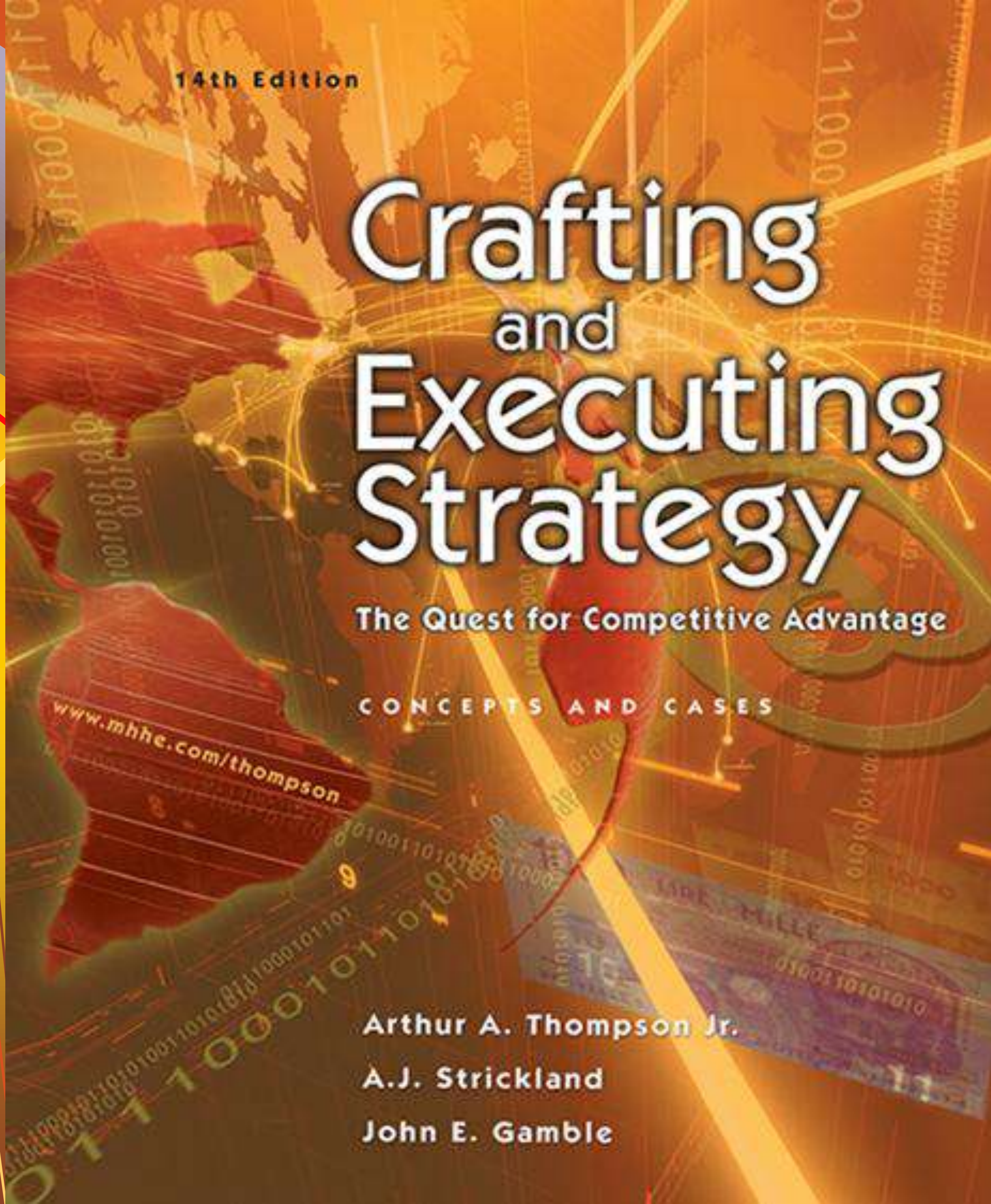
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Chapter

3

Analyzing a Company's External Environment

Screen graphics created by:
Jana F. Kuzmicki, Ph.D.
Troy State University-Florida and Western Region

“Analysis is the critical starting point of strategic thinking.”

Kenichi Ohmae

“Things are always different--the art is figuring out which differences matter.”

Laszlo Birinyi

Chapter Roadmap

- The Strategically Relevant Components of a Company's External Environment
- Thinking Strategically About a Company's Industry and Competitive Environment
  - Question 1: What Are the Industry's Dominant Economic Features?
  - Question 2: What Kinds of Competitive Forces Are Industry Members Facing?
  - Question 3: What Factors Are Driving Industry Change and What Impacts Will They Have?
  - Question 4: What Market Positions Do Rivals Occupy—Who Is Strongly Positioned and Who Is Not?
  - Question 5: What Strategic Moves Are Rivals Likely to Make Next?
  - Question 6: What Are the Key Factors for Future Competitive Success?
  - Question 7: Does the Outlook for the Industry Present an Attractive Opportunity?

What Is Situation Analysis?

- Two considerations
  - Company's ***external or macro-environment***
    - Industry and competitive conditions
  - Company's ***internal or micro-environment***
    - Competencies, capabilities, resource strengths and weaknesses, and competitiveness

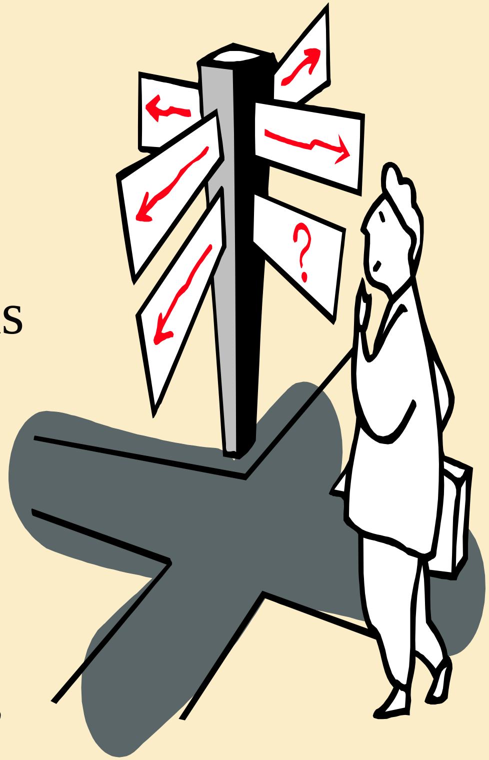


Fig. 3.1: From Thinking Strategically about the Company's Situation to Choosing a Strategy

