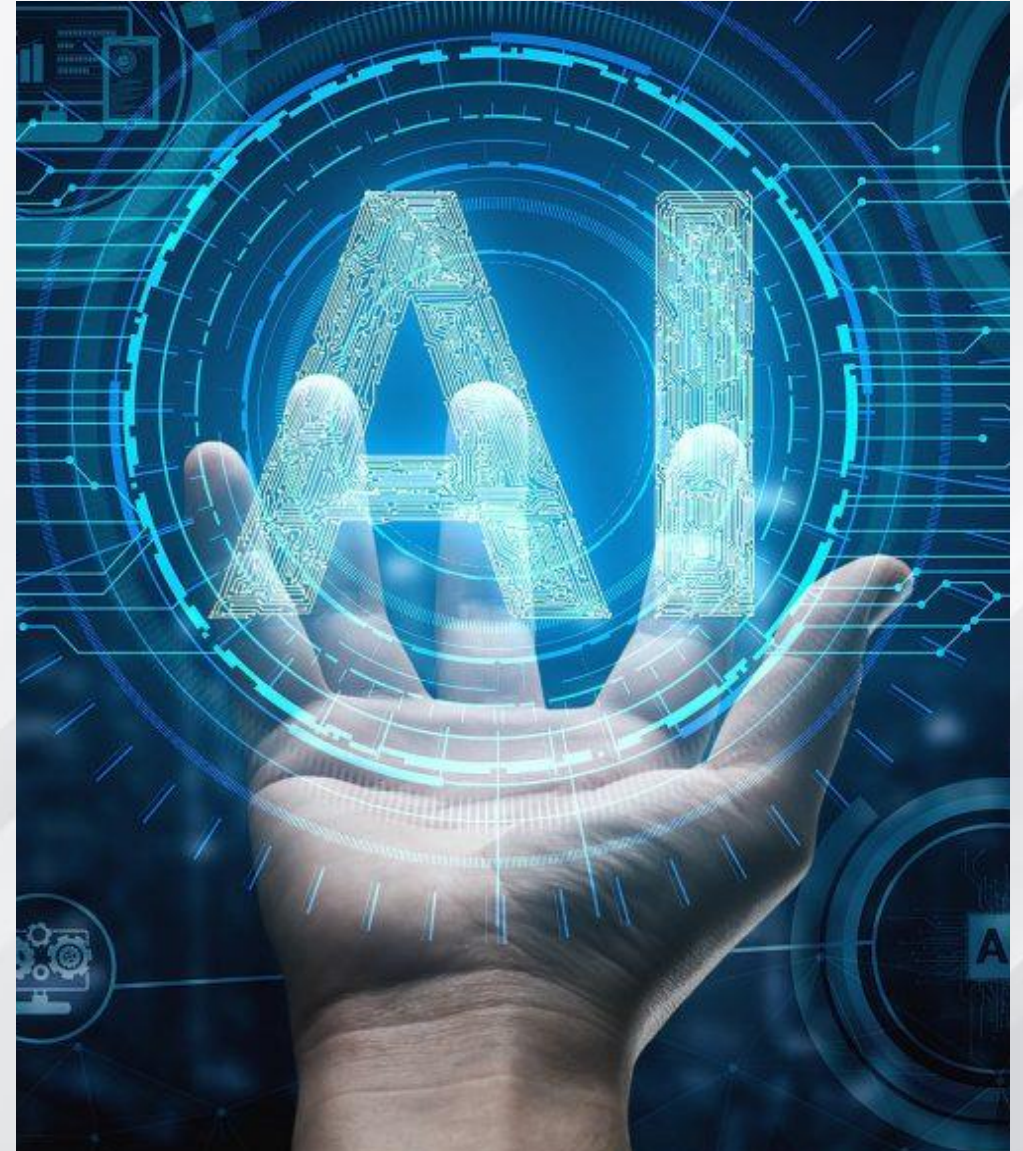
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Part One / Analysis

