Certified in Strategy and Competitive Analysis Review

Session 2 of 7

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OUR SPEAKER

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William Kline, Ph.D., CFA, CSCA, is an Associate Professor of Management and the CSCA Program Advisor at Hock International. He received his Ph.D. in Strategic Management from the Fox School of Business at Temple University. He has earned four awards for teaching excellence, including the Beta Gamma Sigma Professor of the Year Award (PSU Harrisburg), the Dean's Award for Faculty Excellence and the Stanley Fuchs Award (Fordham University), and the Award for Excellence in Teaching by a Doctoral Candidate (Temple University).

Prior to entering academia, Mr. Kline was a manager at PricewaterhouseCoopers, where he completed valuations for mergers and acquisitions, business planning, and tax and financial reporting. He also worked as a consultant for CBIZ Valuation Group, Inc. and Curtis Financial Group, a regional investment bank.

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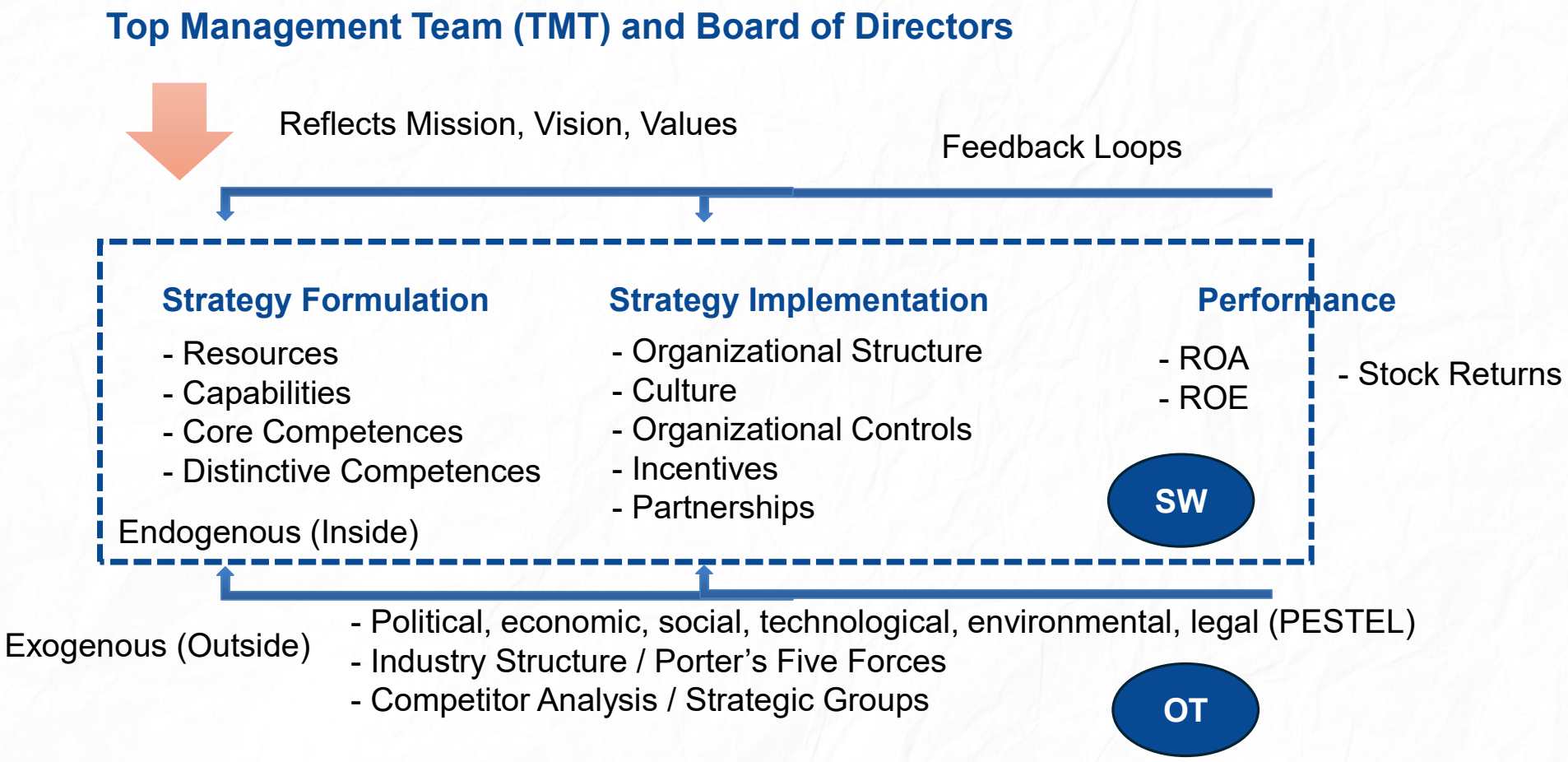
Program Agenda