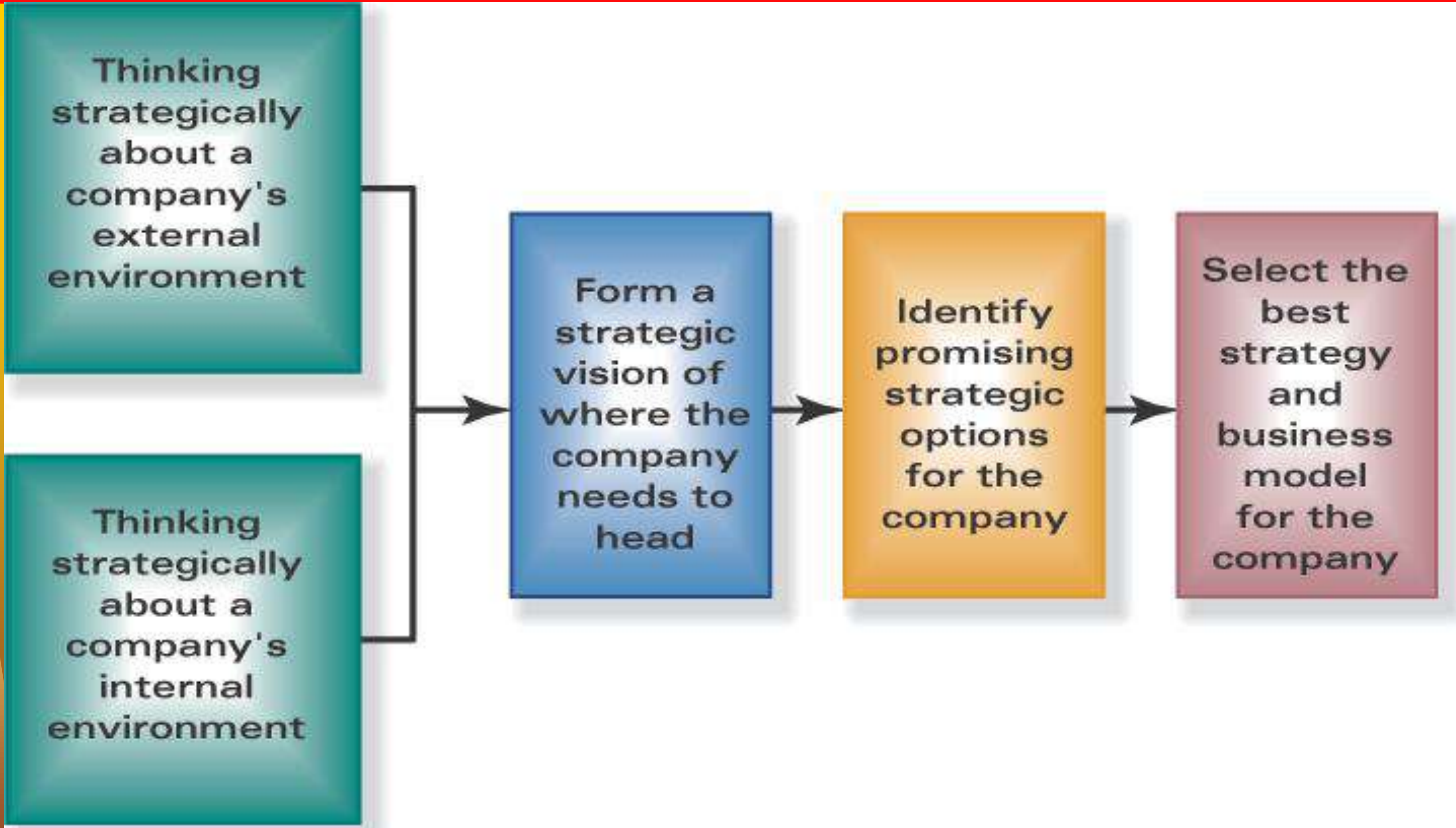
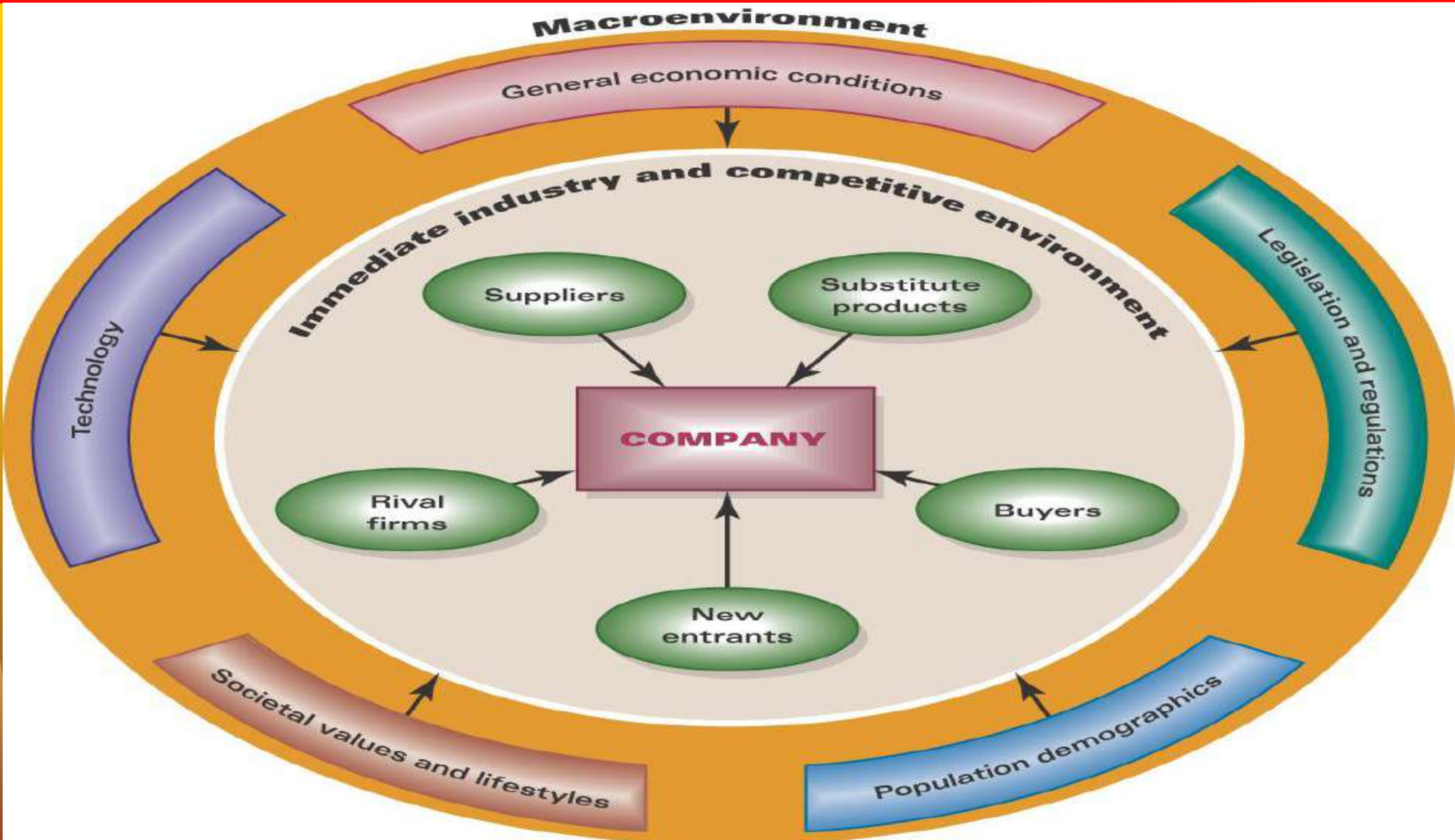
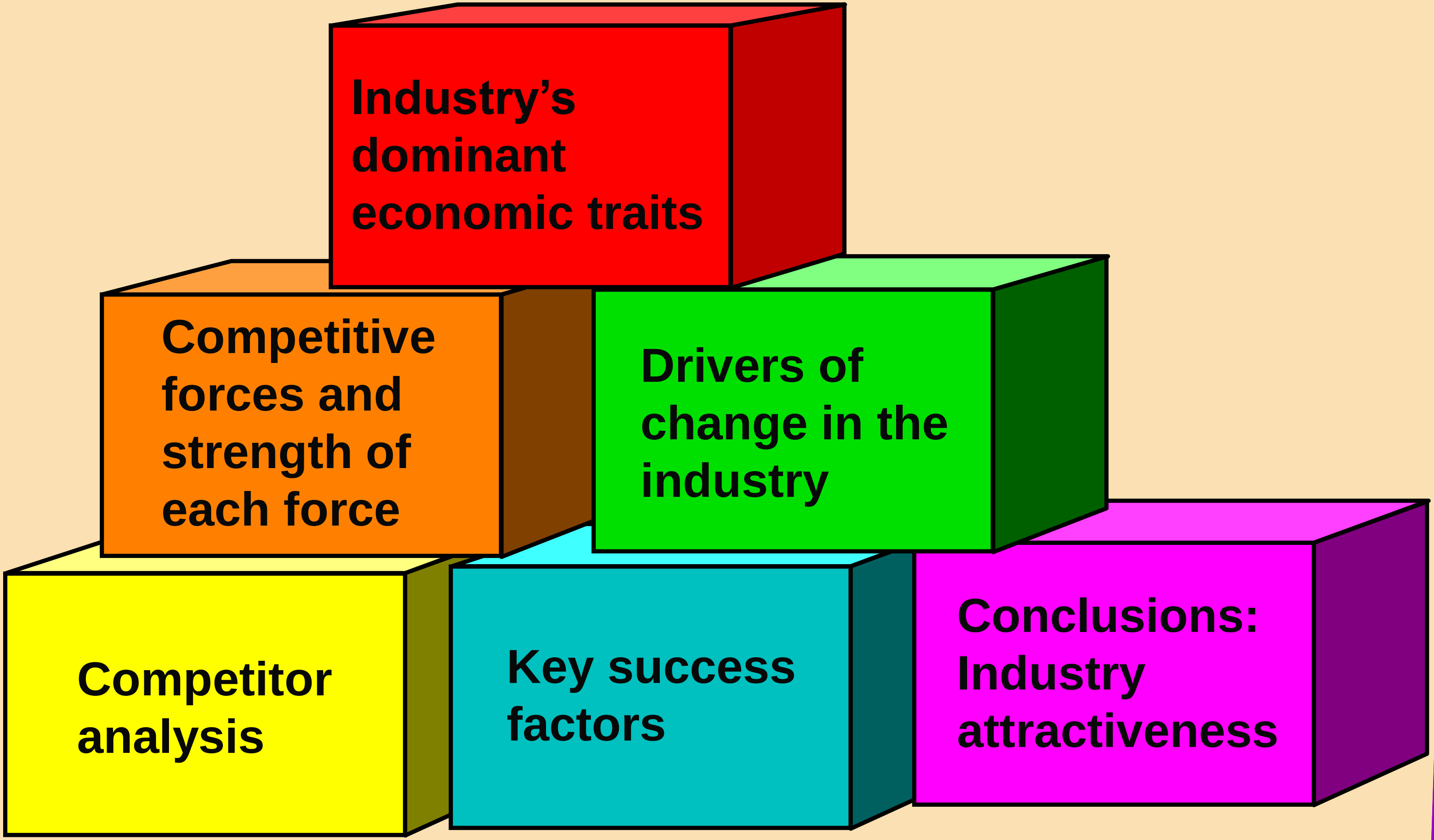


