

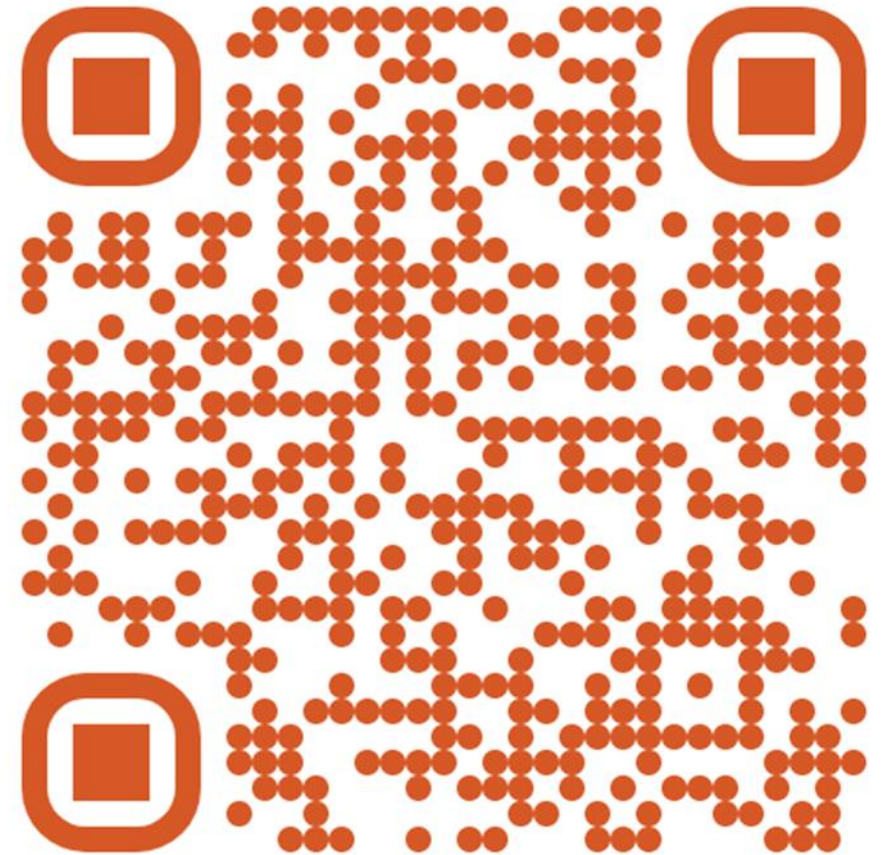
# Global Business Environment and International Strategy MOD007191

## Lecture 2

### The Micro Environment

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**Recap**

# Global Business

- It means moving from **local/domestic** to **international**
- Involves the **trade of goods and services**, capital, knowledge and technology **across borders** on a global scale
- The **production or distribution of goods or services in many countries**

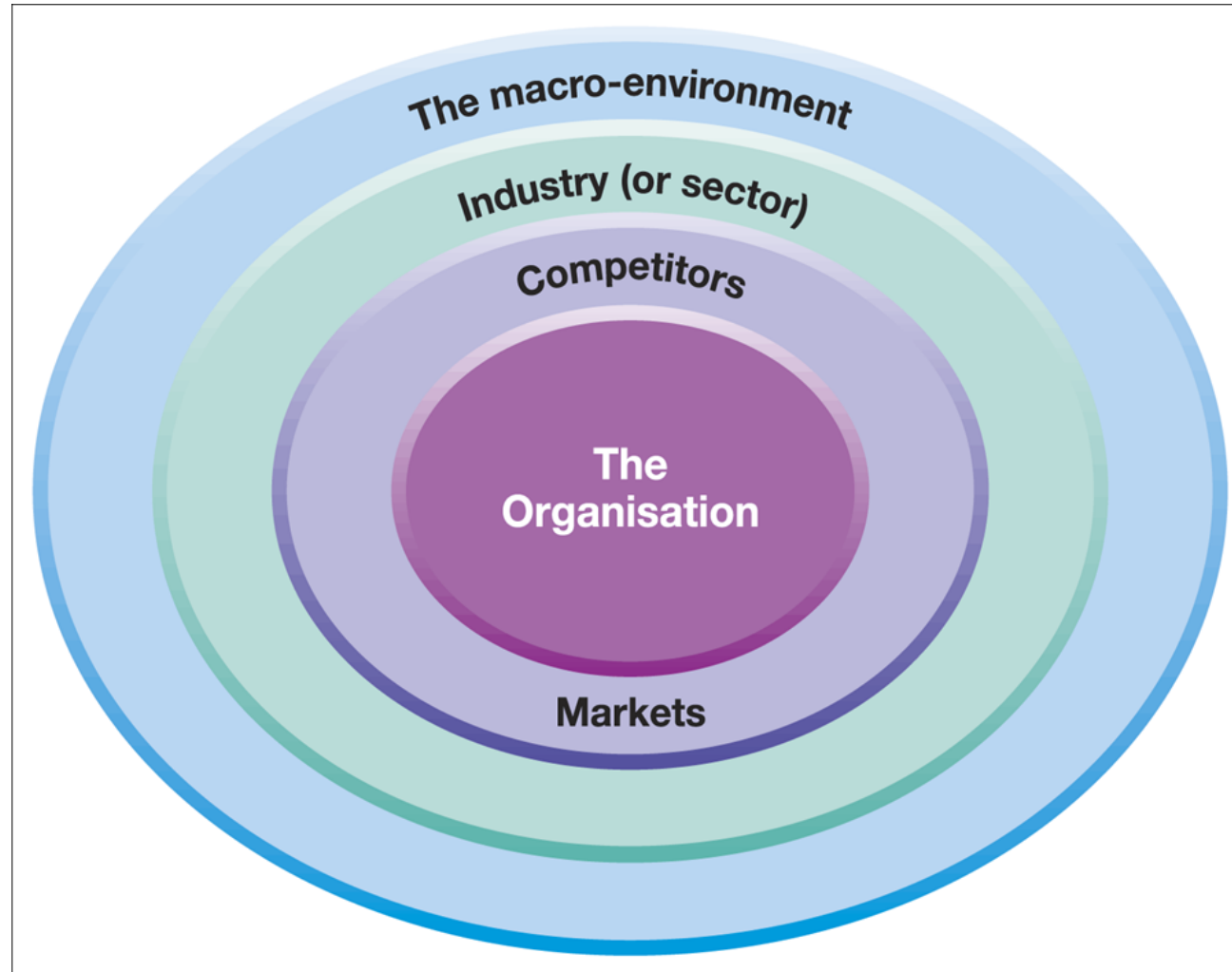


# Popular Regional Trade Blocs in The World



# **Layers of the Business Environment**

# Layers of the business environment



**Market**

# Market

- A market is a **group of customers for specific products** or services that are essentially the same
- For example; the market for luxury cars in Germany



# Key Factors of the Market

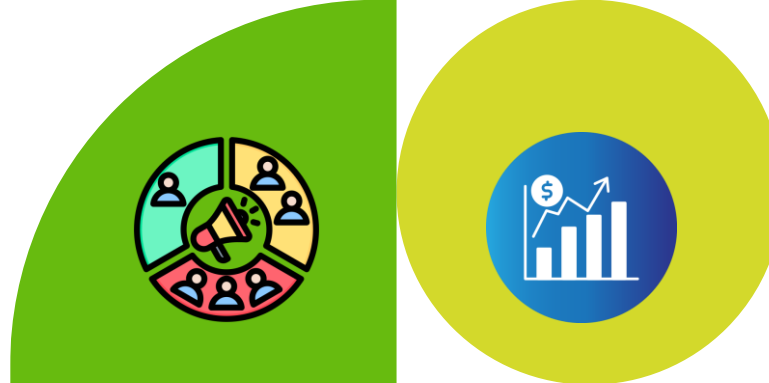
## Market Definition

Broadly identifying the boundaries of a market, both in terms of the products or services being offered and the geographical area in which competition takes place



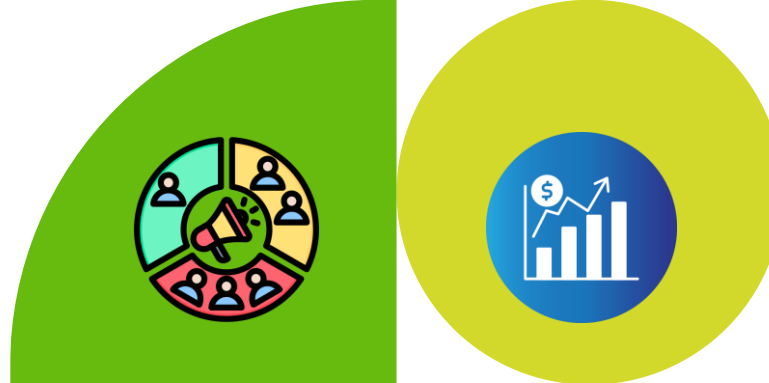
## Market Size

Total sales or revenue for a period of time. It quantifies demand by looking and volume and value of sales



## Market Segmentation

Divides the broader market into distinct groups of consumers with similar characteristics or needs..



