Global Business Environment and International Strategy MOD007191

Lecture 4

Competitive Environment

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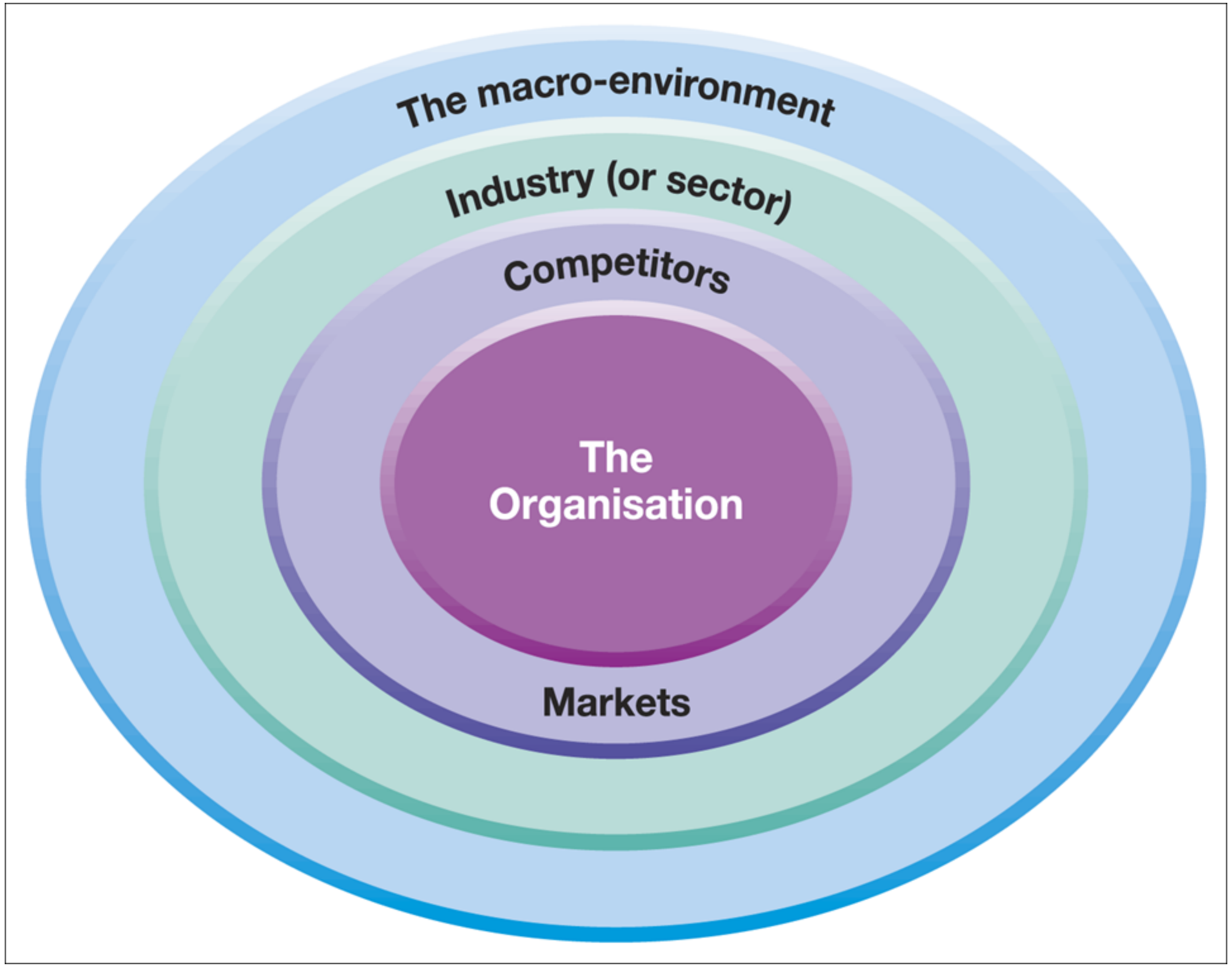
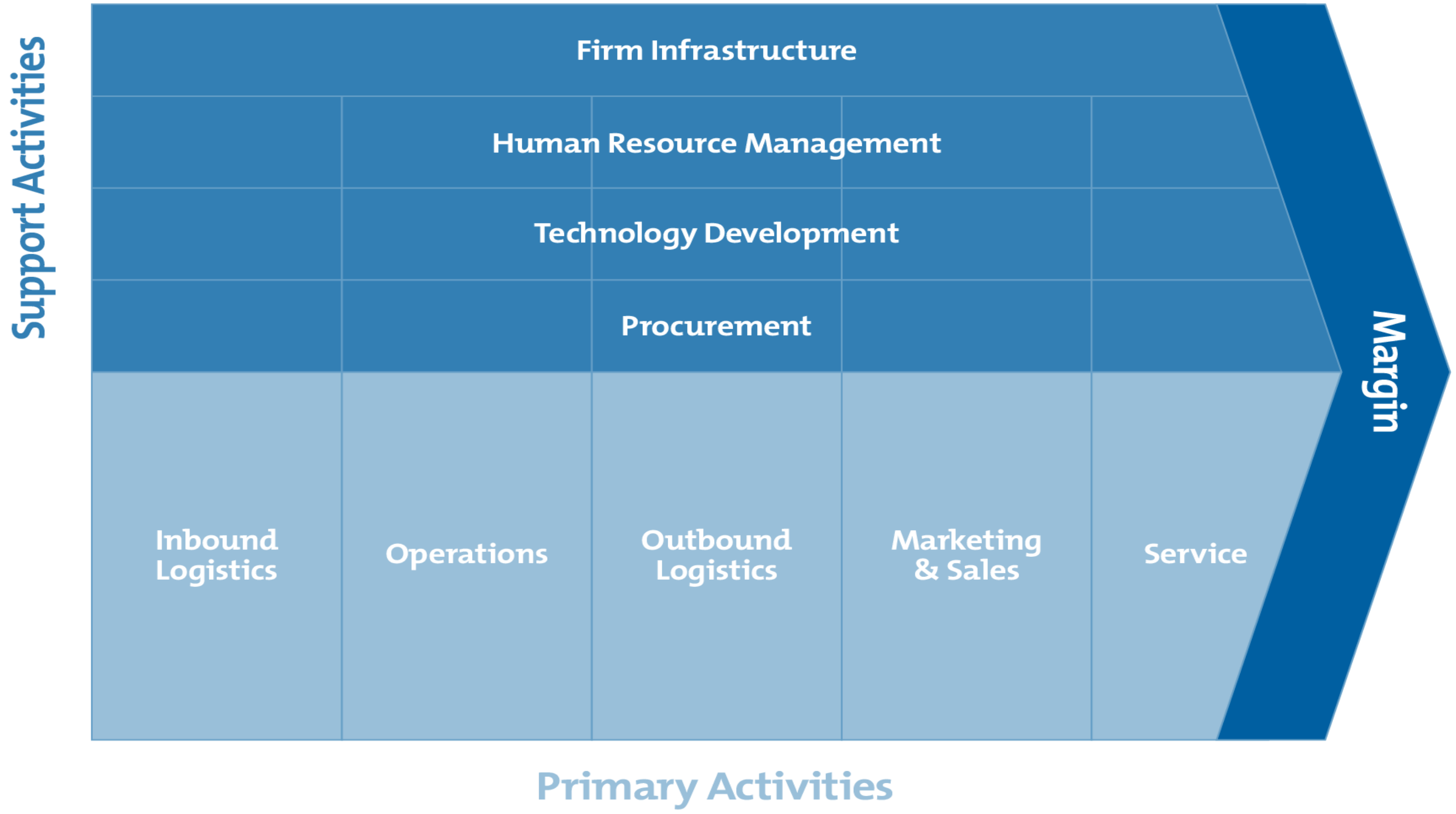
Recap