Fig. 3.2: The Components of a Company's Macro-Environment



Key Questions Regarding the Industry and Competitive Environment



Q #1: What are the Industry's Dominant Economic Traits?

- Market size and growth rate
- Scope of competitive rivalry
- Number of rivals
- Buyer needs and requirements
- Production capacity
- Pace of technological change
- Vertical integration
- Product innovation
- Degree of product differentiation
- Economies of scale
- Learning and experience curve effects

table 3.3 Common Types of Industry Key Success Factors (KSFs)

Technology-related KSFs	• Expertise in a particular technology or in scientific research (important in pharmaceuticals, Internet applications, mobile communications, and most high-tech industries) • Proven ability to improve production processes (important in industries where advancing technology opens the way for higher manufacturing efficiency and lower production costs)
Manufacturing-related KSFs	• Ability to achieve scale economies and/or capture learning-curve effects (important to achieving low production costs) • Quality control know-how (important in industries where customers insist on product reliability) • High utilization of fixed assets (important in capital-intensive/high-fixed-cost industries) • Access to attractive supplies of skilled labor • High labor productivity (important for items with high labor content) • Low-cost product design and engineering (reduces manufacturing costs) • Ability to manufacture or assemble products that are customized to buyer specifications
Distribution-related KSFs	• A strong network of wholesale distributors/dealers • Strong direct sales capabilities via the Internet and/or having company-owned retail outlets • Ability to secure favorable display space on retailer shelves
Marketing-related KSFs	• Breadth of product line and product selection • A well-known and well-respected brand name • Fast, accurate technical assistance • Courteous, personalized customer service • Accurate filling of buyer orders (few back orders or mistakes) • Customer guarantees and warranties (important in mail-order and online retailing, big-ticket purchases, new product introductions) • Clever advertising
Skills and capability-related KSFs	• A talented workforce (superior talent is important in professional services like accounting and investment banking) • National or global distribution capabilities • Product innovation capabilities (important in industries where rivals are racing to be first to market with new product attributes or performance features) • Design expertise (important in fashion and apparel industries) • Short-delivery-time capability • Supply chain management capabilities • Strong e-commerce capabilities—a user-friendly Web site and/or skills in using Internet technology applications to streamline internal operations
Other types of KSFs	• Overall low costs (not just in manufacturing) so as to be able to meet low-price expectations of customers • Convenient locations (important in many retailing businesses) • Ability to provide fast, convenient after-the-sale repairs and service • A strong balance sheet and access to financial capital (important in newly emerging industries with high degrees of business risk and in capital-intensive industries) • Patent protection

Learning/Experience Effects

- ***Learning/experience effects*** exist when a company's unit costs decline as its ***cumulative*** production volume increases because of
  - Accumulating ***production know-how***
  - ***Growing mastery of the technology***

- The bigger the ***learning or experience curve effect,*** the bigger the cost advantage of the firm with the largest ***cumulative*** production volume

Q #2: What Kinds of Competitive Forces Are Industry Members Facing?

- Objectives are to identify
  - Main ***sources*** of competitive forces
  - ***Strength*** of these forces
- Key analytical tool
  - ***Five Forces Model of Competition***

