

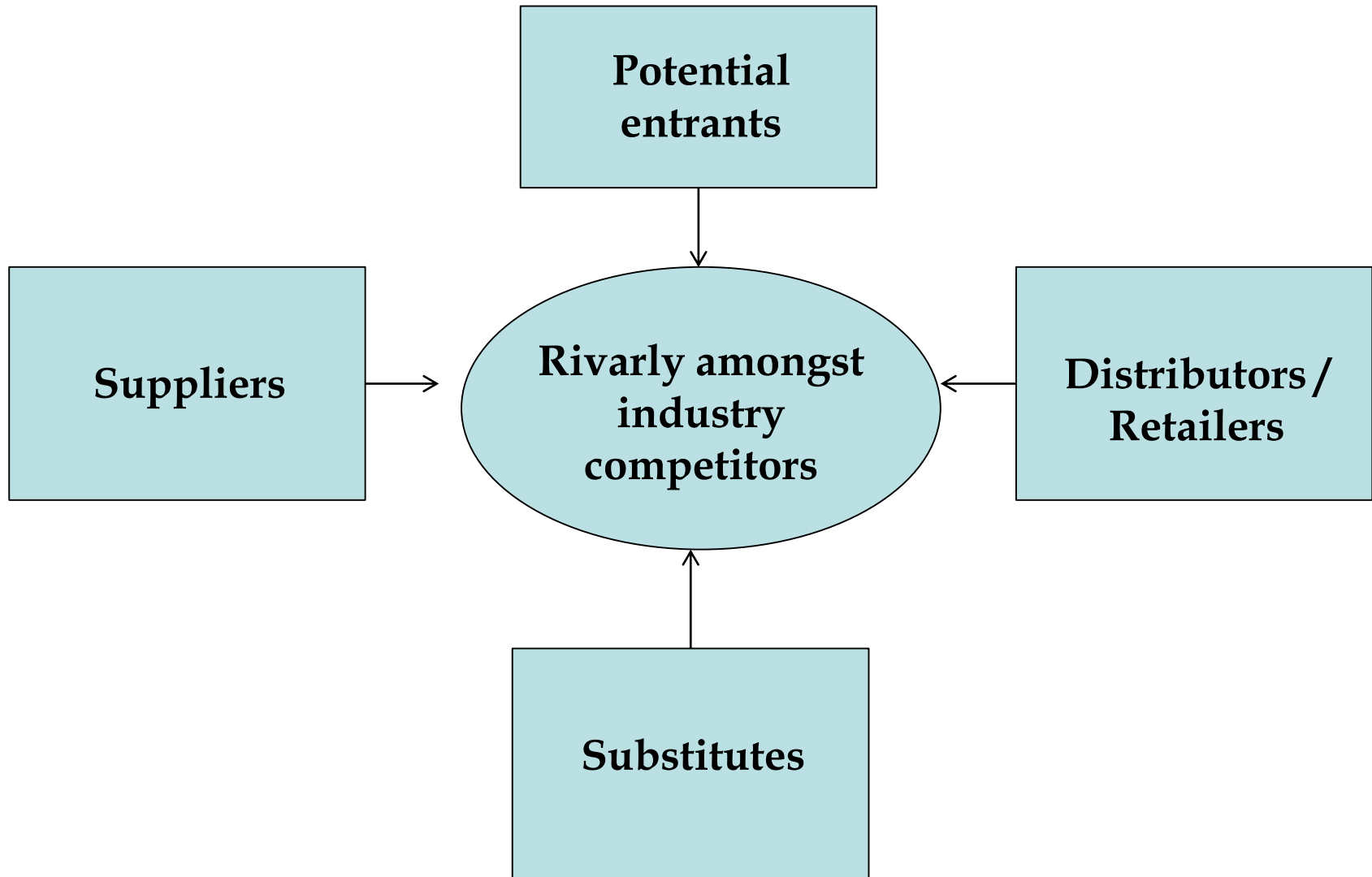
COMPETITIVE ANALYSIS



UNIVERSITÀ
DEGLI STUDI DI TRIESTE

Donata Vianelli

Analysis of competition: Porter's Five Forces Framework



Porter's Five Forces

Potential entrants: threat of entry is high if

- Above-average profits attract investors to enter an industry.
- High entry barriers - where a potential entrant has (fixed and variable) costs of production higher than the incumbents it faces (scale economics and experience)
- High possibilities of product differentiation
- Low capital requirements
- Easy access to distribution
- High level of expected retaliation

Threat of Substitutes is high if:

- Comparative price / good performance
- Comparative features
- Comparative technology



Porter's Five Forces

Power of Suppliers and Buyers is high if

- There are limited suppliers / buyers
- High Switching costs – accustomed to using a particular supplier/buyer
- High Substitution possibilities
- High relative importance of product to the provider and the user
- High Credible threat of vertical integration