- **January 4** – Strategic Planning & the Management Process
- **January 11** – Environmental Scanning & Industry Analysis
- **January 18** – Delivering Value & Business-Level Strategy
- **January 25** – Corporate-Level & Functional-Level Strategy
- **February 1** – Strategy in a Global Context
- **February 8** – Decision Making, Risk Management, & Implementation
- **February 15** – Evaluation, Control, & Ethical Governance

The Strategic Planning Process

1) Defining mission, vision, values, and goals
2a) Scanning the external competitive environment
2b) Scanning the internal operating environment
3) Establishing the strategic plan
4) Developing and implementing the plan
5) Creating the annual plan and operating budgets
6) Evaluating performance

The Strategic Management Process



Environmental Scanning

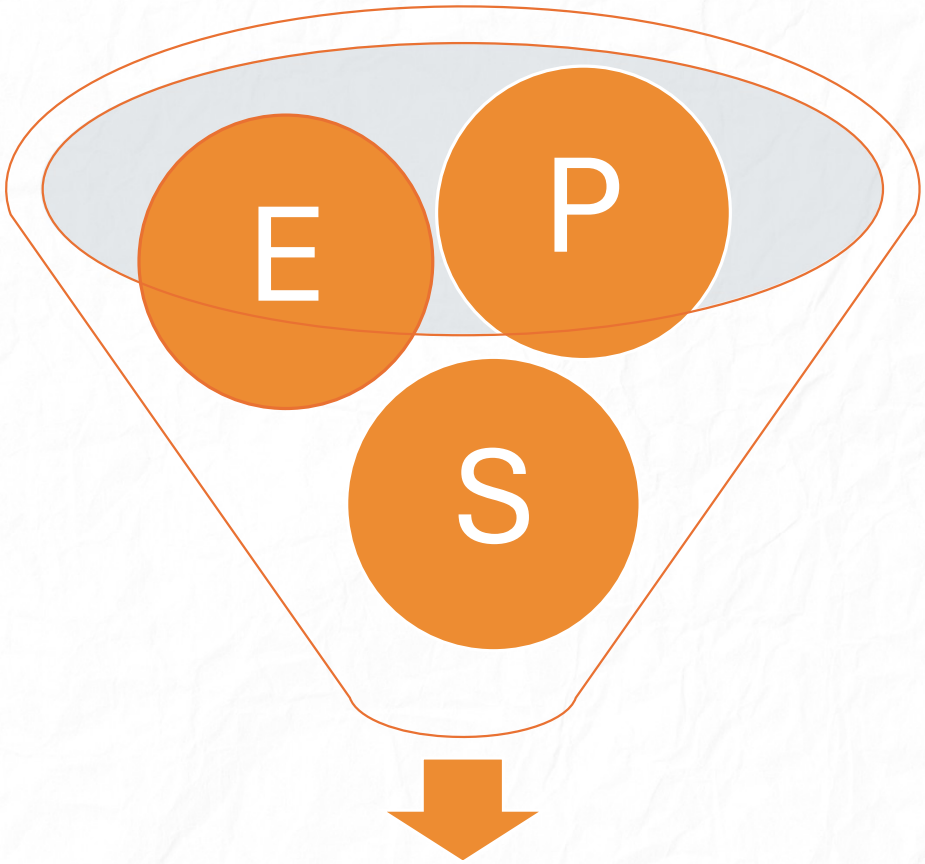
Environmental scanning involves studying the externals forces that influence firm operations (PESTEL and STEEP models).