## Market Growth Rate

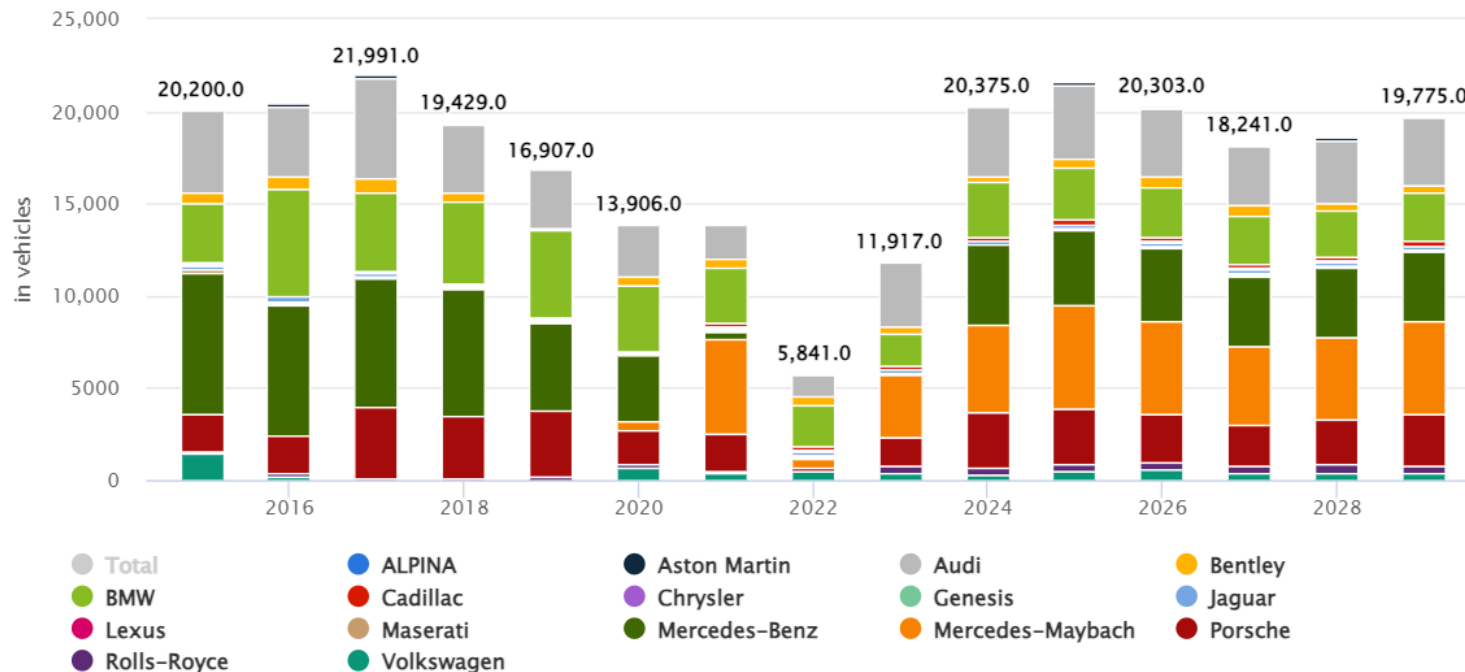
How fast the overall market for a product or service is expanding (or contracting) over time. Measured using Compounded Annual Growth Rate (CAGR)



# The Market for Luxury cars in Germany

Market: Luxury Cars ▾    Make: All ▾    Region: Germany ▾    Compare to: None ▾

## VEHICLE SALES BY MAKE



Most recent update: Oct 2024

Source: Statista Market Insights

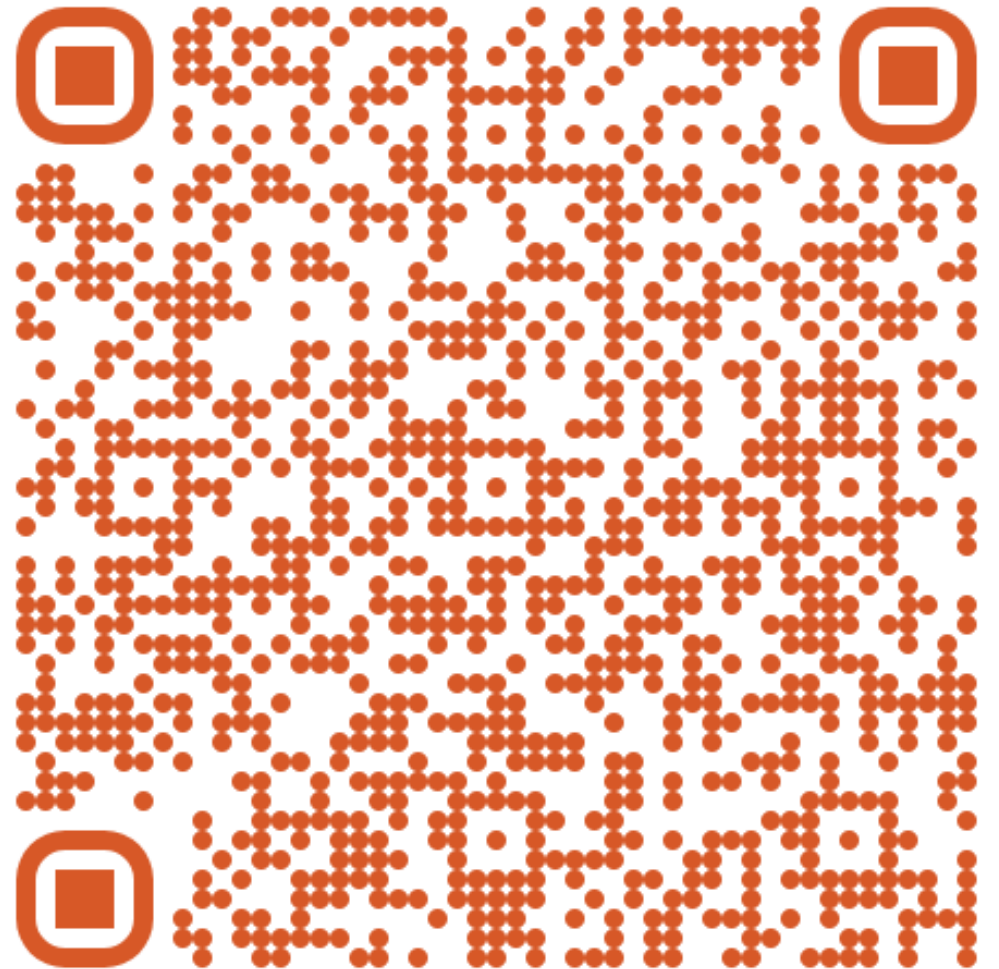
- Revenue in the Luxury Cars market is projected to reach **US\$3,678m in 2024.**

- Revenue is expected to show an annual growth rate (**CAGR 2024-2029**) of **0.45%**, resulting in a projected market volume of US\$3,762m by 2029.

- Luxury Cars market unit **sales are expected to reach 19,780.0 vehicles in 2029.**

# Activity- Find Market Insights for your Chosen Product

- Go to Statista through ARU Library ----->
- **Login** using ARU Credentials
- On Statista, Go to **INSIGHTS**
- Then Choose **Explore Market Insights**
- Search!!!



**Industry**

# Industry

- An industry is a **group of firms** producing products and services that are essentially the same.
- For example, automobile industry and airline industry.

