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STRATEGIC MANAGEMENT IN THE DIGITAL ECONOMY

Strategic Groups

Summary on industry analysis

- Industry level analysis may be too high-level
- 5 Forces can impact different players differently
- Industry contains a range of companies, each with a distinct set of capabilities

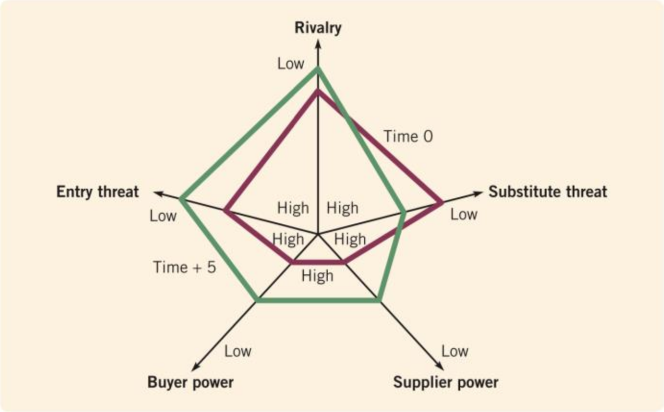
- The **Standard Industrial Classification (SIC)** is of limited use in identifying groups of firms that compete with one another. Which industry is Ferrari a member of? Is it part of the "motor vehicles and equipment" industry (SIC 371), the automobile industry (SIC 3712)? Should it see itself as part of the Italian, European, or global auto industry?

- It is important to **distinguish between industry and market**:
  - *industry* tends to refer to a fairly broad sector
  - *market* refers to the buyers and sellers of a specific product

- **Hypercompetition**: in hypercompetitive industries, their structures are **unstable** and competitive advantage is **temporary**

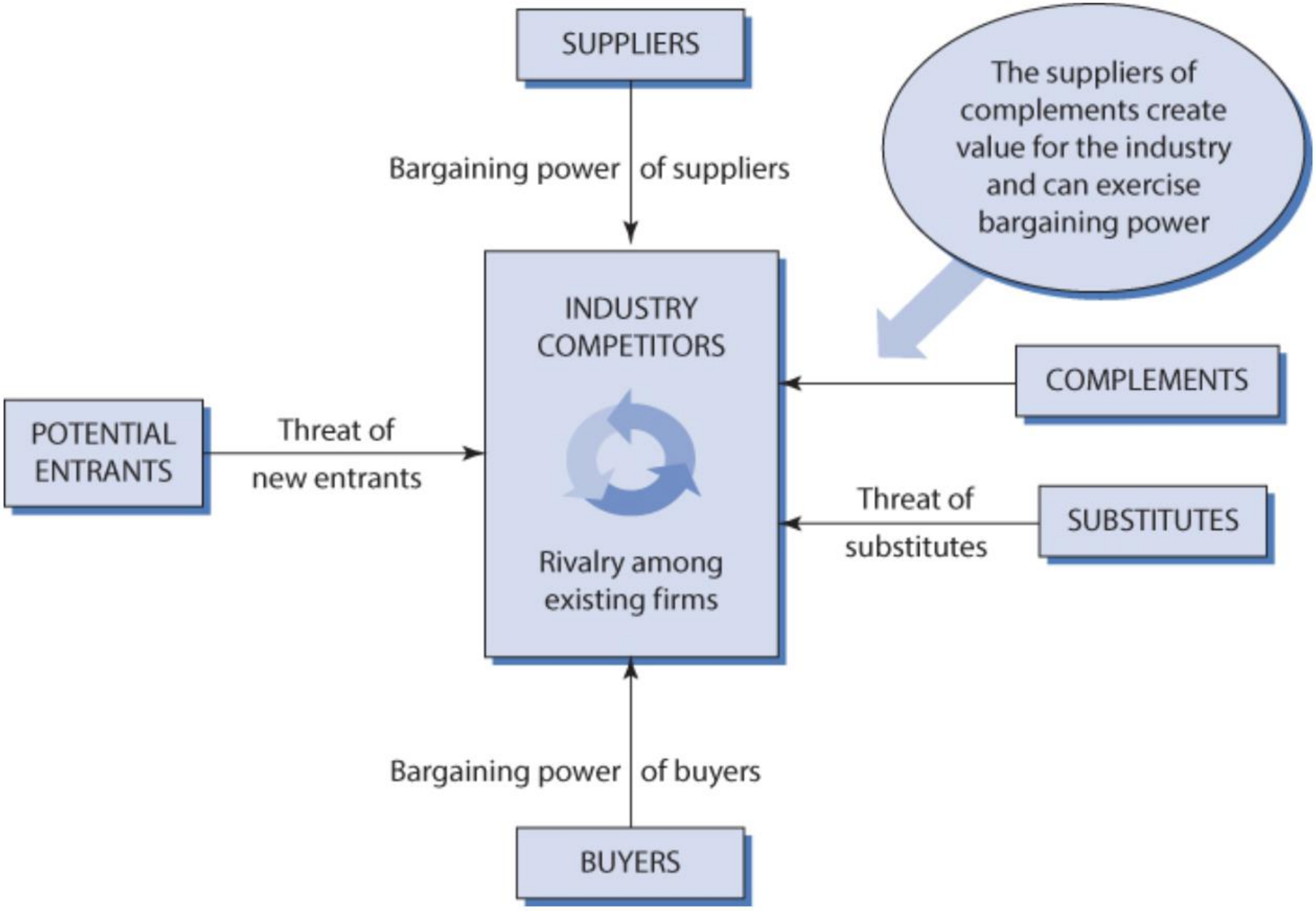
- **Winner-Takes-All industries**: the **disparities in profitability between firms** are so great as to render irrelevant the whole notion of industry attractiveness. In these industries, market share confers **massive competitive advantage**. Often, this advantage is the result, not of conventional scale economies, but of **positive feedback loops**—the most important of which are **network externalities**.