Layers of the business environment



Johnson, Whittington and Scholes (2011) Exploring Corporate Strategy

Value Chain Model



Competitive advantage is derived from the way in which firms organize and perform these activities within the value chain.

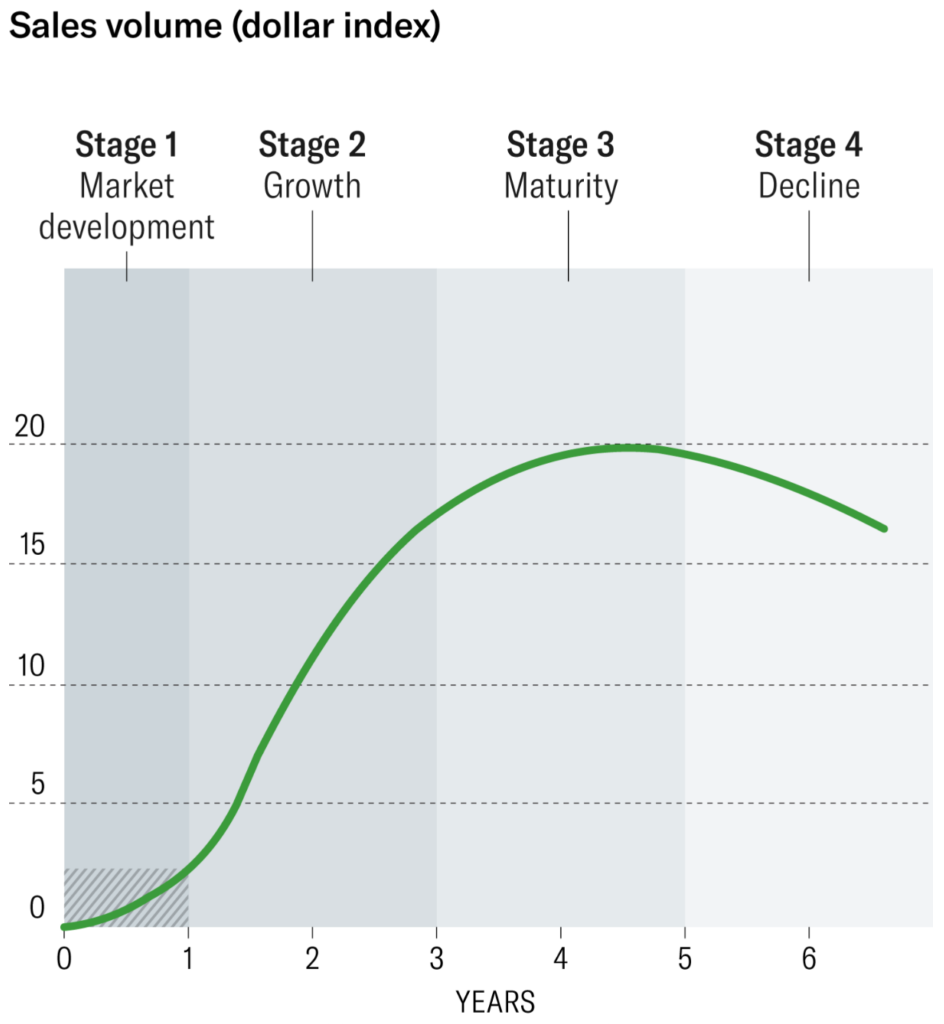
Apple Value Chain Analysis

https://research-methodology.net/apple-value-chain-analysis/
https://www.edrawmax.com/article/apple-value-chain-analysis.html

Stages of the Product Lifecycle

- A products 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 of a product is broken into **four stages**:
  - Development/Introduction
  - Growth
  - Maturity
  - Decline.



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

Competitive Environment

Why Analyse the Competitive Space?

- KDP 1 – The most important element to fight competition is "PRICE"

- KDP 2 – While entering the market, the competition will be assessed by the number of organisations operating in the market

- KDP 3 – A market without competition is the best market to enter while expanding globally

Mapping Competition

- Is it only the number of competitors ?
- Is it market share owned by each competitor ?
- Is it 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 5 Forces That Make Companies Successful

https://www.youtube.com/watch?v=XCWHSeDU-zk

Porter’s five forces framework

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

- ***the threat of entry,***
- ***the threat of substitutes,***
- ***the bargaining power of buyers,***
- ***the bargaining power of suppliers and***
- ***the extent of rivalry between competitors.***

The five forces constitute an industry’s ‘structure’.

The five forces framework

by Michael E. Porter. Copyright © 1980, 1998

Interview with Prof Michael Porter

https://www.youtube.com/watch?v=mYF2_FBCvXw

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

1. Is there a case for changing the strategic relationship with suppliers
2. Is there a case for forming a new relationship with large buyers
3. What are the key factors for success that drive an industry and influence its strategic development
4. Are there any major technical developments that rivals are working in that could fundamentally alter the industry
5. Which industries to enter or leave
6. What influences can be exerted
7. How are competitors differently affected

Summary of Porter's 5 forces: influencing factors

Threat of New Entrants

Barriers to entry:

- Economies of scale (including shared resources)
- Product differentiation (proprietary)
- Capital requirements
- Switching costs
- Access to distribution channels
- Cost disadvantages independent of scale
- Government policy
- Expected reaction of incumbent

Bargaining Power of Suppliers

A supplier group is powerful when:

- It is dominated by a few companies and is more concentrated than the industry it sells to.
- There are no substitute products.
- The industry is not an important customer.
- Its products are important to the industry.
- Products are differentiated or suppliers have built up switching costs.
- It poses a credible threat of forward integration.