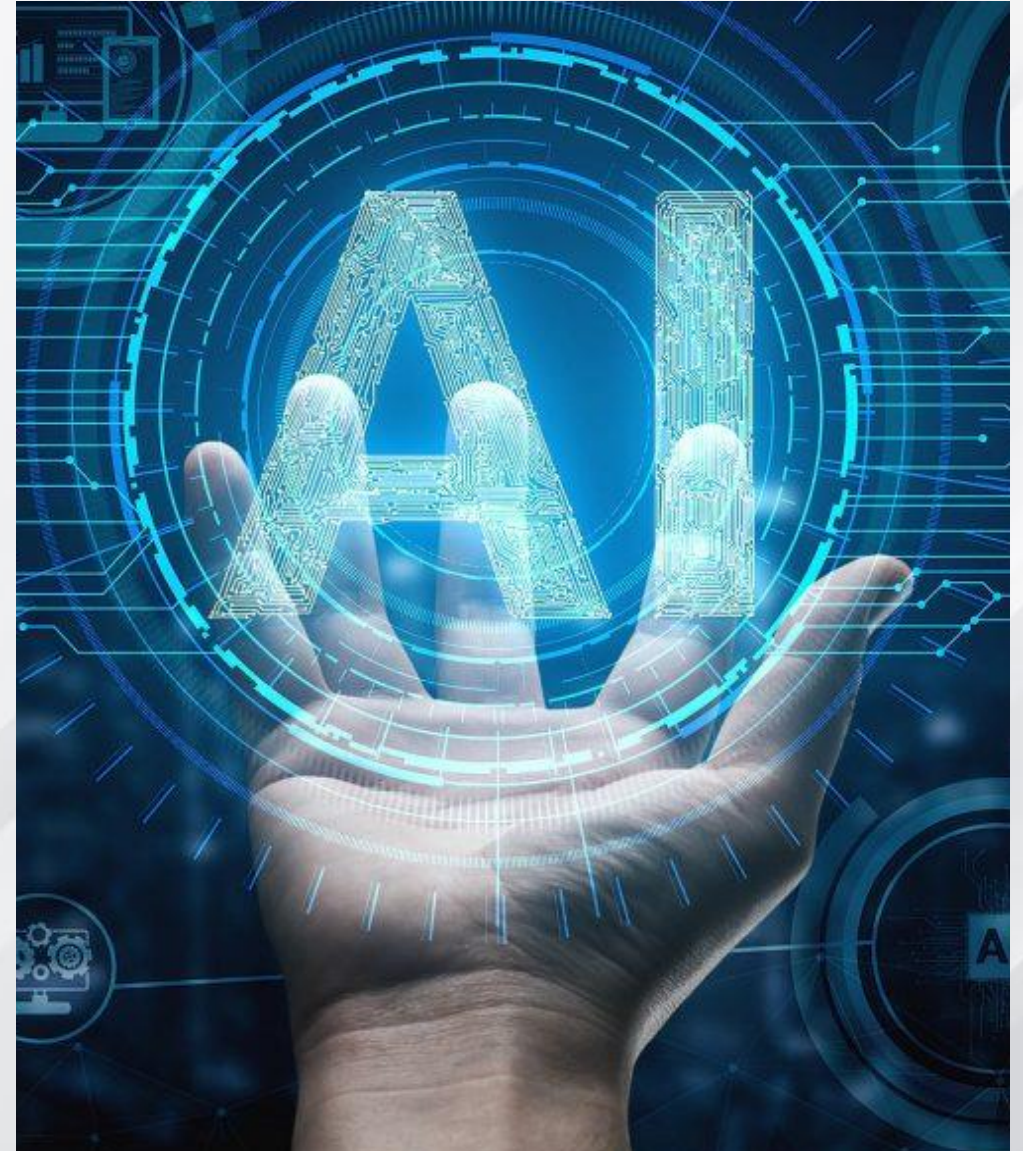
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Strategic Management

Strategic management involves developing and implementing plans to help an organization achieve its goals and objectives. This process can include formulating strategy, planning organizational structure and resource allocation, leading change initiatives, and controlling processes and resources.



