# LECTURE 4

## 1/ STRATEGIC ANALYSIS

### ** PORTER ' S FIVE FORCES

In his book *Competitive Strategy*, Michael Porter1 sets out five forces that drive industrial competition: the relative bargaining power of buyers, that of suppliers, the threat of new entrants, the threat of substitute products, and the degree of rivalry amongst existing firms in the industry. The relative strengths of these forces indicate the attractiveness of an industry to a particular player, and suggest where they might wish to compete. (figure below)


### ***PESTLE ANALYSIS

In analysing a company's competitive position, it is essential to understand how changes will affect it. Some of the key drivers of change are:

Political
Economic
Social
Technological

Legal and Environmental issues

A PESTLE analysis considers how these factors are likely to affect the company and the industry in which it operates. Ideally, one should draw up a five forces analysis at the current time, and then see how the PESTLE factors will impact upon that analysis.

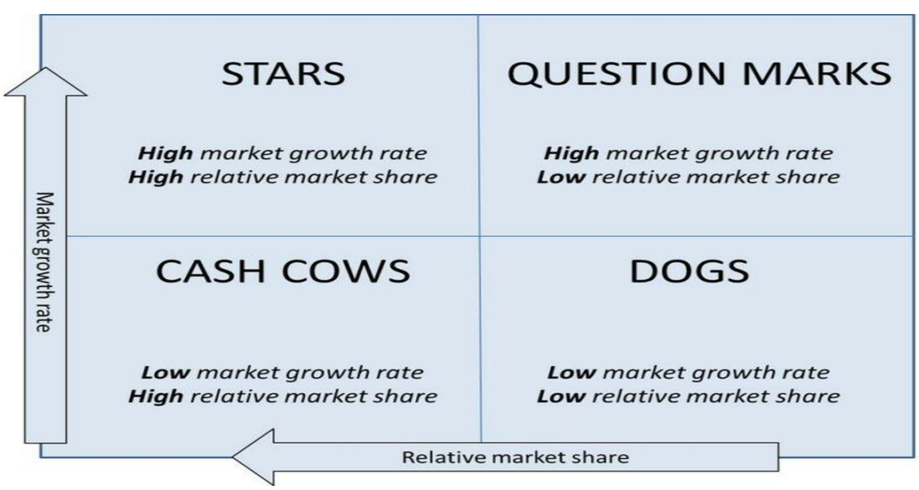
*****RESOURCE-BASED THEORY**

Whereas the five forces analysis takes the approach that competitive advantage lies in industry characteristics, the resource-based view of competitive advantage is that it lies in the company's own unique set of assets. In other words – what is this company particularly good at, which enables it to compete successfully? It has been argued that any assets that an organization has which can confer competitive advantage must have the following characteristics:

Valuable
Rare
Imperfectly imitable and
Non-substitutable

***** THE BOSTON MATRIX**

Figure 2 shows the Boston Consulting Group in order to explain the concept of product portfolio management to senior managers of large groups.
The two axes are based on key business success factors identified from the PIMS (profit impact of market strategies) database set up by General Electric and now run by the Strategic Planning Institute.



**1. Question Marks – Construction**

These products are **not necessarily very profitable** at this time, but have **potential to gain market** share with the **right investments**.

It is therefore possible to build a 'Question Mark' into a 'Star'.

**Example**

If you introduce a new smartwatch to the market, it will be difficult to gain ground, despite the fact that the market is growing rapidly.

This is because large companies already have strong differentiation combined with large market budgets.

**2. Stars – Holding**

These products are **profitable** and it is worthwhile to continue **investing** in this product group so that they at least maintain their market share and perhaps even continue to grow.

**Example**

The Apple Smartwatch is an example of a product where Apple has a high market share and the smartwatch market is experiencing strong growth.

**3. Cash Cows – Harvesting**

These products are already **profitable** with **little growth potential** in the market. .

**4. Dogs – Divestment**

These products are **loss-making** and have **no potential** to become profitable.

You want to stop investing in a 'Dog', because there is nothing more to be gained from it.

**Example**

Suppose that a new pharmaceutical company starts developing a corona vaccine in 2023, they will find themselves in a market in which they have virtually no market share and there is no market growth to gain that share.

## 2/ STRATEGIC FOR GROWTH

At this point, as we are considering a company ' s need for growth, it is useful to bring in one of the classic models in strategy, The Ansoff matrix4 ( Figure BELOW ).
Ansoff's simple, but very powerful insight was that growth can come in four ways. A company can sell more of the same product to the same market

(quadrant 1), it can sell new products into the same markets (2), existing products into new markets (3), or it can take the high-risk strategy of diversifying totally (4).

**Strategies for growth: The Ansoff matrix**

| | | *Products* | |
|---|---|---|---|
| | | *Existing* | *New* |
| *Markets* | *Existing* | (1) Market penetration | (2) Product development |
| | *New* | (3) Market development | (4) Diversification |