Intensity of Rivalry

Intense rivalry results from:

- Numerous or equally balanced competitors
- Slow industry growth
- High fixed or storage costs
- Lack of differentiation or switching costs
- Capacity augmented in large increments
- Diverse competitors
- High strategic stakes
- High exit barriers

Bargaining Power of Buyers

A buyer group is powerful when:

- It is concentrated or purchases large volumes relative to seller sales.
- The products represent a significant fraction of the buyers' costs or purchases.
- The products are standard or undifferentiated.
- It faces few switching costs.
- It earns low profits.
- It poses a credible threat of backward integration.
- The bought product is unimportant.
- It has full information.

Pressure from Substitute Products

- Search for products that can perform the same function.
- Assess buyers' propensity to substitute.

Focus on those that:

- Are improving their price performance trade-off compared with the industries products.
- Require low switching costs.
- Are produced by industries earning high profits.

- Take offensive or defensive actions to create a defensible position against the forces:
  - Positioning the firm so its capabilities provide the best defense
  - Influencing the balance of forces through strategic moves
  - Anticipating shifts in the factors underlying the forces and responding to them

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

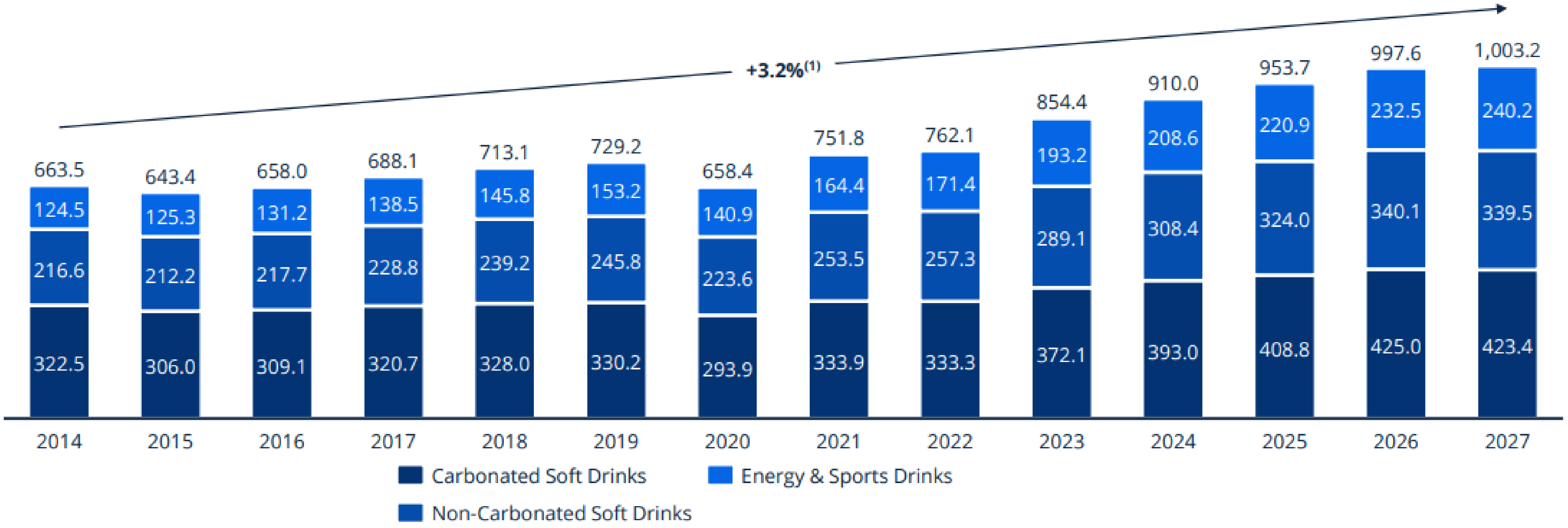
*Growth is based on change in share of economy combined with change in establishment numbers