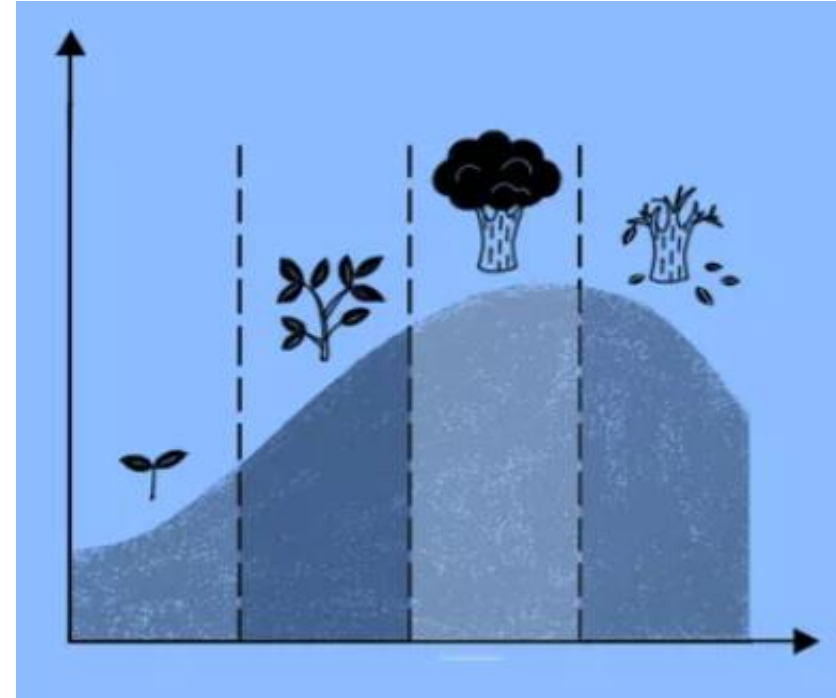


# What we will investigate?

Industry  
Lifecycle

Competitive  
Forces

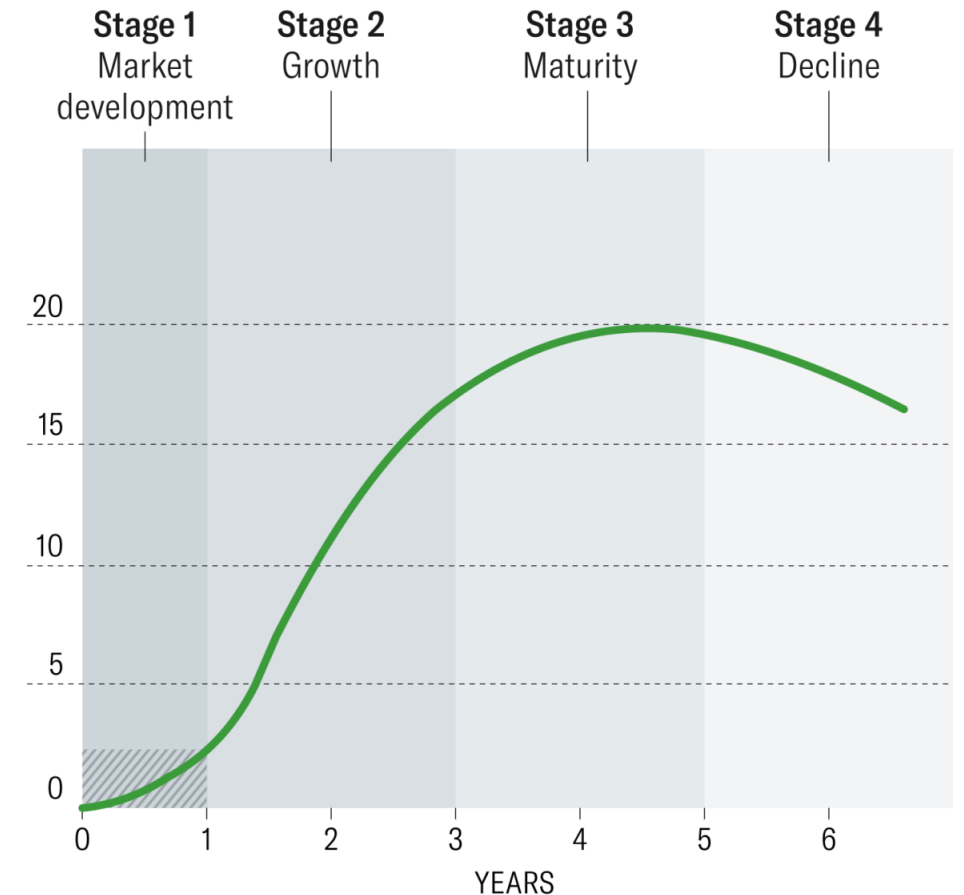
# Industry Lifecycle



# Stages of the Industry Lifecycle

- The industry life cycle is the **series of phases that a product will go through in its “lifetime” in relation to the profit and sales** that it will collect (Kotler & Armstrong, 2012)
- The life cycle is broken into **four stages**:
  - Development/Introduction
  - Growth
  - Maturity
  - Decline.

Sales volume (dollar index)



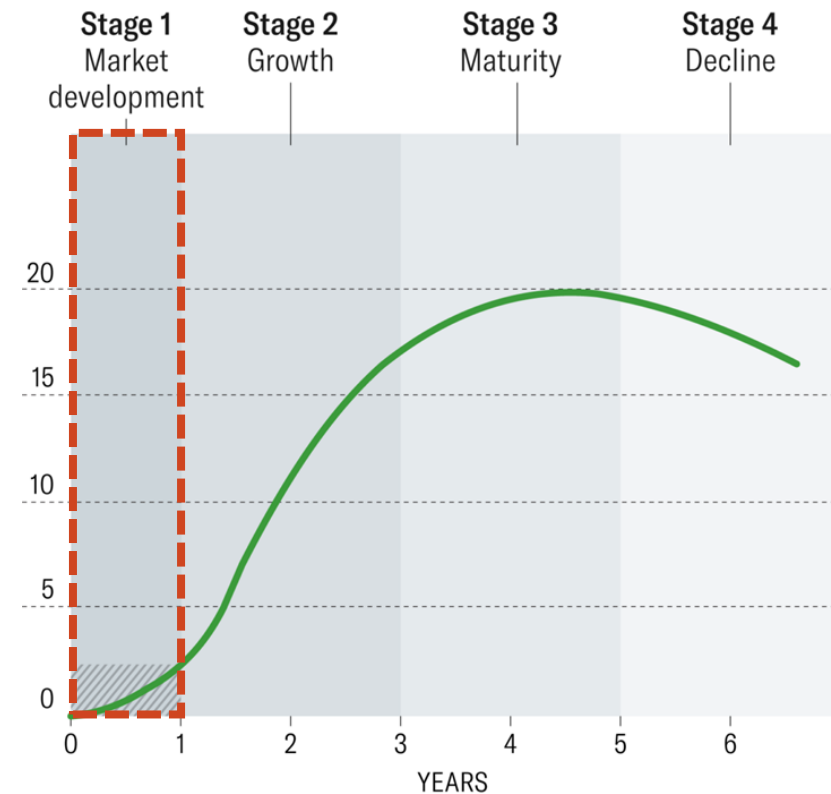
Levitt (1965) <https://hbr.org/1965/11/exploit-the-product-life-cycle>



# Stage 1. Market development

- This is when a **new product** is first brought to market
- **Substantial investment in advertising** and a marketing campaign focused on making consumers aware
- There is often **little-to-no competition**
- **Sales are low** and creep along slowly.

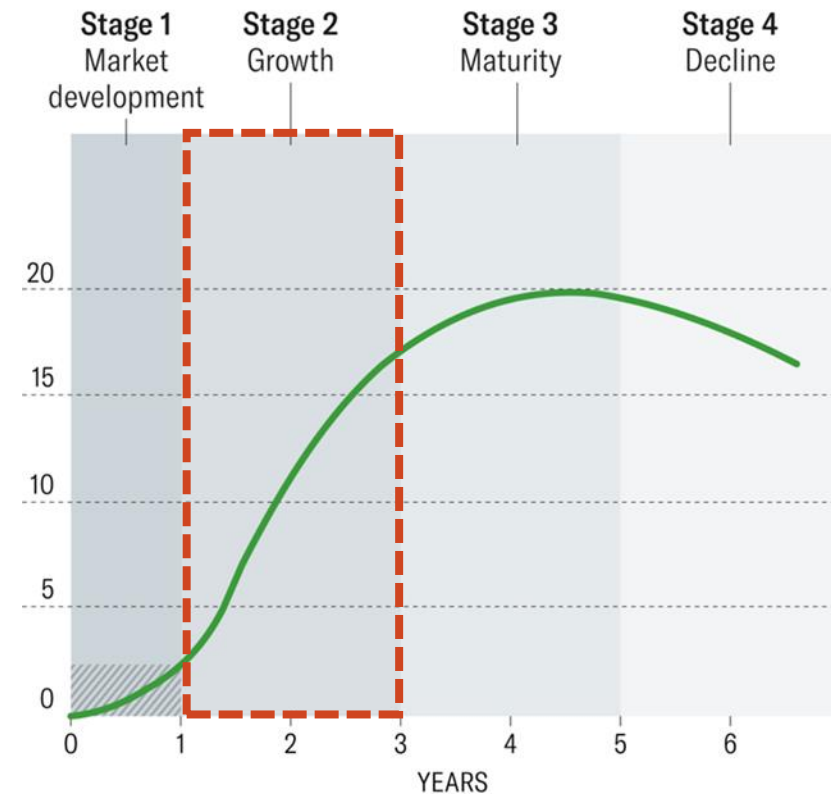
Sales volume (dollar index)



# Stage 2. Market Growth

- **Product becomes** more **popular** and recognizable
- Demand accelerates leading to **increased sales and higher revenue**
- The **size of the total market expands** rapidly
- **Marketing** campaigns geared towards **differentiating product** from competitors

