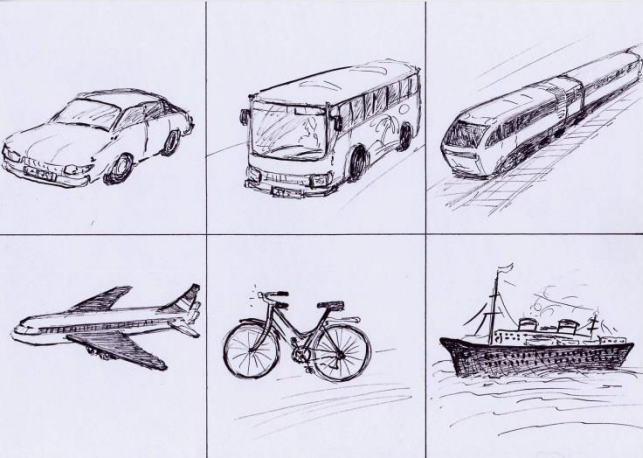




Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

Strategic Travel and Tourism Management



Strategy & Key Strategic Models 1

Today's objectives

- To define strategy, strategic management and strategic choices
- To begin to explore strategic models for rest of module
- To meet in hubs to plan your seminar

1 CYCLING AND GREEN INITIATIVES RAIL Rebecca Lloyd Melissa Duffy Jekaterina Jakusenoka Roksana Szymanska Nathan Stephens	2 LAND – CAR/COACH/TAXI CYCLING AND GREEN INITIATIVES Connor Rossiter Rhodri Stranaghan Steffan Treharne Elysia Williams Austen Hudson
3 AIR LAND – CAR/COACH/TAXI Sarah Hillam Olivia Griffiths Cameron Morgan Daisy Hay Katie Joseph	4 RAIL SUSTAINABLE TRANSPORT/TOURISM Amy Graham Sonny Hawkins Megan Smith Mathew Evans
5 FERRIES/CRUISE SHIPS/WATER AIR Gemma Davies Alicia Hiles Courtney James Nathan Price Mhairi Price Dee Jones	6 SUSTAINABLE TRANSPORT/TOURISM FERRIES/CRUISE SHIPS/WATER Polly Thomas Roisin Hannon Caitlin James-Deane Rebecca Reynolds Millie George

November: Hub presentations

Deliver a 45m seminar highlighting current issues/trends:

Cycling and Green Initiatives (1 & 2)

Land – Car/Coach/Taxi (2 & 3)

Air (3 & 5)

Rail (4 & 1)

Ferries/Cruise Ships/Water (5 & 6)

Sustainable Transport/Tourism Initiatives (6 & 4)

Planning your seminar

- 45 minutes to convey key information about your topic
- All group members must participate
- Relevant articles – journals/trade/newspapers
- Reports
- Film clips/documentaries
- Can be handouts/
presentations/discussions/quizzes

Field Trip preparation: 18 November

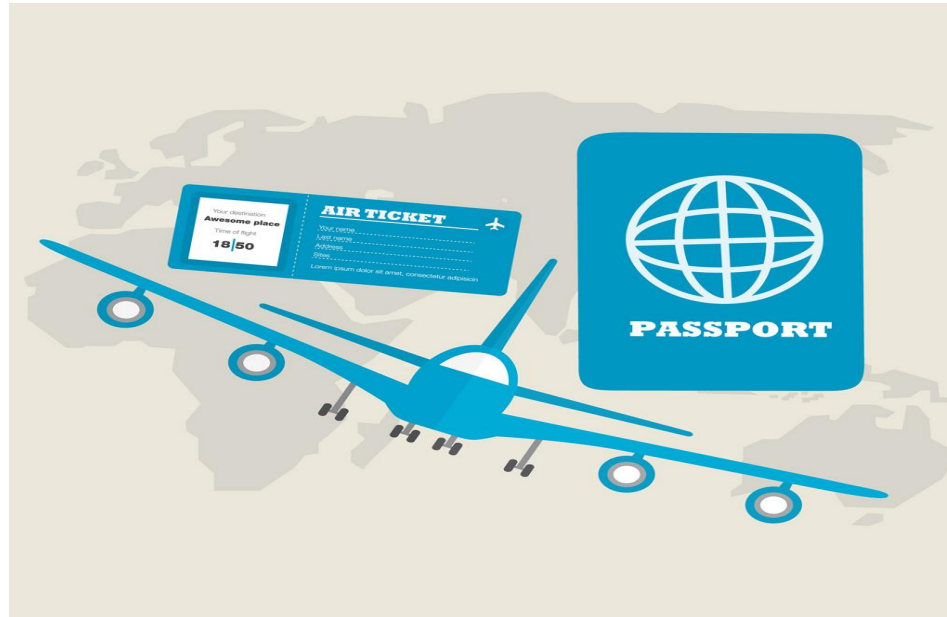


London's transport strategy

- <https://youtu.be/SzAcX1JtpHo>
- <https://youtu.be/TOTTQBM3rMQ>

<https://youtu.be/nogeK7rBXaU?list=PL1ilfu0Ln4Y5xORZIISs1YRL4-crhOi>

<https://youtu.be/hFh83RdmU3k>



Introduction

In this session:

- What is strategy?
- the elements of strategy;
- the practice of strategy;
- strategic decisions;
- hierarchy of objectives:
 - Mission and mission statements;
 - Vision and values;
 - Corporate objectives;
- setting objectives – stockholder and stakeholder approaches .

Definitions of strategy

... 'the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals'

Alfred D. Chandler

'Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value'

Michael Porter

'a firm's theory about how to gain competitive advantages'

Peter Drucker

'a pattern in a stream of decisions'

Henry Mintzberg

'the long-term direction of an organisation'

Exploring Strategy

Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13; M.E. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, p. 60; P.F. Drucker, 'The theory of business', *Harvard Business Review*, September–October 1994, pp. 95–106; H. Mintzberg, *Tracking Strategies: Towards a General Theory*, Oxford University Press, 2007, p. 3.

Strategic decisions

Strategic decisions are about:

- The **long-term** direction of an organisation
- The **scope** of an organisation's activities
- Gaining **advantage** over competitors
- Addressing changes in the **business environment**
- Building on resources and competences (**capability**)
- **Values and expectations** of stakeholders

Therefore they are likely to:

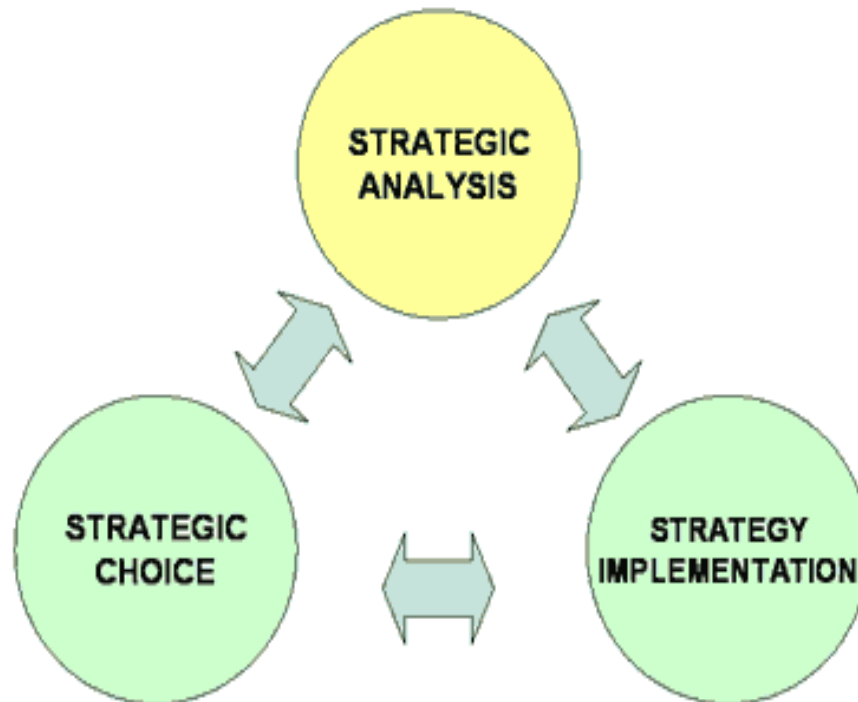
- Be **complex** in nature
- Be made in situations of **uncertainty**
- Affect **operational** decisions
- Require an **integrated** approach (both inside and outside an organisation)
- Involve considerable **change**

The Strategy Process

Why do we often refer to strategy as a *process*?

