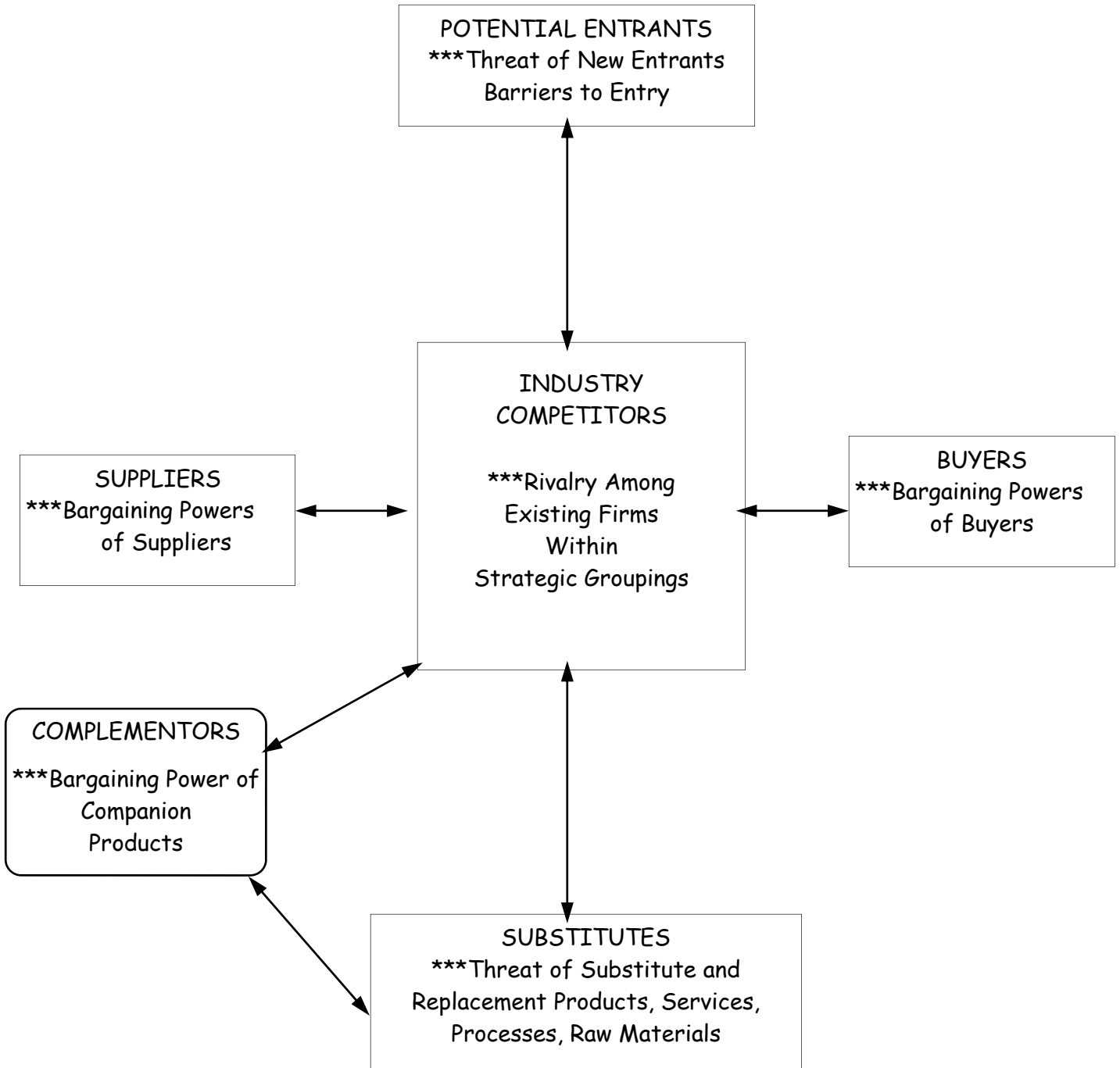


Porter's Structural Components of An Industry
*** The Forcing Driving Industry Competition



Forces Driving Industry Competition

Factors Influencing Intensity of Inter-firm Rivalry

Numerous or equally balance competitors
Slow industry growth
High fixed or storage costs
Lack of Differentiation or switching costs

Capacity augmentation in large increments
Diverse competitors
High strategic stakes
High exit barriers

Factors Influencing Bargaining Power of Buyers

A buyer group is powerful if:

- 1) It is concentrated
- 2) It purchases large volumes relative to the volume of firm's sales
- 3) The products are standard or undifferentiated
- 4) Buyer face high switching costs
- 5) Buyer earns low profits
- 6) buyer poses threat of backward integration
- 7) Product is unimportant to buyer's product/service
- 8) Buyer has full information

Factors Influencing Bargaining Power of Suppliers

A supplier group is powerful if:

- 1) It is dominated by a few companies and is more concentrated than industry buying group
- 2) It is not threatened by substitute products
- 3) The buyer industry is not an important customer
- 4) The product is an important input for customer
- 5) Product is differentiated or has built in switching costs
- 6) Supplier poses threat of forward integration

Factors Influencing Threats to Potential Entrants

Economics of scale

Product differentiation

Capital requirements

Switching costs

Access to distribution channels

Proprietary product technology

Favored access to raw materials

Favorable location

Government subsidy and government policy

Learning or experience curves

Retaliation practices

Factors Influencing Threats of Substitutes

Substitutions are products, services, materials, or processes which perform the same function as the those of the industry, but are not direct industry rivals. Substitutes are the greatest threats if they constitute, 1) radical innovations which foster displacement or obsolescence; 2) substitutes which respond to trends and improve their price performance relative to tradeoffs with the industry product; and 3) substitutes produced by industries earning high profits.

Stages of Industry and/or Enterprise Evolution

Emergent Stage

New product, grab for market share, entrepreneurial management.

Growth Stage

Primary concern is share of market (SOM) and cost structure (avoid shake-out)

Maturity Stage

Market share is established with incremental gains only, profitability is primary focus
Exploration of growth opportunities and low cost strategies

Declining Stage

Per share earnings on the decline, market loss, position drops
Primary focus is turnaround

Endgame Stage

Finding a way out without exorbitant cost

Transition Stage

Move to alter the business focus, enter new business, re-tool, re-engineer.

Enterprise Interests in the Resource Environment

Acquisition of capital, raw materials, machinery, labor, licenses, knowledge and skill.
Opportunities for increasing management capability and competencies at opportune cost.
Control over time to market, distribution channels, market access, procurement channels/
Dominance in research and development, product mix, and market research.
Legal compliance and regulative advantage.

Strategy Choices

Generic

Overall cost leadership, differentiation, focus

Growth

Product introduction, diversification, acquisition, merger, specialization, financial portfolio,
vertical or horizontal integration, global, joint venture, research and development investment.

Stability

Pricing strategy, incremental innovation, advertising and marketing, cost cutting, in-house
re-engineering and managerial efficiencies, stock repurchase.

Retrenchment

Consolidation of product mix and line, retrench from markets, internal re-organization, divestment,
Stock re-purchase

Endgame

Harvesting, chapter eleven bankruptcy, liquidation, sale of company.