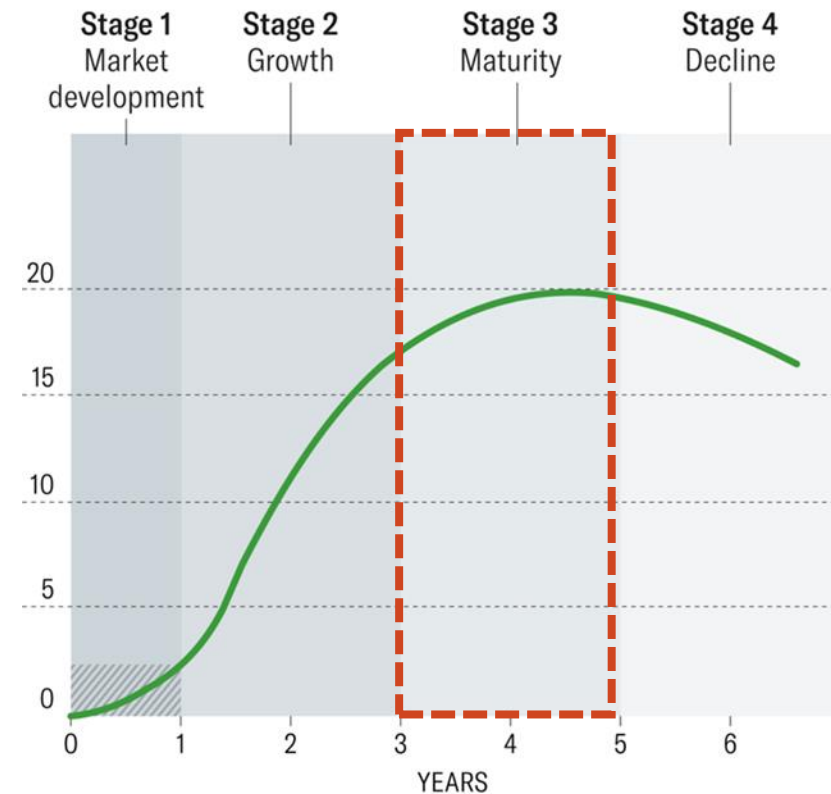
Sales volume (dollar index)



# Stage 3. Market Maturity

- Sales **volume is "maxed out"**
- **Market saturated** with the product
- Costs of **marketing decline**
- **Competition is higher**
- **Profit margins** starting to **shrink**

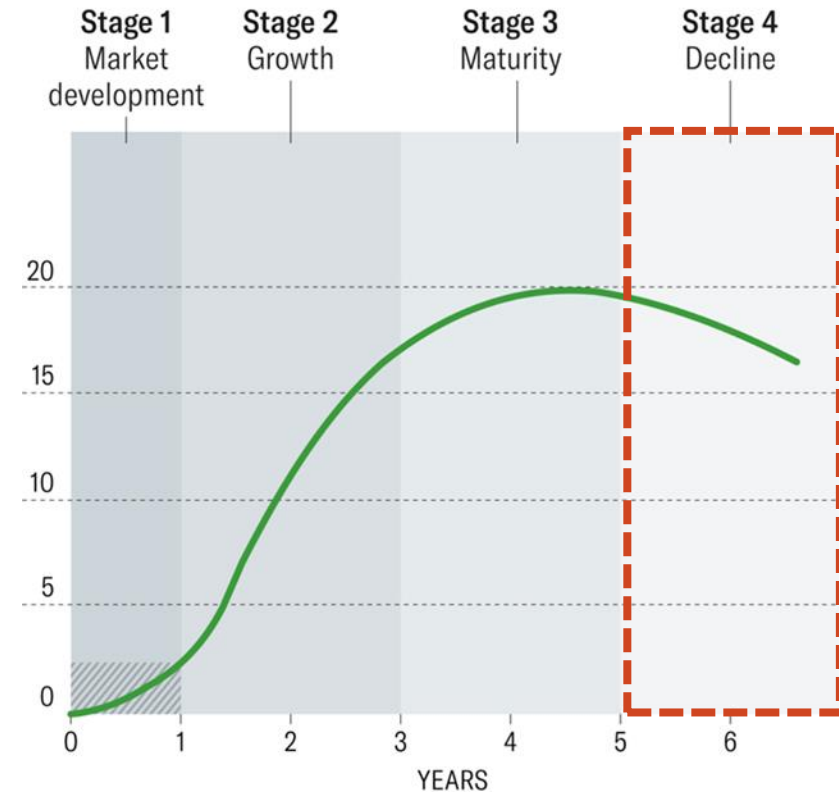
Sales volume (dollar index)



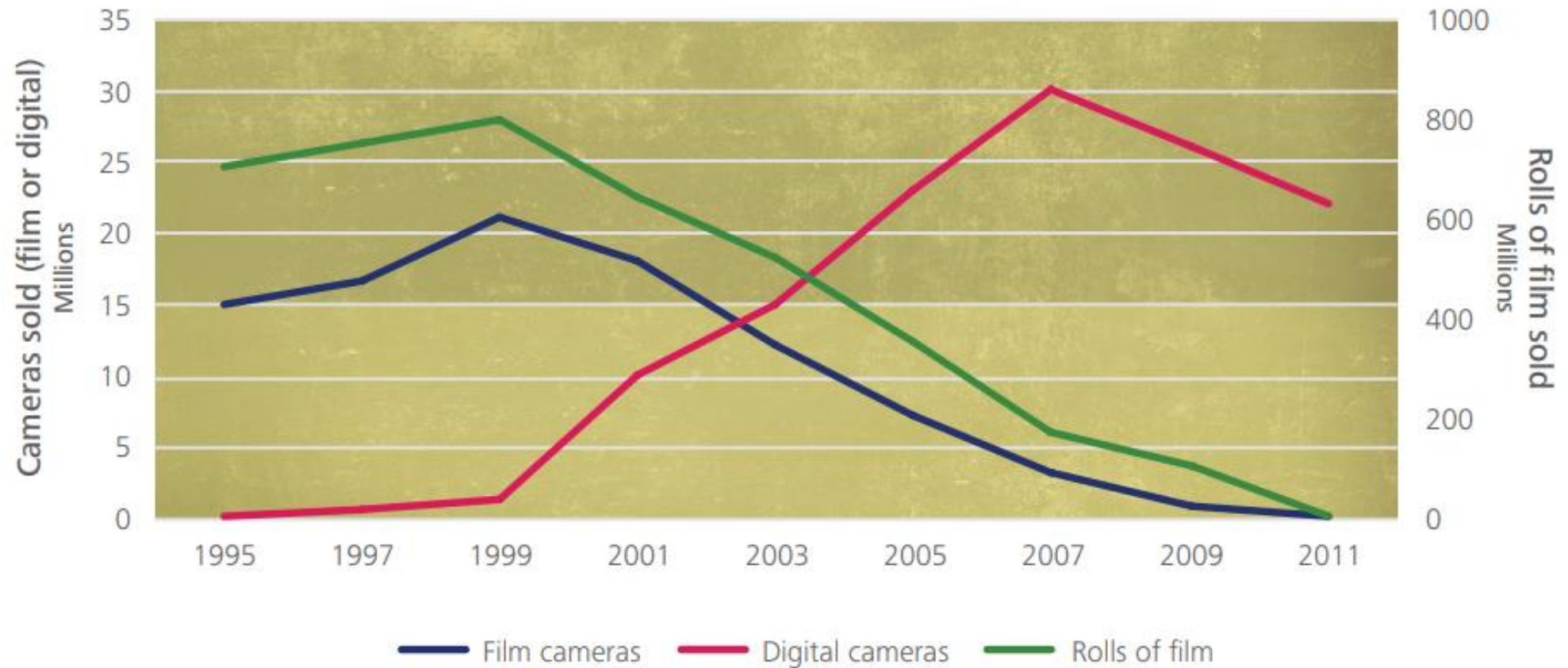
# Stage 4. Market Decline

- The product begins to **lose consumer appeal**
- **Sales drift downward**
- The product may **lose market share**

Sales volume (dollar index)

