

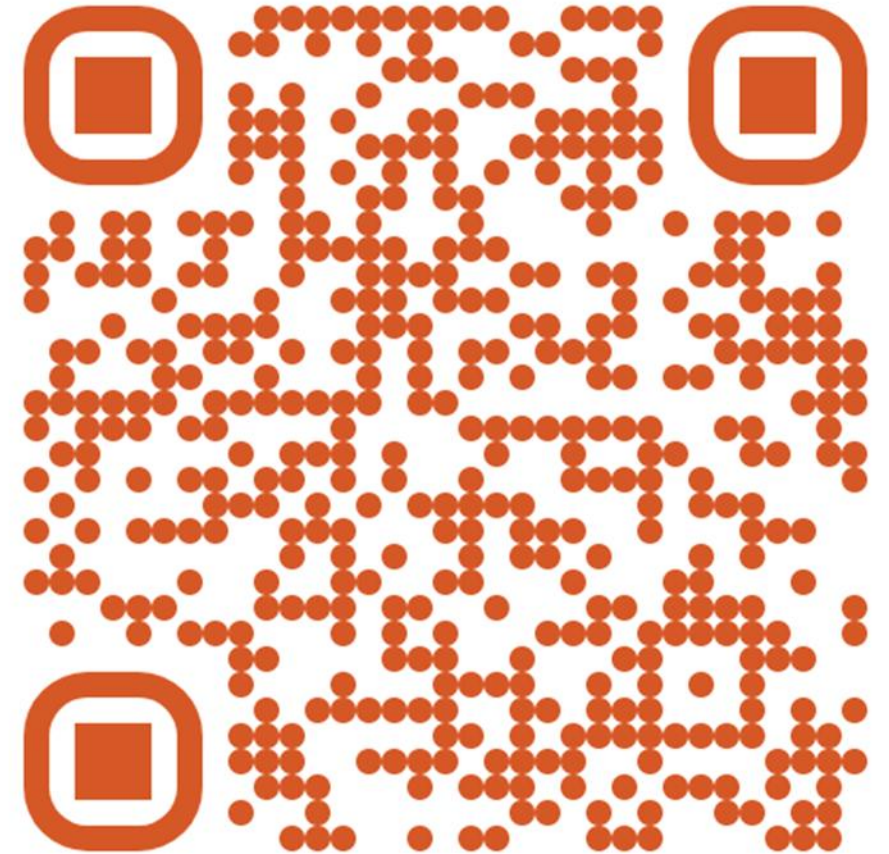
Global Business Environment and International Strategy MOD007191

Lecture 4

The Competitive Environment

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I ain't worried!



Recap

The Business Model Canvas

Designed for:

Designed by:

Date:

Version:

Key Partnerships



Key Activities



Value Propositions



Customer Relationships



Customer Segments



Key Resources



Channels



Cost Structure



Revenue Streams



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 Segmentation

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



Market Size

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

Market Growth Rate

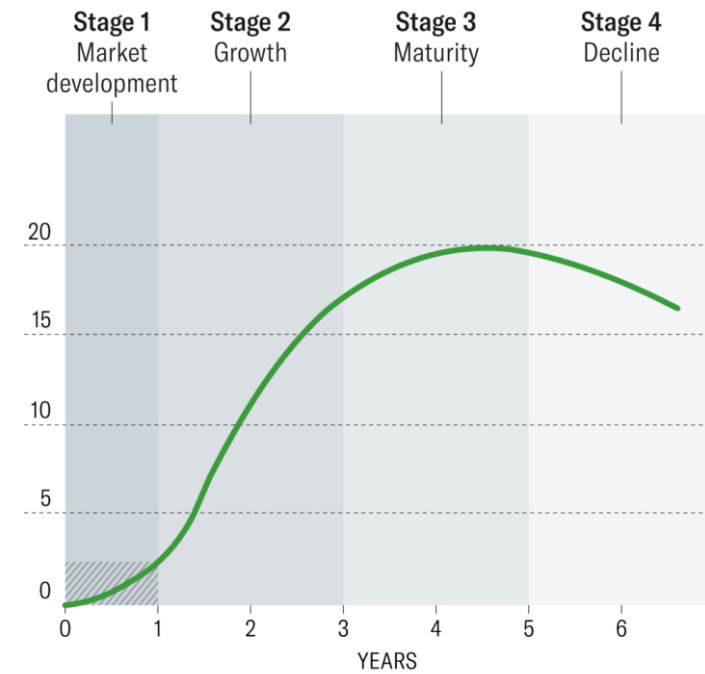
How fast the overall market for a product or service is expanding (or contracting) over time. Measured using Compounded Annual Growth Rate (CAGR)