Environmental Scanning

- Gathering, analyzing and interpreting information
- Information flows from all stakeholders
- Collection systems/processes are required
- Analytics matter
- Analysis/reports must be given to the C-suite

PESTEL and STEEP

- **Political** – Taxation, tariffs, etc.
- **Economic** – GDP, inflation, etc.
- **Social** – Demographics, consumer trends, etc.
- **Technological** – Artificial intelligence, automation, etc.
- **Environmental** – Climate change, pollution, etc.
- **Legal** – Intellectual property rights, antitrust, etc.



Estimates for revenue, expenses, risks

Macro and Microenvironments

- The **macroenvironment -** general environment: local, country, regional, worldwide
- The **microenvironment or task environment -** elements or groups directly affecting the firm

Thompson, Arthur A., Margaret A. Peteraf, John E. Gamble, and A. J. Strickland. 2019. *Crafting and Executing Strategy: Concepts and Cases*. 22nd ed. New York: McGraw-Hill Education.

Wheelen, Thomas L., J. David Hunger, Alan N. Hoffman, and Charles E. Bamford. 2017. *Strategic Management and Business Policy: Globalization, Innovation and Sustainability*. 15th ed. Boston: Pearson.

Common Macro Factors

- Gross Domestic Product (GDP)
- Interest rates
- Inflation
- Capital availability
- Unemployment levels
- Energy costs
- Currency markets
- Global financial system
- War/political conflict

Common Micro Influences

- Suppliers
- Buyers
- Consumers
- Competitors
- Complementors
- Regulators

Industry Structure / Fragmentation

Structure

- Pure competition
- Monopolistic competition
- Oligopoly
- Monopoly

Concentration (MS %)

- Fragmented
- Moderately concentrated
- Highly concentrated
- Extremely concentrated

Industry Structure

Perfect Competition

- No entry and exit barriers
- Many independent buyers/sellers
- Costless transactions
- Perfect information
- Product market homogeneity
- No firm has any significant power
- **No non-price competition**

Commodities Market

Industry Structure

Monopolistic Competition

- Minimal entry and exit barriers
- Many independent buyers/sellers
- Almost costless transactions
- Less than perfect information
- Some product market differentiation
- Some firms have a little power
- **Some Non-price competition**

Coffee & Pizza Shops

Industry Structure

Oligopoly

- A few sellers (3-8 or so)
- High entry barriers
- Potential tacit collusion
- Product market heterogeneity
- Significant market shares
- **Non-price competition**