- contains distinct 'stages';
- never a once and for all event – it goes on and on;
- need to continually review **strategic objectives** because the environment is continually changing;
- purpose of strategy is to make an organisation fit into its environment;
- By achieving this, the probabilities that it will survive and prosper are enhanced.

A Schematic of the Strategic Process



The Strategic Management Process

Three main interrelated stages

- strategic **analysis**
 - gather information , and analyse it systematically and thoroughly;
- strategic **selection** or **choice**
 - choose the most appropriate courses of action from the options available;
- strategic **implementation**
 - actually putting the chosen options into practice.

Strategy and Strategic Management

- Fundamentally:
 - **strategy** is about making you think ahead regarding key issues;
 - **strategic management** is about giving you concepts, frameworks, tools and techniques to help you do so.
- ‘Strategy is the **determination of the basic long term goals and objectives** of an enterprise, and the **adoption of courses of action and the allocation of resources** necessary for carrying out these goals’ (Chandler, 1962).

Elements of Strategy

Thus strategy is concerned with:

- determining long term goals and objectives;
- adopting courses of action to achieve the goals and objectives;
- allocating resources to the courses of action so that the actions can be successful .

Three horizons for strategy (1 of 2)

- **Horizon 1:**

Current core activities – extend and defend these activities.

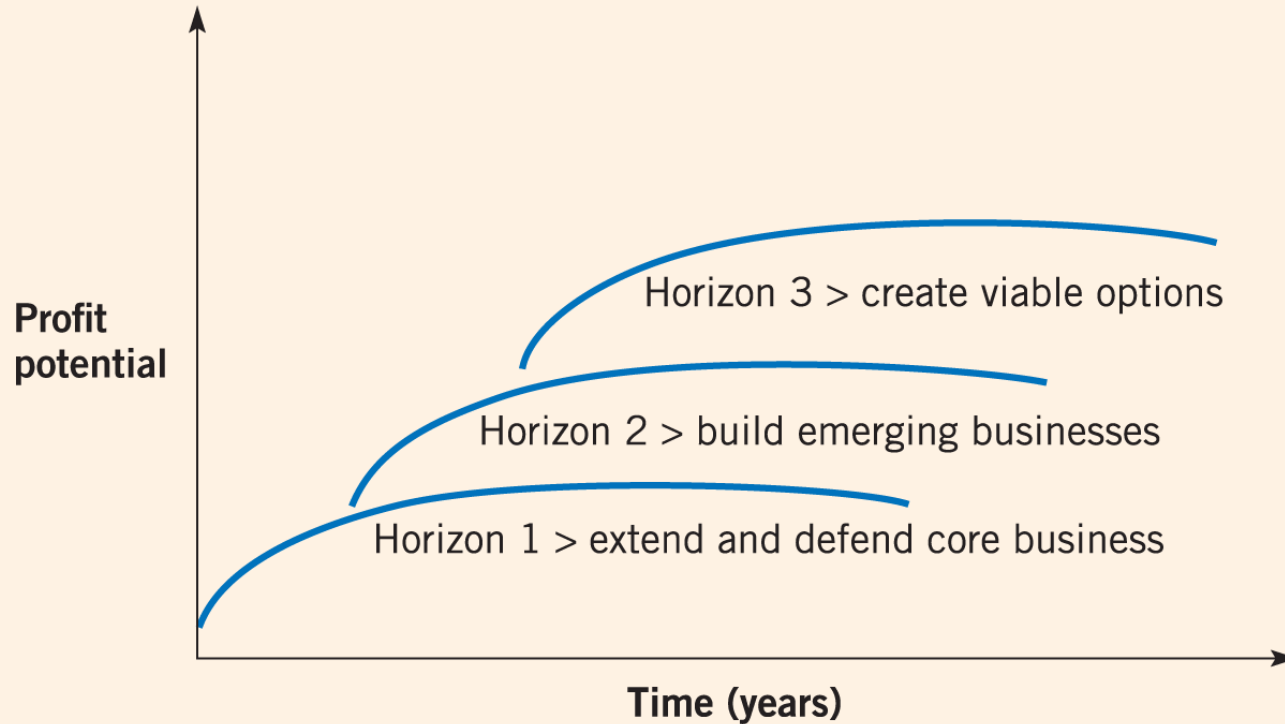
- **Horizon 2:**

Develop emerging activities – to generate new sources of growth and/or profit.

- **Horizon 3:**

Create viable strategic options for the future – higher risk activities that may take years to generate growth/profits.

Three horizons for strategy (2 of 2)



Note: 'profit' on the vertical axis can be replaced by non-profit objectives; 'business' can refer to any set of activities; 'time' can refer to a varying number of years.

Source: M. Baghai, S. Coley and D. White, *The Alchemy of Growth*, Texere Publishers, 2000. Figure 1.1, p. 5.

Stakeholders

What is Strategy for?

- To define and express the purpose of an organisation to ***stakeholders***.
- ***Stakeholders*** are those individuals or groups that depend on an organisation to fulfil their own goals and on whom, in turn, the organisation depends.
- Four ways to define an organisation's purpose:
 - Mission Statement
 - Vision Statement
 - Statement of Corporate Values
 - Statement of Objectives

Strategy in Practice

Mintzberg's 5 Ps

- Mintzberg suggested the word 'strategy' can be used in several ways:
- in practice a strategy can be:
 - a plan;
 - a ploy;
 - a pattern of behaviour;
 - a position in respect to others;
 - a perspective.

Strategic Decisions

Key organisational decisions about:

- long-term **direction**;
- the **scope** of an organisation's activities;
- gaining **advantage** over competitors;
- addressing changes in the **business environment**;
- building on resources and competences (**capability**);
- **values and expectations** of stakeholders;
- impact on operational decisions.

Levels of Strategy

A hierarchy of decision making

- strategic level
- tactical level
- operational level.

Levels of Strategy

Strategic, tactical and operational decisions differ in:

- focus;
- level in the organisation at which they are made;
- scope;
- time horizon;
- degree of certainty or uncertainty;
- complexity.

Strategic Decisions

Strategic decisions will:

- be **complex** in nature;
- be made in situations of **uncertainty**;
- affect **tactical** and **operational** decisions;
- require an **integrated** approach (inside and outside the organisation);
- involve considerable **change**;
- involve **senior** management.

