

TYE 2019

SWOT

Porter's Five Forces

Today's learning outcomes

- ✱ By the end of today's session, a successful participant will be able to:
- ✱ Make effective use of two business strategy models, in order to ...
- ✱ Design and justify a strategic plan for your own business development.

Today

- * We're going to look at 2 *potentially* useful models (which are both often used very superficially ...)
 - * SWOT
 - * Porter's Five Forces.



FOR US IT ALL DEPENDS ON TWO THINGS:

- **THE QUALITY & DEPTH OF OUR THOUGHT**
- **THE QUALITY & ACCURACY OF OUR BUSINESS INFORMATION**

Remember business models are just tools, not answers

and the same tools can give different people **significantly different results ...**

The main potential pitfalls of using any business analysis model

- Defining things too broadly / trivially and not relating them to your specific context(s) / project(s)
- Just making lists, rather than engaging in thoughtful analysis
- Not knowing enough to make good decisions (though this helps us see where we need to do more research)
- Paying equal attention to all elements rather than digging deeply into the most important part(s)
- Using static analysis that ignores changes and trends.

Why SWOT?

- When and why do we use a SWOT analysis? What's the really essential point of it?
- The process we engage in is seeing how our business is positioned relative to our competitors and within the current business climate / environment
- But the purpose of doing this is to help us decide on our best strategy for business success: which strategic path should we follow?

S&W - are internal to you / your business.
They are your value-creating skills / assets (or lack thereof)
relative to your competitors.

Internal	Strengths - relative to my competitors	Weaknesses - relative to my competitors
External	Opportunities - in the market - dynamic focus	Threats - in the market - dynamic focus

O&T are the external factors, not created by you.
They are about the competitive dynamics of your (present &
future!) market(s) - its 'gaps' & its 'crunches'

Common SWOT Pitfalls

- The categories are deceptively simple - to decide on your strengths and weaknesses, and assess the probability and impact of external opportunities and threats, is a complex, demanding process
- It's therefore very easy to be pointlessly superficial :-)
- There is also a high inherent risk of making incorrect assumptions based on partial / flawed information
- The model doesn't actually help with your next step of deciding on a strategy to pursue
- & finally, it's very hard to do this alone.

Some further pointers

- STRENGTHS

- Starting with Strengths - brain not warmed up! - easy to miss things - so loop back around the cycle at least once
- Identify what you are really good at - your skills stronger than your competitors
- Identify the competitive assets you have
- E.g. - do people come to me because of my reputation?
- Strengths are *not*: a growing market / it's a new product etc ...

Some further pointers

- WEAKNESSES
 - It's too easy to dwell too much on inessentials
 - To repeat: something is only a weakness if you lack something that your competitors have (e.g. reputation / network / price advantage ...)
 - If you all lack it, then it's not a relative weakness
 - So, the question is - do your competitors have any skills / assets that you lack (or have significantly less of than them)?

Some further pointers

- OPPORTUNITIES AND THREATS

- Come from the changing external environment
- It's about trying to spot emerging market 'gaps' and market 'crunches'
- You need to think about the present and (likely) short-to-medium term future
- You need to think of this as dynamic and consider things in combination, whilst also spotting the most important factors (whew!)
- You could consider: the economic climate; changing spending patterns; impact of technology; what's available free; legal frameworks; demographics; location ... (and that's just for starters!).

An aside on RISK!

- We need a process to spot potential problems before they happen and figure out **either** how to prevent them **or** what to do if they do arise
- This process is call Risk Management
- A good straightforward definition of risk is:
 - {Possibility something will happen} x {The seriousness of the consequences if it does}

RISK MANAGEMENT

How likely? Score 1 - 5 (5 = very likely to 1 = not likely)

How serious? Score 1 - 5 (5 = this would be a very serious problem to 1 = not too serious)

$RISK = (\text{Score for how LIKELY}) \times (\text{Score for how SERIOUS})$

IDENTIFY	ANALYSE			MITIGATE
Describe the potential risk	Score for how likely?	Score for how serious?	RISK	What can you do to avoid / reduce the risk?

You can easily adapt this technique to look at the likelihood and the potential impact of your opportunities and threats as well.

Some common areas of risk: An ideas bank

- This is about spotting potential threats from causes such as:
- HUMAN - how might other people impact on you? Who might let you down? Who might stand in your way? ... (N.B. none of these lists are exhaustive - they are here to set you thinking!)
- OPERATIONAL - access to equipment / places? Distribution of your goods / services?