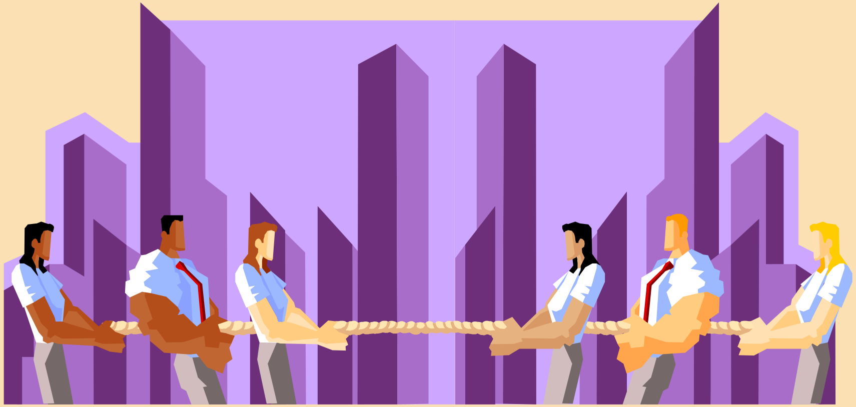
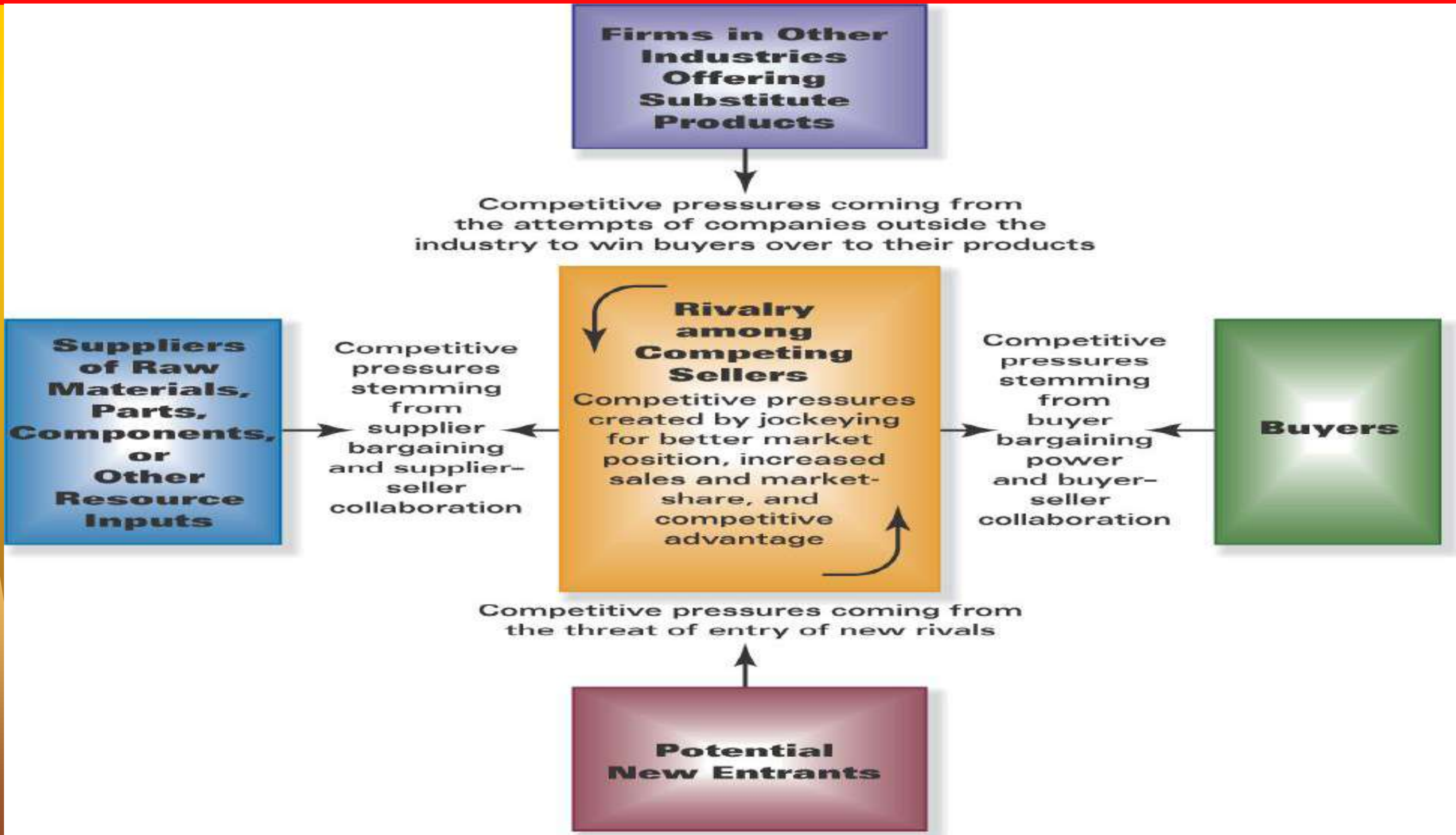
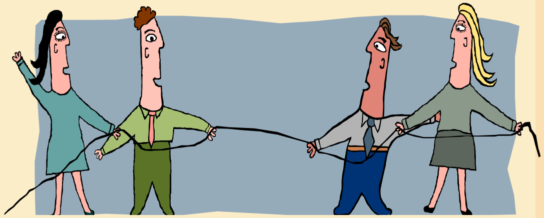


Fig. 3.3: The Five Forces Model of Competition



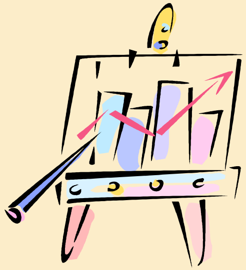
Analyzing the Five Competitive Forces: How to Do It

Step 1: ***Identify*** the specific ***competitive pressures*** associated with each of the five forces



Step 2: ***Evaluate*** the ***strength of each competitive force*** -- fierce, strong, moderate to normal, or weak?

Step 3: ***Determine*** whether the ***collective strength*** of the five competitive forces is conducive to earning attractive profits



Rivalry Among Competing Sellers

- Usually the ***strongest*** of the five forces
- Key ***factor*** in determining ***strength of rivalry***
  - ➔ How aggressively are rivals using various ***weapons of competition*** to improve their market positions and performance?
- ***Competitive rivalry*** is a ***combative contest*** involving
  - ➔ ***Offensive*** actions
  - ➔ ***Defensive*** countermoves

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Fig. 3.4: Weapons for Competing and Factors Affecting Strength of Rivalry

Typical "Weapons" for Battling Rivals and Attracting Buyers

- Lower prices
- More or different features
- Better product performance
- Higher quality
- Stronger brand image and appeal
- Wider selection of models and styles
- Bigger/better dealer network
- Low interest rate financing
- Higher levels of advertising
- Stronger product innovation capabilities
- Better customer service capabilities
- Stronger capabilities to provide buyers with custom-made products

Rivalry among Competing Sellers

How strong are the competitive pressures stemming from the efforts of rivals to gain better market positions, higher sales and market shares, and competitive advantages?

Rivalry is generally stronger when:

- Competing sellers are active in making fresh moves to improve their market standing and business performance.
- Buyer demand is growing slowly.
- Buyer demand falls off and sellers find themselves with excess capacity and/or inventory.
- The number of rivals increases and rivals are of roughly equal size and competitive capability.
- The products of rival sellers are commodities or else weakly differentiated.
- Buyer costs to switch brands are low.
- One or more rivals are dissatisfied with their current position and market share and make aggressive moves to attract more customers.
- Rivals have diverse strategies and objectives and are located in different countries.
- Outsiders have recently acquired weak competitors and are trying to turn them into major contenders.
- One or two rivals have powerful strategies and other rivals are scrambling to stay in the game.

Rivalry is generally weaker when:

- Industry members move only infrequently or in a non-aggressive manner to draw sales and market share away from rivals.
- Buyer demand is growing rapidly
- The products of rival sellers are strongly differentiated and customer loyalty is high.
- Buyer costs to switch brands are high.
- There are fewer than 5 sellers or else so many rivals that any one company's actions have little direct impact on rivals' business.

What Are the *Typical* Weapons for Competing?

