EXTERNAL ANALYSIS

G — I — F — I — E

The Environment — Competitors (Direct)
— Suppliers
— Communities (makes demands on mgmt)
— Customers.

"MARKETS" are the INNERMOST Layer
Made up of

Next Layer — Substitutes ($\uparrow$ price of product A, $\uparrow$ ~~price~~ demand of product B)
COMPETITION — (Related demand curves)
— Industry Competitors (Same product class, diff. models / strat) (BMW — Audi, BMW ≠ Toyota)

Next Layer : PESTEL
Political, Econ, Soc, Tech, ~~Ethical~~ Ecol, Legal

PESTEL : Makes both opp. and threats.

Get data. Primary means consultants.
Secondary means Internet searches ... LOL.

Common Scam?
→ For Each PESTEL, determine PRIMARY IMPACT.

Demographic
- Market size
- MGMT Complex (diverse workforce)

Econ
- affects Op. Cap
- high ROI to get CapEx
- affects disc. spending
- COC!!

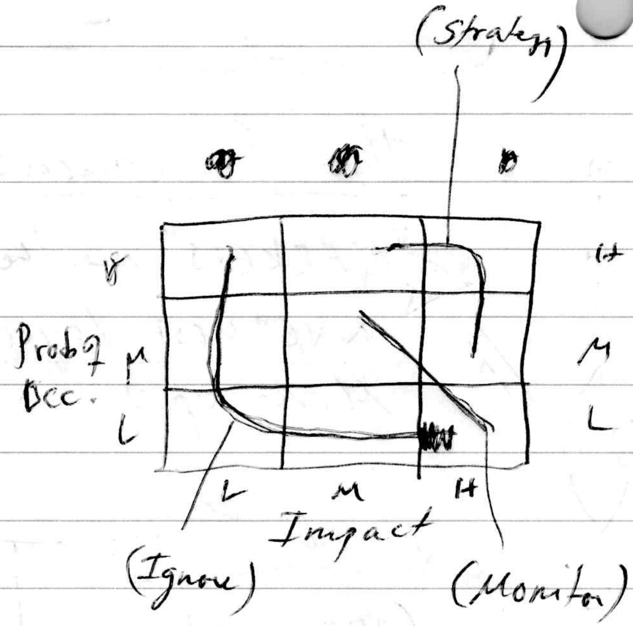
Political
- Access to markets
- Emerging tech. and R&D POLICY!

* Can be affected by firm!! LOBBYING!

Tech
- * Enabler of new Bus. proc/models
- Disruption!
- Lean, 6σ

Ecol
- Reputation (Cust, Empl)

Legal
- Increase Op Cost



How to use to Analyze? :
- Strategize
- Monitor
- Ignore

OF INDUSTRY! The Structure/Conduct/Perf. Model (SCP)

Idea: Structure (Industry) —drives→ Conduct —drives→ Perf.

- Structure
  - Cost of Entry/Exit
  - Heterogeneity of Products
  - # of competitors
- Conduct
  - Price-setting
  - Differentiation
  - Innovation
  - Exploitation.
- Perf.
  - of firms
  - of whole Industry

dry cleaners, pet store → **Perfect Comp.** Homogeneous
- no diff.
- "Price Takers" (adjust prices to Supply and demand, cannot set them)
- Commodities
- Low COE/E

Univs, Fine dining → **Monop. Comp.** Heterogeneous — Quasi monopolies via differentiation ← always threatened ∵ low COE/E

Coke, pepsi, DHL, UPS, Tobacco → **Oligopoly**
- Marketing Strat INTERDEPENT
- High COE/E

Monopoly
- Single firm
- high COE/E

| "Natural Monopoly" reg. by govt.

You want less comp (dash) and be more concentrated.

The Porter Five Forces Model. (Based of SCP model)

Threat of new entrants

Pressure from Suppliers → Intra-Industry Competition ← Pressure from customers

Threat of Substitutes

COMPOSITE COMPETITION

POWER ALIGNMENT

NOT IN RELATION!

Concentration Ratio (CR) : $CR_n = \sum$ Market Share of Competitor$_n$

CR4 = M.S. of 4 biggest comp. where Market Share are sorted.

0 – 50%) – "Low" → perfectly Comp.

50 – 80%) – "Medium" → 60% ⇒ Oligopoly

80 – 100%) – "High" (Regulators interested) ⇒ Monopoly. (one company)

Switching Costs

Consumer, Company.