Objectives

Broadly: what the organisation is trying to be and trying to achieve;

- require **congruency** and **fit** between levels;
- an overall enduring purpose – **Mission**;
- a desired future position – **Vision**;
- translating mission and vision into specific targets:
 - **corporate objectives**
 - **business objectives**
 - **unit and personal objectives.**

Mission statements

A mission statement aims to provide employees and stakeholders with clarity about what the organisation is fundamentally there to do.

- ‘What business are we in?’
- ‘What would be lost if the organisation did not exist?’
- ‘How do we make a difference?’

Crossrail

Our Mission

"To deliver a world-class railway that fast-tracks the progress of London"

(Crossrail, 2017)

Vision statements

A vision statement is concerned with the future the organisation seeks to create.

- ‘What do we want to achieve?’
- ‘If we were here in twenty years what do we want to have created or achieved?’

Statement of values

Statements of ***corporate values*** communicate the underlying and enduring core 'principles' that guide an organisation's strategy and define the way that the organisation should operate.

NB These values do **NOT** change with circumstances.

Crossrail

Our **Vision**

“Moving London Forward”

Our **Values**

“Safety, Inspiration, Collaboration,
Integrity and Respect”

Statement of objectives

Objectives are statements of specific outcomes that are to be achieved.

- Often stated in financial terms (e.g. Profit).
- May also be market-based objectives (e.g. Market Share).
- May emphasise basis of competitive advantage.
- ‘Triple Bottom Line’ – economic, social and environmental objectives.

Crossrail

Crossrail Limited's priorities and objectives

- As a nominated undertaker for the Crossrail scheme under the Crossrail Act 2008, CRL will deliver Crossrail as a world-class affordable railway on time and on budget.
- To support the delivery of the Crossrail project, we have set out a vision and developed a series of values which are aimed at providing the strategic vision and ways of working for our organisation.

How Objectives Are Set

The stockholder approach

- Organisations exist primarily for their owners.
- Objectives are set to maximise the financial rate of return on the owners.

The stakeholder approach

- Organisations have relationships with various groups.
- The stakeholder groups have a legitimate interest in influencing the setting of objectives.

Activity

In groups of up to 4:

- Choose a Tourism/Hospitality/Events organisation for which information is available (other than Crossrail)

Produce the following:

- a critical assessment of the mission (this may not be labelled **mission statement**);
- identification and mapping of the key stakeholder groups.
- identification of the corporate objectives (if possible).

(see handout for guidance)

Crossrail

“Although the Company does not have any customers we are committed to providing our stakeholders and the public with the highest practicable levels of service.”

Sponsors and Partners

Crossrail's Sponsors are the Mayor of London, through Transport for London, and the Secretary of State for Transport through the Department for Transport.

Heathrow Airport

Network Rail

City of London

Canary Wharf Group

Berkeley Homes

Contexts of Strategy

Strategic decisions – the context doesn't matter?

- On one level the context doesn't matter because we are concerned with generic issues such as:
 - long-term direction – **vision**;
 - **scope** of an organisation's activities;
 - addressing changes in the **business environment**;
 - **resources** – competing for and allocating resources.

Contexts of Strategy

Part of the answer?

- an understanding of the:
 - **different contexts** in which strategic decisions are made;
 - **managerial implications** of these contexts.

Contexts of Strategy

Strategy and strategic decision making takes place in different contexts:

- large and small;
- public sector, private sector and third sector;
- manufacturing and services;
- international vs domestic orientation.

Strategy for Services

Services are different

- **Manufacturing** – produces physical goods which are *tangible*.
- **Services** – provide products for your benefit which are *intangible*.
- Not all services are the same, e.g. tourism, insurance, public transport, healthcare.
- Services are provided by public, private and third sectors and by these in combination.
- Hence they do not all possess the same characteristics.

Services – Common Characteristics

- **intangibility** – products cannot (normally) be tested or sampled;
- **inseparability** – production and consumption take place at the same time;
- **perishability** – products cannot be stored;
- **heterogeneity** – products are not identical;
- **ownership** – customers use services rather than own products.



Levels of strategy

- ***Corporate-level strategy*** is concerned with the overall scope of an organisation and how value is added to the constituent business units.
- ***Business-level strategy*** is concerned with the way a business seeks to compete successfully in its particular market.
- ***Functional strategy*** is concerned with how different parts of the organisation deliver the strategy effectively in terms of managing resources, processes and people.

The exploring strategy framework



The exploring strategy framework

The Exploring Strategy Framework includes understanding the ***strategic position*** of an organisation; assessing ***strategic choices*** for the future; and managing ***strategy in action***.

Strategic position (1 of 3)

The ***strategic position*** is concerned with the impact on strategy of the ***macro-environment***, ***the industry environment***, the organisation's ***strategic capability*** (resources and competences), the organisation's ***stakeholders*** and the organisation's ***culture***.

Strategic position (2 of 3)



Strategic position (3 of 3)

Fundamental questions for Strategic position:

- What are the macro-environmental ***opportunities and threats***?
- How can the organisation manage ***industry forces***?
- How are ***stakeholders*** aligned to the organisational purpose?
- What ***resources and capabilities*** support the strategy?
- How does ***culture*** fit the strategy?

Strategic choices (1 of 3)

Strategic choices involve the options for strategy in terms of both the ***directions*** in which strategy might move and the ***methods*** by which strategy might be pursued.

Strategic choices (2 of 3)



Strategic choices (3 of 3)

Fundamental questions for Strategic choice:

- How should individual business units ***compete?***
- Which businesses to include in the ***portfolio?***
- Where should the organisation ***compete internationally?***
- Is the organisation ***innovating*** appropriately?
- Should the organisation ***buy*** other companies, form ***alliances or go it alone?***

Strategy in action (1 of 3)

Strategy in action is about how strategies are *formed* and how they are *implemented*.

The emphasis is on the practicalities of managing.

Strategy in action (2 of 3)



Strategy in action (3 of 3)

Fundamental questions for Strategy in action:

- Which strategies are ***suitable, acceptable and feasible***?
- What kind of ***strategy-making process*** is needed?
- What are the required ***organisation structures and systems***?
- How should the organisation ***manage necessary changes***?
- Who should do what in the strategy process? Which ***people*** and what ***activities***?

The strategy checklist

Sixteen fundamental questions in strategy

Strategic position

- What are the macro-environmental opportunities and threats?
- How can the organisation manage industry forces?
- How are stakeholders aligned to the organisational purpose?
- What is the basic purpose of the organisation?
- How does culture fit the strategy?

Strategic choices

- How should business units compete?
- Which businesses to include in a portfolio?
- Where should the organisation compete internationally?
- Is the organisation innovating appropriately?
- Should the organisation buy other companies, ally or go it alone?

Strategy in action

- Are strategies suitable, acceptable and feasible?
- What kind of strategy-making process is needed?
- What are the required organisation structures and systems?
- How should the organisation manage necessary changes?
- Who should do what in the strategy process?