- Vigorous price competition
- More or different performance features
- Better product performance
- Higher quality
- Stronger brand image and appeal
- Wider selection of models and styles
- Bigger/better dealer network
- Low interest rate financing
- Higher levels of advertising
- Stronger product innovation capabilities
- Better customer service
- Stronger capabilities to provide buyers with custom-made products

What Causes Rivalry to be *Stronger?*

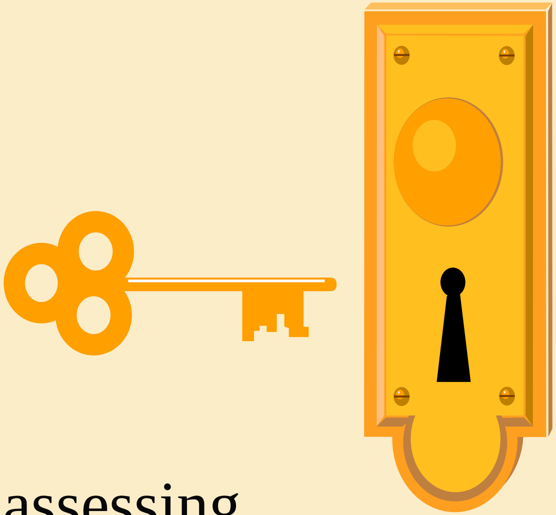
- Competitors engage in frequent and aggressive launches of new offensives to gain sales and market share
- Slow market growth
- Number of rivals increases and rivals are of equal size and competitive capability
- Buyer costs to switch brands are low
- Industry conditions tempt rivals to use price cuts or other competitive weapons to boost volume
- A successful strategic move carries a big payoff
- Diversity of rivals increases in terms of visions, objectives, strategies, resources, and countries of origin
- Strong rivals outside the industry acquire weak firms in the industry and use their resources to transform the new firms into major market contenders

What Causes Rivalry to be *Weaker?*

- Industry rivals move only infrequently or in a non-aggressive manner to draw sales from rivals
- Rapid market growth
- Products of rivals are strongly differentiated and customer loyalty is high
- Buyer costs to switch brands are high
- There are fewer than 5 rivals or there are numerous rivals so any one firm's actions has minimal impact on rivals' business

Competitive Force of Potential Entry

- Seriousness of threat depends on
  - ➔ ***Size*** of ***pool of entry candidates*** and available resources
  - ➔ ***Barriers*** to entry
  - ➔ ***Reaction*** of existing firms



- Evaluating threat of entry involves assessing
  - ➔ How formidable entry barriers are for each type of potential entrant and
  - ➔ Attractiveness of growth and profit prospects

Fig. 3.5: Factors Affecting Strength of Threat of Entry

Entry threats are weaker when:
- The pool of entry candidates is small.
- Entry barriers are high.
- Existing competitors are struggling to earn healthy profits.
- The industry's outlook is risky or uncertain.
- Buyer demand is growing slowly or is stagnant.
- Industry members will strongly contest the efforts of new entrants to gain a market foothold.

Rivalry among Competing Sellers

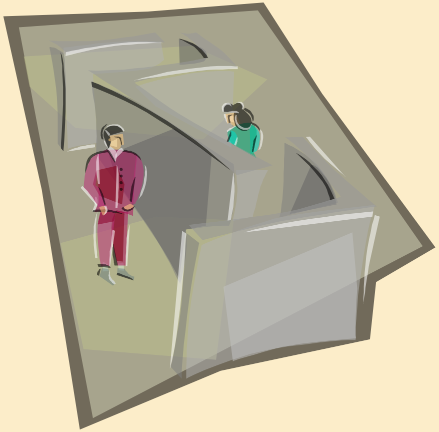
How strong are the competitive pressures associated with the entry threat from new rivals?

Potential New Entrants

Entry threats are stronger when:
- The pool of entry candidates is large and some of the candidates have resources that would make them formidable market contenders.
- Entry barriers are low or can be readily hurdled by the likely entry candidates.
- When existing industry members are looking to expand their market reach by entering product segments or geographic areas where they currently do not have a presence.
- Newcomers can expect to earn attractive profits.
- Buyer demand is growing rapidly.
- Industry members are unable (or unwilling) to strongly contest the entry of newcomers.

Common Barriers to Entry

- Sizable economies of scale
- Cost and resource disadvantages independent of size
- Brand preferences and customer loyalty
- Capital requirements and/or other specialized resource requirements
- Access to distribution channels
- Regulatory policies
- Tariffs and international trade restrictions



When Is the Threat of Entry *Stronger?*

- There's a sizable pool of entry candidates
- Entry barriers are low
- Industry growth is rapid and profit potential is high
- Incumbents are unwilling or unable to contest a newcomer's entry efforts
- When existing industry members have a strong incentive to expand into new geographic areas or new product segments where they currently do not have a market presence

When Is the Threat of Entry *Weaker?*

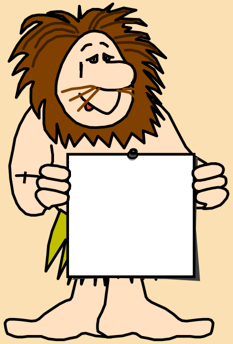
- There’s only a small pool of entry candidates
- Entry barriers are high
- Existing competitors are struggling to earn good profits
- Industry’s outlook is risky
- Industry growth is slow or stagnant

Competitive Force of Substitute Products

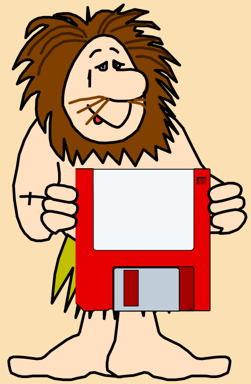
Concept

Substitutes matter when customers are attracted to the products of firms in ***other industries***

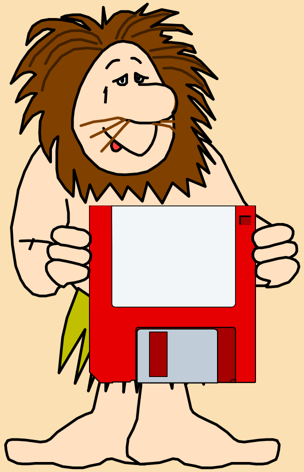
Examples



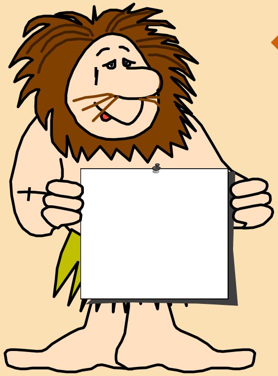
- Eyeglasses and contact lens vs. laser surgery
- Sugar vs. artificial sweeteners
- Newspapers vs. TV vs. Internet



How to Tell Whether Substitute Products Are a Strong Force



- Whether substitutes are readily available and attractively priced
- Whether buyers view substitutes as being comparable or better



- How much it costs end users to switch to substitutes

Fig. 3.6: Factors Affecting Competition From Substitute Products

Firms in Other Industries Offering Substitute Products

How strong are competitive pressures coming from the attempts of companies outside the industry to win buyers over to their products?

Competitive pressures from substitutes are weaker when:

- Good substitutes are not readily available or don't exist.
- Substitutes are higher priced relative to the performance they deliver.
- End users have high costs in switching to substitutes.

Competitive pressures from substitutes are stronger when:

- Good substitutes are readily available or new ones are emerging.
- Substitutes are attractively priced.
- Substitutes have comparable or better performance features.
- End users have low costs in switching to substitutes.
- End users grow more comfortable with using substitutes.

Rivalry among Competing Sellers

Signs That Competition from Substitutes Is Strong

- Sales of substitutes are growing faster than sales of the industry being analyzed (an indication that the sellers of substitutes are drawing customers away from the industry in question).
- Producers of substitutes are moving to add new capacity.
- Profits of the producers of substitutes are on the rise.