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.

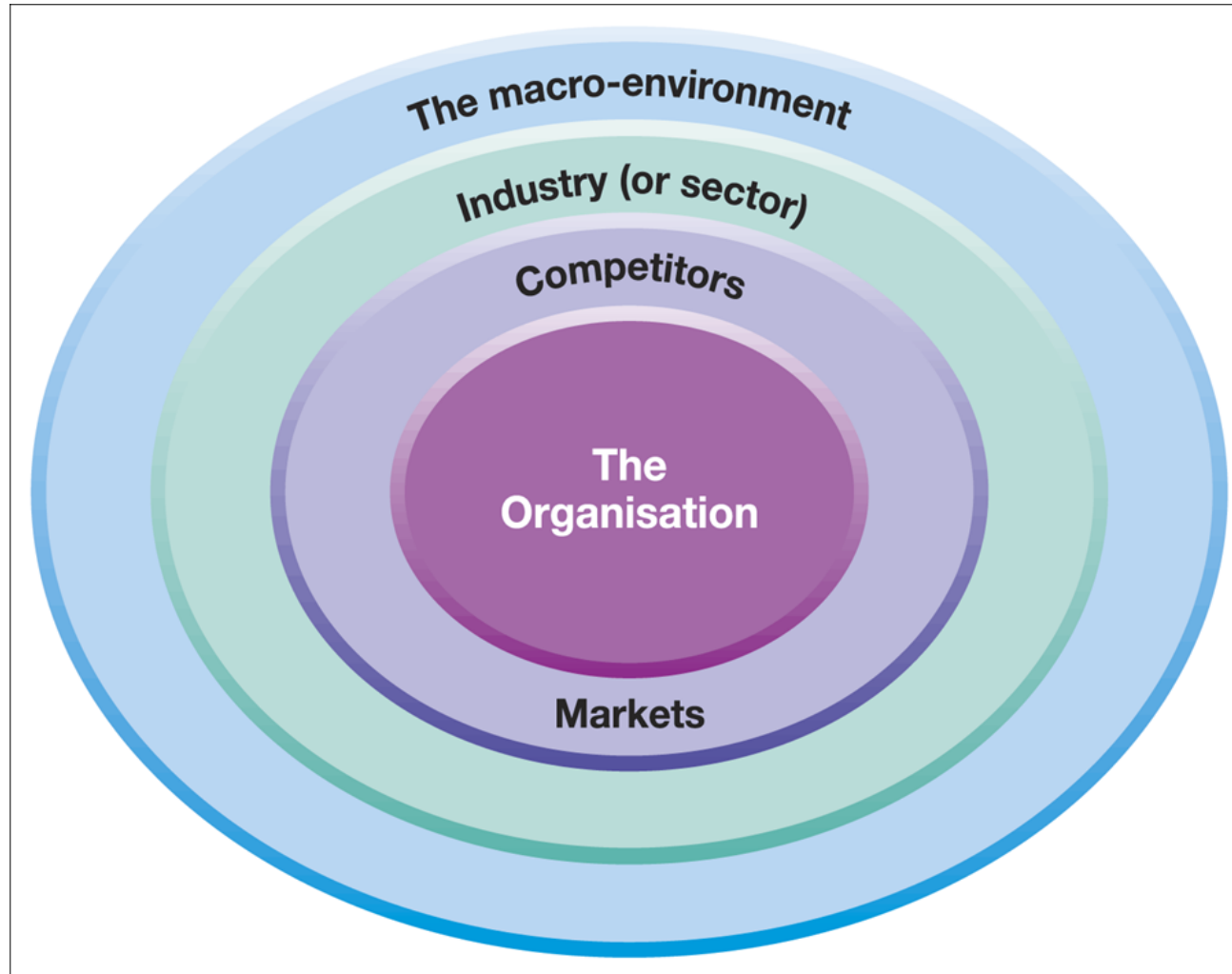
Exhibit I
Product Life Cycle: Entire Industry