Source: IBISWorld

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

Market Size: Global

Revenue forecast in billion US$



Notes: (1) CAGR: Compound Annual Growth Rate

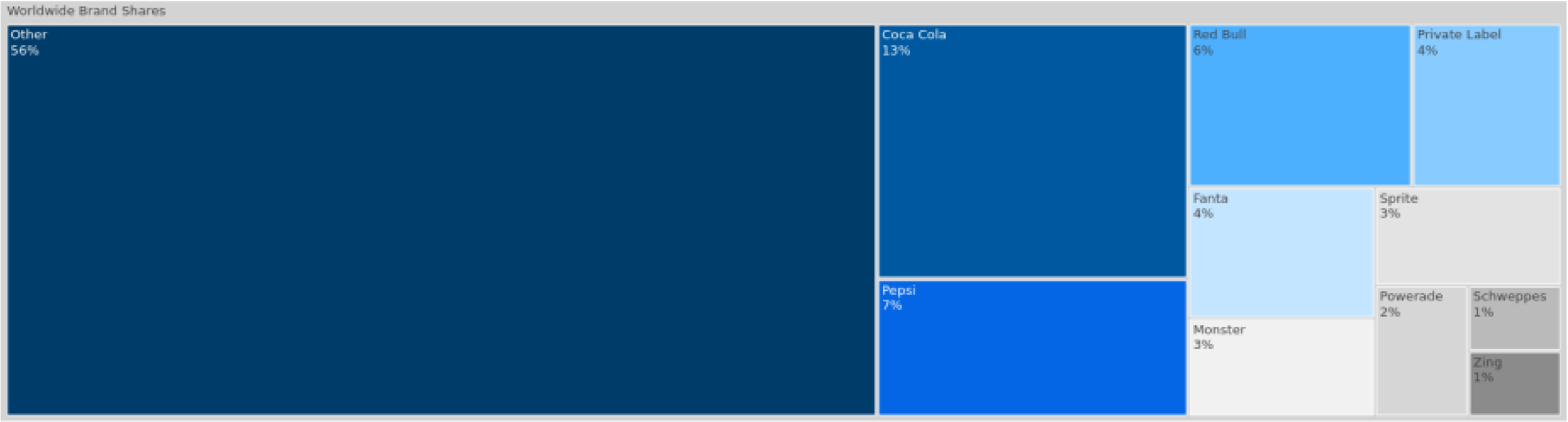
Sources: Statista Market Insights 2023

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

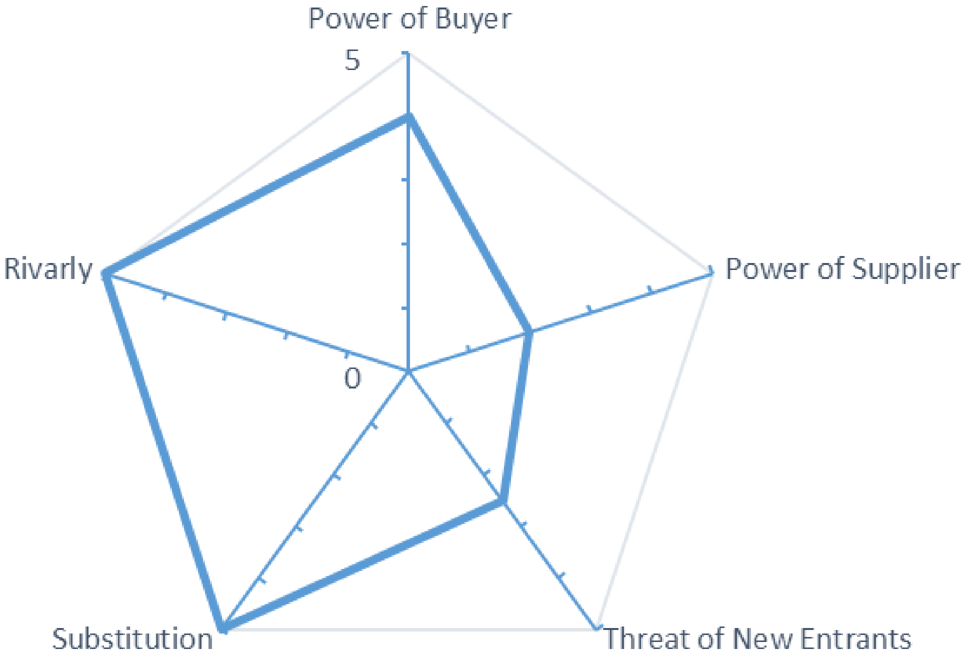
Competitive Forces

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.