- Redundant Investment
- Disruption Risk
- Contractual Penalties.

Forward, Backward Integration : Supplier → Company → Distributor

→ • Capture profits

→ • Own "Value Chain"

⊕ BUY ~~[illegible]~~ BACKWARD

⊕ BUY FORWARD

Pressure from Suppliers
- Control Quality, Quantity so huge leverage.

• Problem when few suppliers but many buyers (Wintel PCs)
- Threaten to forward integrate
- Buyers cannot make suppliers fight lol...
- Cost of Switching Suppliers is high.

- Think Mono/Oligo for Buyer and Supplier
- Think Cost of Switching
- Think Integration
- Think Entry Barriers

Pressure from Buyers
- Demand Low Price, high quality.

• Problem when few buyers but many suppliers.
- Threaten to backward integrate
- Cost of switching ~~buyers~~ to new supplier is low
- Get a substitute.

Threats from Substitutes
Coffee, Tea ... Gas, Biofuel.

• Problem when more substitutes
- Industry cannot raise prices
- Suppress Costs
- Think Cost of Switching ... if low, fucked.

Threat from new Entrants
Think industry cannot create barriers to entry (Low COE/E, no patents, T...
No regulations against entry.
Econs of scale.
No differentiation.

Intra-Industry Comp — DOMINANT
- Constructive Comp (INNOVATION), Civilized — Industry more attractive
- Pure-price Comp. — Industry less attract-

Why good? Because differentiation.
Can be real or perceived

Why? Pressure lowers gross margins.

• Problem when low conc. ratio
- Not diff.
- COS is low (low loyalty also)

"Strategy" → "Art of a General"

Thinking about Industries : Porter model gives good framework

"Attractive" Industry
- Weak 5FS
- Sust. CA is easier
- Profits $$$

vs

"Unattractive"

Where does Industry Change Come from?

① Macro-forces (Cust. Behaviors, Regulation, Tech shift)

② Structural factors (5F's, basically ... use your head)

Firm can try to ~~[illegible]~~ mitigate w/ Strategy.

Porter Analysis : Not to say shit about industry!

- How can my firm take advantage?
- How can I develop and exploit insight?
- How can I just reshape Industry to fit my goals!

COMPLEMENTS : Called a "Sixth Force" in 5F's.

→ Adds value to product when used in tandem

→ Customers value your shit more when they can use it w/ another product

BUT! If you develop your own complement, this is competition.

So you can have a case of $\boxed{\text{co-competition}}$ — Compete / Cooperate.

or you just send them to another firm

(Because of some strategic alliance)

Competitive Intelligence

Ask Six questions for Information Gathering.

1. Present and future Competitors.
2. Present and future STRATEGIES
3. Position in Market
4. Strategies, objectives, initiatives
5. Strengths, weaknesses
6. Responses to our strategies?

∀ Competitors

PRES
- Strat
- Strength
- Weak
- Position

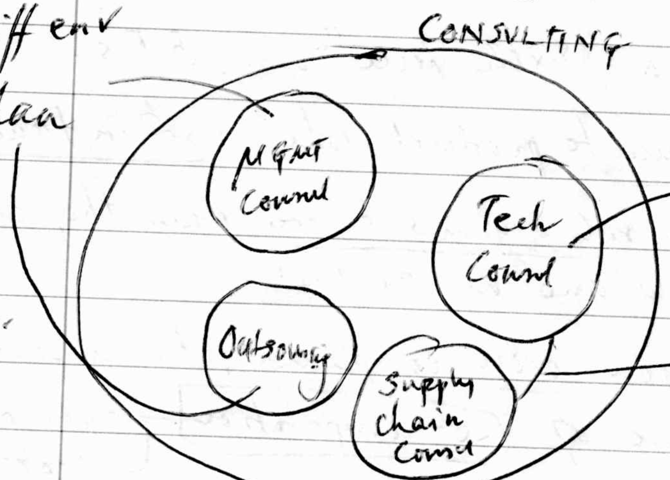
FUT
- Strat
- Respon

How to get this Info? No need for espionage, lol.
- SEC filings, Marketing stuff, etc, etc.

STRATEGIC GROUPS : Same
- Strategy
- Customers
- Value props

Can
- Shift
- Expire

different than



so diff effects.

FIERCE Rivalry

We cool, brah....