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When Is the Competition From Substitutes *Stronger?*

- There are many good substitutes that are readily available
- The lower the price of substitutes
- The higher the quality and performance of substitutes
- The lower the user's switching costs

Competitive Pressures From Suppliers and Supplier-Seller Collaboration

- Whether supplier-seller relationships represent a ***weak*** or ***strong*** competitive force depends on
  - Whether suppliers can exercise sufficient bargaining leverage to influence terms of supply in their favor
  - Nature and extent of supplier-seller collaboration in the industry

Fig. 3.7: Factors Affecting the Bargaining Power of Suppliers

Suppliers of Raw Materials, Parts, Components, or Other Resource Inputs → How strong are the competitive pressures stemming from supplier bargaining power and seller–supplier collaboration? ← **Rivalry among Competing Sellers**

Supplier bargaining power is stronger when:

- Industry members incurs high costs in switching their purchases to alternative suppliers.
- Needed inputs are in short supply (which gives suppliers more leverage in setting prices).
- A supplier has a differentiated input that enhances the quality or performance of sellers' products or is a valuable or critical part of sellers' production process.
- There are only a few suppliers of a particular input.
- Some suppliers threaten to integrate forward into the business of industry members and perhaps become a powerful rival.

Supplier bargaining power is weaker when:

- The item being supplied is a commodity that is readily available from many suppliers at the going market price.
- Seller switching costs to alternative suppliers are low.
- Good substitute inputs exist or new ones emerge.
- There is a surge in the availability of supplies (thus greatly weakening supplier pricing power).
- Industry members account for a big fraction of suppliers' total sales and continued high volume purchases are important to the well-being of suppliers.
- Industry members are a threat to integrate backward into the business of suppliers and to self-manufacture their own requirements.
- Seller collaboration or partnering with selected suppliers provides attractive win–win opportunities.

When Is the Bargaining Power of Suppliers *Stronger?*

- Industry members incur high costs in switching their purchases to alternative suppliers

- Needed inputs are in short supply
- Supplier provides a differentiated input that enhances the quality of performance of sellers' products or is a valuable part of sellers' production process
- There are only a few suppliers of a specific input
- Some suppliers threaten to integrate forward

When Is the Bargaining Power of Suppliers *Weaker?*

- Item being supplied is a commodity
- Seller switching costs to alternative suppliers are low
- Good substitutes exist or new ones emerge
- Surge in availability of supplies occurs
- Industry members account for a big fraction of suppliers' total sales
- Industry members threaten to integrate backward
- Seller collaboration with selected suppliers provides attractive win-win opportunities

Competitive Pressures: Collaboration Between Sellers and Suppliers

- Sellers are forging ***strategic partnerships*** with select suppliers to
  - Reduce inventory and logistics costs
  - Speed availability of next-generation components
  - Enhance quality of parts being supplied
  - Squeeze out cost savings for both parties

- ***Competitive advantage potential*** may accrue to sellers doing the best job of managing supply-chain relationships

Competitive Pressures From Buyers and Seller-Buyer Collaboration

- Whether seller-buyer relationships represent a ***weak*** or ***strong*** competitive force depends on
  - Whether buyers have sufficient bargaining leverage to influence terms of sale in their favor
  - Extent and competitive importance of seller-buyer strategic partnerships in the industry

Fig. 3.8: Factors Affecting Bargaining Power of Buyers

Rivalry among Competing Sellers → How strong are the competitive pressures from buyer bargaining power and seller–buyer collaboration? ← **Buyers**

Buyer bargaining power is stronger when:

- Buyer switching costs to competing brands or substitute products are low.
- Buyers are large and can demand concessions when purchasing large quantities.
- Large-volume purchases by buyers are important to sellers.
- Buyer demand is weak or declining.
- There are only a few buyers—so that each one's business is important to sellers.
- Identity of buyer adds prestige to the seller's list of customers.
- Quantity and quality of information available to buyers improves.
- Buyers have the ability to postpone purchases until later if they do not like the present deals being offered by sellers.
- Some buyers are a threat to integrate backward into the business of sellers and become an important competitor.

Buyer bargaining power is weaker when:

- Buyers purchase the item infrequently or in small quantities.
- Buyer switching costs to competing brands are high.
- There is a surge in buyer demand that creates a "sellers' market."
- A seller's brand reputation is important to a buyer.
- A particular seller's product delivers quality or performance that is very important to buyer and that is not matched in other brands.
- Buyer collaboration or partnering with selected sellers provides attractive win–win opportunities.

When Is the Bargaining Power of Buyers *Stronger?*

- Buyer switching costs to competing brands or substitutes are low
- Buyers are large and can demand concessions
- Large-volume purchases by buyers are important to sellers
- Buyer demand is weak or declining
- Only a few buyers exists
- Identity of buyer adds prestige to seller's list of customers
- Quantity and quality of information available to buyers improves
- Buyers have ability to postpone purchases until later
- Buyers threaten to integrate backward

When Is the Bargaining Power of Buyers *Weaker?*

- Buyers purchase item infrequently or in small quantities
- Buyer switching costs to competing brands are high
- Surge in buyer demand creates a "sellers' market"
- Seller's brand reputation is important to buyer
- A specific seller's product delivers quality or performance that is very important to buyer

- Buyer collaboration with selected sellers provides attractive win-win opportunities

Competitive Pressures: Collaboration Between Sellers and Buyers

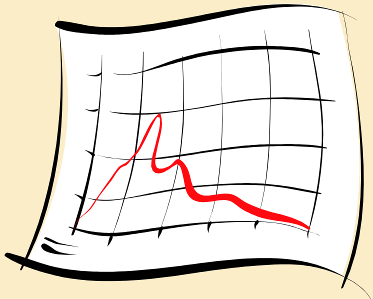
- ***Partnerships*** are an increasingly important competitive element in business-to-business relationships
- ***Collaboration*** may result in ***mutual benefits*** regarding
  - Just-in-time deliveries
  - Order processing
  - Electronic invoice payments
  - Data sharing

- ***Competitive advantage potential*** may accrue to sellers doing the best job of managing seller-buyer partnerships

Strategic Implications of the Five Competitive Forces

- Competitive ***environment*** is ***unattractive*** from the standpoint of earning good profits ***when***

  - Rivalry is vigorous
  - Entry barriers are low and entry is likely
  - Competition from substitutes is strong
  - Suppliers and customers have considerable bargaining power



Strategic Implications of the Five Competitive Forces

- Competitive ***environment*** is ***ideal*** from a profit-making standpoint ***when***
  - Rivalry is moderate
  - Entry barriers are high and no firm is likely to enter
  - Good substitutes do not exist
  - Suppliers and customers are in a weak bargaining position

Coping With the Five Competitive Forces

- ***Objective*** is to ***craft*** a ***strategy*** to

  - ➔ ***Insulate*** firm from competitive pressures
  - ➔ ***Initiate actions*** to ***produce sustainable competitive advantage***
  - ➔ Allow firm to be the industry's "mover and shaker" with the "most powerful" strategy that ***defines*** the ***business model*** for the industry

Q #3: What Factors Are Driving Industry Change and What Impacts Will They Have?

