

# Competitiveness

BA291



# Learning Objectives

1. Explain the importance of industry analysis
2. Use five forces model to analyze the industry's attractiveness
3. Use SWOT analysis framework to formulate strategies



# Important Terms before we begin

Switching cost  
Economy of scale  
Economy of scope  
Learning curve



# Switching Cost

- The costs incurred when a customer changes from one supplier or marketplace to another. The higher these costs are, the more difficult it is to execute the switch.
  - Computer: Mac vs. PC
  - Video game console: PS 3, Wii, vs. Xbox
  - Cell phone: iPhone vs Samsung Galaxy



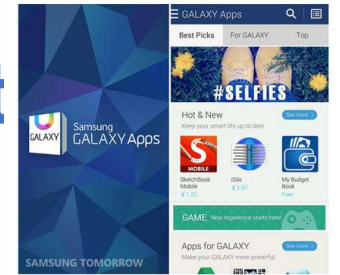
iPhone 6



Switch

st

Choice I  
Samsung  
Galaxy s6



Choice II  
iPhone 6s



# Economy of scale vs. economy of scope

- **Economies**

- It's all about cost effectiveness

- **Economy of Scale**

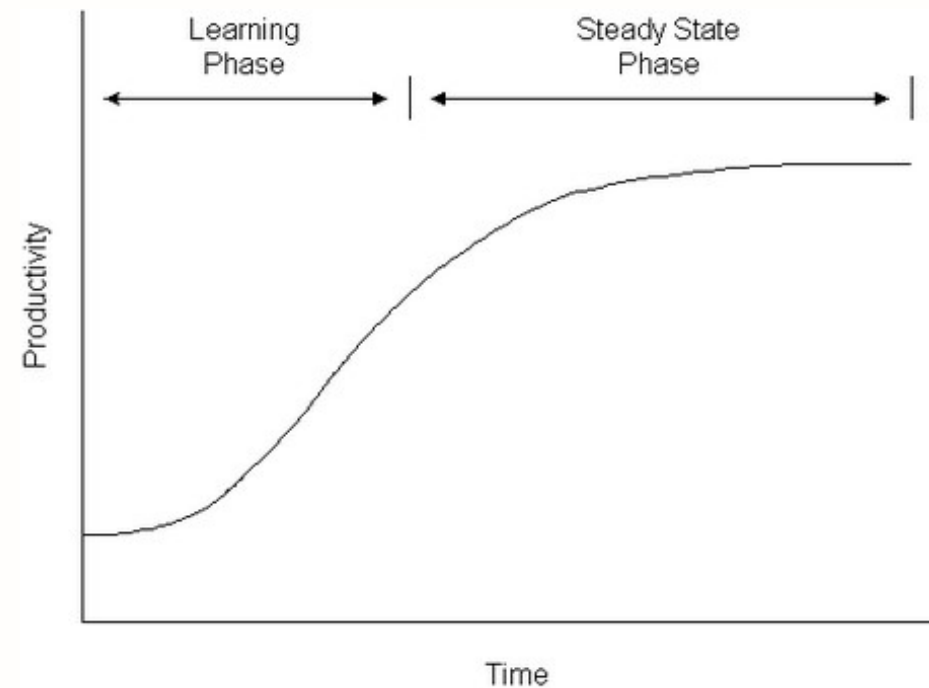
- Benefits gained by production of large volume of a product i.e. average cost per unit decrease when producing large volume of a product

- **Economy of Scope**

- It's linked to benefit gained by producing a wide variety of products by efficiently utilizing the same operating sources i.e. average cost per unit when producing many products within one company is cheaper than producing the products separately in many companies

# Learning curve

- The theory of learning recognized that repetition of the same operation results in less time or effort expended on that operation
- Individuals or organizations collectively repeat a particular process, they gain skill or efficiency from their experience and production time improvements result
- "Practice makes perfect."