U.S. Cellular Industry

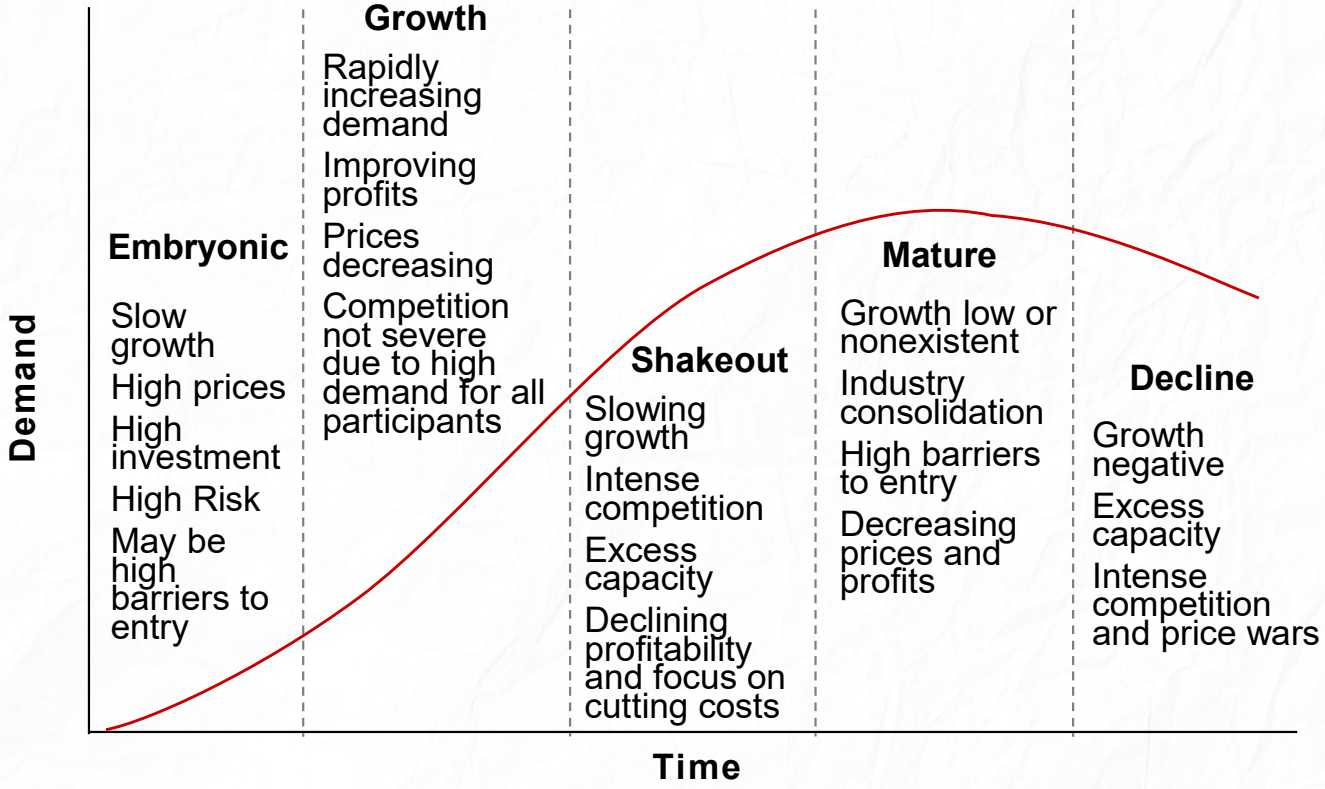
Industry Structure

Monopoly

- One seller
- Very high entry barriers
- Product market differentiation
- All market share
- **Almost no price competition**

Utility Companies

Stages in the Industry Life Cycle



Stages in the Industry Life Cycle

Key Factors	Embryonic	Growth	Shakeout	Mature	Decline
Demand: Unit Growth	Low	Rapid	Slowing	Low	Negative
Pricing Power	High	Decreasing	Decreasing	Low	Low
Profitability	Low or Negative	Rising	Peaking then Declining	Stable to Falling	Low or Negative
Entry Barriers	High	Moderate	Increasing	High	High
Number of Firms	Few	Many	Declining	Few	Few
Competitive Intensity	Low	Moderate	High	High	Very High

Porter's Five Forces Overview

- The unit of analysis is the industry.
- Porter's analysis give you a view of industry attractiveness (i.e., unattractive, neutral, attractive).
- The analysis should be dynamic meaning it is continuously monitored.