- Industries change because ***forces*** are ***driving*** industry ***participants*** to ***alter their actions***

- ***Driving forces*** are the ***major underlying causes*** of changing industry and competitive conditions

Analyzing Driving Forces

1. Identify forces likely to exert ***greatest influence*** over next 1 - 3 years
   - ➔ ***Usually*** no more than 3 - 4 factors qualify as real drivers of change
2. Assess ***impact***
   - ➔ Are the driving forces causing ***demand for product*** to increase or decrease?
   - ➔ Are the driving forces acting to make ***competition*** more or less intense?
   - ➔ Will the driving forces lead to higher or lower industry ***profitability?***

Common Types of Driving Forces

- Internet and e-commerce opportunities
- Increasing globalization of industry
- Changes in long-term industry growth rate
- Changes in who buys the product and how they use it
- Product innovation
- Technological change/process innovation
- Marketing innovation

Common Types of Driving Forces

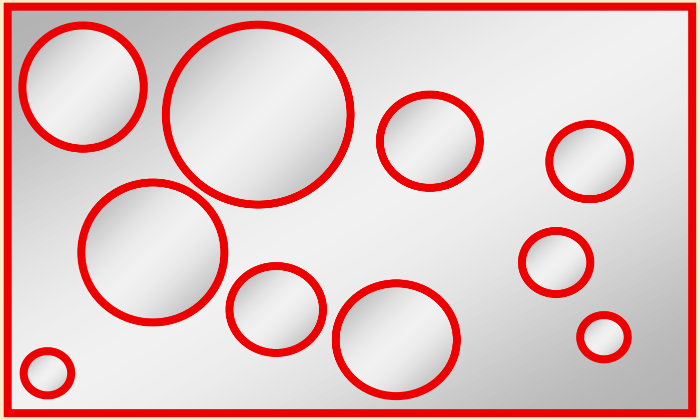
- Entry or exit of major firms
- Diffusion of technical knowledge
- Changes in cost and efficiency
- Consumer preferences shift from standardized to differentiated products (or vice versa)
- Changes in degree of uncertainty and risk
- Regulatory policies / government legislation
- Changing societal concerns, attitudes, and lifestyles

table 3.2 The Most Common Driving Forces

1. Growing use of the Internet and emerging new Internet technology applications.
2. Increasing globalization of the industry.
3. Changes in the long-term industry growth rate.
4. Changes in who buys the product and how they use it.
5. Product innovation.
6. Technological change and manufacturing process innovation.
7. Marketing innovation.
8. Entry or exit of major firms.
9. Diffusion of technical know-how across more companies and more countries.
10. Changes in cost and efficiency.
11. Growing buyer preferences for differentiated products instead of standardized commodity products (or for a more standardized product instead of strongly differentiated products).
12. Reductions in uncertainty and business risk.
13. Regulatory influences and government policy changes.
14. Changing societal concerns, attitudes, and lifestyles.

Question 4: What Market Positions Do Rivals Occupy?

- One technique to reveal ***different competitive positions*** of industry rivals is ***strategic group mapping***



- A ***strategic group*** is a cluster of firms in an industry with similar competitive approaches and market positions

Strategic Group Mapping

- Firms in ***same strategic group*** have two or more ***competitive characteristics*** in common
  - Have comparable product line breadth
  - Sell in same price/quality range
  - Emphasize same distribution channels
  - Use same product attributes to appeal to similar types of buyers
  - Use identical technological approaches
  - Offer buyers similar services
  - Cover same geographic areas

Procedure for Constructing a Strategic Group Map

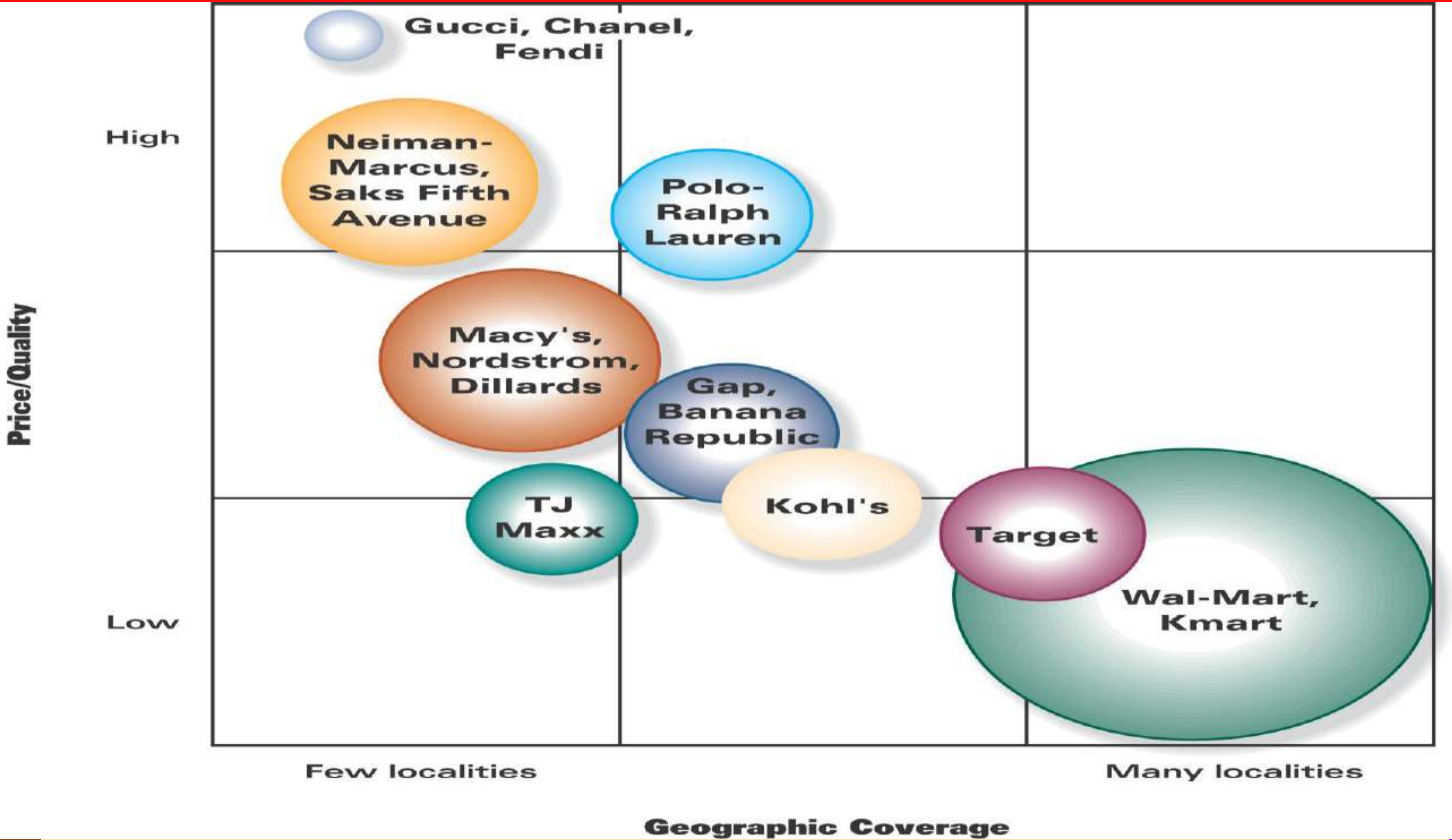
STEP 1: Identify competitive characteristics that differentiate firms in an industry from one another

STEP 2: Plot firms on a two-variable map using pairs of these differentiating characteristics

STEP 3: Assign firms that fall in about the same strategy space to same strategic group

STEP 4: Draw circles around each group, making circles proportional to size of group's respective share of total industry sales

Example: Strategic Group Map of Selected Retail Chains



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Guidelines: Strategic Group Maps

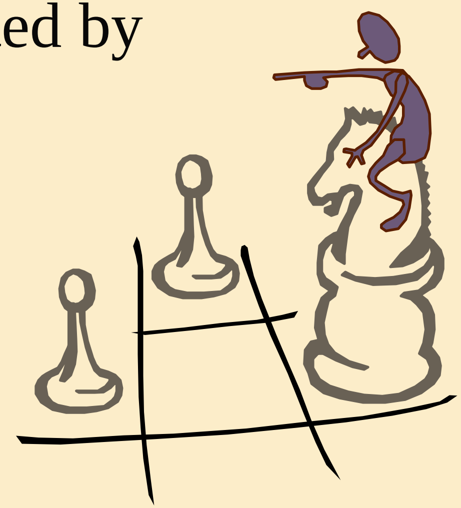
- Variables selected as axes should not be highly correlated
- Variables chosen as axes should expose big differences in how rivals compete
- Variables do not have to be either quantitative or continuous
- Drawing sizes of circles proportional to combined sales of firms in each strategic group allows map to reflect relative sizes of each strategic group
- If more than two good competitive variables can be used, several maps can be drawn

