

## Why External Analysis?

### Learning Objectives

External analysis allows firms to:

- discover threats and opportunities
- see if above normal profits are likely in an industry.
- better understand the nature of competition in an industry
- make more informed strategic choices

*Handwritten notes:* Avg. Industry Profitability \$\$\$

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## Is the Market Crowded?

### Barriers to Entry

*Handwritten notes:* too few. CCI  
 Brand Equity: Mktg & Advtg Sustained  
 Secret ingredient.  
 Distribution: First mover CapEx shelf space → mkt sh.  
 Capital Intensity: per unit profit ↓  
 Volume player: Volume × = Profit ↑

*Handwritten note:* F.I.C. →

**Pepsi advertised this**  
 We with you a scary Halloween!

**CocaCola's response**  
 Everyone wants to be a hero!

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## Why not something else?

### Substitution

*Handwritten notes:* tea, coffee  
 - Impulse: "Arms reach of desire"  
 - Lifestyle  
 - Addiction  
 - Status Symbol  
 → Mktg Campaign

**Pepsi advertised this**  
 We with you a scary Halloween!

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## Is it difficult to make?

### Suppliers

*Handwritten notes:* Many Suppliers ↓ Commodity. Sugar Al. Glass. Bulk → prices.

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## Do we have any Powers?

### Buyers

Final Customers:

- Cost
- Options.
- Fragmented.

Bottlers:

- Secret.
- Exclusive Agreement legal.
- Low margins. 60% - transport
- pos. - many.
- Assumed mkt.

Aircraft Carriers:

Britannia:

Bisk Farm:

Country	Per-capita volume sales (liters)
United States	927.17
Mexico	432.76
Germany	327.42
Spain	275.4
United Kingdom	254.81
Japan	201.75
Australia	176.28
France	127.00
South Korea	121.42
Brazil	116.01
Indonesia	114.47
Canada	110.44
Italy	110.05
China	102.21
Nigeria	89.14

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## Finally, the Competition

### Market Forces

- Duopoly, highly concentrated.
- High Competition in Mktg (Branding)

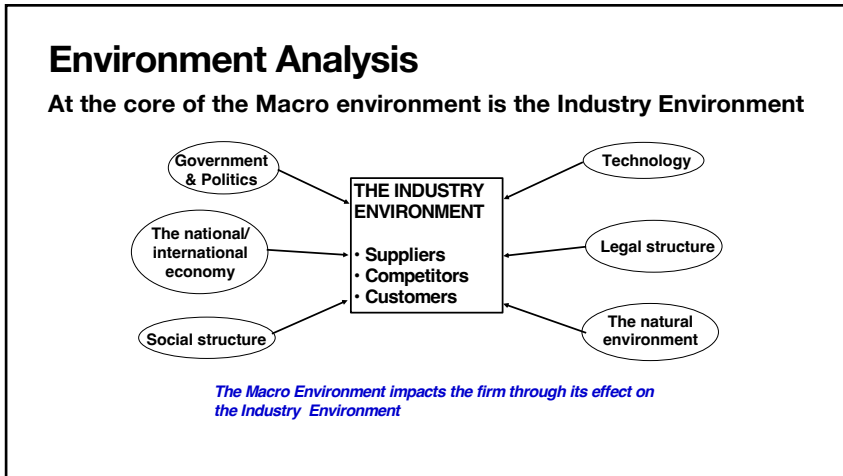
Tactic Understanding

Limca Goldspot

Tumps Up

Brand	Brand Value (million U.S. dollars)
Coca-Cola	24,004
Fanta	21,764
Sprite	18,835
Red Bull	16,054
Mountain Dew	11,209
Yoo	11,270
7UP	9,672
Perrier	8,234
Das Eiskalt	6,166
Mango	5,789
Mirinda	5,640
Sprite	5,400
Guarani	5,333

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## Industry Structure

### Analysing Industry Attractiveness

	Perfect Competition	Oligopoly	Duopoly	Monopoly
Concentration	Many firms	A few firms <i>Cars</i>	Two firms	One firm <i>Railways</i>
Entry and Exit Barriers	No barriers	Significant barriers	High barriers	
Product Differentiation	Homogeneous Product	Potential for product differentiation		
Information	Perfect Information	Imperfect availability of information		

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## Threat of New Entry

### Analysing Industry Attractiveness

Threat from New Competition

- If firms can easily enter the industry, any above normal profits will be bid away quickly.
- Barriers to entry lower the threat of entry.
- Barriers to entry make an industry more attractive.
  - This is true whether the focal firm is already in the industry or thinking about entering.