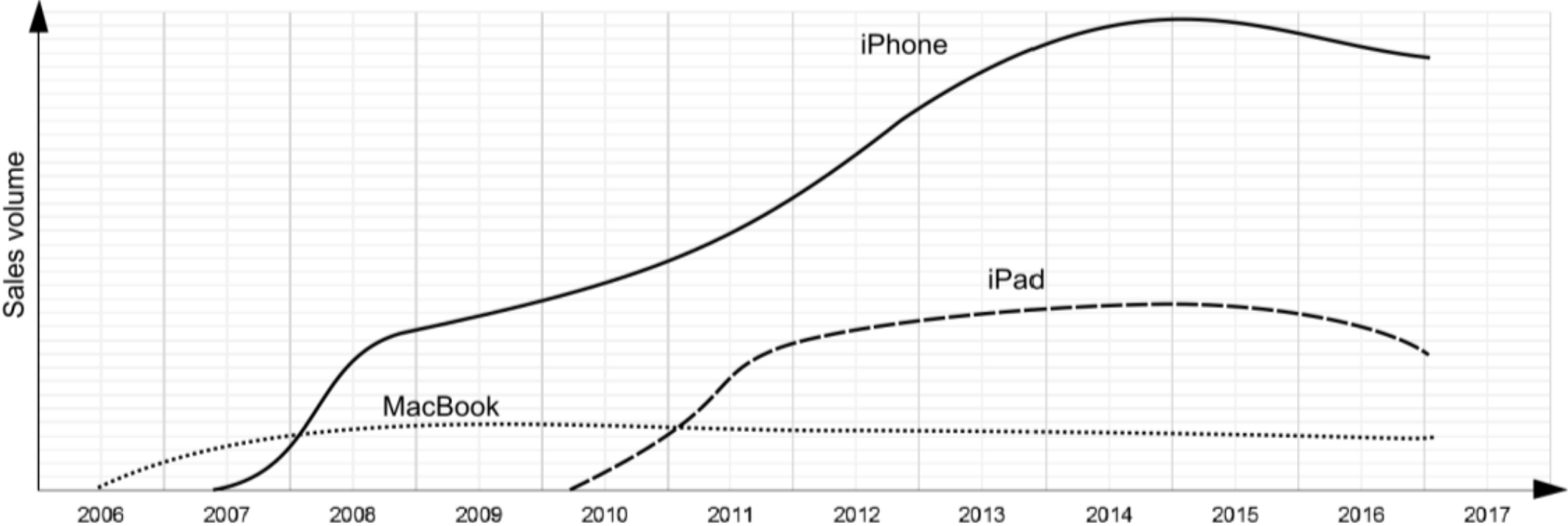


# Death of Film Cameras



Source: Jake Nielson, "Story of Kodak: How they could have saved the business," *The Innovative Manager*, August 2014, <http://www.theinnovativemanager.com/story-of-Kodak/>, accessed November 24, 2015.

# Apple's Mobile Product Lifecycle



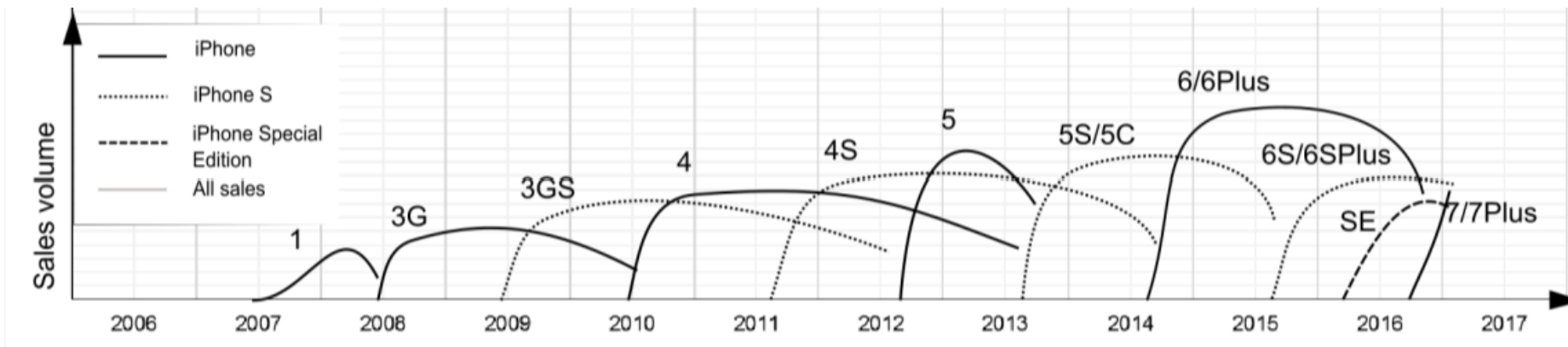


Figure 1. The life cycle of all the iPhone models

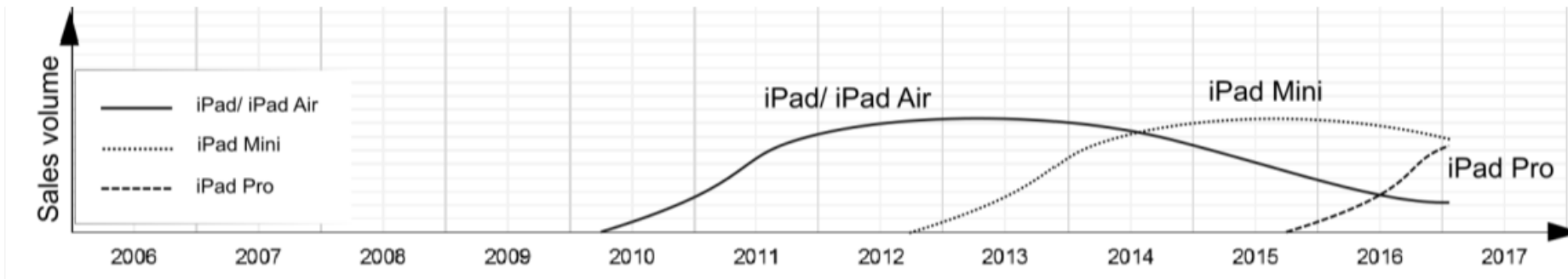


Figure 2. The life cycle of the iPad lines

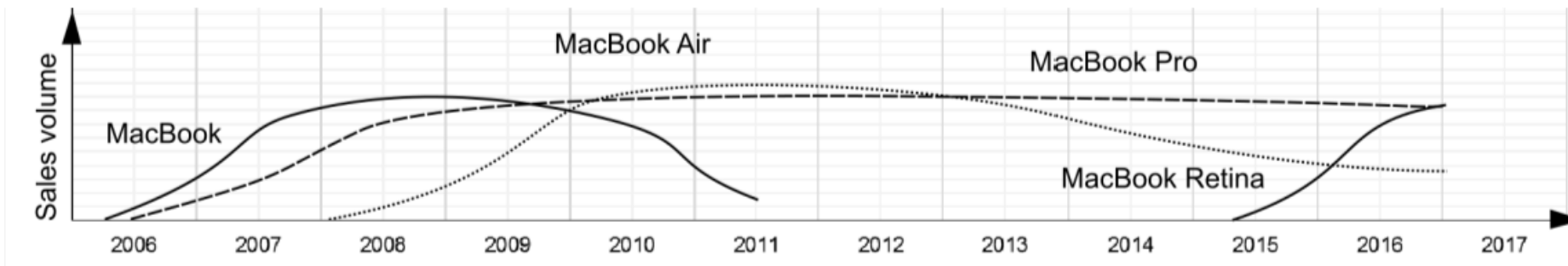


Figure 3. The life cycle of the MacBook lines

# Activity- Product Lifecycle for Apple iPhone

- **Using:**

- Statista

- **Search:**

- Unit sales of the Apple iPhone worldwide from 2007 to 2023

- **Observations:**

- What stages of the lifecycle is the iPhone at?



# Competitive Environment

# Industry Attractiveness

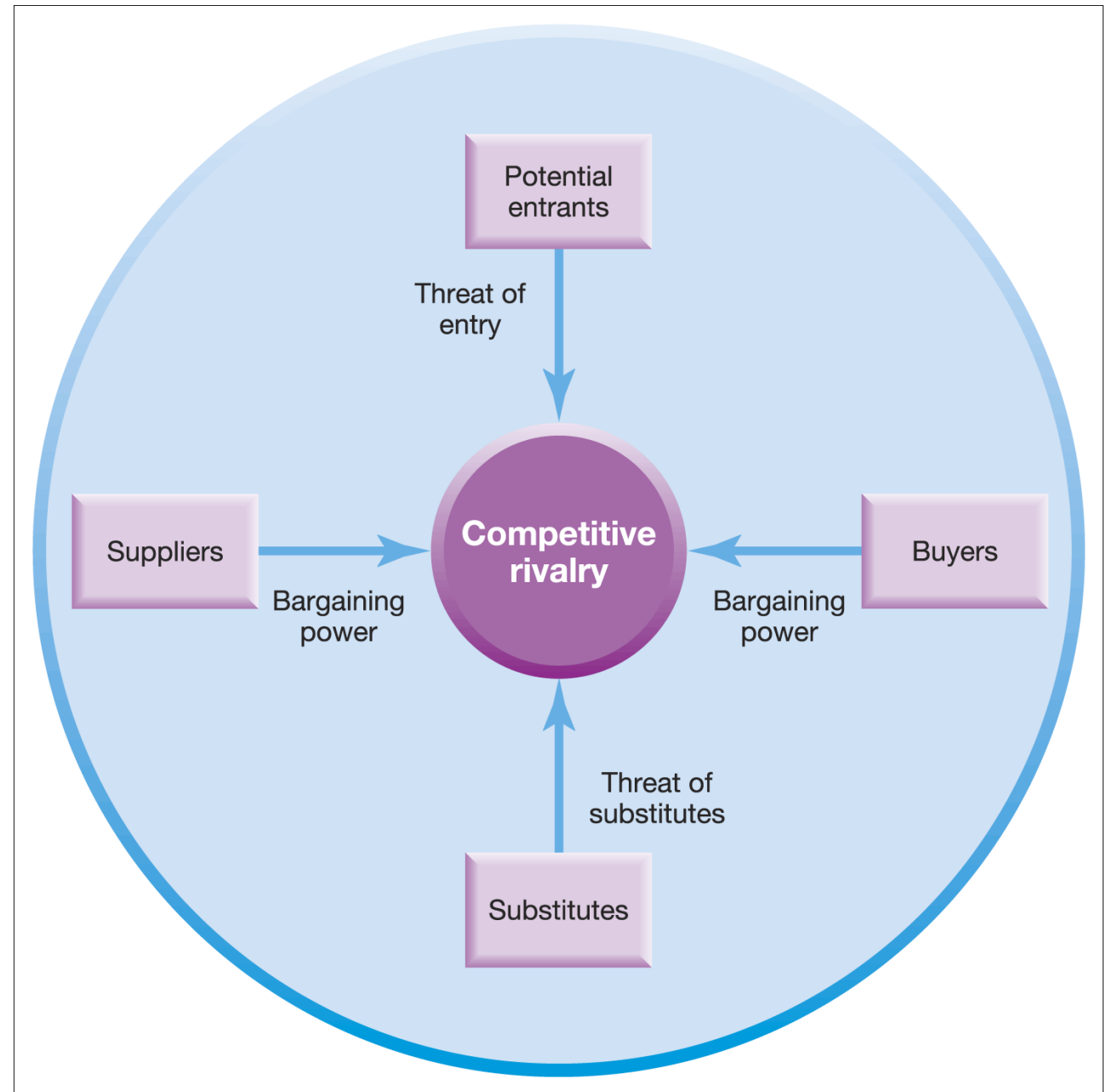
- Industries vary widely in terms of their attractiveness, in terms of its profitability
- One key determinant of profitability is the extent of competition, actual or potential
- Therefore, before entering new markets, a Competitive analysis is required to identify Opportunities and threats
- Bottom line- Is the industry Attractive?