Strategy's three branches (1 of 2)

- **CONTEXT** – *internal and external.*
- **CONTENT** – *strategic options.*
- **PROCESS** – *formation and implementation.*

Strategy's three branches (2 of 2)

Context

(internal and external)

Research:

Macro-environmental
Industry analysis
Cultural analysis
Resource-based
view

Content

(strategic options)

Research:

Choice
and
performance

Process

(formation and implementation)

Research:

Strategic planning
Choice and change
Strategy-as-practice

Two approaches

- Internal Analysis
- External Analysis

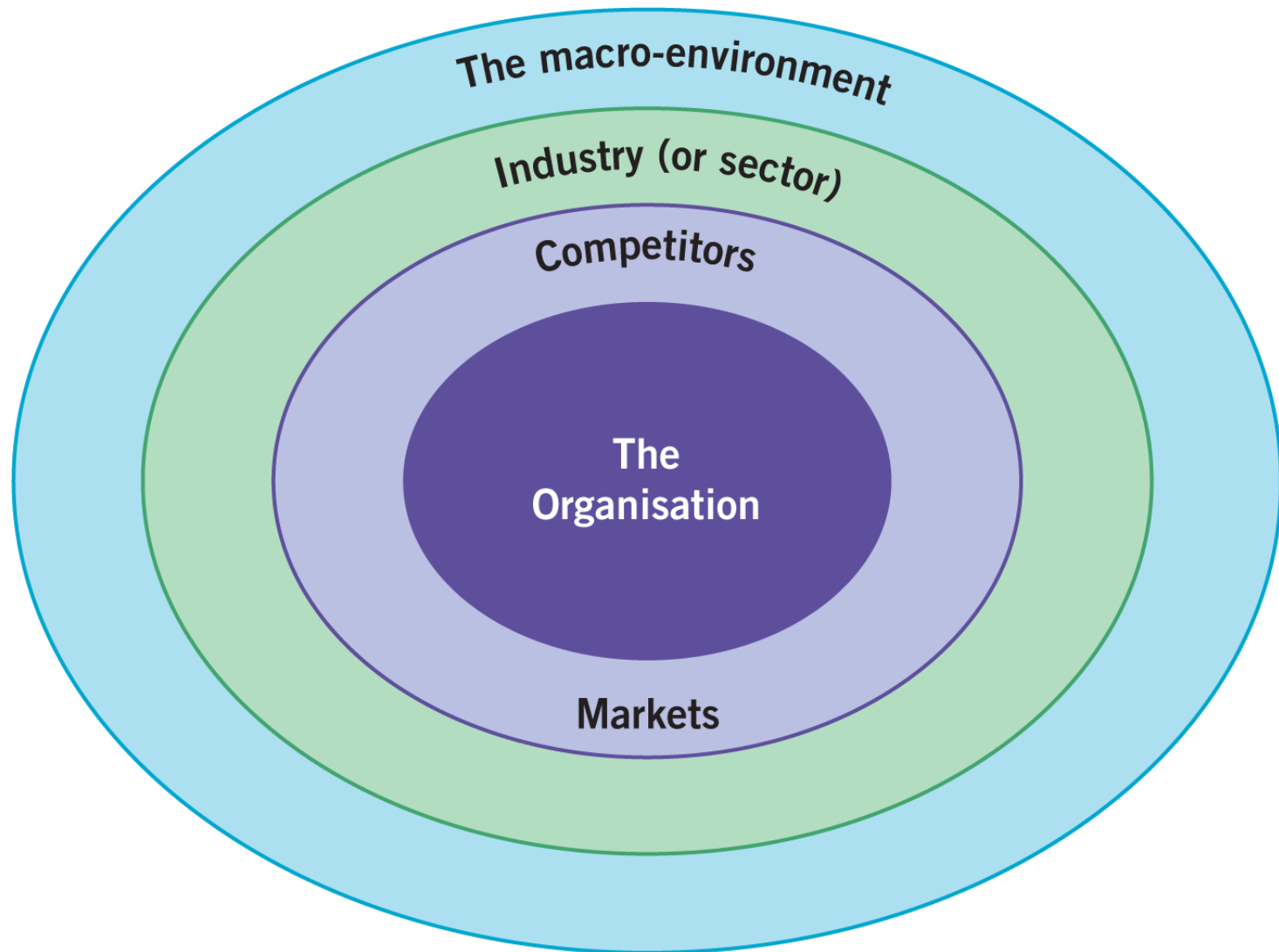
External Analysis

- PESTLE/PESTEL/STEEP

The Strategic Position

- How to analyse an organisation's position in the ***external environment*** – both ***macro-environment*** and ***industry*** or ***sector environment***.
- How to analyse the determinants of ***strategic capability*** – resources, competences and the linkages between them.
- How to understand an ***organisation's purposes***, taking into account corporate ***governance***, ***stakeholder expectations*** and business ***ethics***.
- How to address the role of ***history and culture*** in determining an organisation's position.

Layers of the business environment



The PESTEL framework

The PESTEL framework categorises environmental factors into six key types:

Political

Social

Ecological

Economic

Technological

Legal

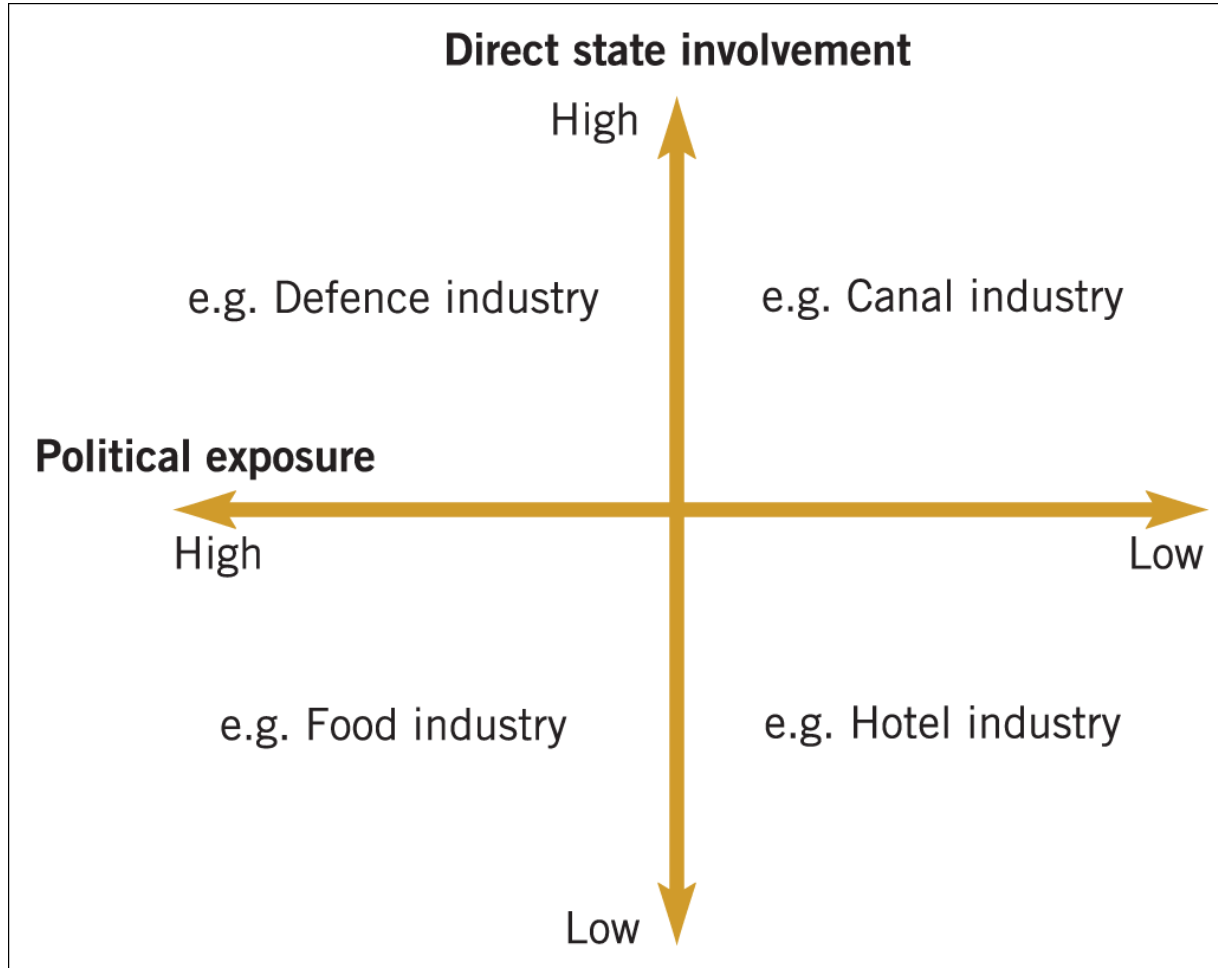
PESTEL helps to provide a list of potentially important issues influencing strategy. It is important to assess the impact of each factor.