Agenda External Analysis: Industry Structure, Competitive Forces, and Strategic Groups

- **3.1 The PESTEL Framework**
 - Political Factors
 - Economic Factors
 - Sociocultural Factors
 - Technological Factors
 - Ecological Factors
 - Legal Factors
- **3.2 Industry Structure and Firm Strategy: The Five Forces Model**
 - Forces Model
 - Competition in the Five Forces Model
 - The Threat of Entry
 - The Power of Suppliers
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- **3.3 Changes over Time: Entry Choices and Industry**
 - Entry Choices

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➤ 3.2 Industry Structure and Firm Strategy: The Five Forces Model

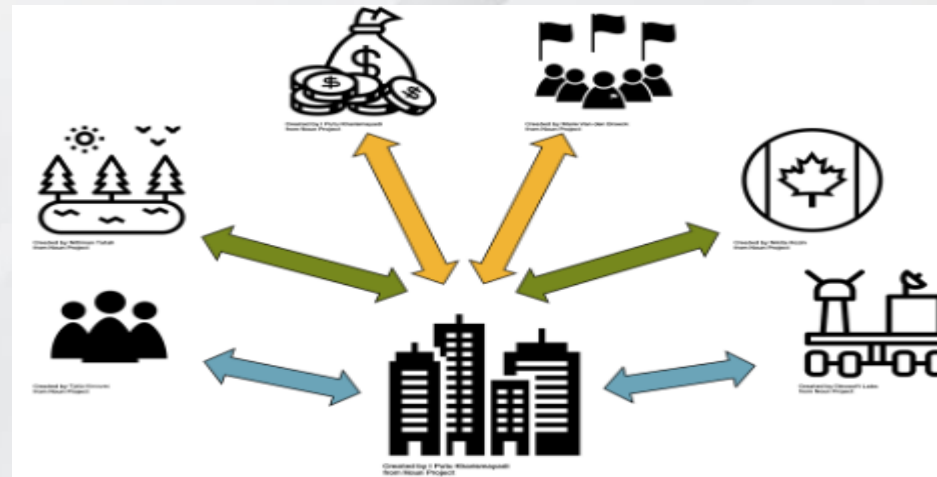
- Competition in the Five Forces Model
- The Threat of Entry
- The Power of Suppliers
- The Power of Buyers

➤ 3.3 Changes over Time: Entry Choices and Industry

- Entry Choices

Firm's external environment

A firm's external environment consists of all the factors that can affect its potential to gain and sustain a competitive advantage. By analyzing the factors in the external environment, strategic leaders can mitigate threats and opportunities.



Firm's external environment

One common approach to understanding how external factors impinge upon a firm is to consider the source. For example, external factors in the firm's general environment are ones that managers have little direct influence over, such as macroeconomic factors (e.g., interest or currency exchange rates).



What Is PEST Analysis?



What Is PEST Analysis?

PEST analysis (political, economic, social, and technological) is a management method whereby an organization can assess major external factors that influence its operation in order to become more competitive in the market. As described by the abbreviations, those four areas are central to this model.



What Is PESTEL Analysis?

The PESTEL model groups the factors in the firm's general environment into six segments:

1. Political
2. Economic
3. Sociocultural
4. Technological
5. Ecological
6. Legal



PEST Analysis

1- Political factors

Political factors result from the processes and actions of government bodies that can influence the decisions and behavior of firms.



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PEST Analysis**1- Political factors**

For example, hotel chains and resort owners have challenged Airbnb in court and lobbied local governments, some of which passed regulations to limit or prohibit short-term rentals. Local residents in New York, San Francisco, Berlin, Paris, and many other cities are also pressuring local governments to enact more aggressive rules banning short-term rentals because they argue that companies such as Airbnb contribute to a shortage of affordable housing by turning entire apartment complexes into hotels or transforming quiet family neighbourhoods into all-night, every-night party hot spots.