Sales volume (dollar index)



HBR

Layers of the business environment



Competitive Environment

Industry Attractiveness

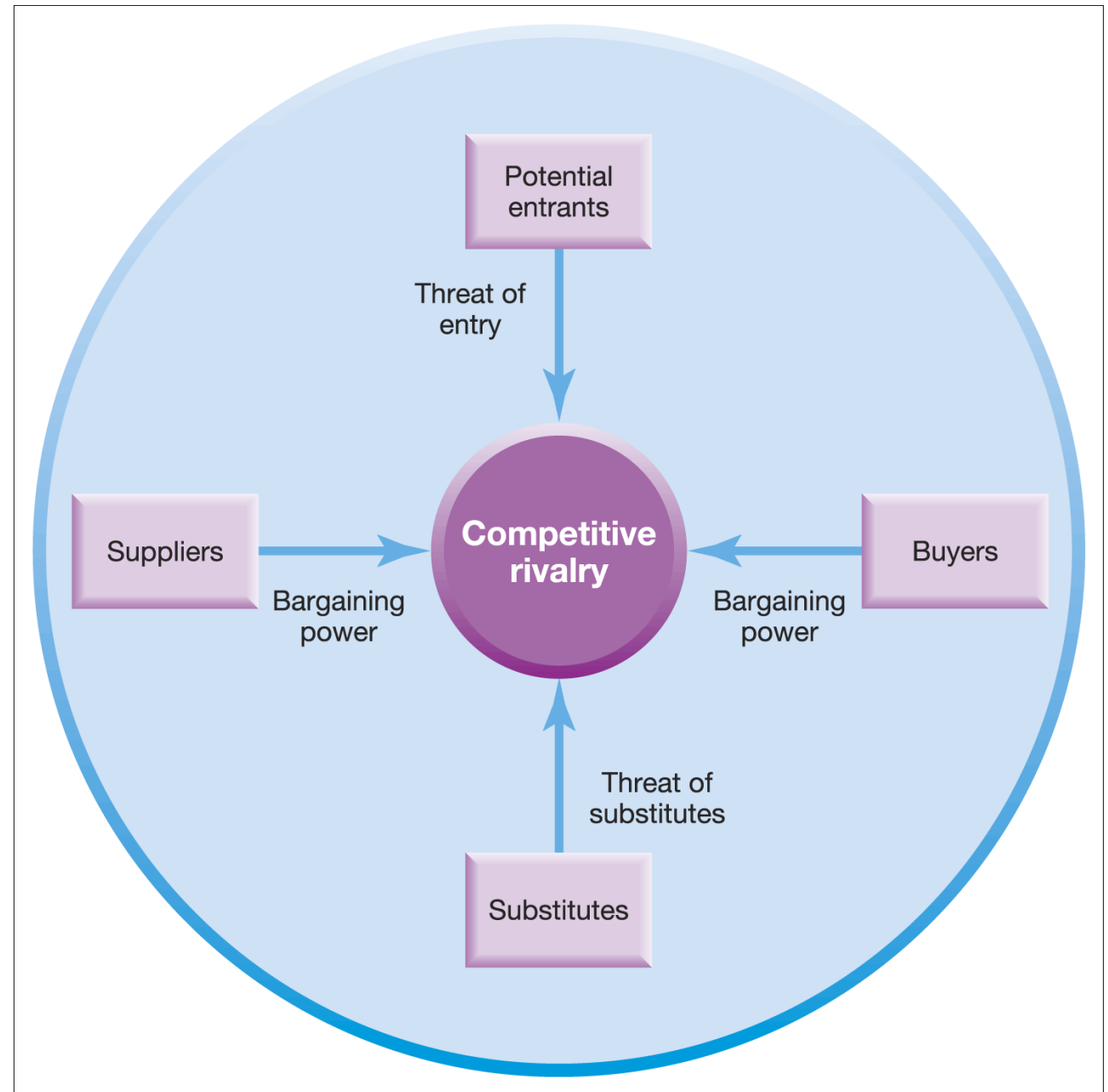
- Industries vary widely in terms of their attractiveness, in terms of its profitability
- One key determinant of profitability is the extent of competition, actual or potential
- **Therefore, before entering new markets, a Competitive analysis is required** to identify Opportunities and threats
- Bottom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