# Mapping Competition

- Who are our competitors?
- What is the market share owned by each competitor ?
- What is the profit margin that my competitors make ?
- What are the threats that they pose ?
  - Low Price?
  - Better Quality ?
  - Better service ?
  - Customer loyalty?
  - Brand name ?
  - Resource rich?

# The five forces framework

- **Porter's five forces** framework helps identify the attractiveness of an industry in terms of five competitive forces:



# The 5 Forces That Make Companies Successful



<https://www.youtube.com/watch?v=XCWHSaDU-zk>

# The Threat of Entry & Barriers to Entry

- The **threat of entry is low when the barriers to entry are high and vice versa.**
- The main barriers to entry are:
  - Economies of scale/high fixed costs
  - Experience and learning
  - Access to supply and distribution channels
  - Differentiation and market penetration costs
  - Government restrictions (e.g. licensing)
- Entrants must also consider the expected retaliation from organisations already in the market

# Threat of Substitutes

- **Substitutes** are products or services that offer a similar benefit to an industry's products or services, but by a different process.
- **Customers will switch to alternatives (and thus the threat increases) if:**
  - The price/performance ratio of the substitute is superior (e.g. aluminium maybe more expensive than steel but it is more cost efficient for some car parts)
  - The substitute benefits from an innovation that improves customer satisfaction (e.g. high speed trains can be quicker than airlines from city centre to city centre)

# The bargaining power of buyers

- **Buyers** are the organisation's immediate customers, not necessarily the ultimate consumers.
- If buyers are powerful, then they can demand cheap prices or product / service improvements to reduce profits
- **Buyer power is likely to be high when:**
  - Buyers are concentrated
  - Buyers have low switching costs
  - Buyers can supply their own inputs (backward vertical integration)



# The bargaining power of suppliers

- **Suppliers** are those who supply what organisations need to produce the product or service. Powerful suppliers can eat into an organisation's profits.
- **Supplier power is likely to be high when:**
  - The suppliers are concentrated (few of them).
  - Suppliers provide a specialist or rare input.
  - Switching costs are high (it is disruptive or expensive to change suppliers).
  - Suppliers can integrate forwards (e.g. low cost airlines have cut out the use of travel agents).

# Rivalry between competitors

- Competitive rivals are organisations with similar products and services aimed at the same customer group and are direct competitors in the same industry/market (they are distinct from substitutes).
- **The degree of rivalry is increased when :**
  - Competitors are of roughly equal size
  - Competitors are aggressive in seeking leadership
  - The market is mature or declining
  - There are high fixed costs
  - The exit barriers are high
  - There is a low level of differentiation

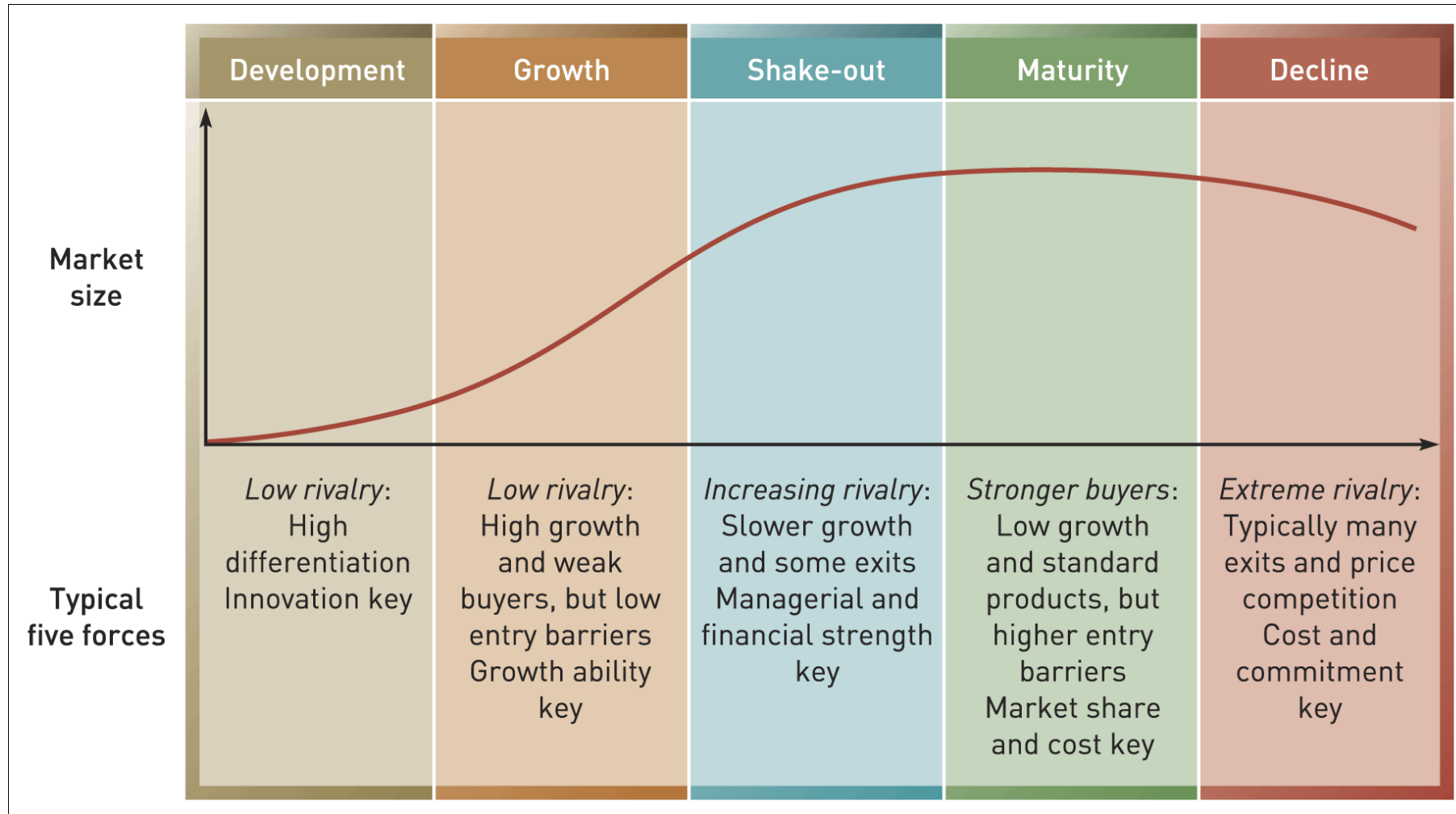
# Threat Indicators from the Five Forces

<b>Five Forces</b>	<b>Threats Indicative of Strong Competitive Forces that Can Depress Industry Profitability</b>
Rivalry among competitors	<ul style="list-style-type: none"><li>• A large number of competing firms</li><li>• Rivals are similar in size, influence, and product offerings</li><li>• High-price, low-frequency, “big ticket” purchases</li><li>• Capacity is added in large increments</li><li>• Industry slow growth or decline</li><li>• High exit costs</li></ul>
Threat of entrants	<ul style="list-style-type: none"><li>• Little scale-based advantages (economies of scale)</li><li>• Little non-scale-based advantages</li><li>• Inadequate product proliferation</li><li>• Insufficient product differentiation</li><li>• Little fear of retaliation because of focal firm’s lack of excess capacity</li><li>• No government policy banning or discouraging entry</li></ul>
Bargaining power of suppliers	<ul style="list-style-type: none"><li>• A small number of suppliers</li><li>• Suppliers provide unique, differentiated products</li><li>• Suppliers are willing and able to vertically integrate forward</li></ul>
Bargaining power of Buyers	<ul style="list-style-type: none"><li>• A small number of buyers</li><li>• Buyers purchase standard, undifferentiated products from focal firm</li><li>• Buyers are willing and able to vertically integrate backward</li></ul>
Threat of substitutes	<ul style="list-style-type: none"><li>• Substitutes are superior to existing products in quality and function</li><li>• Switching costs to use substitutes are low</li></ul>