To ~~analyze~~ Identify one vs the other, make a STRATEGIC GROUP MAPPING

1. Identify Comp. attributes (might have to do this over and over until some make sense)
2. PLOT! see blobs!

Repeat until Stuff make sense.

2 vars... Maybe add a third (eg. size of firm)

INTERNAL ANALYSIS

DRIVE CA

* → Leverage Opp. and Protect from Threats

(Remember) → Business Model is $\sum$ (all prev. strat. and trade offs)

4 Key Things: ① Core Comp.: Unique Strengths → Comp. Ad.

② Resources ③ Capabilities ④ Activities

Org Skills MGMT Skills

INPUT → OUTPUT.

Value Chain Anal

SWOT

Co
Re
Ca
Ac

PESTEL (World)
↓
Industry
↓
Strat. Grp
↓
* "Look inside you"

VRIO

Resource-Based View (Resources) must be (Heterog + Immobile) and (have VRIO Attributes) to be (VRIO Resources) → CA

ASSUME

→ Heterogenity: The skills, Res. must be diff. for firms.

⟹ Else cannot strategize to out-compete!

NO Hetero ⟹ Perfect Competition. (∴ Comp. Parity)

→ Immobility: Resources cannot move! Contracts, IP, Brand Equity.

Else rivals can replicate resources/strategy

GO DOWN

	YES	NO	
→ V aluable		→ Comp. disadvantage	OUTSOURCE
R are		→ Comp. Parity	
I ~~impossible~~ costly to Imitate		→ Temp. C.A	[comp imitate soon. TRADE SECRET
O rganized to Capture Value.		→ Temp. C.A	

↓

Sustained CA :)

When are Resources Hard to Imitate?

- Historical: We did it first! Patents, Capture market early.
- Causal Ambiguity: Don't really know why! (Apple: Design, Jobs, Marketing?)
- Social Complexity: Relationships (inside and out) "Culture"

⇒ VRI are nothing without O! → Inst. failure ⇒ Capable Resources | Budgets, Culture, Investments (in short term)

Value Chain Analysis

"How do we create value for customers?"

VALUE CHAIN: Full range of ACTIVITIES a firm does from conception to delivery.

ANALYSIS: SCM (Get stuff) → Operations (Make things) → Dist (warehouse) → Sales (Mark) → Aftersale

$\underbrace{\qquad\qquad\qquad\qquad}_{\text{Primary activities}}$

Supported by: R&D, IT, HR, Acct, Finance, Infra.

Can benchmark them "Process Benchmarking"

SWOT: Strengths, Weaknesses, Opps and Threats

It's pretty dumb →

	INT	EXT
+	S	O
-	W	T

→ Strengths are VRIO + other resources.

INT and EXT!!

→ Can ask "How to use Strength to exploit Opp"?

STRATEGY. →

	Opp	Th
St	?	?
We	?	?

EXT ANALYSIS

STRATEGY FORMULATION — BU LEVEL

AFI : ① Analysis — Initial / Ext, Int ② Formulate — BU-level / Corporate

③ Implement.

Strategy: CORP ↓ BU ↓ functional ↓ operational

Corporate Strategy: what business are we in? How to allocate resources? OVERALL ORG

Business Strategy (BU) level .. * Focus on Comp Adv Here!!

Focus on just BU. Not focused on Shareholders' benefits.

→ Understand Int., Ext. envs
→ Identify opps. (Prod, Services)
→ Develop BU capabilities
→ Align to CORPORATE priorities.

The "Grand Strategy" applies here! — Growth / Stability / Renewal – Retrenchment
- Divest
- Turnaround
- Liquidation

Use more than one? COMBINATION STRATEGIES.

Stability: ◦ Dont know, future unclear
(Think Ext, Internal)
◦ Just after growth (consolidation)
◦ Econ. uncertainty

GROWTH STRAT: Concentration, Div, Vert ∫, Horz ∫.

Use Ansoff's Matrix

Use for both Corp, BU.

- Diversification is Corp Strat
- Aggressive Marketing, Markets, Cost improve
- Globalization, new segments, Alliances.

	Product: old	Product: new
old	Mark. Penet.	Prod dev
new	Mark Dev	Diversify

new (RELATED) Extend

Performance due to (primarily) FIRM, INDUSTRY effect.