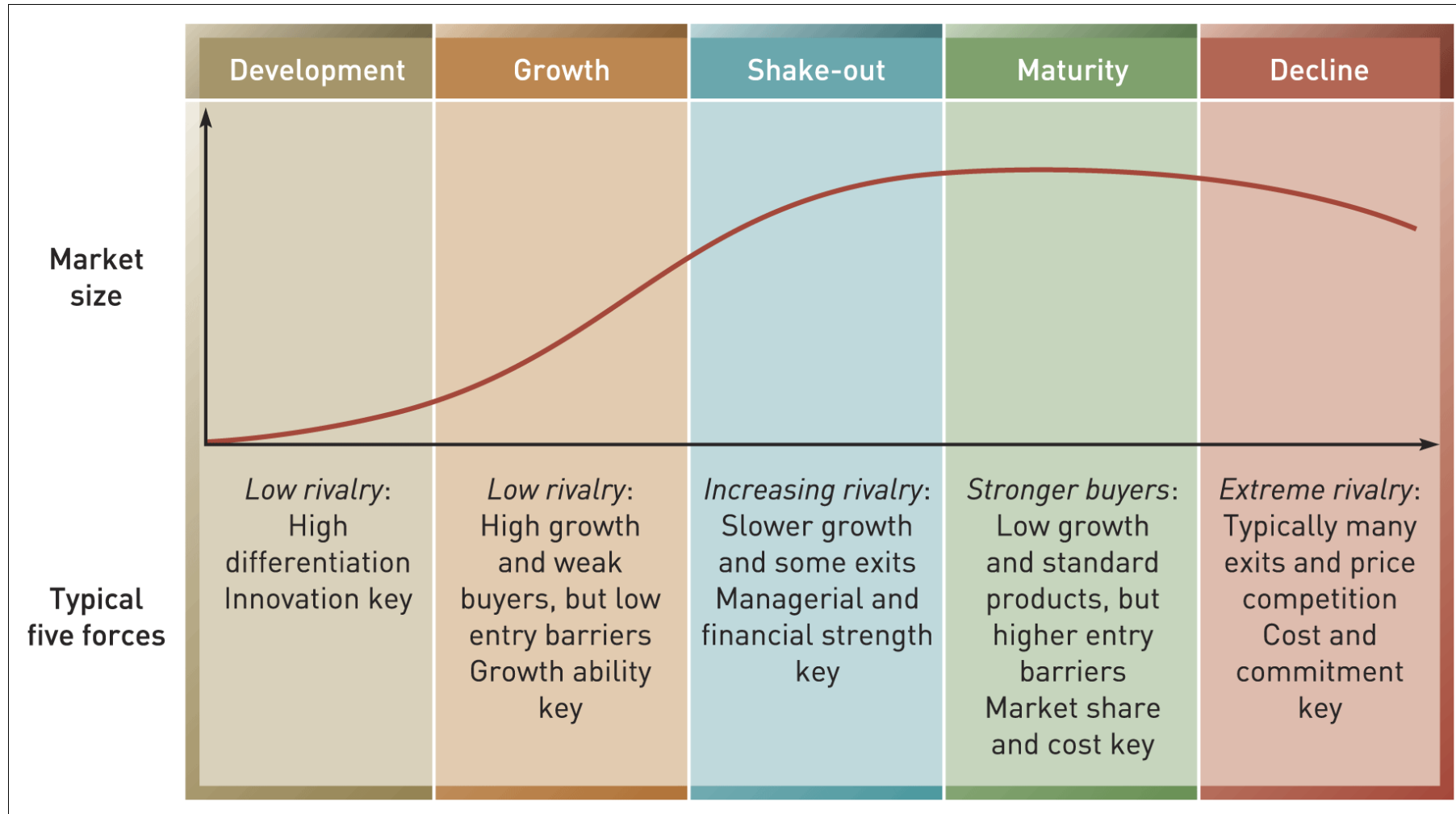
Threat Indicators from the Five Forces

Five Forces	Threats Indicative of Strong Competitive Forces that Can Depress Industry Profitability
Rivalry among competitors	• A large number of competing firms • Rivals are similar in size, influence, and product offerings • High-price, low-frequency, “big ticket” purchases • Capacity is added in large increments • Industry slow growth or decline • High exit costs
Threat of entrants	• Little scale-based advantages (economies of scale) • Little non-scale-based advantages • Inadequate product proliferation • Insufficient product differentiation • Little fear of retaliation because of focal firm’s lack of excess capacity • No government policy banning or discouraging entry
Bargaining power of suppliers	• A small number of suppliers • Suppliers provide unique, differentiated products • Suppliers are willing and able to vertically integrate forward
Bargaining power of Buyers	• A small number of buyers • Buyers purchase standard, undifferentiated products from focal firm • Buyers are willing and able to vertically integrate backward
Threat of substitutes	• Substitutes are superior to existing products in quality and function • Switching costs to use substitutes are low

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



How to Conduct the 5 Forces Analysis for Each Country

- **Adapt Each Force to the Local Context:**
- **Competitive Rivalry:** Analyze local competitors, market share distribution, and industry concentration in the target country.
- **Threat of New Entrants:** Assess country-specific barriers to entry, like government regulations, capital requirements, or brand loyalty of local companies.
- **Bargaining Power of Suppliers:** Investigate local supply chains, availability of key inputs, and whether suppliers in the region hold more power than your business.
- **Bargaining Power of Buyers:** Study the purchasing habits, preferences, and price sensitivity of local consumers. Also, check the availability of alternatives.
- **Threat of Substitutes:** Research local substitutes (e.g., homegrown brands, different technologies) that might challenge your product or service.

Activity- Competitive Landscape for your Chosen Product/Industry

- Go to Google
- Search “**competitive analysis for online food delivery France**”
- Who are the competitors?
- What is the market share owned by each competitor ?
- What is the profit margin that my competitors make ?

Activity- Competitive Landscape for your Chosen Product/Industry

- Go to Google
- Search “**competitive analysis for online food delivery France**”
- Who are the competitors?
- What is the market share owned by each competitor ?
- What is the profit margin that my competitors make ?

Activity- Five Forces for your Chosen Product/Industry

- Go to Google
- Search **“5 forces analysis for luxury vehicles in mexico”**
- What are the key factors impacting each force?
- What is the strength of each force?
- What is the overall level of rivalry?