PEST Analysis

2- Economic Factors

Economic factors in a firm's external environment are largely macroeconomic, affecting economy-wide phenomena.



PEST Analysis

2- Economic Factors

Managers need to consider how the following five macroeconomic factors can affect firm strategy:

- A. Growth rates.
- B. Levels of employment.
- C. Interest rates.
- D. Price stability (inflation and deflation).
- E. Currency exchange rates.



PEST Analysis

2- Economic Factors

A. Growth rates.

The overall economic growth rate is a measure of the change in the amount of goods and services produced by a nation's economy. Strategic leaders look to the real growth rate, which adjusts for inflation.



PEST Analysis

2- Economic Factors

B. Levels of employment.

Growth rates directly affect the level of employment. In boom times, unemployment tends to be low. In economic downturns, unemployment rises. As more people search for employment, skilled human capital is more abundant and wages usually fall.



PEST Analysis

2- Economic Factors

C. Interest rates.

Another key macroeconomic variable for managers to track is real interest rates—the amount that creditors are paid for the use of their money and the amount that debtors pay for that use, adjusted for inflation.



PEST Analysis

2- Economic Factors

D. Price stability (inflation and deflation).

The lack of change in price levels of goods and services— is rare. Therefore, companies will often have to deal with changing price levels. When there is too much money in an economy, we tend to see rising prices—inflation.



PEST Analysis

2- Economic Factors

E. The currency exchange rate.

It determines how many dollars one must pay for a unit of foreign currency. It is a critical variable for any company that buys or sells products and services across national borders.



PEST Analysis

3- Sociocultural factors

capture a society's cultures, norms, and values. Because sociocultural factors not only are constantly in flux but also differ across groups, strategic leaders need to closely monitor such trends and consider the implications for firm strategy.

SOCIOCULTURAL FACTORS



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PEST Analysis**3- Sociocultural factors**

In recent years, for example, a growing number of U.S. consumers have become more health-conscious about what they eat. This trend led to a boom for businesses such as Subway, and Whole Foods. At the same time, traditional fast food companies McDonald's and Burger King, along with grocery chains such as Albertsons and Kroger, have all had to scramble to provide healthier choices in their product offerings.

PEST Analysis

4- Technological factors

Technological factors capture the application of knowledge to create new processes and products. Major innovations in process technology include lean manufacturing, Six Sigma quality, and biotechnology.



PEST Analysis

4- Technological factors

The nanotechnology revolution, which is just beginning, it ranging from tiny medical devices to new-age materials for earthquake-resistant buildings. Recent product innovations include the smartphone, wearable devices such as smart watches, and high-performing electric cars such as the Tesla Model S.



PEST Analysis

5- Ecological factors

Ecological factors involve broad environmental issues such as the natural environment, global warming, and sustainable economic growth. Organizations and the natural environment coexist in an interdependent relationship.



PEST Analysis

6- Legal factors

Legal factors include the official outcomes of political processes as manifested in laws, mandates, regulations, and court decisions—all of which can have a direct bearing on a firm's profit potential.



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- Entry Choices

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Industry Structure and Firm Strategy: The Five Forces Model

Firm performance is determined primarily by two factors: industry and firm effects. However, Industry effects describe the underlying economic structure of the industry. In a series of empirical studies, academic researchers have found that about 20 per cent of a firm's profitability depends on the industry it is in.



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Competition in the five forces model

Because the five forces model has especially powerful implications for strategy and competitive advantage, we will explore it in some detail. We start with the concept of competition. The first major insight this model provides is that competition involves more than just creating economic value; firms must also capture a significant share of it or they will see the economic value they create lost to suppliers, customers, or competitors.