Political factors

Political factors include:

- The role of the state e.g. as an owner, customer or supplier of businesses.
- Government policies.
- Taxation changes.
- Foreign trade regulations.
- Political risk in foreign markets.
- Changes in trade blocks (e.g. BREXIT).
- Exposure to civil society organisations (e.g. lobbyists, campaign groups, social media).

Political factors



Economic factors

include:

- Business cycles.
- Interest rates.
- Personal disposable income.
- Exchange rates.
- Unemployment rates.
- Differential growth rates around the world.
- ***Kuznets*** or 'infrastructure' cycle is the longest (15–25 years) and follows the life-spans of infrastructure investments (e.g. housing, transport).

Social factors

Social factors include:

- Changing cultures and demographics (e.g. ageing population in Western societies).
- Income distribution.
- Lifestyle changes.
- Consumerism.
- Changes in culture and fashion.
- Social networks within an organisational field (e.g. with regulators, campaign groups, trade unions).

Technological factors

Technological factors include:

New discoveries and technology developments.

Examples include developments on the internet, nano-technology or the rise of new composite materials.

Ecological factors

Ecological factors: This refers to 'green' or environmental issues, such as pollution, waste and climate change.

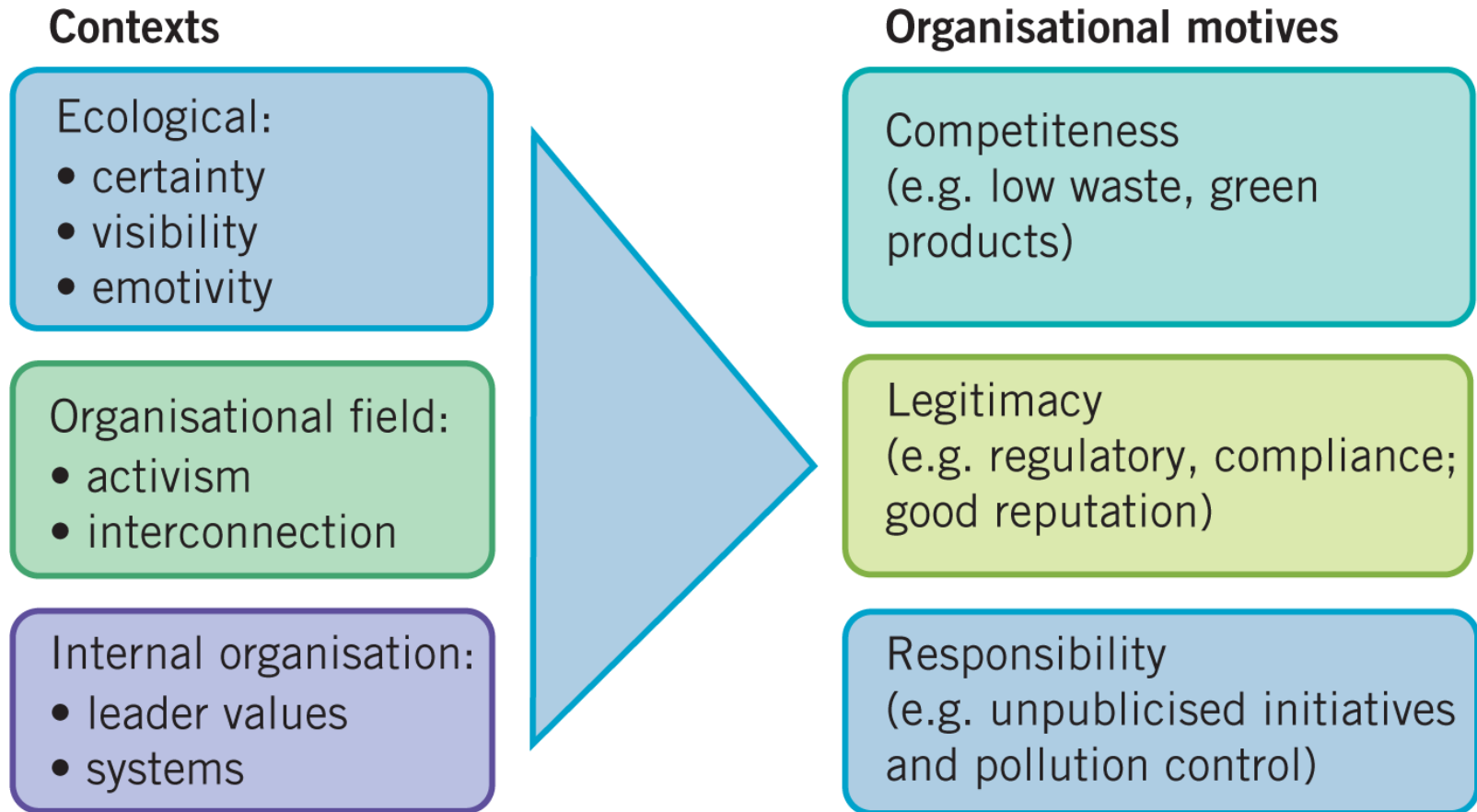
Examples are environmental protection regulations, energy problems, global warming, waste disposal and recycling.

Ecological factors

Three sorts of ecological challenges that organisations may need to meet:

- ***Direct pollution obligations***– minimising the production of pollutants; cleaning up and disposing of waste.
- ***Product stewardship*** – managing ecological issues throughout the organisation's entire value chain and the whole life cycle of the firm's products.
- ***Sustainable development*** – whether the product or service can be produced indefinitely into the future.

Contexts and motives for ecological issues



Source: Substantially adapted from P. Bansal and K. Roth, 'Why companies go green: a model of ecological responsiveness', *Academy of Management Journal*, vol. 43, no. 4 (2000), pp. 717–36 (Figure 2, p. 729).

Legal factors

Legal factors include:

- Labour, environmental and consumer regulations.
- Taxation and reporting requirements.
- Rules on ownership.
- Competition regulations.
- Regulation of corporate governance.

Key drivers for change

Key drivers for change:

- Key drivers for change are environmental factors that are likely to have a high impact on industries and sectors, and impact on the success or failure of strategies within them.
- Typically key drivers vary by industry or market.
- For example, retailers are concerned with social changes and customer behaviour which have driven a move to 'out-of-town' shopping. Personal disposable income also drives demand for retailers.

Using the PESTEL framework

- ***Apply selectively*** – identify specific factors which impact on the industry, market and organisation in question.
- Identify factors which are ***important currently*** but also consider which will become ***more important in the next few years***.
- ***Use data*** to support the points and analyse trends using up-to-date information.
- Identify ***opportunities and threats*** – the main point of the exercise.



Industries, markets and sectors

An industry is a group of firms producing products and services that are essentially the same. For example, the car industry and the airline industry.

A market is a group of customers for specific products or services that are essentially the same (e.g. the market for luxury cars in Germany).