- **Dynamism**: managers need to look forward. Comparing the five forces over time can be helpful



→ **Beyond the Five Forces**: Complements, Ecosystems, and Business Models

Beyond the Five Forces: Complements



- Business ecosystems are "*community of organizations, institutions, and individuals that impact the enterprise*" (Teece, 2007).
- This notion of an ecosystem emphasizes the **co-dependencies** among its members and the continually **evolution of the system**.

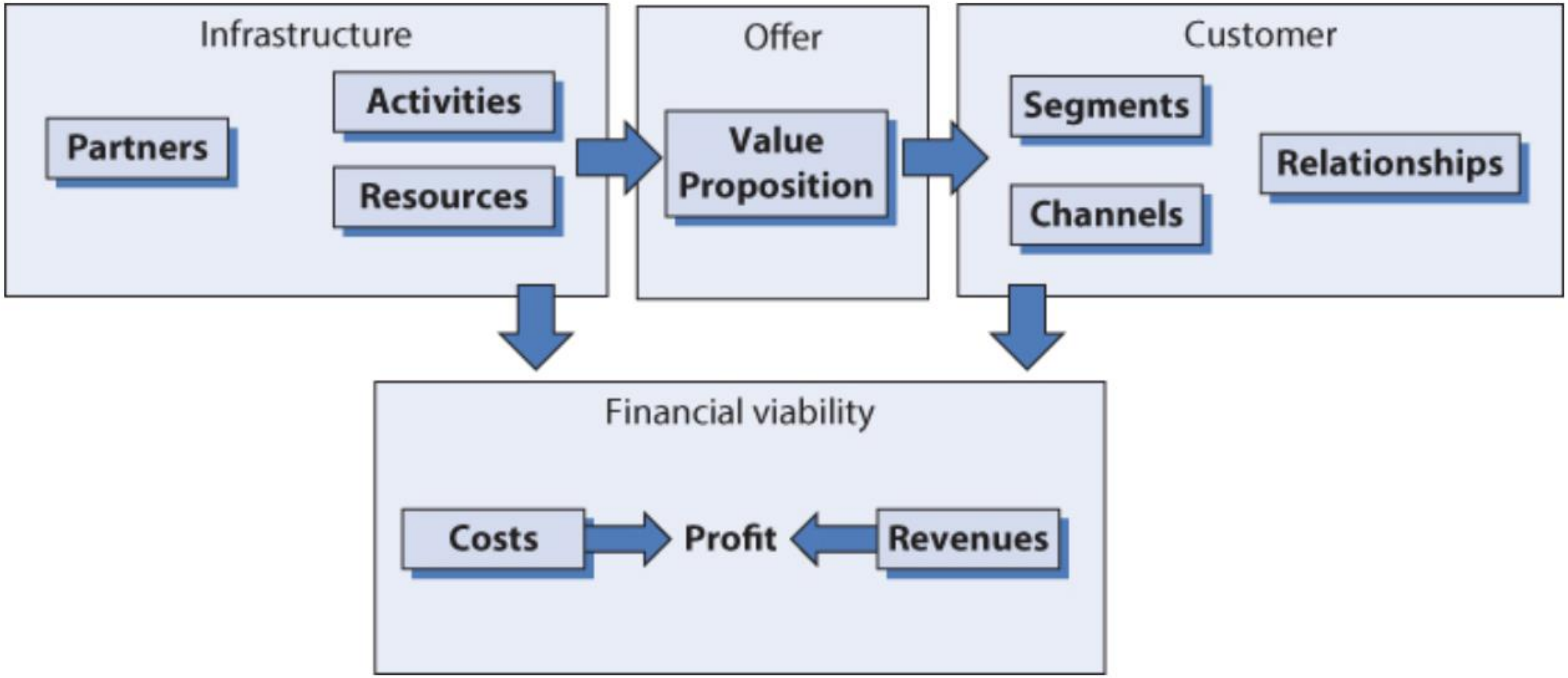
- The quest for value requires identifying potential "bottlenecks" within the ecosystems—activities that **create significant customer value and can be dominated by the firm**.
  - Become the "guardian of quality."
  - Become irreplaceable.
  - Take advantage of changing customer needs.
  - Redefine the value chain.

