Analytical Tools that Deliver Value

Porter’s Five Forces

Driving Forces

Competitor Response

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Agenda

- Introduction & Expectations
- Porter’s Five Forces
- Driving Forces
- Competitor Response
- Wrap-up
Porter’s Five Forces Model

Presented by:
Michel Bernaiche
The 5 Forces Model

- Industry analysis provides an understanding of an industry and its participants.

- The objective of industry analysis is to:
  - Identify the profit potential of an industry.
  - Uncover the forces that would harm profitability.
  - Protect a firm’s competitive advantage by defending against the forces that would harm profitability.
  - Extend competitive advantage by favorably influencing these forces; and proactively anticipate changes in industry structure.
The 5 Forces Model

Strategic Rationale and Implications

- Analyze the economic and market forces that will influence an industry’s profit potential.
- Identifying the “attractiveness” of an industry bridges the gap between the firm’s external environment and its internal resources.
- Porter classifies five forces or “rules of competition” as follows:
  1. Threat of new entrants
  2. Bargaining power of suppliers
  3. Bargaining power of buyers
  4. Threat of substitute products or services
  5. Degree of rivalry among existing competitors
The 5 Forces Model

Strengths and Advantages

- Provides a framework necessary to craft a strategy that will help insulate the company from competitive forces.
- Good technique for looking at **industry evolution** - this is an important component!
  - Allows managers to identify windows of opportunity to capitalize on changes in any of the five forces of industry structure.
  - Industry evolution recognizes that the five forces are mutually dependent.
- Improves a firm’s analysis of the environmental component of strategy creation.
  - increases the probability of achieving good strategic fit
Weaknesses and Limitations

- Underestimates the (internal) competencies & resources of a firm that may serve as its long term competitive advantage.
- Does not take into account the synergies and interdependencies within a corporation’s overall portfolio.
- Lacks recognition of the importance of social and political (SP) factors within and across each of the five forces.
- Concerned mainly with cross-sectional problems and less so with longitudinal ones.
- Can misdirect managers to focus on industry level characteristics, encouraging them to allocate resources on influencing the industry’s structure even though their firm may not uniquely benefit from the changes.
The 5 Forces Model

Process for Applying the Technique

- Step 1: Information Collection
- Collect information to identify the characteristics of each force and examine & assess their impact on the industry.

![Diagram of the 5 Forces Model]

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The 5 Forces Model

Process for Applying the Technique

- **Step 1: Information Collection**
  - Threat of New Entrants
    - Entry Deterring Price
    - Incumbent Retaliation
    - High Costs
    - Experience Effects
    - Other Cost Advantages
    - Product Differentiation
    - Distribution Access
    - Government
    - Switching Costs
The 5 Forces Model

Process for Applying the Technique

- **Step 1: Information Collection**
- 2. Bargaining Power of Suppliers
  - Concentration
  - Diversification
  - Switching Costs
  - Organization
  - Government
The 5 Forces Model

Process for Applying the Technique

- **Step 1: Information Collection**
    - Differentiation
    - Concentration
    - Importance
    - Profitability
    - Importance of quality
    - Access to information
    - Switching costs
The 5 Forces Model

Process for Applying the Technique

Step 1: Information Collection

4. Threat of Substitute Products or Services
   - Relative price/performance trade-off
   - Switching Costs
   - Profitability
The 5 Forces Model

Process for Applying the Technique

**Step 1: Information Collection**

5. Degree of Rivalry Among Existing Competitors

- Market Growth
- Cost Structure
- Barriers to Exit
- Switching Costs
- Experience Effects
- Diversity
The 5 Forces Model

Process for Applying the Technique

- **Step 2: Assessment and Evaluation**
  - Evaluate the five forces in light of organization’s abilities.
  - Determine the direction of the force and the relative strength of each by giving them a value indicating if it is strong, moderate, or weak.
  - Can use a scale of 1 to 5 with “5” indicating a very strong force and “1” indicating a very weak force.
  - The goal is to identify the ability of your firm to successfully compete and profit within this industry, given the collective strength of the five forces.
The 5 Forces Model

Process for Applying the Technique
Step 3: Strategy Development

- Analyze long-term industry trends — some include government legislation, social trends, technology, etc...
  - Are industry profits sustainable?
  - What will effect be on firm’s competitive position?
- Next: Integrate the environmental analysis within the context of corporate strategy to find the tightest fit between your firm’s resources & capabilities and the external/industry environment.
The 5 Forces Model

Process for Applying the Technique

Step 3: Strategy Development

Best fit may include:
- Reactive strategy against competitors
- Proactive by manipulating forces in motion
- Proactive by forcing change in one or more forces