A sector is a broad industry group (or a group of markets) especially in the public sector (e.g. the health sector).

Industry and sector environments: the key topics

Industry analysis



Industry types and dynamics



Competitor groups and segments

Competitive forces:

The five forces framework

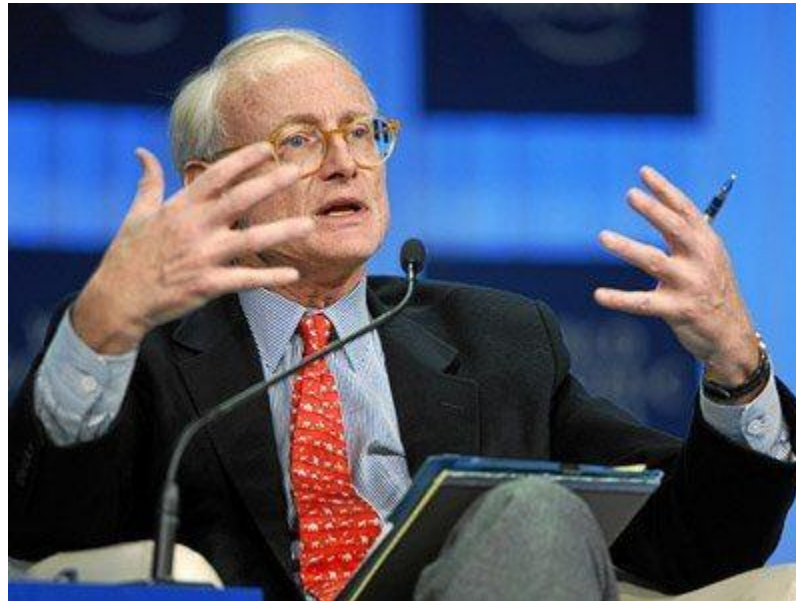
Porter's Five Forces Framework helps identify the attractiveness of an industry in terms of five competitive forces:

- ***The threat of entry.***
- ***The threat of substitutes.***
- ***The bargaining power of buyers.***
- ***The bargaining power of suppliers and.***
- ***The extent of rivalry between competitors.***

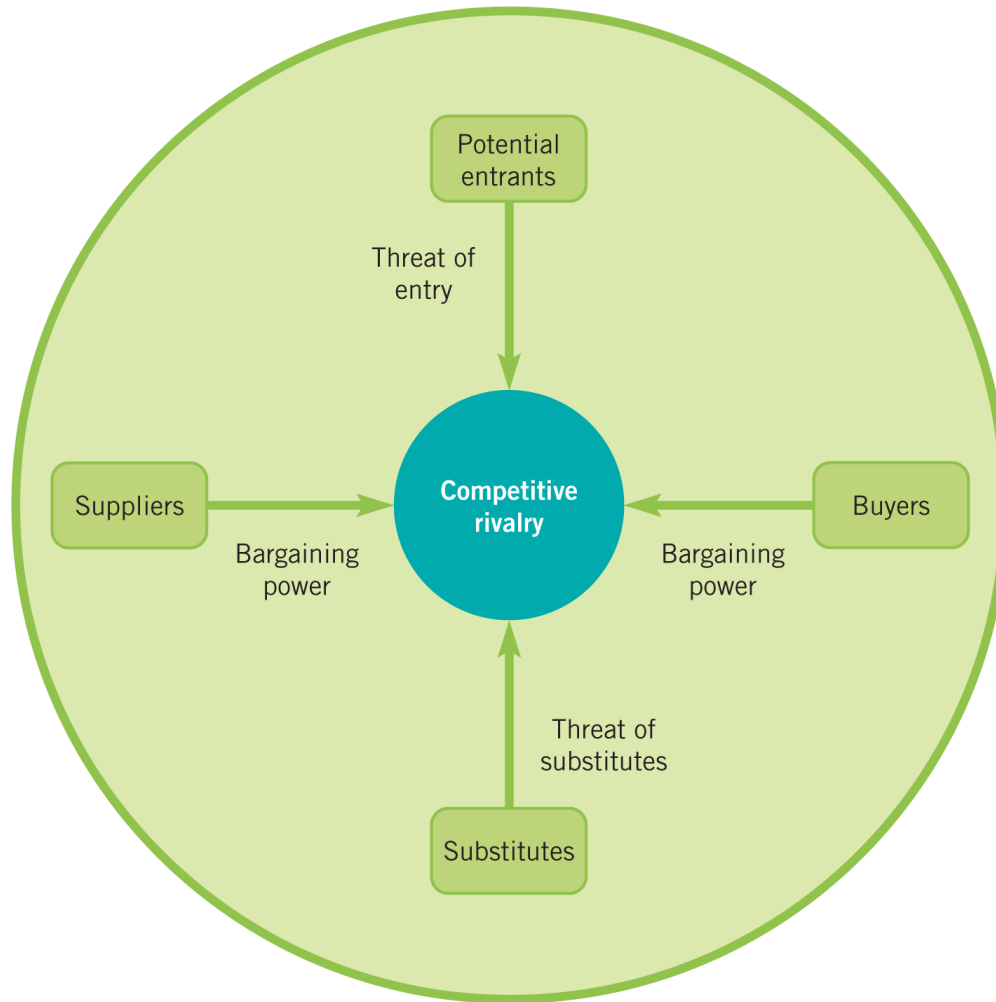
The five forces constitute an industry's 'structure'.

Key Theory: Porter's 5 Forces Model

- <https://youtu.be/33XmkfbzwO8>



The five forces framework (1 of 6)



Source: Adapted from *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael E. Porter, copyright © 1980, 1998 by The Free Press. All rights reserved.

The five forces framework (2 of 6)

Rivalry between existing competitors

Competitive rivals are organisations with similar products and services aimed at the same customer group and are direct competitors in the same industry/market (distinct from substitutes).

The degree of rivalry depends on:

- ***Competitor concentration and balance.***
- ***Industry growth rate.***
- ***High fixed costs.***
- ***High exit barriers.***
- ***Low differentiation.***

The five forces framework (3 of 6)

The threat of entry

Barriers to entry are the factors that need to be overcome by new entrants if they are to compete. The threat of entry is low when the barriers to entry are high and vice versa.

The main barriers to entry are:

- ***Economies of scale/Experience/Network effects.***
- ***Access to supply and distribution channels.***
- ***Differentiation and market penetration costs.***
- ***Legislation or government restrictions (e.g. licensing).***
- ***Expected retaliation.***
- ***Incumbency advantages.***

The five forces framework (4 of 6)

The threat of substitutes

Substitutes are products or services that offer a similar benefit to an industry's products or services, but have a different nature i.e. they are from outside the industry.

Customers will switch to alternatives (and thus the threat increases) if:

- **The price/performance ratio** of the substitute is superior (e.g. aluminium is more expensive than steel but it is more cost efficient for car parts)
- The substitute **benefits from an innovation** that improves customer satisfaction (e.g. high speed trains can be quicker than airlines from city centre to city centre on short haul routes).
- **Extra-industry effects**. Substitutes come from outside the incumbents' industry which forces managers to look outside their own industry to consider more distant threats and constraints.

The five forces framework (5 of 6)

The bargaining power of buyers

Buyers are the organisation's immediate customers, not necessarily the ultimate consumers.

If buyers are powerful, then they can demand cheap prices or product/service improvements to reduce profits.