Competition in the five forces model

Porter's model identifies five key competitive forces that managers need to consider when analyzing the industry environment and formulating a competitive strategy:

- 1. Threat of entry.**
- 2. Power of suppliers.**
- 3. Power of buyers.**
- 4. Threat of substitutes.**
- 5. Rivalry among existing competitors.**

Competition in the five forces model

1. Threat of entry.

The threat of entry describes the risk that potential competitors will enter the industry. Potential new entry depresses industry profit potential in two major ways:

1. Incumbent firms may lower prices to make entry appear less attractive to the potential new competitors, which would in turn reduce the overall industry's profit potential.
2. It may force incumbent firms to spend more to satisfy their existing customers. This spending reduces an industry's profit potential.

Competition in the five forces model

1. Threat of entry.

Of course, the more profitable an industry, the more attractive it is for new competitors to enter. There are, however, a number of important barriers to entry that raise the costs for potential competitors and reduce the threat of entry.

Competition in the five forces model

1. Threat of entry.

Incumbent firms can benefit from several important sources of entry barriers:

- Economies of scale.
- Network effects.
- Customer switching costs.
- Capital requirements.
- Advantages independent of size.
- Government policy.
- Credible threat of revenge.

Competition in the five forces model

2. The Power of supplier.

The bargaining power of suppliers captures pressures that industry suppliers can exert on an industry's profit potential. This force reduces a firm's ability to obtain superior performance for two reasons: Powerful suppliers can raise the cost of production by demanding higher prices for their inputs or by reducing the quality of the input factor or service level delivered.

Competition in the five forces model

3. The Power of supplier.

The relative bargaining power of suppliers is high when

- A. The supplier's industry is more concentrated than the industry it sells to.
- B. Suppliers do not depend heavily on the industry for a large part of their revenues.
- C. Incumbent firms face significant switching costs when changing suppliers.
- D. Suppliers offer products that are differentiated.
- E. There are no readily available substitutes for the products or services that the suppliers offer.
- F. Suppliers can credibly threaten to forward-integrate into the industry.

Competition in the five forces model

4. The Power of buyers.

In many ways, the bargaining power of buyers is the flip side of the bargaining power of suppliers. Buyers are the customers of an industry. The power of buyers concerns the pressure an industry's customers can put on the producers' margins in the industry by demanding a lower price or higher product quality. When buyers successfully obtain price discounts, it reduces a firm's top line (revenue).

Competition in the five forces model

4. The Power of buyers.

The power of buyers is high when

- A. There are a few buyers and each buyer purchases large quantities relative to the size of a single seller.
- B. The industry's products are standardized or undifferentiated commodities.
منتجات الصناعة هي سلع موحدة أو غير متميزة.
- C. Buyers face low or no switching costs.
يواجه المشترون تكاليف تبديل منخفضة أو معدومة.

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Changes over Time: Entry Choices and Industry Dynamics