Industry Effect → "Attractiveness" → Within Ind → C-Adv
◦ SCP
◦ 5Fs
◦ Complements
◦ Strat Groups

Firm Effect → Value Position / Cost Position → Bus. Strategy → C-Adv
◦ COST LEAD
◦ DIFF
◦ Focus

Porter made a matrix !!

- Trader Joe's: Focused

Market/Comp. Scope	Strat. Pos: ~~Cost~~	Cost	DIFF
	Broad	Cost Lead	Diff
	Narrow	Focused Cost Lead	Focused DIFF

This determines Focus!

STRAT DIFFEREN

- Value Creation ∞ Cost
- Firms grow by creating VALUE
- Product Features (MOST IMP)
- Cust-Serv and Experience.
- Customization
- Complements.

Most imp Value driver , 2nd most imp (ie don't use all 4 of them!!)

DOMINANT , DIFFERENTIATOR

Eg Coke : "Product and Service"

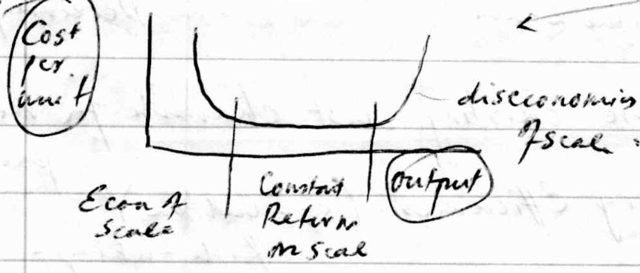
Zappos : "Service and Product"

⇒ You must have a cost leader to have C.Adv on PRICE
(Eg. Walmart ... not Delta, McD's)

Drive down cost
Maintain Quality

Cost Leadership Strategy

- Control Natural Resources (DeBeers)
- Economies of Scale
- Buying power (Walmart)
- "Learn by doing" ↑ Efficiency. (Econ of learning)



Experience Curve : Learn by doing + Econ of Scale
(Econ of learning)

Use this strategy when cost is imp to buyers! (DUH)

FOCUS STRATEGY : Apply to Niche Markets
Is one of Cost Lead or Diff.

"I can do better with narrow scope than Big Boys with broad scope"

* Most common is Focused - Differentiation

* Have to be different than what's out there!

* Market size must be acceptable.

* Niche may not grow :(

COMBINATION Strategies → These are difficult ∴ inherently contradictory.

→ You get "stuck in the middle" ~~or~~ : No diff. (or) cost lead/adv

→ Global companies require this tho.

V
C
Max(V − C)

How to Balance?

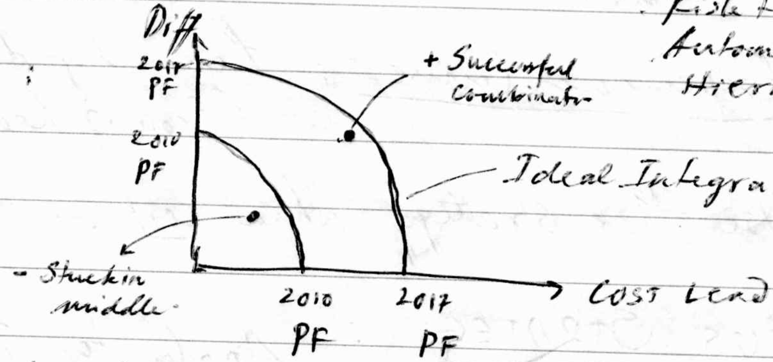
Value Innovation

Increase Perceived Value ⇑ Value Drivers — while — Cost drivers ⇓ Decreasing Cost

- Econ of Scope : Eg. use existing dist channels for new product
- Innovate.
- Org Efficiencies (eg. Culture)
  - Risk taking.
  - Automate
  - Hierarchy.

VISUALIZE :

PF : "Productivity frontier" ↓ Cost-value relationship of sum of best practices @ year t



YOU OPERATE @ THE LOWEST COST LEVEL (Can accept low margins)

How to Use Strategies to Mitigate 5F's?

Force :	COST	DIFF	Common Risks of Either Strategy
Threat of Entry	(SEE PPT....)		• Erosion of margins • Replacement • Competition does the opposite Strategy

CORPORATE STRATEGY

- What business?
- Resource alloc?
- Geographies?
- Boundaries?
- Diversity?
- Performance?

Cooperate? Contract out?

FUCK: "Grand Strategies" apply to Corp and BU

- If firm is UNDIVERSIFIED, Corp and BU Strategy same. Else, Corp is developed separately.