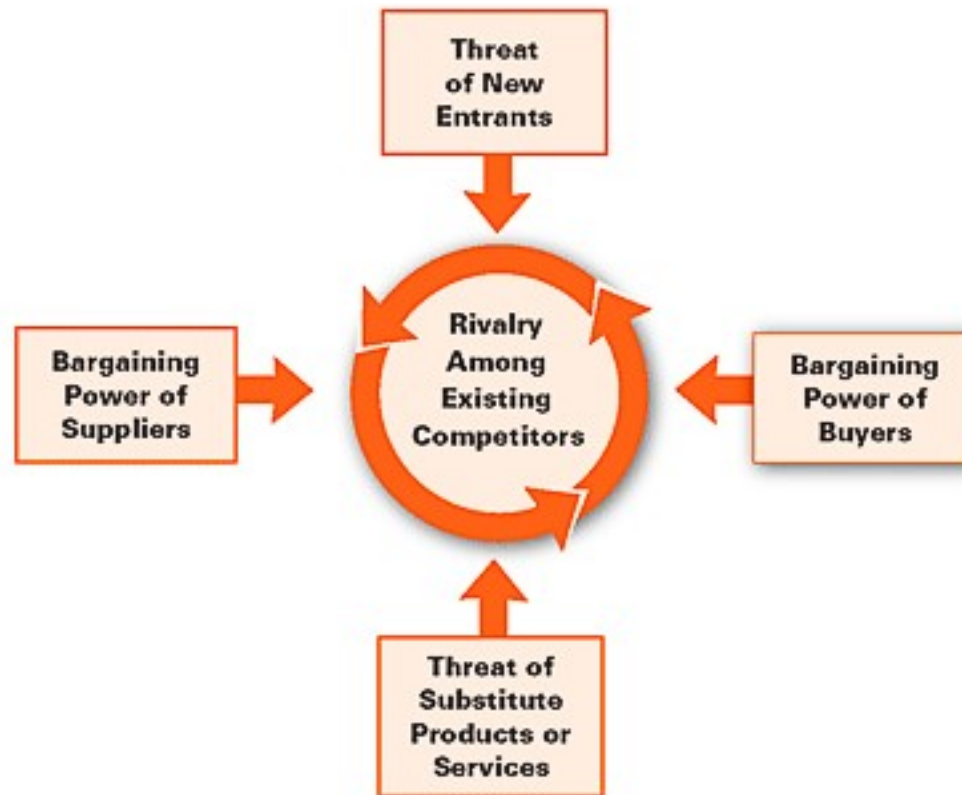


# Five Forces Analysis



# Five forces model – Michael e. Porter

Awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack.



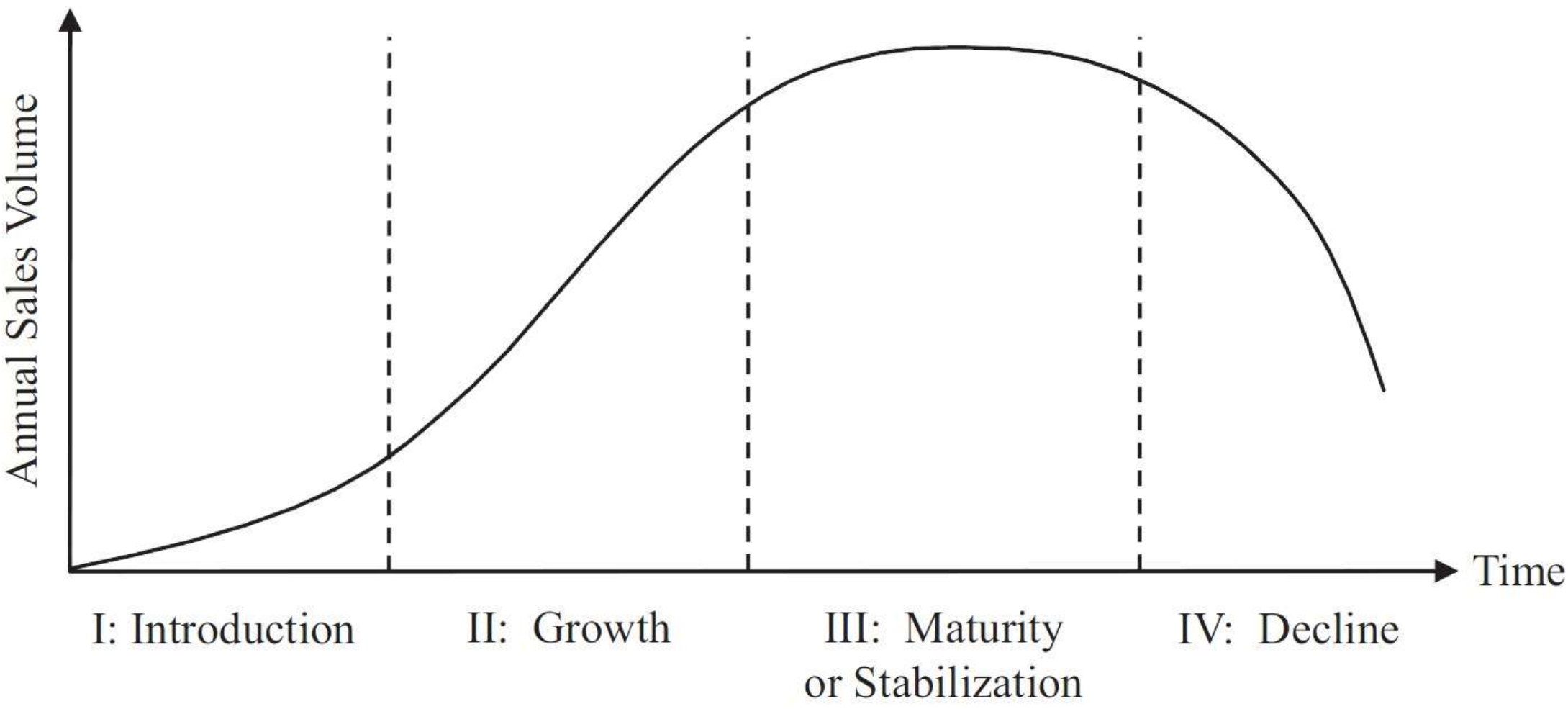
# Threat of New Entrants (barrier to entry)