Buyer power is likely to be high when:

- ***Buyers are concentrated.***
- ***Buyers have low switching costs.***
- ***Buyers can supply their own inputs (backward vertical integration).***
- ***Low buyer profits*** (under pressure to improve profits) and the purchased inputs have a ***low impact on quality*** (can cut costs without loss of quality).

The five forces framework (6 of 6)

The bargaining power of suppliers

Suppliers are those who supply what organisations need to produce the product or service. Powerful suppliers can reduce an organisation's profits.

Supplier power is likely to be high when:

- ***The suppliers are concentrated (few of them).***
- ***Suppliers provide a specialist or rare input.***
- ***Switching costs are high (it is disruptive or expensive to change suppliers).***
- ***Suppliers can integrate forwards (e.g. low-cost airlines have cut out the use of travel agents).***

- https://youtu.be/mYF2_FBCvXw

Activity: Exercise 2

analyse the hotel industry

Class or Online Exercise:

Select a hospitality company, analyze current developments in the general environment, and identify opportunities and threats

	Opportunities	Threats
Economic issues		
Political issues		
Sociocultural issues		
Technological issues		
Ecological issues		

Class or Online Exercise:

Select a hospitality company, analyze current developments in the task (industry) environment and identify opportunities and threats

	Opportunities	Threats
Competitive rivalry—competitors		
The threat of entry—new comers		
Buyer (customers) power—their bargaining power		
Suppliers' power—their bargaining power		
Threat of substitutes—any substitutes?		

Complementors

Demand complementors:

An organisation is your complementor if it enhances your business attractiveness to customers. (e.g. app suppliers are complementors to smartphone producers).

Supply complementors:

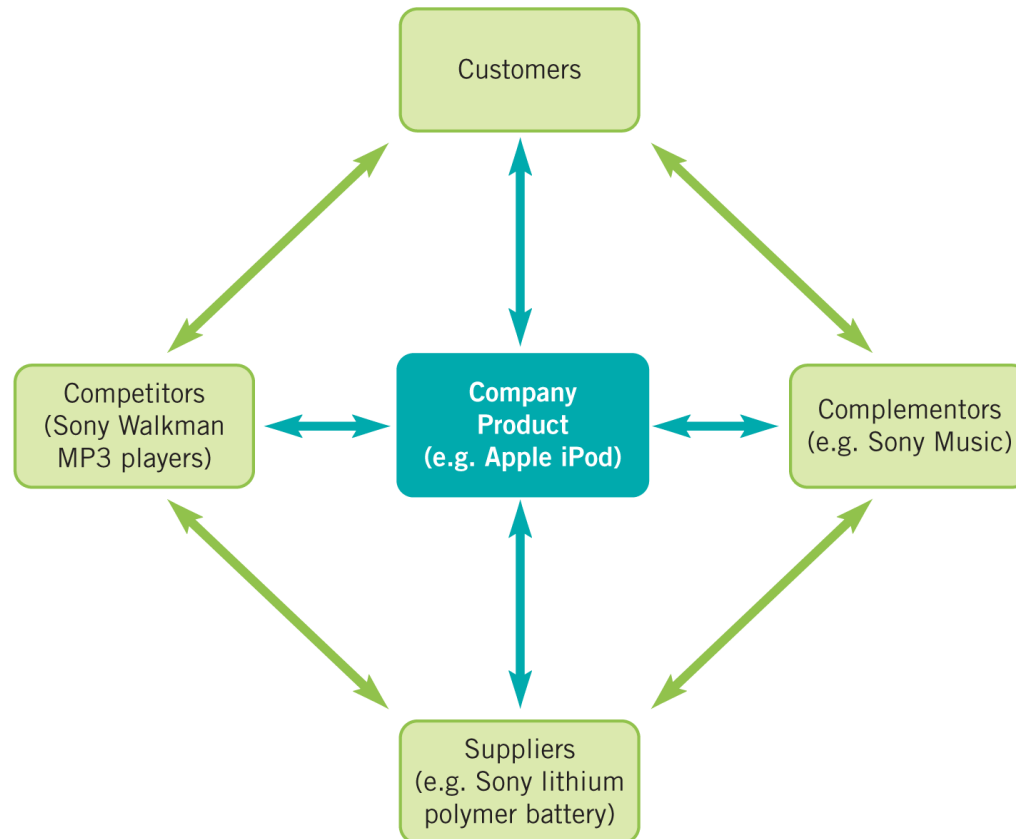
An organisation is a complementor with respect to suppliers if it is more attractive for a supplier to deliver when it also supplies the other organisation. (e.g. a competing airline can be a complementor with respect to a supplier like Boeing – as Boeing may invest more in improvements if they are supplying both airlines).

The value net (1 of 2)

A value net is a map of organisations in a business environment demonstrating opportunities for value-creating cooperation as well as competition.

Sony is a complementor, supplier and competitor to Apple's iPod. Sony and Apple have an interest in cooperating as well as competing.

The value net (2 of 2)



* An organisation is your complementor if:

- (i) customers value your product more when they have the other organisation's product than when they have the product alone (e.g. sausage and mustard);
- (ii) it's more attractive for suppliers to provide resources to you when it's also supplying the other organisation than when it's supplying you alone (airlines and Boeing).

Note: Organisations can play more than one role. In this figure, Sony Music (publisher of AC/DC, Sade etc) is a complementor to Apple's iPod; Sony is also a supplier of batteries to the iPod; Sony also competes with its own MP3 players.

Source: Reprinted by permission of *Harvard Business Review*. From 'The Right Game' by A. Brandenburger and B. Nalebuff, July–August 1996, pp. 57–64. Copyright © 1996 by the Harvard Business School Publishing Corporation. All rights reserved.

Network effects

There are ***network effects*** in an industry when one customer of a product or service has a positive effect on the value of that product for other customers.

Strategic lock-in

Strategic lock-in is where users become dependent on a supplier and are unable to use another supplier without substantial switching costs.

e.g. customers that bought music on Apple's iTunes store could initially only play it on Apple's own iPod players.

Sometimes companies are so successful that they create an industry standard under their own control (e.g. Microsoft's Windows).

Implications of five forces analysis

- ***Which industries/markets to enter or leave?*** – it helps identify the attractiveness of industries.
- ***What influence can be exerted?*** Identifies strategies that can influence the impact of the five forces. e.g. building barriers to entry by becoming more vertically integrated.
- The forces may have a ***different impact on different organisations***. e.g. large firms can deal with barriers to entry more easily than small firms.

Issues in five forces analysis

- ***Defining the 'right' industry.*** Applying the model at the most appropriate level – not necessarily the whole industry. e.g. the European low-cost airline industry rather than airlines globally.
- ***Converging industries*** – particularly in the high tech arenas – where industries overlap (e.g. digital industries – mobile phones/cameras/mp3 players).
- ***Complementary organisations*** – which enhance the attractiveness of a business to customers or suppliers. Microsoft Windows and McAfee computer security systems are complementors. This can almost be considered as a sixth force.