Porter's Five Forces Model

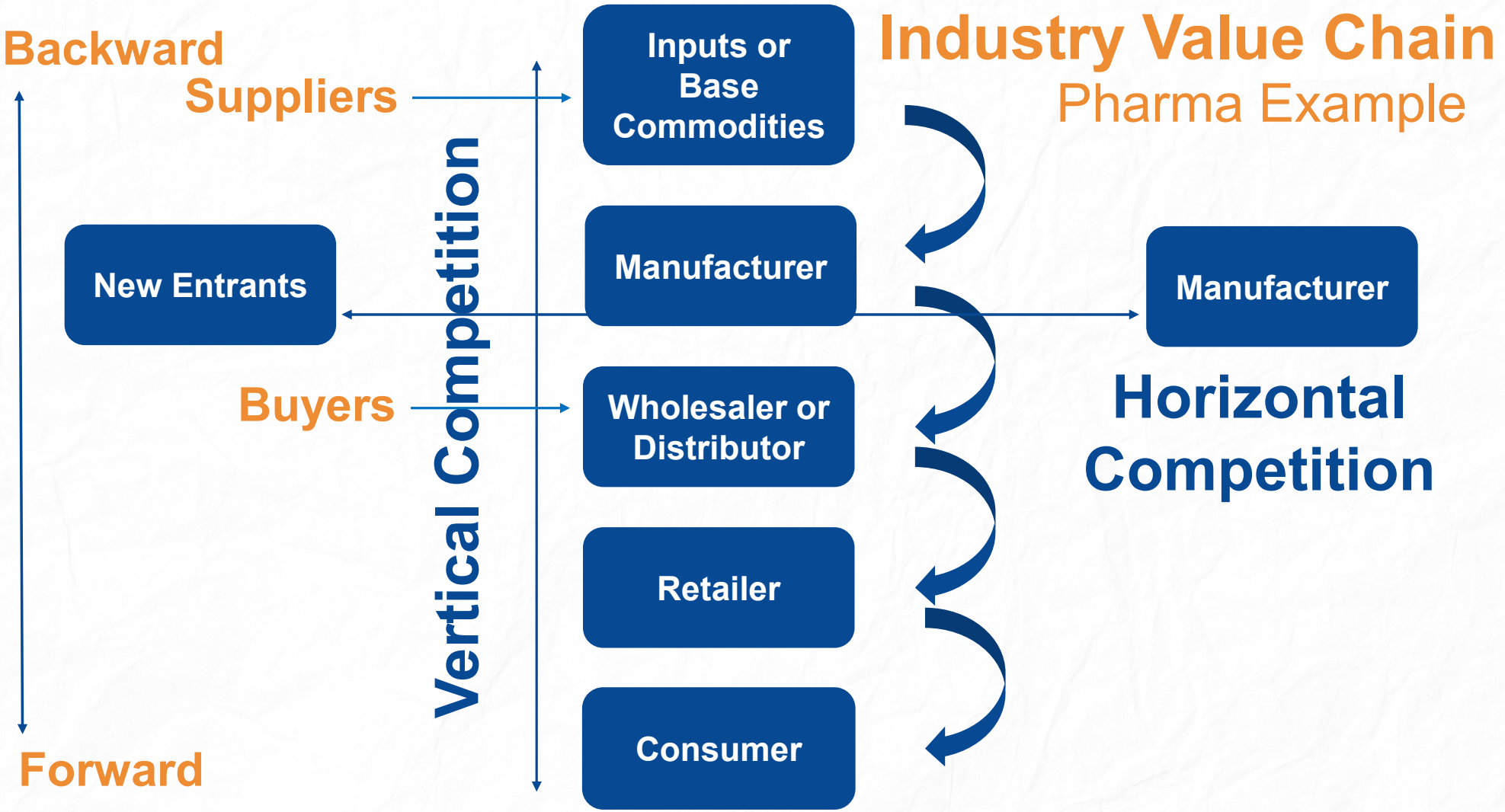
1. Threat of new entrants
2. Threat of substitute products or services
3. Bargaining power of buyers
4. Bargaining power of suppliers
5. Rivalry amongst existing firms

Source: Competitive Advantage: Creating & Sustaining Superior Performance. Michael E. Porter. The Free Press. 1998.