This force examines how easy or difficult it is for competitors to join the marketplace in the industry being examined. The easier it is for a competitor to join the marketplace, the greater the risk of a business's market share being depleted.

- Economies of scales
- Proprietary product differences
- Brand identity
- Switching costs
- Government policy
- Access to distribution
- Capital requirements
- Absolute cost advantage
- Expected retaliation
- Industry profitability
- Stage in industry life cycle

*Is it easy for new player to enter into the industry?*





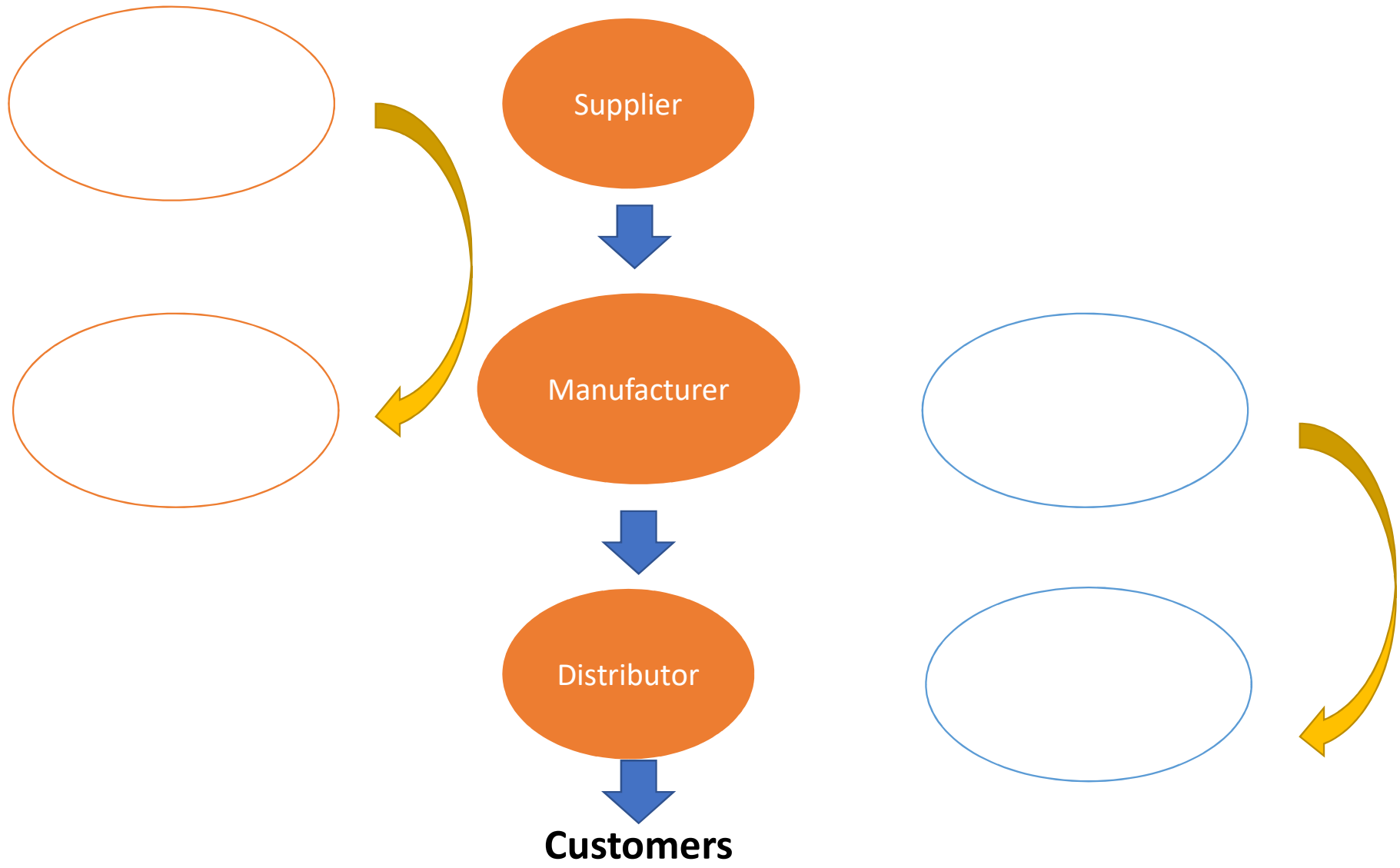
# Supplier Power

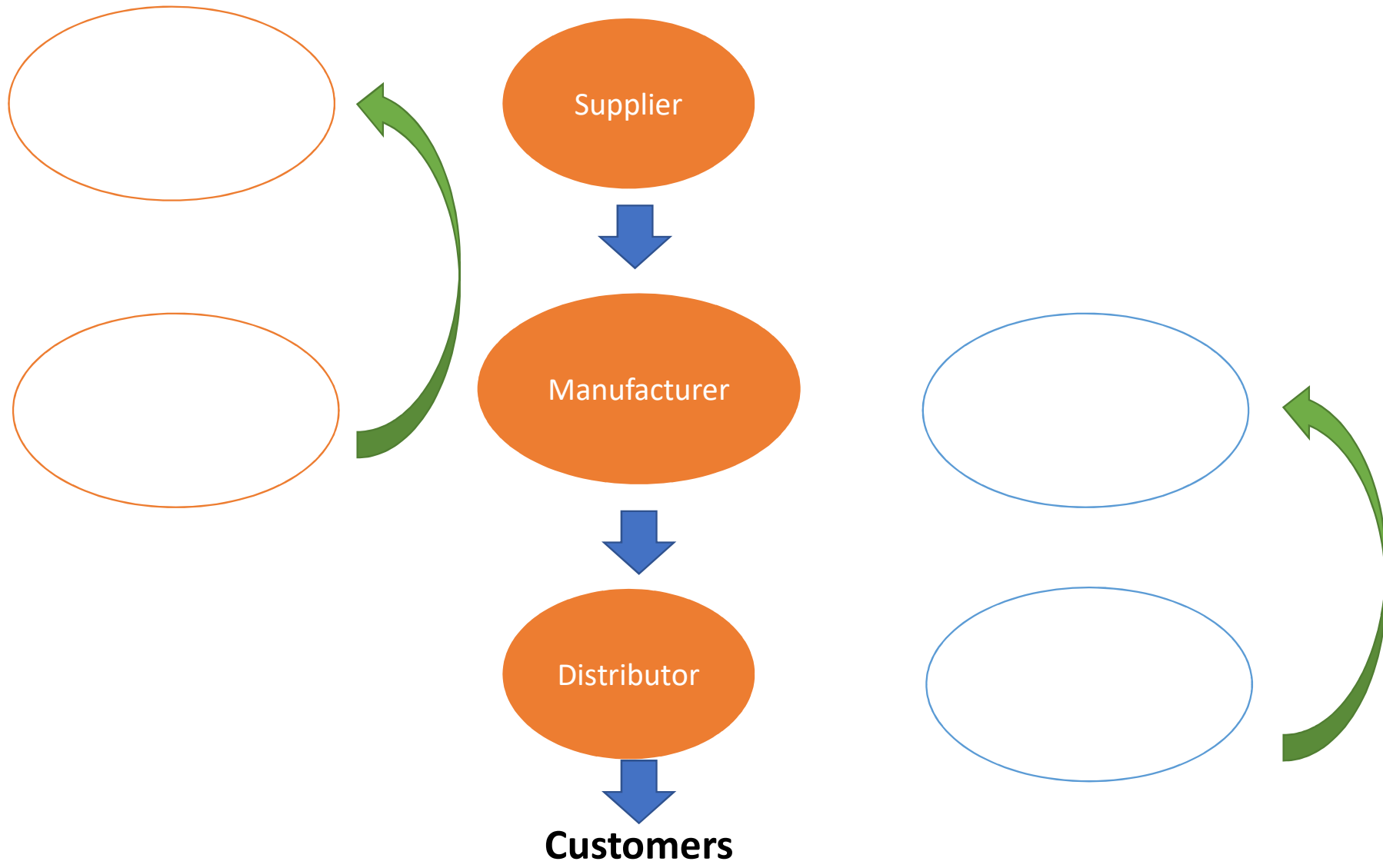
This force analyzes how much power a business's supplier has and how much control it has over the potential to raise its prices, which, in turn, would lower a business's profitability. In addition, it looks at the number of suppliers available: The fewer there are, the more power they have.