Steps in an industry analysis

There are several important steps in an industry analysis before and after analysing the five forces:

- ***Define the industry clearly.***
- ***Identify the actors of each of the five forces and any different groups within them and the basis for this.***
- ***Determine the underlying factors of, and the total strength of, each force.***
- ***Assess the overall industry structure and attractiveness.***
- ***Assess recent and expected future changes for each force.***
- ***Determine how to position your business in relation to each of the five forces.***

Table 3.1 Industry types

Industry structure	Characteristics	Competitive five forces threats
Monopoly	– One firm – Often unique product or service – Very high entry barriers	Very low
Oligopoly	– Few competitors – Product and service differences varies – High entry barriers	Varies
Perfect competition	– Many competitors – Very similar products or services – Low entry barriers	Very high

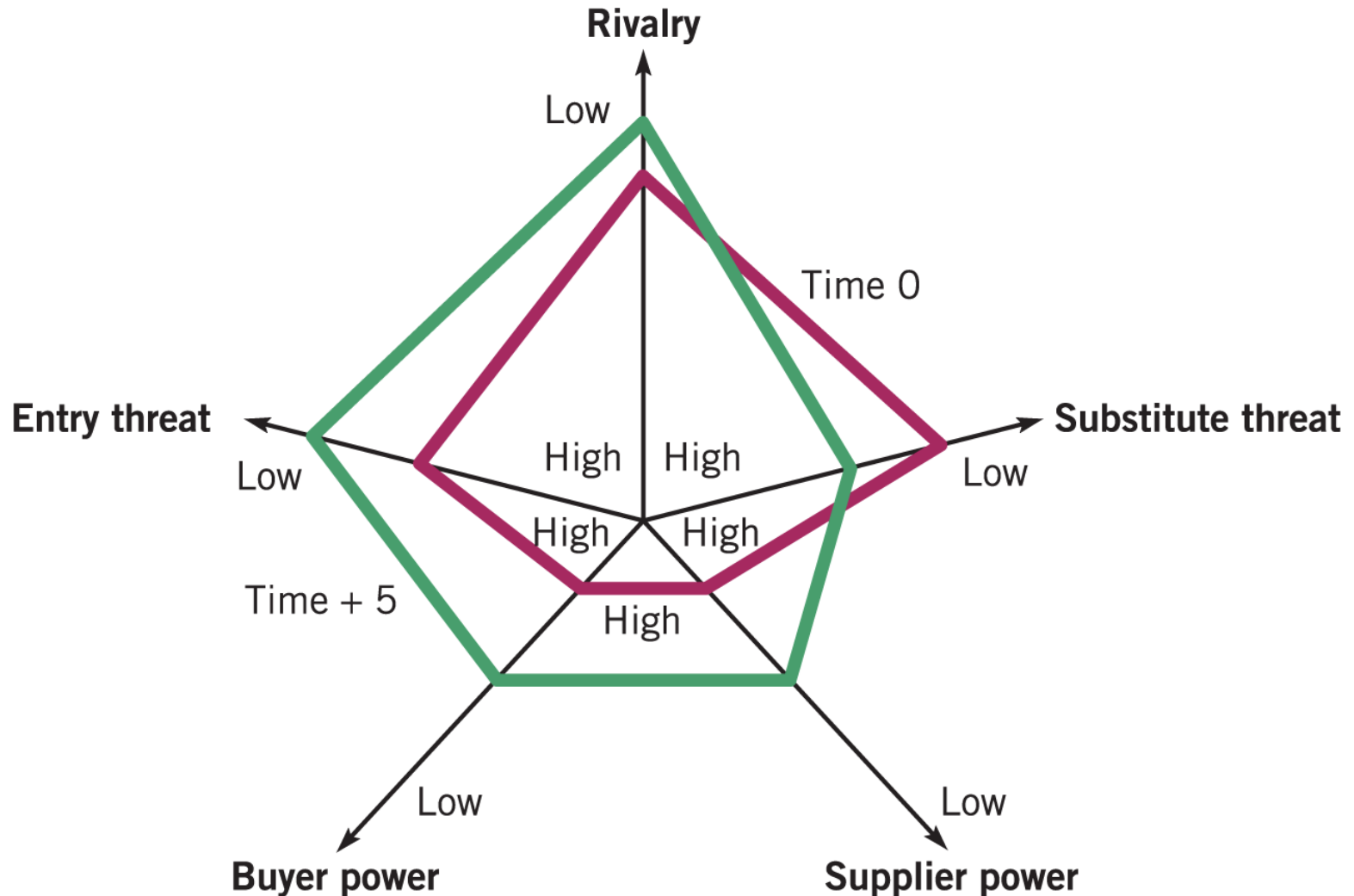
Industry types (1 of 2)

- ***Monopoly industries*** – an industry with one firm and therefore no competitive rivalry. A firm has ‘monopoly power’ if it has a dominant position in the market. For example, Google in the US search engine market.
- ***Oligopoly industries*** – an industry dominated by a few firms with limited rivalry and in which firms have power over buyers and suppliers. e.g. Boeing and Airbus dominate the market for civil aircraft.

Industry types (2 of 2)

- ***Perfectly competitive industries*** – where barriers to entry are low, there are many equal rivals each with very similar products, and information about competitors is freely available. Few markets are ‘perfect’ but many may have features of highly competitive markets, for example, mini-cabs in London.
- ***Hypercompetitive industries*** – where the frequency, boldness and aggression of competitor interactions accelerate to create a condition of constant disequilibrium and change (e.g. mobile phones).

Comparative industry structure analysis



Market segments

A market segment is a group of customers who have similar needs that are different from customer needs in other parts of the market.

- Where these customer groups are relatively small, such market segments are called 'niches'.
- Customer needs vary. Focusing on customer needs that are highly distinctive is one means of building a secure segment strategy.
- Customer needs vary for a variety of reasons – these factors can be used to identify distinct market segments.
- Not all segments are attractive or viable market opportunities – evaluation is essential.

Table 3.2

Some bases of market segmentation

Type of factor	Consumer markets	Industrial/organisational markets
Characteristics of people/organisations	Age, gender, ethnicity Income Family size Life-cycle stage Location Lifestyle	Industry Location Size Technology Profitability Management
Purchase/use situation	Size of purchase Brand loyalty Purpose of use Purchasing behaviour Importance of purchase Choice criteria	Application Importance of purchase Volume Frequency of purchase Purchasing procedure Choice criteria Distribution channel
Users' needs and preferences for product characteristics	Product similarity Price preference Brand preferences Desired features Quality	Performance requirements Assistance from suppliers Brand preferences Desired features Quality Service requirements

Market segments

Two issues are particularly important in market segment analysis:

- ***Variation in customer needs***: Focusing on customer needs that are highly distinctive from those typical in the market is one means of building a long-term segment strategy.
- ***Specialisation*** within a market segment can also be an important basis for a successful segmentation strategy. This is sometimes called a '***niche strategy***'.

Who are the strategic customers?

A strategic customer is the person(s) at whom the strategy is primarily addressed because they have the most influence over which goods or services are purchased.

Examples:

- For a food manufacturer it is the multiple retailers (e.g. Tesco) that are the strategic customers, not the ultimate consumer.
- For a pharmaceutical manufacturer it is the health authorities and hospitals, not the final patient.

Opportunities and threats

The critical issue in undertaking environmental analysis is the ***implications*** that are drawn from this understanding in guiding strategic decisions and choices.

Identifying opportunities and threats is extremely valuable when thinking about strategic choices.

Opportunities and threats form one half of the ***SWOT analysis*** that shapes strategy.

Summary

- The environment influence closest to an organisation includes the **industry or sector**
- Industries and sectors can be analysed in terms of **Porter's five forces** – barriers to entry, substitutes, buyer power, supplier power and rivalry. Together with ***complementors and network effects***, these determine industry or sector attractiveness and possible ways of managing strategy.
- Industries and sectors are dynamic, and their changes can be analysed in terms of the ***industry life cycle*** and ***comparative five forces radar plots***.
- Within industries ***strategic group*** analysis and ***market segment*** analysis can help identify strategic gaps or opportunities