Industry Trends Analysis  Business Strategy

Find Best Strategic Fit
The 5 Forces Model

Summary

- All forces should be constantly monitored for their impacts on the current strategy and opportunities they represent for extending or sustaining a competitive advantage.
- All industries are distinctive.
- This model must be repeated for companies with product portfolios across numerous industries, and analyzing each unique industry served.
Five Forces Model

Barriers to Entry- ___

Power of Suppliers- ___

Market Growth- ___

Power of Buyers- ___

Barriers to Exit- ___
**KEY TAKEAWAY:**
- Ensure core competencies are addressed and repaired
- Ensure value menu has exit strategy—consider strengthening our existing “natural” value positioning
- Emphasize product and brand differentiators
- Consider whether we are prepared to compete in CPG beyond packaged coffee

**PORTER’S FIVE FORCES**
Objective: To determine the intensity (Low, Medium, High) of industry forces of our competitive set

**Suppliers (Low)**
- Growing cost of raw materials
- Suppliers are a dime-a-dozen
- Vertical integration is expensive
- Meeting brand specifications is difficult

**Existing Rivals (High) — price war**
- Copycat tactics
- Bundling
- Breakfast is the fastest growing daypart
- High exit barriers (SBUX experienced high expenses related to store closures)
- Decreasing profits due to value focus, discount prices, and promotional fever
- Segment is becoming more and more blurred as each competitor attempts to become “all-things-to-all-people”

**Substitutes (Medium+) — traffic will suffer**
- Energy drinks
- Single brew (home brew, office brew)
- Ready-to-drink
- Retail prepared/frozen meals

**Potential Entrants (Medium) — erosion to market share**
- Jamba Juice — breakfast
- Fast Casual
- Cold Stone Creamery — specialty coffee
- Foodservice
- The brand equity established by key players is difficult to achieve
- Entrance of new players may lead to price reductions

**Avoid value trap without exit strategy**

**Buyers - Consumers (Medium)**
- Consumers are price sensitive
- Demand for specialty coffee is increasing
- Green is becoming a more important factor
- Food labeling is becoming more necessary to meet consumer demand for healthy food
- Consumers have options
- Less loyalty as we enter new markets, so delivering on our brand promise will be vital to success

**Buyers - Franchisees (Medium)**
- Incentives from mother companies
- Options abound
- No credit

**Are we prepared to compete in CPG beyond packaged coffee?**
Driving Forces (DF) Analysis

Presented by:
Dr. Craig S. Fleisher
Outline (DFs)

Driving Forces

- Introductory Case
- Alignment of Method to KITs
- Overview
- Advantages
- Limitations
- Process for Applying DFs
- Applied Case Study: Quick Service Coffee
- Complimentary Analysis Methods

Social
Technological
Ecological
Economic
Political

Industry
What major factors are promoting global growth in the coffee industry?

Are these factors likely to strengthen or weaken in the next 5 years?

Are the driving forces making competition more fierce, or less so?

What factor (-s) might upset the “growth” pattern being experienced?

Which of the industry drivers are influence-able by a single company? By the industry as a whole?

Is our company well (or badly) positioned to take advantage of the DFs?
Overview

- Factors impacting the competitive landscape (industry system) that are largely outside the influence of any individual company.
- Designed as a way of understanding and accounting for change at the industry level.
- Drivers are clusters of trends that collectively influence changes to an industry’s structure and a rival’s competitive conduct.
- Driving Forces (DF’s) cause things to remain as is (depending on the impact of countervailing restraining forces) or to change.
Overview

- Understanding DF’s is the first step toward establishing a framework for analyzing critical trends, especially as they impact the competitive environment facing an industry.
- DF’s indicate the external factors likely to have the greatest impact on a firm and its industry in the near future.
- Understanding DF’s help decision-makers understand what changes an organization needs to make to constructively address the driving forces of its competitive ability.
Advantages

- Essential component of several other analytical techniques
- DF’s imply change which is often a source of competitive advantage or competitive disadvantage
- DF analyses receive a higher-than-average degree of managerial agreement, in part because the managers were involved in developing them
- Can be done in a less-data-intense fashion than many other techniques
- Can be done less frequently than many other tools while still being effective and useful
Limitations

- By itself, DF Analysis cannot drive strategy formulation
- DF’s are outside of the control for many organizations to alter
- Process needs to be inclusive and participative
- Can suffer from a number of common internal organizational biases
- The most important forces are usually found at intersections of multiple trends – which can be complex to disentangle
Process for Applying the Method:

Step 1

- Look for the DF’s in the macro-environment that influence industry structure and competitive behavior
- Search for “hidden” or “below-the-surface” factors
- DFs should be identified in a group or team environment
- Agree on a name for the force, develop a brief description
- Ask “why?” multiple times (i.e., use the “5 whys?”)
- Remove from the list of all DF’s that are irrelevant to your industry
- Another way of trying to understand DFs is to understand how trends or events relate to one another and a potential driving force
Process for Applying the Method:
Step 1a - Categorize DFs

- Categories of DF’s include the following PESTO developments: political/legal, economic, social/cultural/demographic, technological and others (ecological, regulatory, etc.).
- Some common DFs across various industries include:
  - Changes in the long-term industry growth rate
  - Changes in the purchasers of the product and how they use it
  - Changing societal concerns, attitudes, lifestyle
  - Diffusion of expertise across more firms and locations
  - Election, political or public affairs trends
  - Growing use of social media, mobile and web-based applications
  - Important firms that enter or exit the industry
  - Innovations in processes and products
  - Significant changes in uncertainty and business risk
  - Technological change and manufacturing process innovation
Process for Applying the Method:
Step 1b – Name the Driving Forces

- The goal is to come out of this step with the following identified. The name of the driving force (DF)
  1. Brief (1 sentence) description
  2. Evidence of precursors of the force
  3. Evidence of inhibitors of the force
  4. Sources/Experts – who/what stakeholders focus on/specialize in it (best when linked to web sources)
  5. Related forces – other forces that this one is intertwined with
  6. Timeline – what events occurred that defined the DF’s development
  7. Effects – how is the force impacting the landscape of your interest?

- Best captured in a table or grid designed for use in DF analysis (See next slide for example of one you can use for this purpose)
## Step 1 Exercise: Naming the DFs

<table>
<thead>
<tr>
<th><strong>Driving Force</strong></th>
<th><strong>Evidence</strong></th>
<th><strong>Sources</strong></th>
<th><strong>Timeline</strong></th>
<th><strong>Impacts</strong></th>
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Process for Applying the Method:
Step 2 - Assessing the Impact of the DFs

- At this point, all DFs determined to be relevant in Step 1 are deemed important.
- Rank the DFs in order of importance in driving the attractiveness of the industry and the level of profitability that may be achieved in the near future.
- The goal is to understand the external factors that will shape change in the industry and the difference they will make.
Process for Applying the Method: Step 2 - Assessing the Impact of the DFs

- Ask yourself the following questions regarding the DF’s indentified in step 1:
  - Are they valid?
  - How do we know?
  - What is their strength?
  - Which ones can be altered?
  - Which one cannot be influenced?
  - Which ones can be altered quickly?
  - Which ones can only be altered slowly?

- Which ones, if altered, would produce rapid change?
- Which ones would produce only slow change?
- What skill and/or information are needed and are available to change the forces?
- Can you get the resources or capabilities needed to change them?
Process for Applying the Method: Step 2 - Assessing the Impact of the DFs (cont.)

- Three common approaches to answer these questions are applied at this point:
  - Use structured ranking
  - Assign a score to each DF, from 1 (weak) to 7 (strong)
  - Use a matrix that separates the forces on preselected dimensions
Another key facet of this stage is to determine whether these DFs make the industry environment more or less attractive.

Answer these four questions:

1. Are the DFs causing demand for the industry’s product to increase or decrease?
2. Are the DFs making the bargaining power of other industry participants higher or lower? (note: I split these into two: buyers, suppliers)
3. Are the DFs making competition more or less intense?
4. Will the DFs likely lead to higher or lower industry profitability?

Use a table like the one on the next slide for this purpose.
### Step 2 Activity: Gauging DF Impacts

<table>
<thead>
<tr>
<th>Question</th>
<th>Indicators</th>
<th>Aggregate Effect</th>
<th>Comments (Impact-ability?)</th>
</tr>
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<tbody>
<tr>
<td>1. Are the DFs causing demand for the industry’s product to increase or decrease?</td>
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<td>5. Will the DFs lead to higher or lower profitability?</td>
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</table>
Process for Applying the Method: Step 3 - Assess Changes to Your Strategy

- After, your next task is to decide whether actions taken to change the firm’s strategy to address the DF are feasible
- Create a table identifying the impact of each DF and proposed solutions to each addressed impact
- Look at the proposed solutions and compare them in terms of cost/benefits, risks/benefits, or a predetermined set of criteria used to assess the options.
Case Study:
Driving Forces in the QS Coffee Industry

Aim: *Influencing the Impact of the DF’s*

1. How can we influence the DFs to increase overall demand?
2. How can we influence the DFs to lower the bargaining power of buyers?
3. How can we influence the DFs to lower the bargaining power of suppliers?
4. How can we influence the DFs to lower the degree of competition?
5. How can we influence the DFs to increase our profitability?
Related Tools and Techniques

- Critical Success Factor
- Forecasting
- Industry Forces Analysis
- Scenario Analysis
- Issue Analysis
- Linchpin Analysis
- Trend Analysis
- STEEP Analysis
- Driving Forces Analysis

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Competitor Response Model

Presented by:
Fred Wergeles
What is a Competitor Response Model?