Global Soft Drink & Bottled Water Manufacturing

Key Analysis

Life Cycle

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

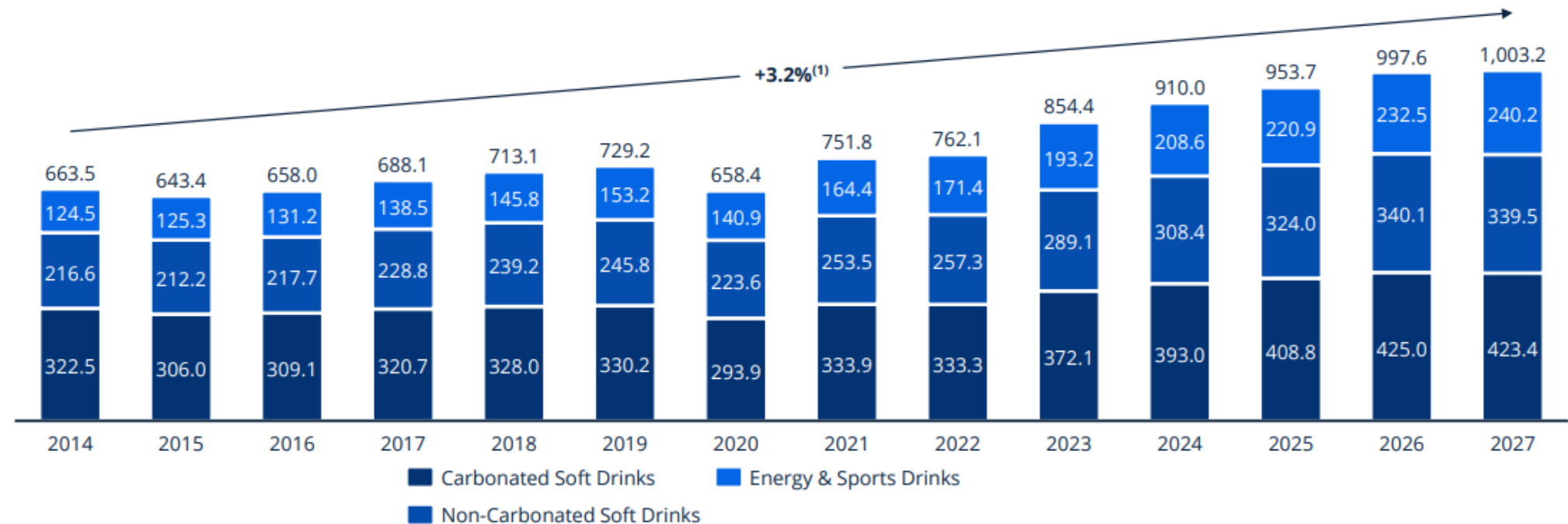


*Growth is based on change in share of economy combined with change in establishment numbers

Soft Drinks revenues are estimated to increase at a CAGR⁽¹⁾ of 3.2% from 2014 to 2027