Interpreting Strategic Group Maps

- Driving forces and competitive pressures often favor some strategic groups and hurt others
- Profit potential of different strategic groups varies due to strengths and weaknesses in each group's market position
- The closer that strategic groups are on the map, the stronger that competitive rivalry among the members of these groups tends to be

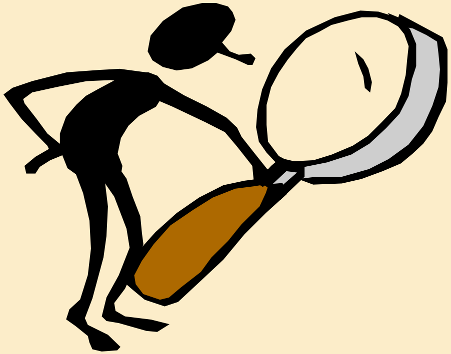
Q #5: What Strategic Moves Are Rivals Likely to Make?

- A firm's ***best strategic moves*** are affected by
  - ➔ Current strategies of competitors
  - ➔ Future actions of competitors
- Profiling key rivals involves gathering ***competitive intelligence*** about
  - ➔ Current strategies
  - ➔ Most recent actions and public announcements
  - ➔ Resource strengths and weaknesses
  - ➔ Efforts being made to improve their situation
  - ➔ Thinking and leadership styles of top executives



Competitor Analysis

- ***Sizing up strategies*** and competitive ***strengths*** and ***weaknesses*** of ***rivals*** involves assessing
  - Which rival has the best strategy? Which rivals appear to have weak strategies?
  - Which firms are poised to gain market share, and which ones seen destined to lose ground?



  - Which rivals are likely to rank among the industry leaders five years from now? Do any up-and-coming rivals have strategies and the resources to overtake the current industry leader?

Considerations Involved in Predicting Moves of Rivals

- Which rivals need to increase their unit sales and market share? What strategies are rivals most likely to pursue?
- Which rivals have a strong incentive, along with resources, to make major strategic changes?
- Which rivals are good candidates to be acquired? Which rivals have the resources to acquire others?
- Which rivals are likely to enter new geographic markets?
- Which rivals are likely to expand their product offerings and enter new product segments?

Q #6: What Are the Key Factors for Competitive Success?

- KSFs are those competitive factors most affecting ***every industry member's*** ability to prosper. They concern
  - Specific strategy elements
  - Product attributes
  - Resources
  - Competencies
  - Competitive capabilities

  that a company needs to have to be competitively successful

- ***KSFs*** are attributes that spell the ***difference*** between
  - Profit and loss
  - Competitive success or failure

Identifying Industry Key Success Factors

- ***Pinpointing KSFs*** involves determining
  - On what basis do customers choose between competing brands of sellers?
  - What resources and competitive capabilities does a seller need to have to be competitively successful?
  - What does it take for sellers to achieve a sustainable competitive advantage?
- KSFs consist of the ***3 - 5 major determinants*** of financial and competitive success

table 3.3 Common Types of Industry Key Success Factors (KSFs)

Technology-related KSFs	• Expertise in a particular technology or in scientific research (important in pharmaceuticals, Internet applications, mobile communications, and most high-tech industries) • Proven ability to improve production processes (important in industries where advancing technology opens the way for higher manufacturing efficiency and lower production costs)
Manufacturing-related KSFs	• Ability to achieve scale economies and/or capture learning-curve effects (important to achieving low production costs) • Quality control know-how (important in industries where customers insist on product reliability) • High utilization of fixed assets (important in capital-intensive/high-fixed-cost industries) • Access to attractive supplies of skilled labor • High labor productivity (important for items with high labor content) • Low-cost product design and engineering (reduces manufacturing costs) • Ability to manufacture or assemble products that are customized to buyer specifications
Distribution-related KSFs	• A strong network of wholesale distributors/dealers • Strong direct sales capabilities via the Internet and/or having company-owned retail outlets • Ability to secure favorable display space on retailer shelves
Marketing-related KSFs	• Breadth of product line and product selection • A well-known and well-respected brand name • Fast, accurate technical assistance • Courteous, personalized customer service • Accurate filling of buyer orders (few back orders or mistakes) • Customer guarantees and warranties (important in mail-order and online retailing, big-ticket purchases, new product introductions) • Clever advertising
Skills and capability-related KSFs	• A talented workforce (superior talent is important in professional services like accounting and investment banking) • National or global distribution capabilities • Product innovation capabilities (important in industries where rivals are racing to be first to market with new product attributes or performance features) • Design expertise (important in fashion and apparel industries) • Short-delivery-time capability • Supply chain management capabilities • Strong e-commerce capabilities—a user-friendly Web site and/or skills in using Internet technology applications to streamline internal operations
Other types of KSFs	• Overall low costs (not just in manufacturing) so as to be able to meet low-price expectations of customers • Convenient locations (important in many retailing businesses) • Ability to provide fast, convenient after-the-sale repairs and service • A strong balance sheet and access to financial capital (important in newly emerging industries with high degrees of business risk and in capital-intensive industries) • Patent protection

Example: KSFs for Beer Industry

- ***Full utilization of brewing capacity*** – to keep manufacturing costs low

- ***Strong network of wholesale distributors*** – to gain access to retail outlets

- ***Clever advertising*** – to induce beer drinkers to buy a particular brand

Example: KSFs for Apparel Manufacturing Industry

- ***Appealing designs and color combinations*** – to create buyer appeal

- ***Low-cost manufacturing efficiency*** – to keep selling prices competitive

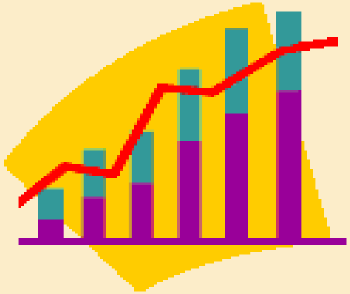
Example: KSFs for Tin and Aluminum Can Industry

- ***Locating plants close to end-use customers*** – to keep costs of shipping empty cans low

- Ability to ***market plant output*** within ***economical shipping distances***

Q #7: Does the Outlook for the Industry Present an Attractive Opportunity?

- Involves assessing whether the industry and competitive environment is ***attractive*** or ***unattractive*** for earning good profits



- Under ***certain circumstances,*** a ***firm uniquely well-situated*** in an ***otherwise unattractive industry can*** still ***earn*** unusually good ***profits***
  - ➔ Attractiveness is relative, not absolute
  - ➔ Conclusions have to be drawn from the perspective of a particular company

Factors to Consider in Assessing Industry Attractiveness

- Industry's market size and growth potential
- Whether competitive forces are conducive to rising/falling industry profitability
- Whether industry profitability will be favorably or unfavorably impacted by driving forces
- Degree of risk and uncertainty in industry's future
- Severity of problems facing industry
- Firm's competitive position in industry vis-à-vis rivals
- Firm's potential to capitalize on vulnerabilities of weaker rivals
- Whether firm has sufficient resources to defend against unattractive industry factors

Core Concept: Assessing Industry Attractiveness

The *degree* to which an *industry* is *attractive* or *unattractive* is often not the same for all industry participants or potential entrants.

The *opportunities* an industry presents *depend* partly on a *company's ability* to *capture* them.