Two imp things: SCOPE and Resource Allocation (Capital)

Most important!

Customer
|
Distrib
|
FIRM
|
Suppliers

① Industry Value Chain: VERTICAL INT

Raw Mat ⟶ Customer

② Products & Serv: HORZ INT, (kind of)

Which Markets? DIVERSIFICATION
- Related
- Unrelated

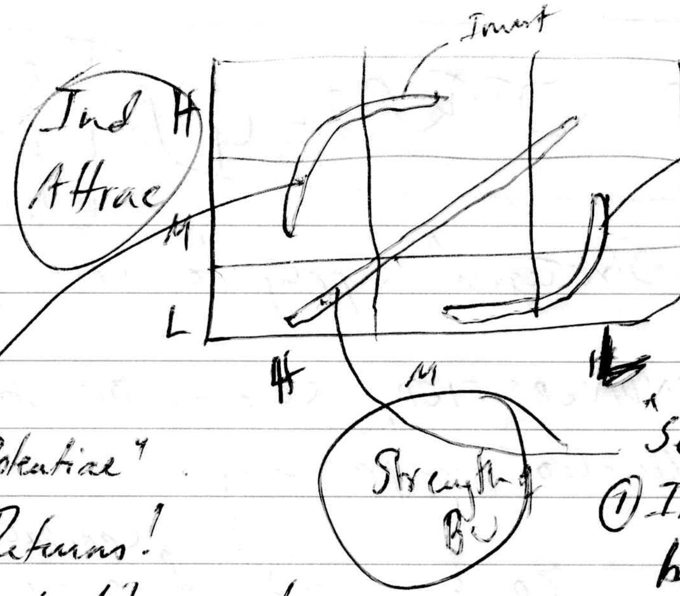
③ Geography

Capital Allocation: GE-Mckinsey 9 Box Matrix.

Industry Attractiveness vs BU Strength (Sustained / temp.)

Industry Attractiveness:
- Growth Rate, Size
- Avg Profits, Trends
- Porter Analysis
- Lifetime Stage
- PESTEL

BU Strength:
- Tot M Share
- MS Growth
- Brand Equity
- BU profitability
- VRIO resources
- Prod. flexibility
- Position Strength



① Divest, or
② Sustain until harvest
③ Use cash for other investments

"High Potential"
① Best Returns!
② Invest like nuts.

"Selectively Invest"
① Invest only if $$$ left from higher pot. businesses.
② Only in huge markets (RE86) and not many players

Corporate Structure (" ... follows Strategy")

Centralization / Shared Services (Finance, Acct)

Done @ Corporate level (NOT BU)

- Big thing here: Control vs Cost
- SSes can charge BUs

Cost: if $C_{in\text{-}house} > C_{market}$, OUTSOURCE
if $C_{in\text{-}house} < C_{market}$, VERT INT.

→ DISRUPT: Take product from Core Bus. and put in another structure

VERTICAL INT

Forward
or Backward

ONE → Activity, Industry ?
(OR) MANY ↗

→ Considerations are COST and COMPETENCY

→ Why do Forw or Back? Common Sense.

- Prices
- Reliability of Supp and Buyers
- Can getting these make you more efficient?

Supply — Upstream, Backward
Make
Sell — Downstream, Forward

→ Can do "Virtual Integration"
with binding (more) relationships w/ buyers, sellers.

- Helps differentiate.
- Improve Quality.
- Can plan/schedule.
- Capture Profits.

WHAT SUCKS

- MGMT complexity
- Slow to adapt
- More Risks
- Maybe high costs.
- Suppliers won't compete
- LOTS of money.

HORZ Integration

1) More Common, Simpler. :)

- Reduce Competition
- Fill gaps in Market
- Economies of Scale! Low cost!
- MOAR Differentiation!
- Moar geographies!

WAT SUCKS

Integration Failure.

Diversification

PRODUCT

MARKET

Segment   Geographies.

Why not both, lol? :)

→ Ansoff Matrix calls this the "Suicide Cell" (:o)

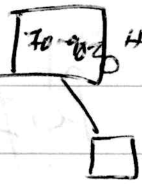
- Spread Risk
- Economies of Scale
- Leverage mgmt skills.
- Cross-Subsidize.