# Implications from Porter's Five Forces Analysis

- Bottom line- Identify the **attractiveness of industries** i.e. which industries/markets to enter or leave
  - Where the **five forces are high**- industries are **not attractive**
  - Where the **five forces are weak**- industries are **attractive**

# The industry life cycle and Five Forces



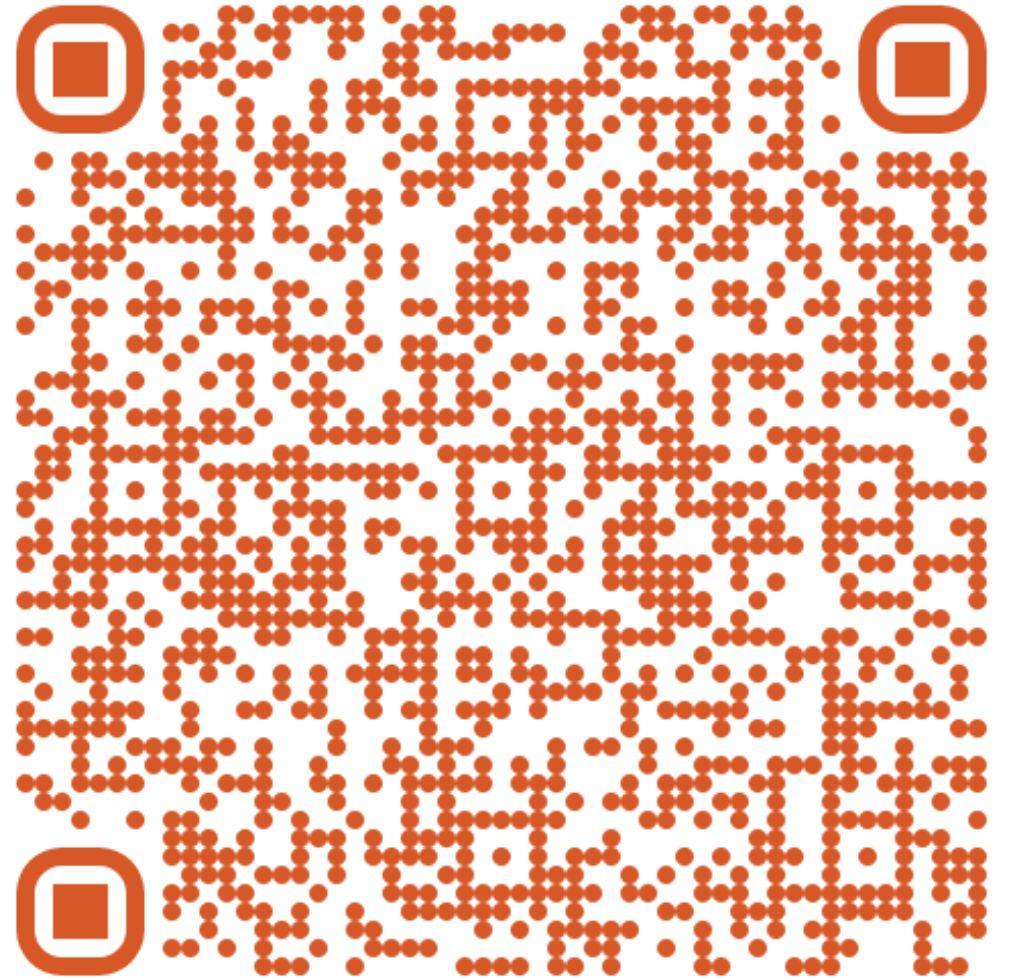
# The Evolution of Industry and Trade

	Introduction	Growth	Maturity	Decline
Demand	Limited to early adopters: high income, avant-garde	Rapidly increasing market penetration	Mass market, replacement/repeat buying. Customers knowledgeable and price sensitive	Obsolescence
Technology	Competing technologies, rapid product innovation	Standardization around dominant technology, rapid process innovation	Well-diffused technical know how: quest for technological improvements	Little product or process innovation
Products	Poor quality, wide variety of features and technologies, frequent design changes	Design and quality improve, emergence of dominant design	Trend to commoditization. Attempts to differentiate by branding, quality, bundling	Commodities the norm: differentiation difficult and unprofitable
Manufacturing and distribution	Short production runs, high skilled labor content, specialized distribution channels	Capacity shortages, mass production, competition for distribution	Emergence of overcapacity, deskilling of production, long production runs, distributors carry fewer lines	Chronic overcapacity, re-emergence of specialty channels
Trade	Producers and consumers in advanced countries	Exports from advanced countries to rest of world	Production shifts to newly industrializing then developing countries	Exports from countries with lowest labor costs
Competition	Few companies	Entry, mergers and exits	Shakeout, price competition increases	Price wars, exits
Key success factors	Product innovation, establishing credible image of firm and product	Design for manufacture, access to distribution, brand building, fast product development, process innovation	Cost efficiency through capital intensity, scale efficiency, and low input costs	Low overheads, buyer selection, signalling commitment, rationalizing capacity



# Activity- Find Industry Report for your Chosen Product

- Go to **IBIS World** through ARU Library ----->
- **Login** using ARU Credentials
- Search!!!



# **Global Soft Drink & Bottled Water Manufacturing**

Key Analysis



## Global Soft Drink & Bottled Water Manufacturing

# Life Cycle

Indication of the industry's stage in its life cycle compared to similar industries



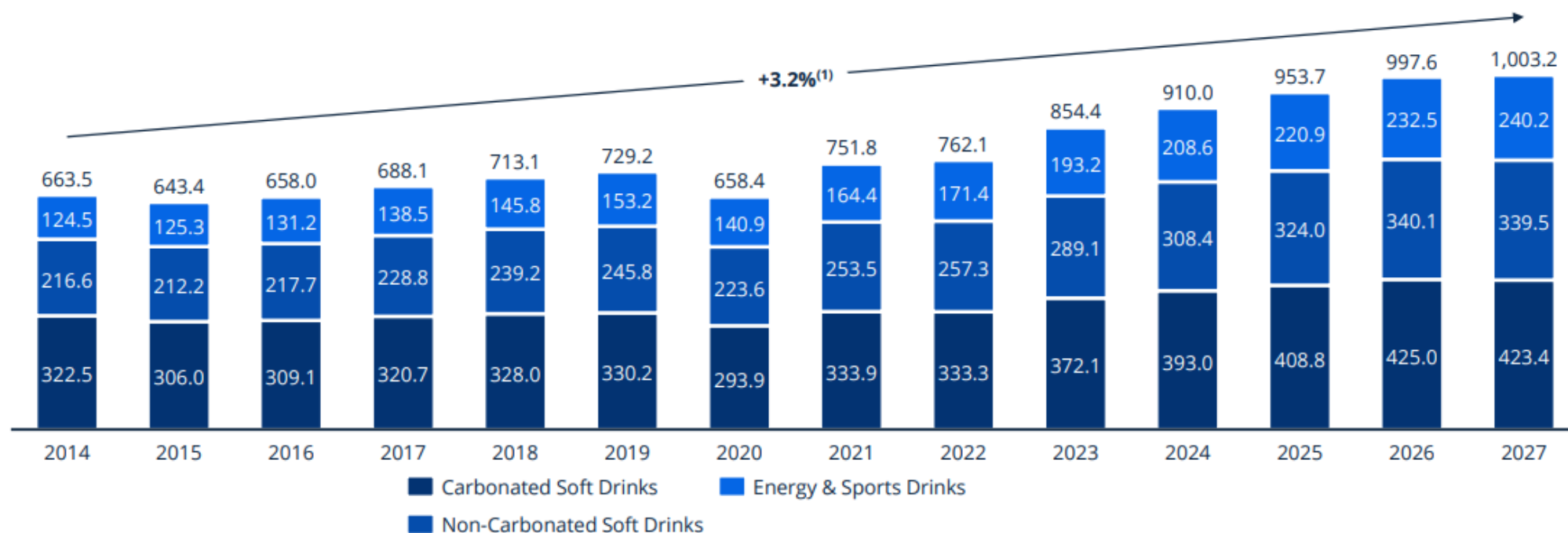
\*Growth is based on change in share of economy combined with change in establishment numbers