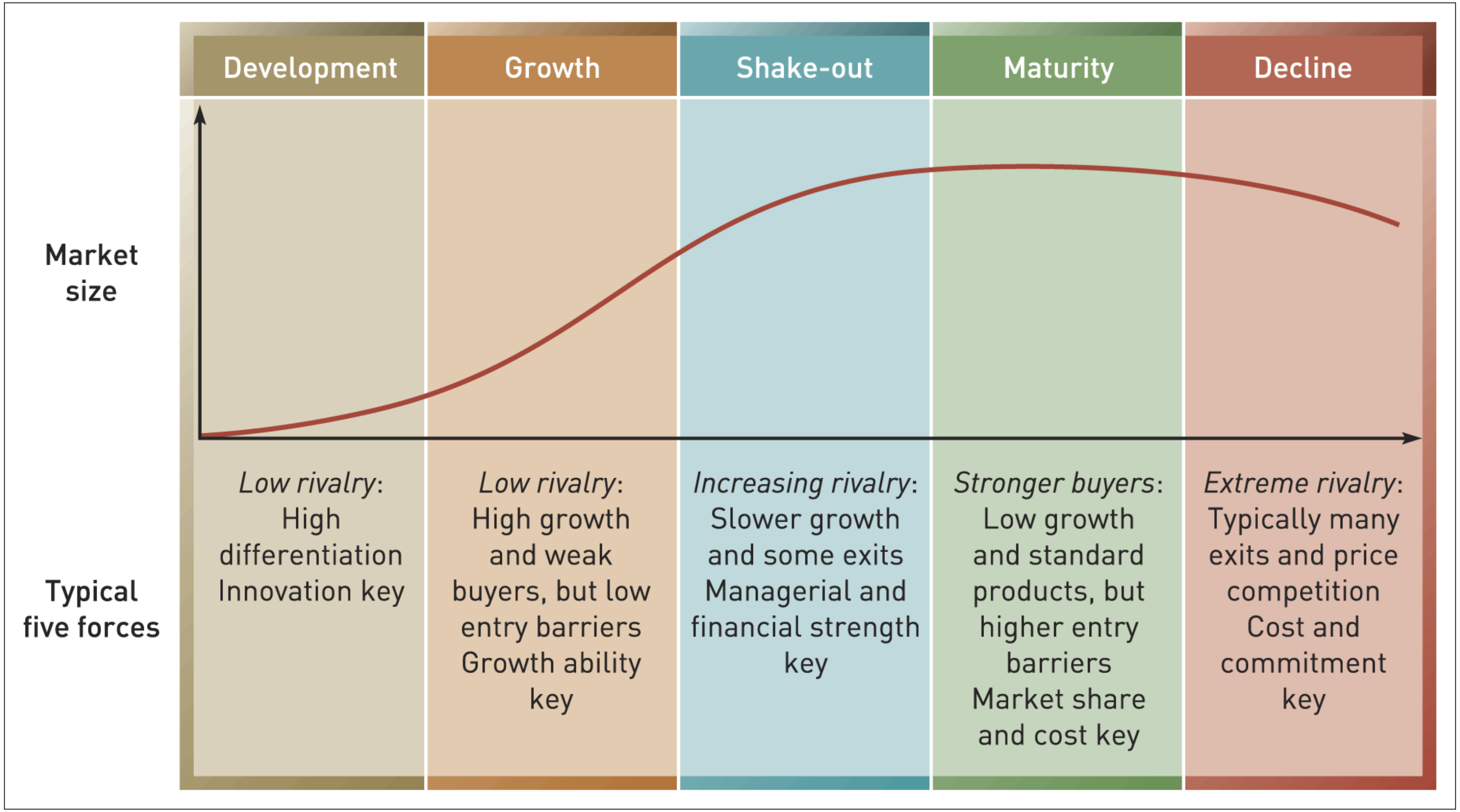
Concentration	Competition	Barriers to Entry
Low	High / Increasing	Moderate / Increasing
Substitutes	**Buyer Power**	**Supplier Power**
High / Increasing	High / Steady	Low / Steady



Databases

- EBSCOhost Business Source Premier:
  - https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma997503520102051
- IBISWorld
  - https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma997775560102051
- Statista
  - https://anglia.primo.exlibrisgroup.com/permalink/44APU_INST/1k6g5vr/alma991150400020511

The industry life cycle



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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