Firm

Non-Diversified (Single Business) — $\boxed{95\%}$ Google, Coke

Diversified (< 70% from largest line) — Dominant

Revenues from primary act. — $\boxed{70\text{-}95\%}$ Harley



SYNERGY!

2+ parts of Org are better, effective together than separate!

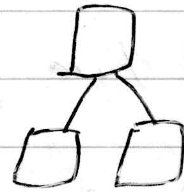
Related < 70% (operate within capabilities)

Unrelated

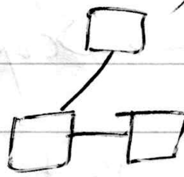
(Berkshire)

CONGLOMERATE (Growth rate ++)

Constrained (Exxon)



Linked (Amazon, Disney)



VERT INT

Can be a kind of diversification . . . (blocky, producing heat)

Diversify : Source of Costs — Coordinating Cost, Influencing Cost

Source of Value — (Common) — Restructuring, Internal Capital Markets!

Organize, divest

Give money, "allocate Capital" because "We know Best"!

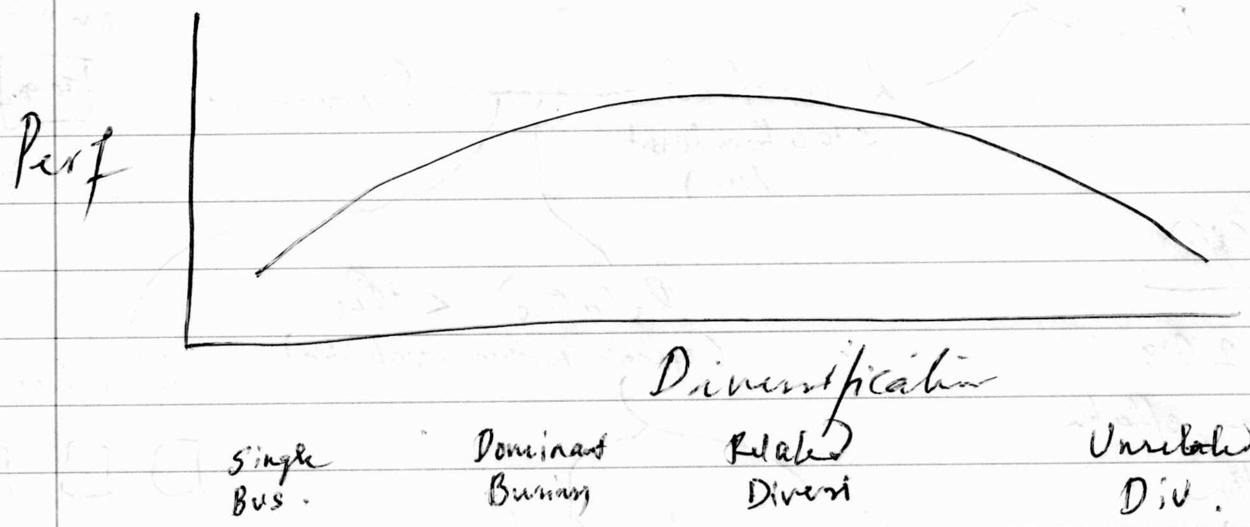
(ONLY RELATED DIVERS)

Econ. of Scale

Econ of Scope

Rivalry, fighting for $$$

* (OVA) But biggest prob with UNRELATED DIVERSE



Corp Executives → Scope of Firm for Comp Adv.

Senior Mgmt assess Vert, Horz opportunities.

Growth obj for SBUs.

grow via
- INNOVATION
- alliance
- merger
- acquisition.
- partnership.

SBUS then develop Strategies w/ Core Competences for Comp Adv.

$$ROIC = \frac{NI}{Av\ Investment}$$ ~~= Debt & Equity~~

VideoConference Notes

- Louis Vuitton → Focus, Niche
  RyanAdi
- BUsiness Model? Strategy must be aligned!
  (~~Cost Lead, Diff, Focus~~)

Bus Strategy — WHAT? "Planning" part of MGMT

"goal" directed actions for "Superior Perf" (financial

Happens when we have Comp Adv. How to generate.

Generic approach — Cost Lead, Diff, Focus.
MUST be consistent w/ Bus. Model

HOW?
- TOP down
- Scenario Planning
- Planned Emergence (top AND bottom)

PESTEL
MACRO

Porter 5Fs
MARKET

Ext Anal.

Global

Industry

Markets

Int. Anal.

Firms
SWOT