- Differentiation of Inputs
- Switching costs
- Substitute products
- Supplier concentration
- Important of volume to supplier
- Cost relative to the total purchases of the industry
- Impact of inputs on cost or differentiation
- Threat of forward integration

*Do the industry players have power over the suppliers?*







# Buyer Power

This force looks at the power of the consumer to affect pricing and quality. Consumers have power when there aren't many of them, but lots of sellers, as well as when it is easy to switch from one business's products or services to another. Buying power is low when consumers purchase products in small amounts and the seller's product is very different from any of its competitors.

- Buyer volume
- Buyer information
- Price sensitivity
- Threat of backward integration
- Product differentiation
- Buyer concentration



*Do buyers have choices to choose from or can negotiate with the sellers (industry players)?*

# Threat of Substitutes

A substitute product is a product from another industry that offers similar benefits to the consumer as the product produced by the firms within the industry.

This force studies how easy it is for consumers to switch from a business's product or service to that of a the substitutes

- Switching costs
- The relative price performance of substitutes
- Buyer propensity to substitute
- Increased quality of substitutes

*Is there a high probability for buyers to switch to substitutes products?*



# Degree of Rivalry

This force examines how intense the competition currently is in the marketplace, which is determined by the number of existing competitors and what each is capable of doing. Rivalry competition is high when there are just a few businesses equally selling a product or service, when consumers can easily switch to a competitors offering for little cost. Rivalry is quantitatively measured by HHI.

- Exit barriers
- Industry concentration
- Switching cost
- Brand identity
- Industry growth rate
- High fixed cost
- Product differentiation



*Is the competition fierce?*

The Herfindahl-Hirschman Index (**HHI**) is a commonly accepted measure of market concentration.

# **Five Forces Analysis** *Ice-cream Industry*



# Threat of New Entrants: Moderate

- **There is a moderate threat of new entrants into the industry as the barriers to entry are not high enough to discourage new competitors to enter the market.**
- Monopolistic competition structure. High competition.
- Initial investment is not significant as they can lease stores, equipment etc. at a moderate level of investment.
- Low switching costs for the consumers. Even though it's a competitive industry, there's the possibility of new entrants to be successful.
- The incumbent firms have a larger scale and scope, yielding them a learning curve advantage and favorable access to raw material with the relationship they build with their suppliers.
- Brand image: consumer prefer well-known brand

# Threat of Substitutes: High

- There are many reasonable substitute dessert. Several choices of dessert to can satisfy consumers' need for something sweet
- Consumers could also make their own dessert (backward integration)
- There are no switching costs for the consumers for switching to substitutes, which makes the threat high.