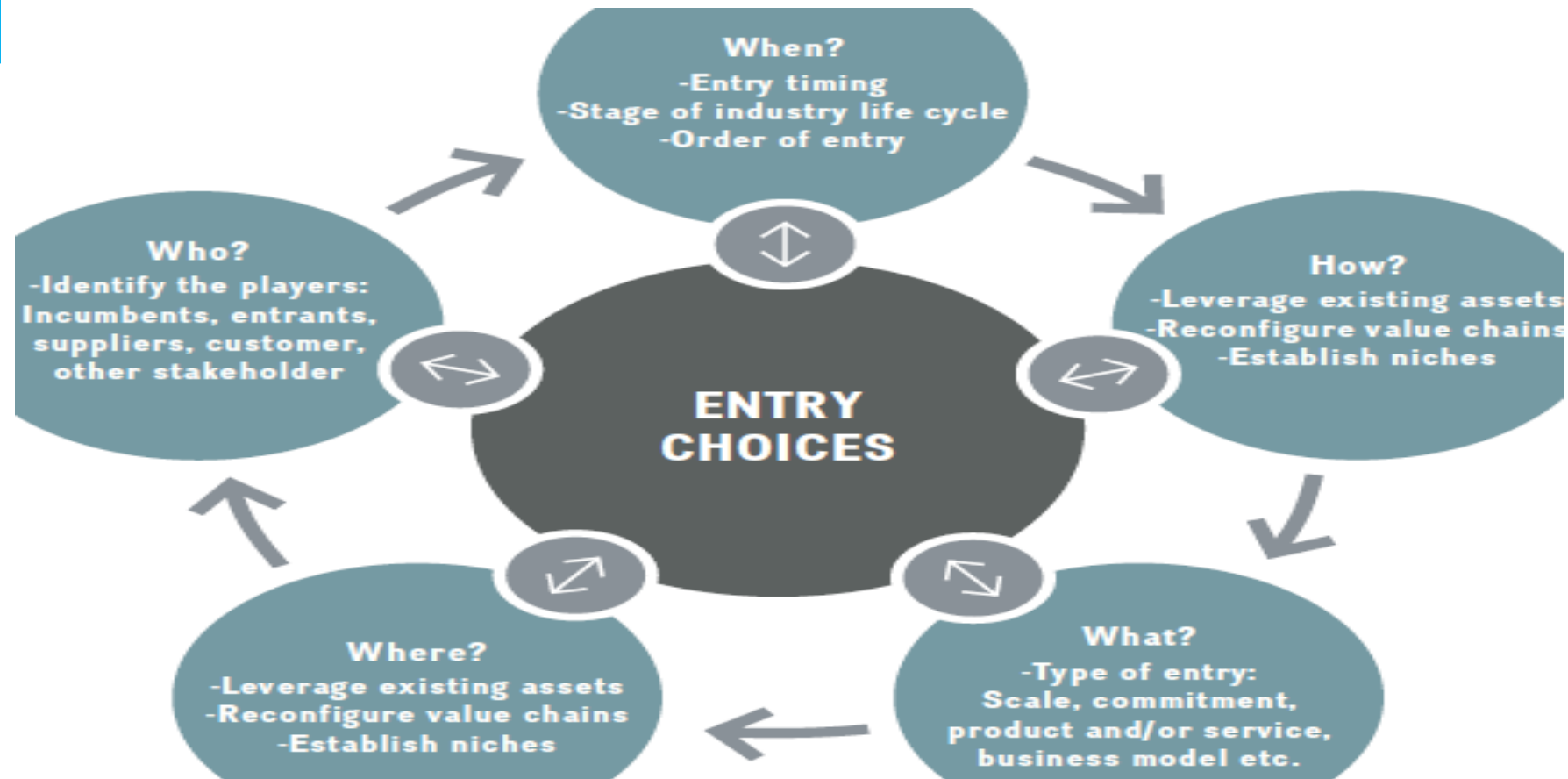
One of the key insights of the five forces model is that the more profitable an industry is, the more attractive it becomes to competitors. Let's assume a firm's strategic leaders are aware of potential barriers to entry, but would nonetheless like to contemplate potential market entry because the industry profitability is high and thus quite attractive.

ENTRY



Changes over Time: Entry Choices and Industry Dynamics

ENTRY CHOICES



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

When?

- Entry timing
- Stage of industry life cycle
- Order of entry



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

When?

When to enter? This question concerns the timing of entry. the potential new entrant needs to consider at which stage of the industry life cycle (introduction, growth, shakeout, maturity, or decline) it should enter.