- Analytic tool to forecast potential competitor actions
- Anticipate potential market reactions
- Identify key indicators of competitor activity
- Helps companies plan product strategies and counterstrategies
“Any war plan that depends on the cooperation of the enemy, is likely to fail.”

How will our competitors react to our new product launch?

• How will our competitors position their products prior to our launch?
• How will our competitors try to limit the success of our new product?
Assembling the Parts of the Puzzle

- Industry Information & Market Trends
- Competitor Capabilities
- Corporate & Product Strategy
- Customer Requirements & Market Research
Competitor Response Model

Identify Competitors & Other Players → Define Market Objectives → Generate Hypotheses → Analyze Competitor Capabilities

Hypotheses ---- Scenarios
What --- When --- How

Mesh Objectives & Capabilities → Prioritize Competitive Responses → Identify and Monitor Key Indicators

Reject Unachievable Actions

Customer Requirements
Strategy Development
Competitive Intelligence
Case Study: Quick Serve Restaurants

- Major fast food brands are battling for their share of the highly contested breakfast market: SBUX, McD, DD, Subway
- Wendy’s, Burger King and Taco Bell are the new upstarts in the breakfast category
- 64% of Americans visited a quick-service restaurant once for breakfast in 2011
- Over the years, each company has introduced new items and strengthened existing items in order to maintain market share and profits
- More recently, each company has dabbled in using social media to promote its breakfast offerings
Case Details – “A New Wrinkle”

- Burger King is planning to launch new premium coffee drinks and a fortified “all-in-one” nutritional breakfast sandwich – the “Mega-Croissanwich”
- BK intends to launch a splashy multi-social-media marketing blitz in addition to TV, radio, and newspaper spots.
- The pre-launch buzz suggests this new entry may be a game changer, striking a chord with the health-conscious, on-the-go, all-important 18-40 demographic.
CRM Step #1: Identify Competitors & Other Players

- Traditional
- Non-Traditional
- Other Stakeholders (Influencers)
CRM Step #1: Define Market Objectives

- Market Share vs. Profit Margins
- Increase Revenues, Cash Flow
- New Customer Segments
- Image
  - Innovation Leader
  - Differentiation through product performance
  - Low Cost provider
- Others
  - Become #1 or #2 in every category
CRM Step #1: Competitor – Objectives Matrix

<table>
<thead>
<tr>
<th>Category of Competitor</th>
<th>Competitors</th>
<th>Products</th>
<th>Market Objectives</th>
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<td>Traditional</td>
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<td>Non-Traditional</td>
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<tr>
<td>Other Stakeholders</td>
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</table>
CRM Step #2: Generate Hypotheses - Scenarios

- “Crystal Ball”
- Past Analogies
  - Successes
  - Failures
  - Avoid mirror imaging
- Leadership Analysis

Hypotheses:
Given their market objectives, what might the competitors do?

Scenarios:
How, When, Where could they do it?

There are no bad answers
“Imagination is more important than knowledge.”
-- Albert Einstein
CRM Step #2: Hypotheses Matrix

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<tr>
<th>Competitor</th>
<th>Product</th>
<th>Objectives</th>
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CRM Step #3: Competitor Capabilities

- Financial Strength
- Manufacturing Capacity
- Distribution Capabilities
- Technological Resources
- Marketing & Sales Capabilities
- Management Team Experience
- Innovation and Market Leadership
- Alliances
<table>
<thead>
<tr>
<th>Competitor</th>
<th>Product</th>
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CRM Step #4: “Triage”: Prioritizing the Responses

- Identify resources likely to be applied to competitive responses
- Identify special circumstances, conditions
- Eliminate hypothetical responses that are not viable
- Rank potential responses
  - Likelihood
  - Impact
  - Timing
CRM Step #4: Prioritize Potential Responses

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Product</th>
<th>Objective</th>
<th>Response</th>
<th>Likelihood</th>
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CRM Step #5: Develop Intelligence Indicators

- How will scenarios play out?
- Under what circumstances?
- Identify specific “precursor” events
  - Early Warning Indicators
- Develop Monitoring System
- Develop Alert Process
CRM Step #6: Develop Counterstrategies

- Plans in place to react to Intelligence Indicators
- Prepare responses
  - Offensive
  - Defensive
  - “War Gaming”
Q & A

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