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## Threat of New Entry

### Analysing Industry Attractiveness

Barriers to Entry:

- **Economies of scale**—firm that can't produce the minimum efficient scale will be at a disadvantage.
- **Product differentiation**—entrants are forced to overcome customer loyalties to existing products.
- **Cost advantages independent of scale**—incumbents may have learning advantages, and so on.
- **Government policies**—governments may impose trade restrictions and/or grant monopolies.

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## Economies of Scale

### Cost of Production

Handwritten notes on the graph: 'F', 'manpower communication', 'diseconomies of scale', 'MES minimum efficient scale', 'PSU'.

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## Rivalry between Established Competitors

### Analysing Industry Attractiveness

The extent to which industry profitability is depressed by aggressive price competition depends upon:

- Concentration (number and size distribution of firms)
- Diversity of competitors (differences in goals, costs strategies, etc.)
- Product differentiation
- Excess capacity and exit barriers
- Cost conditions
  - Ratio of fixed to variable costs
  - Extent of scale economies

Handwritten red note: 'PSU'.

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## Threat of Substitutes

### Analysing Industry Attractiveness

*Extent of competitive pressure from producers of substitutes depends upon:*

- Buyers' propensity to substitute
- The price-performance characteristics of substitutes.

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## Bargaining Power of Buyers

### Analysing Industry Attractiveness

*The extent to which buyers are able to depress profitability in an industry depends upon:*

- Buyer's price sensitivity**
  - Importance of item in relation to buyers' total costs.
  - Differentiation of the purchased item
  - Intensity of competition among buyers
  - Whether item is critical to the quality of buyers' own output
- Relative bargaining power**
  - Size and concentration of buyers relative to sellers.
  - Buyer's information .
  - Ability to backward integrate.

*NOTE: analysis of supplier power is symmetric*

*Handwritten notes: PC: Lv chip Intel AMD, OS Microsoft*

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## Industry Analysis to Strategy

### Five-forces analysis to forecast industry profitability

*Forecasting Industry Profitability*

- If we can forecast changes in industry structure we can predict likely impact on competition and profitability.

*Strategic Positioning*

- Once we know which structural features of the industry support profitability and which depress profitability, we can choose a favorable positioning within the industry.

*Strategies to Improve Industry Profitability*

- Which of the structural variables that are depressing profitability can we change by individual or collective strategies?

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## Identifying Key Success Factors

### Developing Competitive Advantage

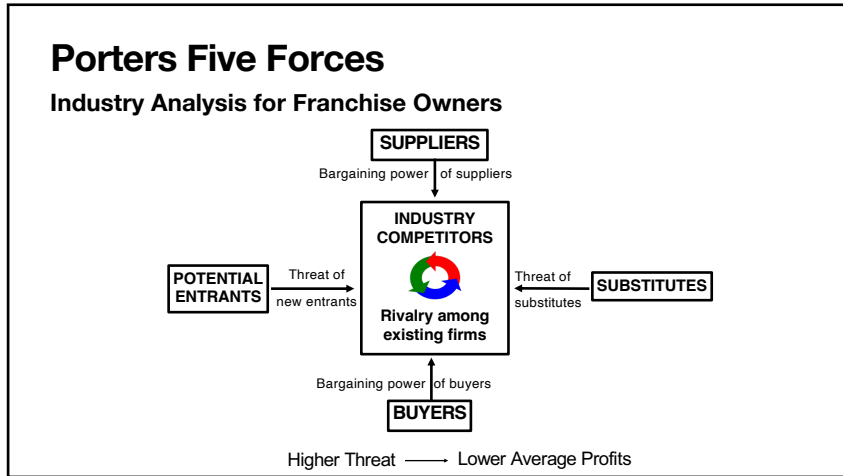
*Pre-requisites for success*

- What do customers want?**
  - Analysis of demand*
    - Who are our customers?
    - What do they want?
- How does the firm survive competition?**
  - Analysis of competition*
    - What drives competition?
    - What are the main dimensions of competition?
    - How intense is competition?
    - How can we obtain a superior competitive position?