Some common areas of risk

- REPUTATIONAL - what might impact on your reputation - positively and negatively?
- PROJECT MANAGEMENT - time over-runs? Cost over-runs? Over-optimistic estimates?
- FINANCIAL - enough money to cover start-up costs? Cash-flow? Other income sources?
- TECHNICAL - equipment failure? Technology getting replaced by something newer?

Potential strategic approaches	Strengths	Weaknesses
Opportunities	Use strengths to take advantage of opportunities	Take advantage of opportunities by overcoming weaknesses, or making them irrelevant
Threats	Use strengths to avoid threats	Minimize weaknesses to avoid threats

Comments

- SO and WT strategies are quite obvious - do what you're good at and avoid what you're not competent at!
- ST strategies are often about 'buying or busting' your way out of trouble (e.g. big player fending off a smaller one through a price war)
- WO is risky - but can have very good return - to take an opportunity when you don't have the strengths, you need to develop the strengths quickly / buy in the talent / out-manoeuvre your competition.

“The Five Competitive Forces That Shape Strategy”

Michael E. Porter

Harvard Business Review, January 2008 (most recent version)

Can buy download copy (\$6.50) from HBR.

Competitive analysis: Porter's Five Forces



So, to think about using the 5 Forces model

- As we look at the main factors within each of the 5 forces, try to identify which impact most significantly on you **and how**: not all will necessarily be relevant!
- Overall, rate each of the 5 Forces for yourself:
 - ++ very positive situation for me / + positive
 - 0 neutral
 - - negative / -- very negative

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Competitive analysis: Porter’s Five Forces



Let’s just remind
ourselves of the
model before we look
at each part in more
detail

Rivalry among existing competitors

- Where are you placed? Who are your competitors?
- How much rivalry is there in your business field, and what is it over? (e.g. price / quality / speed / reliability ...??)
- What's changing in your business field right now that (re)shapes the 'rules' of the competition? What are people jockeying for position over?

Bargaining power of suppliers

- Who supplies you what?
- How much choice do you have over your suppliers?
Are they easy to find?
- Is it easy for your suppliers to find alternative customers? (How happy do they need to keep you?)
- How easy is it for you to switch? Would it cost you?
Are there “exit barriers”?

Bargaining power of Buyers

- Who buys what off you? How much does each buy?
How many buyers do you need?
- How much choice do your buyers have?
- Is it easy for your buyers to find alternative suppliers?
(How happy do you need to keep them?)
- How easy is it for your buyers to switch? Would it cost them? Are there “exit barriers”?

threat of substitute products / services

- What type of business are you in, really? What are you selling? (Lateral thinking useful here)
- How easily can your product / service be substituted by another type of product / service? (e.g. taking the bus instead of the train / using a different technology)
- Substitution is a particular threat if it represents a significant improvement in the price/performance trade off.

threat of new entrants

- Are you a new entrant?
- How easy is it to enter your business field?
- What are the barriers? Financial? Reputational? Getting contracts? Expectations about your experience? Pre-existing (closed?) networks? Your own networks? Regulatory? Hard for people to switch to you for any reasons?

Competitive analysis: Porter's Five Forces

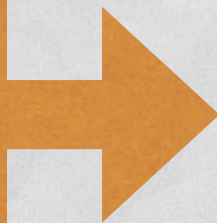
How easy is it to
start up?

Threat of
new entrants

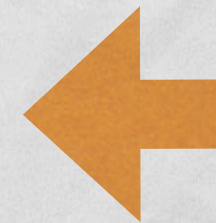


Rivalry among
existing
competitors

Bargaining power
of suppliers



Bargaining power
of buyers



How easy is it for them
to push prices up?

How easy is it for them
to push prices down?

Rate each force

++ / +

0

- / --

Threat of substitute
products / services



How easy is it to find
something else instead?

Generic business strategies

- **DIFFERENTIATION / PREMIUM** - competing on the basis of value added to customers (quality / service / difference?) so they'll be prepared to pay a premium
- **COST LEADERSHIP** - offering products at lowest cost - quality not unimportant, but focus on cost
- **NICHE / FOCUS** - doing something bespoke / different
- Without one of these main approaches, you'll just be *stuck in the middle* (Porter's phrase).

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