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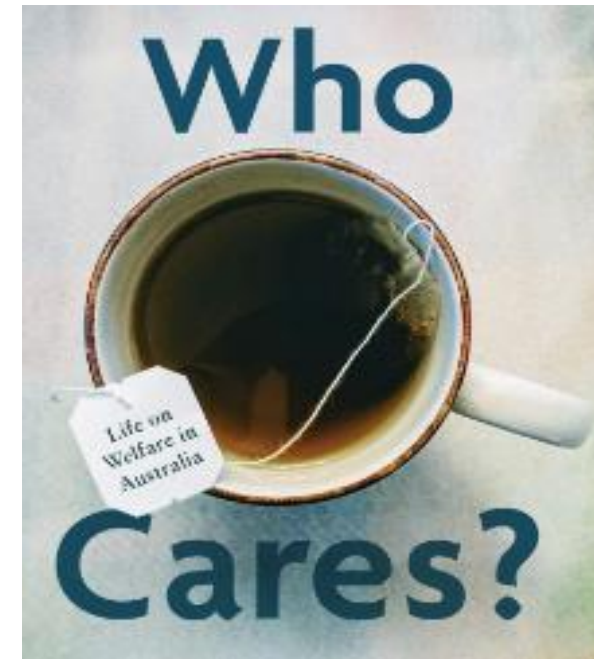
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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

Who?

-Identify the players:
Incumbents, entrants,
suppliers, customer,
other stakeholder



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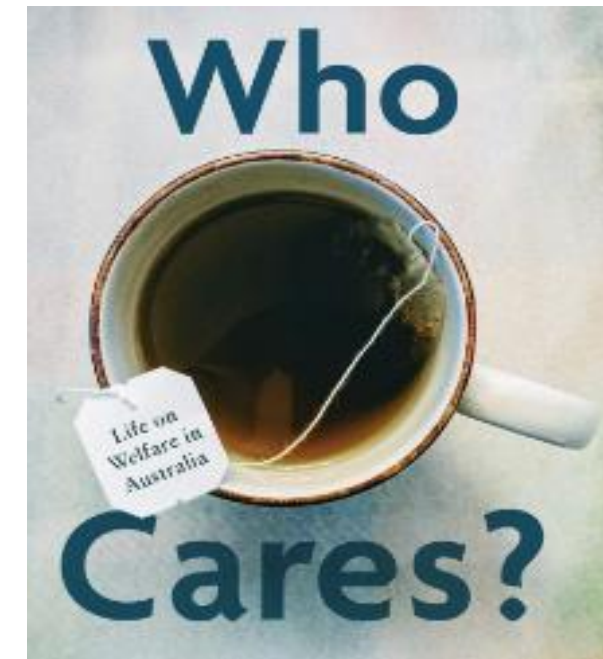
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ENTRY CHOICES

Who?

Who are the players? Building on Porter's insight that competition must be viewed in a broader sense beyond direct competitors, but also focus on other external and internal stakeholders necessary to successfully compete in an industry, such as customers, employees, regulators, and communities



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

How?

How to enter? One of the challenges that strategic leaders face is that often the most attractive industries in terms of profitability are also the hardest to break into because entry barriers protect them.



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES



How?

Thus, the how to enter question goes to the heart of this problem.

- One option is to leverage existing assets,
أحد الخيارات هو الاستفادة من الأصول الموجودة،
- Another option is to reconfigure value chains.
هناك خيار آخر يتمثل في إعادة تشكيل سلاسل القيمة.
- The third option is to establish a niche in an existing industry,
الخيار الثالث هو إنشاء مكانة متخصصة في الصناعة القائمة،

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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

Where?

- Leverage existing assets
الاستفادة من الأصول الموجودة
- Reconfigure value chains
إعادة تكوين سلاسل القيمة
- Establish niches
إنشاء منافذ



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

Where?

Where to enter? After deciding on the type of entry, the where to enter question refers to more fine-tuned aspects of entry such as product positioning (high end versus low end), pricing strategy, potential partners, and so forth.



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

What?

-Type of entry:
Scale, commitment,
product and/or service,
business model etc.



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Changes over Time: Entry Choices and Industry Dynamics ENTRY CHOICES

ENTRY CHOICES

What?

What type of entry? The what question of entry refers to the type of entry in terms of product market (e.g., smartphones), value chain activity (e.g., R&D for smartphone chips or manufacturing of smartphones), geography (e.g., domestic and/or international), and type of business model (e.g., to support smartphones when providing services).







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