Source: IBISWorld

# Soft Drinks revenues are estimated to increase at a CAGR<sup>(1)</sup> of 3.2% from 2014 to 2027

Market Size: Global

## Revenue forecast in billion US\$



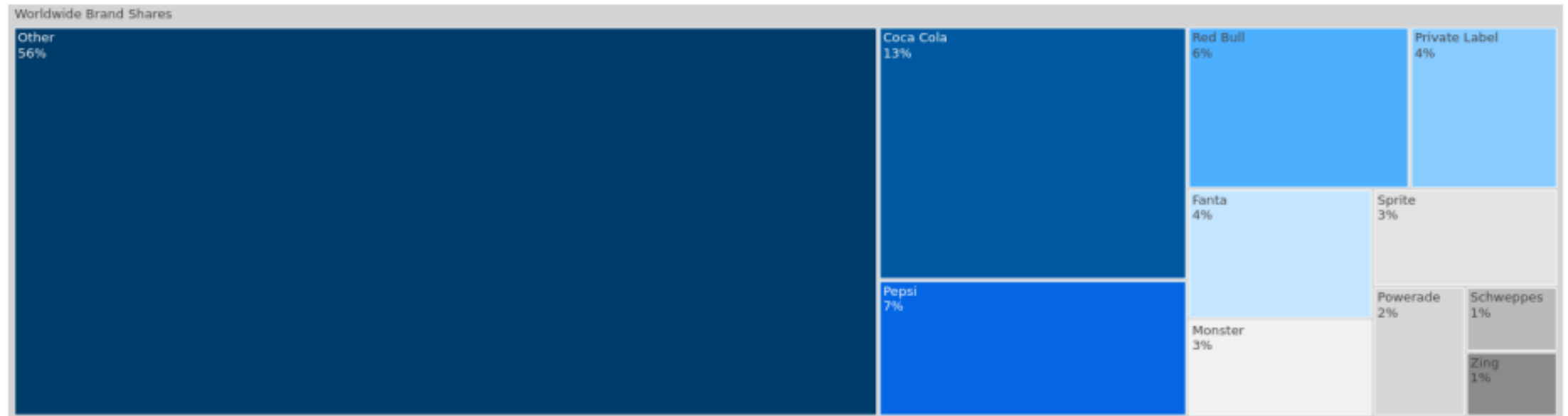
Notes: (1) CAGR: Compound Annual Growth Rate

Sources: Statista Market Insights, 2023

# In 2022, Coca Cola had the highest share in Soft Drinks

Further Market Analysis

## Brand share in 2022



# Barriers to Entry

Moderate ⓘ

Increasing

## What challenges do potential industry entrants face?

### Legal

- There is a moderate number of legal barriers that companies face related to regulatory requirements toward carbon emissions and waste disposal practices. These legal requirements across countries.

### Start-up Costs

- High levels of capital investment are required in the production of soft drinks. Producers that are established in the market have achieved economies of scale and experience a lower per unit cost of production than new entrants.

### Differentiation

- The industry's leading brands are supported by substantial advertising and marketing budgets, global bottling arrangements, extensive distribution networks and a loyal consumer base.

### Labor Intensity

- While most bottled water and soda producers rely on manual labor to operate machinery, larger producers have adequate funding to invest in labor-saving machinery.

# Substitutes

High ⓘ

Increasing

## What are substitutes for industry services?

### Producers of other ready-to-drink (RTD) beverages

- Expansion of the juices has hampered revenue growth for producers.
- While larger manufacturers, including PepsiCo and The Coca-Cola, also produce noncarbonated beverages, juice producers, which have introduced new options, like sparkling fruit drinks, continue to threaten the position of the major soda producers.
- People may also substitute soda with coffee or tea products. Leading coffee and snack shops, like Starbucks and Dunkin Donuts, have expanded menu selections to include RTD tea and single-serve coffee pods.

### Water filters and reusable bottles

- An effective substitute that has gained traction in recent years, water filters and reusable water bottles provide consumers with a cost-effective alternative that enables them to drink water while saving money.
- Since bottled water prices and disposable income changes as economic conditions fluctuate, consumers will look towards budget-friendly alternatives while avoiding sugary or flavored drinks.

## What power do buyers and suppliers have over the industry?

High ⓘ

Steady

### Buyers: Brand loyalty and price

- There are numerous brands of bottled water and soda that consumers can easily switch between. Buyers will weigh the price and nutritional content of each option.
- Consumers are willing to pay more for their favorite brands, limiting price-based competition.

Low ⓘ

Steady

### Suppliers: Low switching costs for the same products

- Although most primary inputs are identical, producers buy high-quality inputs to expand the nutritional value and appeal to consumers.
- The high fragmentation of the agriculture sector allows producers to switch freely between suppliers.

# Summary of Five Forces- Carbonated Soft Drink

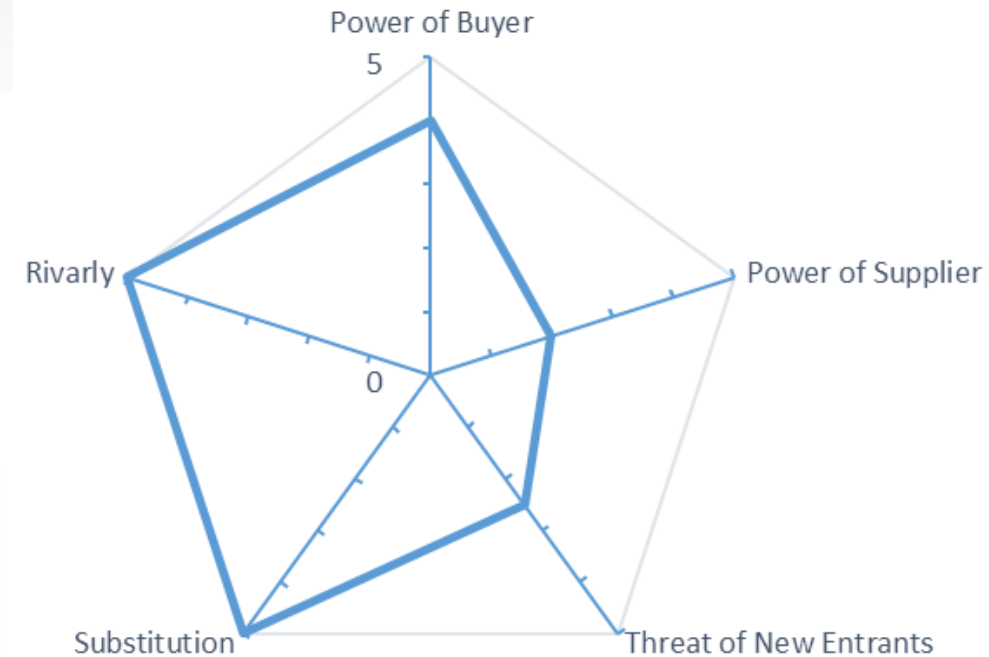
## ➔ Competitive Forces

### Key Takeaways

**Manufacturers compete based on several factors including price levels, range of products offered, product innovation and marketing.** The expansion of private label brands has also intensified price-based competition among manufacturers.

**Competition with producers of other ready-to-drink (RTD) beverages has intensified in recent years.** Products manufactured by juice producers, like sparkling fruit drinks, have seen growth recently.

<b>Concentration</b> Low	<b>Competition</b> High Increasing	<b>Barriers to Entry</b> Moderate Increasing
<b>Substitutes</b> High Increasing	<b>Buyer Power</b> High Steady	<b>Supplier Power</b> Low Steady



# Databases

- EBSCOhost Business Source Premier:
  - [https://anglia.primo.exlibrisgroup.com/permalink/44APU\\_INST/1k6g5vr/alma997503520102051](https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma997503520102051)
- IBISWorld
  - [https://anglia.primo.exlibrisgroup.com/permalink/44APU\\_INST/1k6g5vr/alma997775560102051](https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma997775560102051)
- Statista
  - [https://anglia.primo.exlibrisgroup.com/permalink/44APU\\_INST/1k6g5vr/alma999115040002051](https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma999115040002051)



# Different types of market based on competition

- Monopoly
- Duopoly
- Oligopoly
- Monopolistic competition
- A competitive market

# Monopolistic industries

- An industry with one firm and therefore no competitive rivalry.
- A firm has 'monopoly power' if it has a dominant position in the market.
- For example, BT in the UK fixed line telephone market.

# Oligopolistic industries

- An industry dominated by a few firms with limited rivalry and in which firms have power over buyers and suppliers

# Duopoly

- A type of oligopoly where two firms have dominant or exclusive control over a market
- Most of the competition within that market occurs directly between them.

# Perfectly competitive industries

- Where barriers to entry are low
- There are many equal rivals each with very similar products, and information about competitors is freely available.
- Few (if any) markets are 'perfect' but may have features of highly competitive markets, for example, mini-cabs in London.

# Hypercompetitive industries

- Where the frequency, boldness and aggression of competitor interactions accelerate to create a condition of constant disequilibrium and change.
- Hypercompetition often breaks out in otherwise oligopolistic industries (e.g. mobile phones).
- Organisations interact in a series of competitive moves in hypercompetition which often becomes extremely rapid and aggressive as firms vie for market leadership.



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University