Teece, D. J. (2007). Explicating dynamic capabilities: The nature and microfoundations of (sustainable) enterprise performance. *Strategic Management Journal*, *28*(13), 1319-1350.

Beyond the Five Forces: Business Models

- Business models are "the manner by which the business enterprise delivers value to customers, entices customers to pay for value, and converts those payments to profit" (Teece, 2010).

- Business models allow us to consider more complex business situations and envisage business opportunities more widely.



Teece, D. J. (2010). Business models, business strategy and innovation. *Long Range Planning*, *43*(2-3), 172-194.

Focus on strategic groups

- In practice, drawing the boundaries of markets and industries is a matter of judgment that **depends on the purposes and context of the analysis**.
- Decisions regarding **pricing and market posi**tioning require a microlevel approach. Decisions over **investments in technology, new plants, and new products** require a wider view of the relevant market and industry.
- Competitor differences are captured by the concept of **<u>strategic groups</u>**

"Strategic groups are organizations within an industry with similar strategic characteristics, following similar strategies or competing on similar bases"

Strategic groups

- …to understand competition
- …to analyze stratgic opportunities
- …to analyze mobility barriers

How to build strategic groups

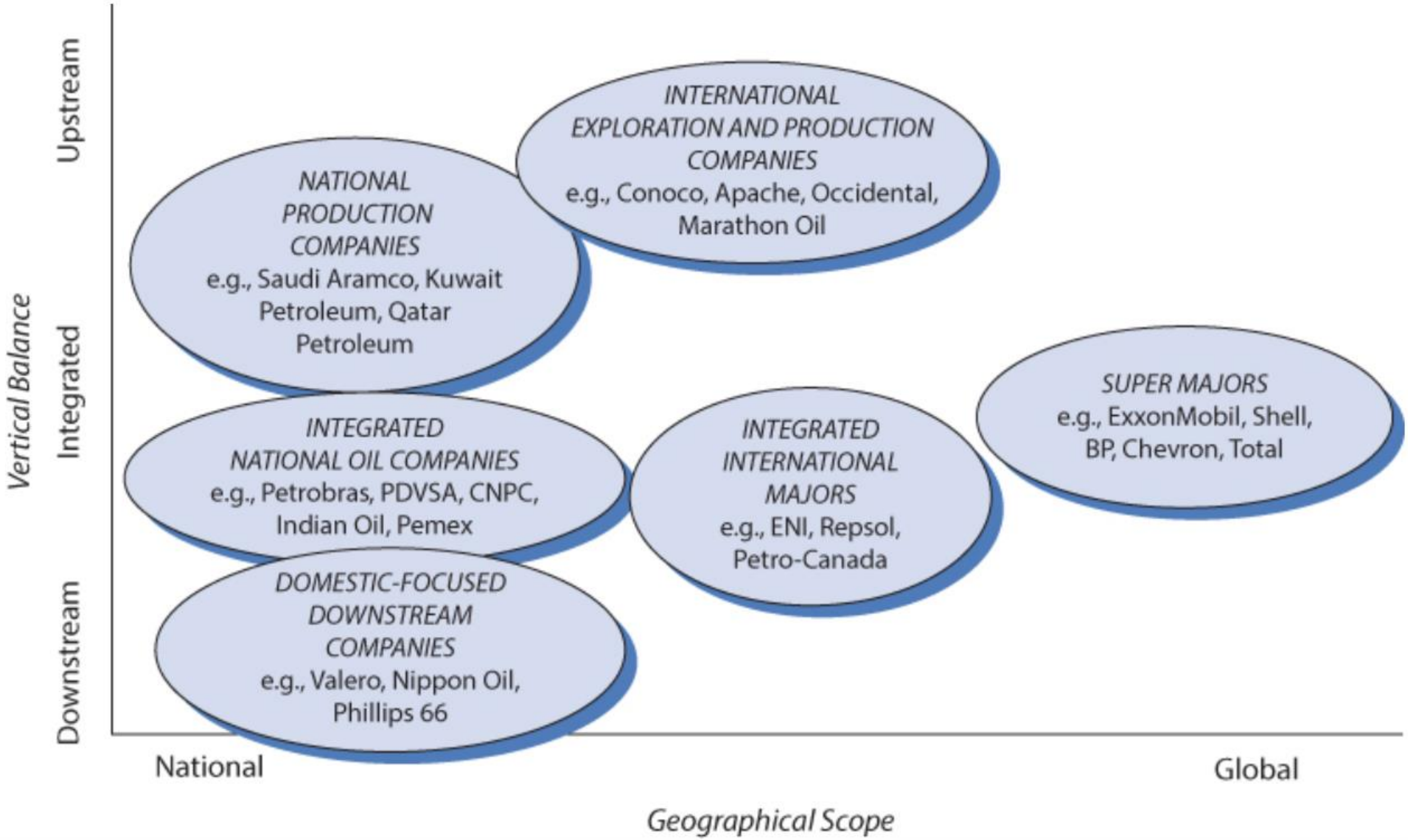
Scope of activities

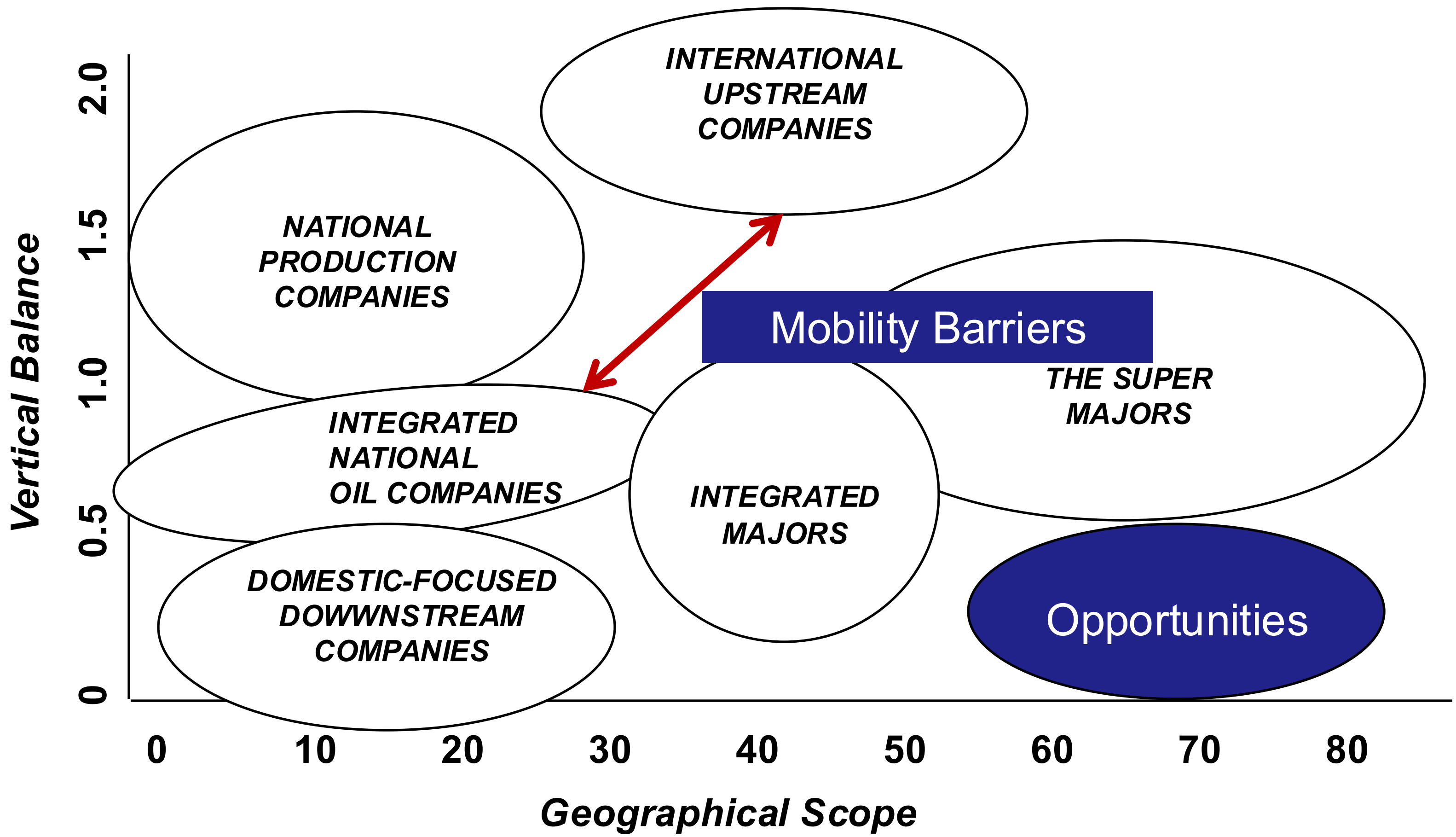
- Extent of product (or service) diversity
- Extent of geographical coverage
- Number of market segments served
- Distribution channels used
- …

Resource commitment

- Extent (number) of branding
- Marketing effort
- Extent of vertical integration
- Product or service quality
- Technological leadership
- Size
- Price
- …

Strategic groups in the oil industry





Vertical Balance
0
0.5
1.0
1.5
2.0
INTERNATIONAL UPSTREAM COMPANIES
NATIONAL PRODUCTION COMPANIES
Mobility Barriers
THE SUPER MAJORS
INTEGRATED NATIONAL OIL COMPANIES
INTEGRATED MAJORS
DOMESTIC-FOCUSED DOWNSTREAM COMPANIES
Opportunities
0
10
20
30
40
50
60
70
80
Geographical Scope

Strategic groups: mobility barriers

- Mobility barriers between strategic groups preserve **profitability differentials**.
- However, there is limited evidence of sustained, systematic profitability differences between strategic groups. This may reflect the fact that the **members of a strategic group, although pursuing similar strategies, are not necessarily in competition with one another**.
- For example, within the European airline industry, the low-cost carriers pursue similar strategies, but do not, for the most part, compete on the same routes.
- Strategic group analysis is mainly useful for understanding **strategic positioning** and recognizing **patterns of competition**; it is less useful for analyzing inter-firm profitability differences.

Market segments

- Variation in customer needs
- Specialization

How to analyze market segments

Characteristics of people/organizations

- Age, gender, ethnicity
- Income
- Family size
- Life-cycle stage
- Location
- Lifestyle

Purchase/use situation

- Size of purchase
- Brand loyalty
- Purpose of use
- Purchasing behaviour
- Importance of purchase
- Choice criteria

Users' needs and preferences

- Product similarity
- Price preference
- Brand preferences
- Desired features
- Quality

Task: Strategic group analysis

- Based on Porter's 5-forces model, extend industry analysis considering **strategic groups**

- Download **this template**, and **upload a PDF** with the analysis of strategic groups, identifying the factors that help determine strategic groups in the industry [*add your names into the PDF*]

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Wrap-up and next steps