Market Size: Global

Revenue forecast in billion US\$



Notes: (1) CAGR: Compound Annual Growth Rate

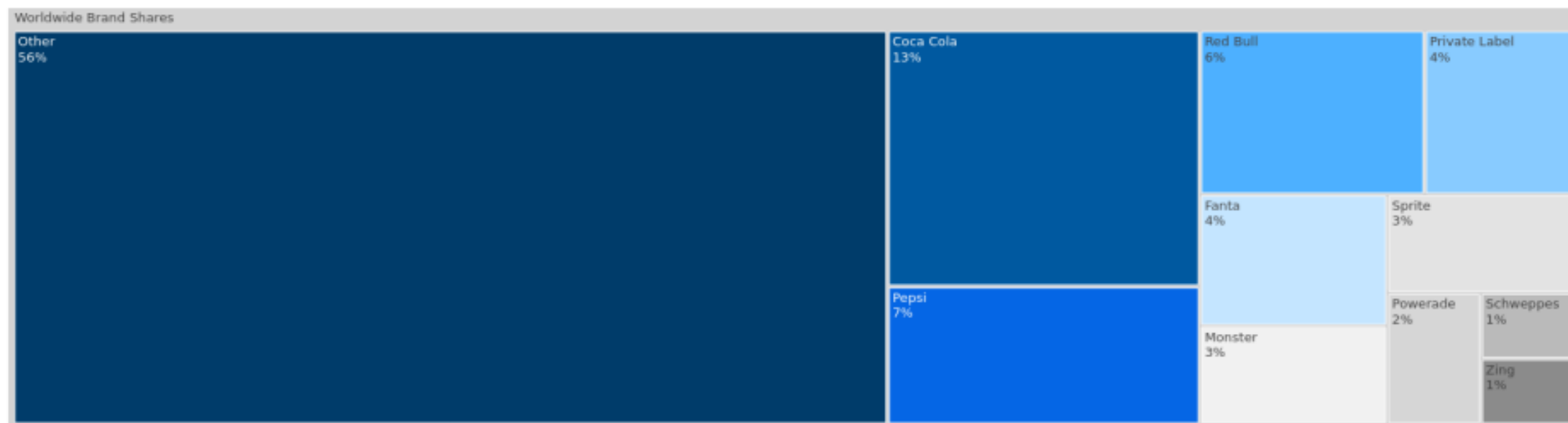
Sources: Statista Market Insights 2023

Market Insights
by statista

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

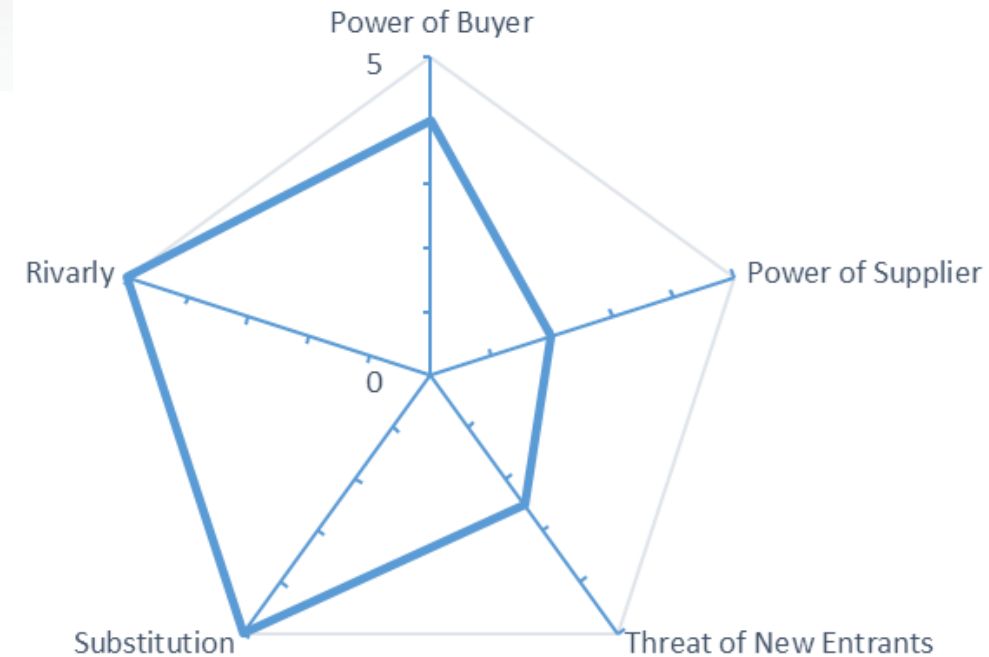
➔ Competitive Forces

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.

Concentration Low	Competition High Increasing	Barriers to Entry Moderate Increasing
Substitutes High Increasing	Buyer Power High Steady	Supplier Power Low Steady



Databases

- EBSCOhost Business Source Premier:
 - https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma997503520102051

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.