OR



OR



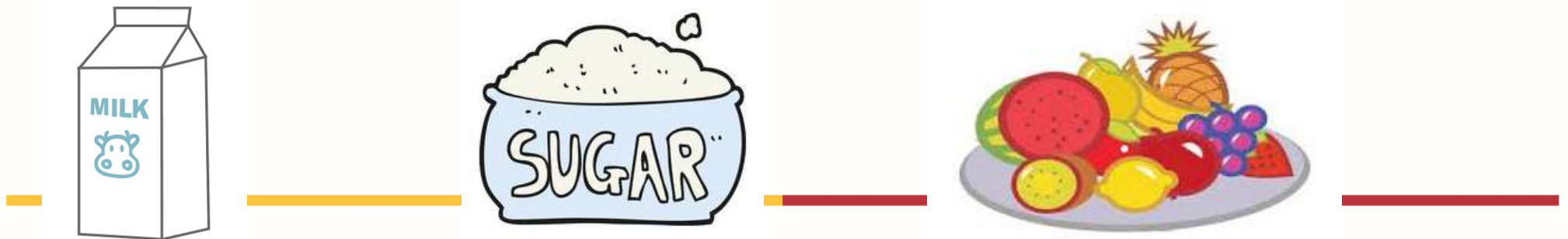
# Bargaining Power of Buyers: Low to Moderate

- There are many different buyers in this industry and no single buyer can demand price concession.
- Low volume purchases; erodes the buyer's power.
- No switching cost



## Bargaining Power of Suppliers: Low

- Ingredients are mostly commodities products. Many of suppliers in the market that offering no differentiated raw materials.
- Size and scale of industry players allow them to have the power to take advantage of its suppliers.
- Industry players are highly important part of the suppliers business, due to its size and scope, which make the power of the suppliers lower.

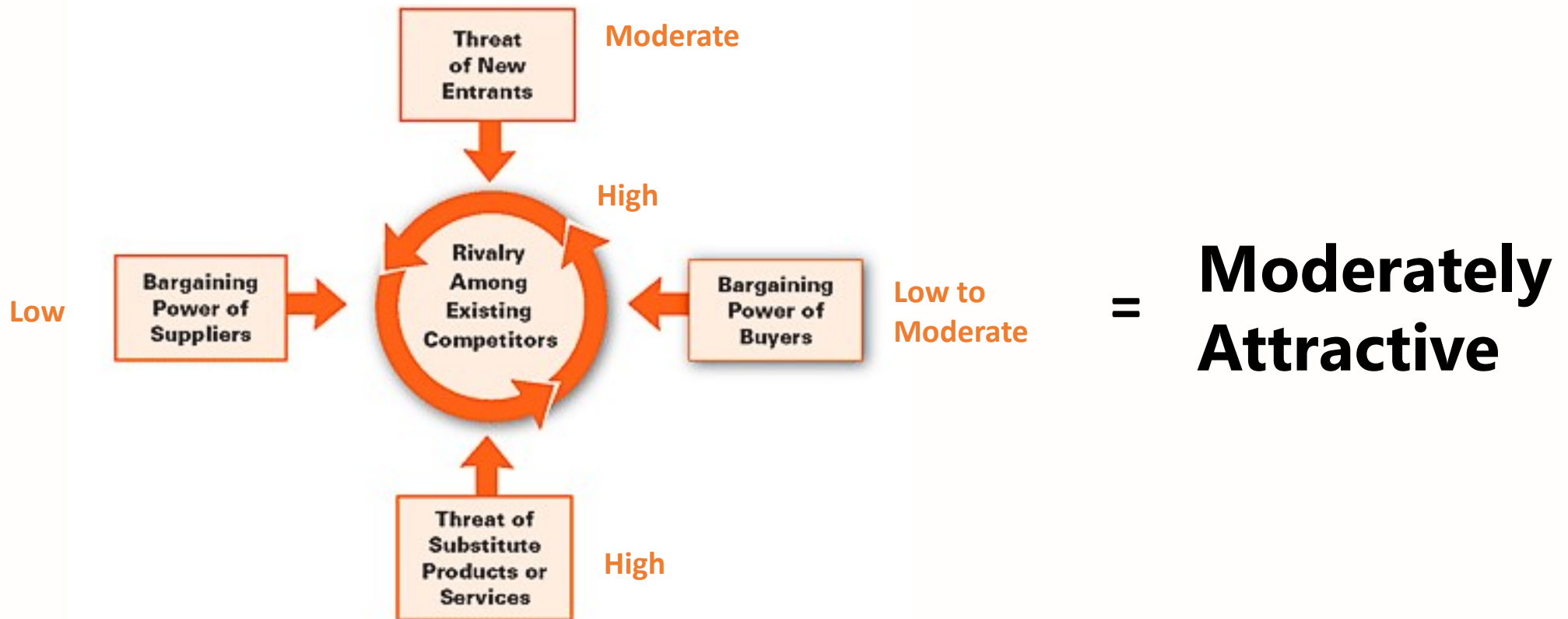


# Intensity of Competitive Rivalry: High

- The industry has a monopolistic competition
- Consumers don't have any cost of switching to other competitors, which crates high intensity in rivalry.
- The industry is mature and growth rate has been moderately low which cause the intensity of competition among the companies to be moderately high due to all of them seeking to increase market share.