ROIC By Industry

pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/roc.html

Industry Name	Number of firms	Normalized ROIC (last 10 years)
Healthcare Support Services	119	44.70%
Aerospace/Defense	70	33.45%
Semiconductor Equip	30	32.32%
Software (System & Application)	351	31.52%
Business & Consumer Services	162	28.14%
Beverage (Soft)	29	26.78%
Software (Entertainment)	84	26.05%
Apparel	38	22.99%
Retail (Special Lines)	105	22.79%
Drugs (Pharmaceutical)	245	22.50%
Environmental & Waste Services	57	22.09%
Semiconductor	63	21.55%
Beverage (Alcoholic)	19	18.27%
Packaging & Container	22	18.06%
Metals & Mining	68	17.89%
Transportation	36	17.47%
Healthcare Products	230	17.13%
Electronics (General)	129	17.08%
Telecom. Services	42	16.85%
Chemical (Specialty)	68	16.74%
Homebuilding	32	16.32%
Chemical (Basic)	32	16.17%
Food Wholesalers	14	16.13%
Paper/Forest Products	7	15.67%
Cable TV	10	15.39%
Chemical (Diversified)	4	14.84%
Retail (Distributors)	62	14.82%
Publishing & Newspapers	21	14.38%
Construction Supplies	45	14.19%


Industry Value Chain
Pharma Example
Backward
Suppliers
Inputs or Base Commodities
New Entrants
Manufacturer
Manufacturer
Buyers
Wholesaler or Distributor
Retailer
Consumer
Vertical Competition
Horizontal Competition
Forward

Threat of New Entry

1. Economies of scale (supply side)
2. Network effects (demand side)
3. Switching costs
4. Capital requirements
5. Incumbent advantages
6. Distribution networks
7. Protectionist policies

Porter, Michael E. "The Five Competitive Forces That Shape Strategy." *Harvard Business Review*, vol. 86, no. 1, 2008, pp. 78–93.

Threat of New Entry

Example: Telecom industry has high capital and regulatory hurdles.

Power of Suppliers

1. Supplier concentration
2. Availability/switching costs to substitutes
3. Standardized or customized supplier output
4. Probability of forward integration
5. Buyer concentration
6. Importance of supplier good/service

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Power of Suppliers

Example: In the semiconductor industry, suppliers like TSMC have high power because of their technological expertise, limited substitutes, and industry dominance.

Power of Buyers

1. Buyer concentration
2. Availability/switching costs to substitutes
3. Standardized or customized buyer input
4. Probability of backward integration
5. Supplier concentration
6. Importance of purchased good/service

Porter, Michael E. "The Five Competitive Forces That Shape Strategy." *Harvard Business Review*, vol. 86, no. 1, 2008, pp. 78–93.

Power of Buyers

Example: In the retail industry, large retailers like Walmart and Target exert high buyer power over suppliers by purchasing in bulk and representing a significant share of their revenue.

Availability of Substitutes

1. Alternatives with closeness in function
2. Switching costs
3. Price-Performance Trade-offs

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Availability of Substitutes

Example: Video conferencing as a substitute for travel.

Existing Competition

1. Ability to differentiate
2. Switching costs
3. Industry high fixed costs
4. Industry capacity expansion
5. Perishability of products
6. Industry growth rate
7. Exit barriers

Porter, Michael E. "The Five Competitive Forces That Shape Strategy." *Harvard Business Review*, vol. 86, no. 1, 2008, pp. 78–93.

Existing Competition

Example: In the airline industry, intense price competition and low differentiation create high rivalry among competitors.

Complementary Products/Service

1. Industry reliance on complementary industry output
2. Difficulty/ease in managing relationships with partners/ecosystem
3. Degree of control

Complementary Products/Services

Example: In the video game console industry, exclusive games and online services are key complements that drive demand and brand loyalty.

Questions?

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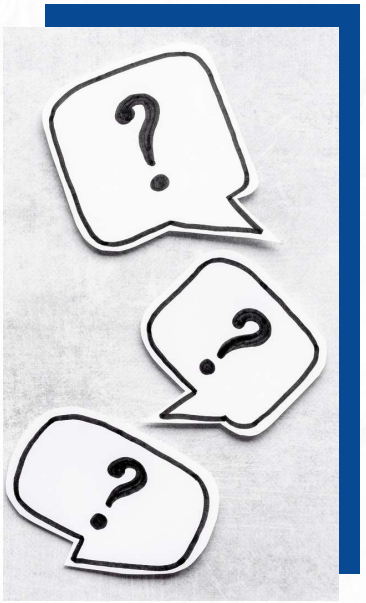

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