*Handwritten note: Both*

**KEY SUCCESS FACTORS**

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### Corporates and Their Response to External Environment

#### Blockbuster vs. Netflix

- External Environment Impact:** Technological (Digital Disruption)
- Blockbuster:** Failed to adapt to the rise of streaming services, focused on traditional brick-and-mortar rental stores.
- Netflix:** Recognized the shift to digital consumption, invested in online streaming technology, and content production.

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### Corporates and Their Response to External Environment

#### Kodak vs. Digital Camera Competitors

- External Environment Impact:** Technological (Digital Photography)
- Kodak:** Dominated the film photography market but underestimated the potential of digital photography.
- Competitors (e.g., Canon, Nikon):** Embraced digital technology, introduced digital cameras, and gained market share.

1999 Kodak		2013 Instagram	
Rolls of film sold	800,000,000	60,000,000	
Images/Roll	27	365	Avg. Photos/Day
Total Images Processed	21,600,000,000	21,900,000,000	Total Images Processed
1999 Kodak		2013 Instagram	
Rolls of film sold	800,000,000	60,000,000	Avg. Photos/Day
Images/Roll	27	365	Days in year
Cost/Roll	\$5.00	NA	
Cost/Developed Roll	\$5.00	NA	
Cost/Processed Image	\$0.37	\$0.00	Cost/Processed Image
Total Images Processed	21,600,000,000	21,900,000,000	Total Images Processed
Total Imaging Costs	\$8,000,000,000	\$0.00	Total Imaging Costs

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### Corporates and Their Response to External Environment

#### Airbnb vs. Traditional Hospitality Industry

- External Environment Impact:** Technological (Sharing Economy)
- Traditional Hotels:** Initially dismissed Airbnb as a threat to their business model.
- Airbnb:** Leveraged technology to disrupt the hospitality industry, offering unique accommodations and experiences.

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### Corporates and Their Response to External Environment

#### Tesla vs. Traditional Automotive Companies

- **External Environment Impact:** Technological (Electric Vehicles)
- **Traditional Automakers:** Slow to invest in electric vehicle technology, focused on internal combustion engines.
- **Tesla:** Pioneered electric vehicle innovation, challenged traditional automotive industry norms.

Company	Market Cap	Gross Revenue
Tesla	\$685B	\$28B
Ford	\$118B	-
GM	\$109B	-
Mercedes	\$77B	-
Volkswagen	\$188B	-
Toyota	\$215B	\$1,302B

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### Corporates and Their Response to External Environment

#### Coca-Cola's Response to Changing Consumer Preferences

- **External Environment Impact:** Social (Health Consciousness)
- **Coca-Cola:** Faced declining sales due to increasing consumer demand for healthier beverages.
- **Response:** Introduced new product lines (e.g., Coca-Cola Zero Sugar, Smartwater) and diversified its portfolio.

- 1 | ~400 MASTER BRANDS
- 2 | Eliminated & Transitioned Brands represented
- 3 | ~200 MASTER BRANDS

Eliminated & Transitioned Brands represented: ~2% Volume, ~1% Revenue

Categories: Water, Sports, Coffee & Tea; Sparkling Flavors; Juice, Value-Added Dairy & Plant-Based Beverages; Emerging; Coca-Cola

Legend: Global (Black), Regional (Blue), Local (Grey)

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### Summarise

#### External Analysis

- How firms can create and exercise market power
- Understanding the external environment (industry, PESTLE) important to predict performance of a firm
- External environment gives us the **THREATS** and **OPPORTUNITIES** facing a firm
- Porters 5 forces broke the SCP paradigm. Conduct can alter Structure and thereby Performance
- Role of regulators vital in controlling Structure

*Handwritten notes:* PESTLE (Political, Economic, Social, Tech., Environment, Legal)

*Handwritten notes:* Fragmented / oligopoly (10% - Innovation, 8% - Cost ↓, M&A)

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### Summarise

#### External Analysis

- External environment factors can drive strategic change in organizations.
- Importance of adaptability and agility
  - Organizations must be proactive in responding to external changes to remain competitive and relevant.
  - Continuous monitoring and strategic alignment with the external environment are essential for long-term success

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