# Five Forces Analysis – Ice-Cream Industry



# SWOT Analysis



# SWOT analysis

- A structured planning method used to evaluate internal/external factors involved in a project
- **Strengths:** characteristics of the business or project that give it an advantage over others.
- **Weaknesses:** characteristics that place the business or project at a disadvantage relative to others
- **Opportunities:** elements that the project could exploit to its advantage
- **Threats:** elements in the environment that could cause trouble for the business or project

## SWOT ANALYSIS



## Internal

### Strengths

- Advantages of proposition
- Access to capital
- Capabilities
- Competitive advantages
- Unique selling points
- Experience, knowledge, data
- Marketing - reach, distribution, awareness
- Innovative aspects
- Location and geographical
- Price, value, quality
- Accreditations, qualifications, certifications
- Processes, systems, IT, communications
- Cultural, attitudinal, behavioral

### Weaknesses

- Disadvantages of proposition
- Gaps in capabilities
- Lack of competitive strength
- Reputation, presence and reach
- Financials
- Own known vulnerabilities
- Timescales, deadlines and pressures
- Cash flow, start-up cash-drain
- Continuity, supply chain robustness
- Effects on core activities, distraction
- Morale, commitment, leadership
- Accreditations
- Processes and systems

## External

### Opportunities

- Market developments
- Competitors' vulnerabilities
- Industry or lifestyle trends
- Technology development and innovation
- Global influences
- New markets, vertical, horizontal
- Niche target markets
- Geographical, export, import
- Market need for new unique selling points
- Partnerships, agencies, distribution
- Market volume demand trends
- Seasonal, weather, fashion influences

### Threats

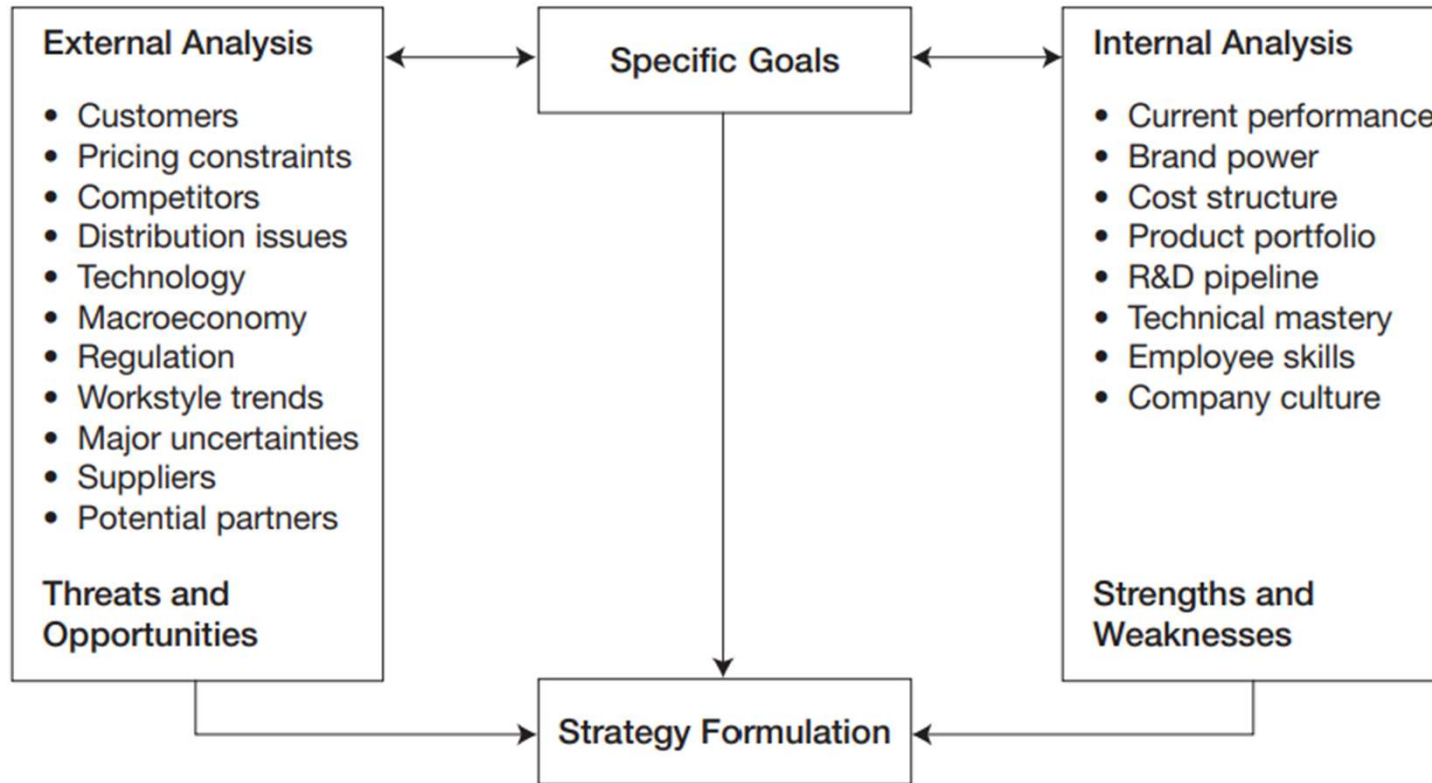
- Political effects
- Legislative effects
- Environmental effects
- Intense competition
- Market demand
- New technologies, services, ideas
- Obstacles faced
- Employment market
- Financial and credit pressures
- Economy - home, abroad
- Seasonality, weather effects

# SWOT Analysis I: Looking outside for threats and opportunities

- Analyzing external environment
- Workstyle and lifestyle trends that can affect your business
- Assessing customers
- Changes in the competitive arena
- Porter's five forces framework

**FIGURE 1-1**

## **External and Internal Analysis**



Source: SWOT Analysis I: Looking outside for threats and opportunities, HBR article

# SWOT Analysis II: Looking inside for strengths and weaknesses

- Identifying and assessing core competencies
- Understanding your financial capacity for undertaking a new strategy
- Evaluating management and organizational culture in terms of change-readiness

# SWOT Analysis

## *Ben & Jerry's*



# Ben & Jerry's

- Ben & Jerry's is a well-known Vermont-based ice cream manufacturer, founded in 1978. Since then the company has grown in popularity, both for its ice cream flavors and for its determination to generate not just financial, but environmental and social benefits. Ben & Jerry's ranked # 4<sup>th</sup> in retail sales of packaged ice cream with annual sales of \$240 million and market share of 21.4% in the US ice cream market. The company is profitable.
- Its packaged ice cream and novelties are sold in stores across the United States and in 30 other countries around the world. Their products are produced in pints, quarts, 500 ml cups, 2.4-gallon tubs, single-serve cups and individual novelties and are distributed in supermarkets, grocery stores, convenience stores, scoop shops, restaurants and other venues.
- The company is now a leading ice cream manufacturing company known worldwide for its innovative and wide variety of flavors and all-natural as well as high-quality ingredients including milk and cream from family farmers. A key asset of Ben & Jerry's is its market niche among those customers who appreciated the premium ice cream with unusual flavor names like Karamel Sutra, Chocolate Therapy, and Imagine Whirled Peace. The Company spends a lot of money and time to develop these unusual flavors which are unique to Ben & Jerry's but have short life cycle. The Company does not spend much on advertising but rather on organizations.



<http://www.benjerry.com/about-us>



# SWOT Analysis

Internal

## Strengths

- Well-known brand image
- Product of high quality
- High learning curve – has been in the business since 1978
- Highly innovative products
- Goodwill among consumer due to social responsibility initiatives
- Profitable – can reinvest

## Weaknesses

- Expensive Product
- High cost of R&D and short cycle of its highly innovative products
- High cost on charity

External

## Opportunities

- Emerging market is growing, so a chance to expand
- Increasing trend in lifestyle shop (IG friendly)
- Technology advancement for operation

## Threats

- Increased competition
- Developed country market saturation
- Changing in consumer taste and lifestyle choice – health conscious consumers