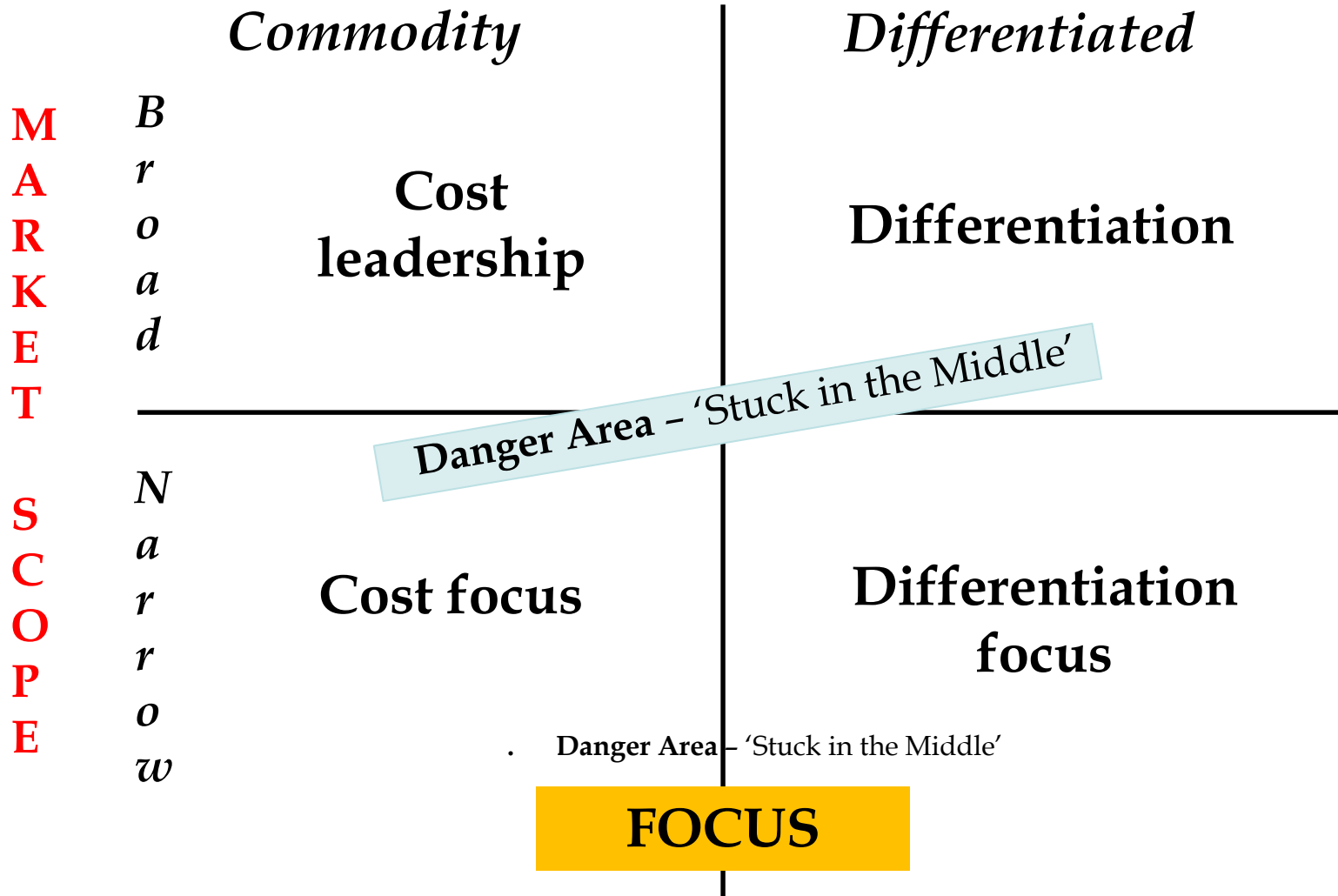
Intensity of Rivalry high if...

- Several equal strong players
- Low/no growth in market
- Supply in excess of demand
- Greater proportion of fixed assets
- Few possibility of differentiation
- Major exit barriers

Porter's Generic Strategies



PRODUCT CHARACTERISTICS



Cost leadership



- True cost leadership is only achieved by the possession of undisputed cost advantage
- Problem: If the competitors catch up, the cost leadership is lost
- Problem: if new forms of product differentiation arise, there is the risk that costs is not the major purchase criterion

Differentiation



- The differentiation is only achieved by satisfying buyer needs uniquely
- The objective is to realize a price premium that exceeds the cost of differentiation
- When the competitors catch up, the differentiation edge is lost
- Risk of creating differentiation that consumers do not value
- Excessive price premium (or too low)
- Failure to understand costs of differentiation

Focus



- The ability to serve the needs of a specific consumer group better than any other competitor
- Increasing customer satisfaction
- Risk that target segment becomes unattractive
- Broad scope competitors can decide to get less margins on a specific target and compensate with their other businesses

Criticisms of Porter's Generic Strategies



- Cost leadership and differentiation can be combined profitably
 - Cost leadership is not necessarily price leadership
 - Differentiation does not necessarily involve premium pricing

Market share and market concentration



Definitions of market share:

- Volume market share
- Value market share
- Relative market share

Definition of market concentration:

The four firms concentration ratio is the percentage of market share held by the 4 Largest Firms (LF) in an industry:

$$CR_{4LF} = \sum ms_{4LF} \longrightarrow CR_{4LF} = ms_1 + ms_2 + ms_3 + ms_4$$

ms=market share

Concentration levels (range from 0 to 100 percent)

- **No concentration** (high fragmentation): 0 - 5% means that the four largest firm in the industry would not have any significant market share.
- Low concentration: 5% to 50%.
- Medium concentration: 50% to 80%.
- High concentration: 80% to 100%. This category ranges from oligopoly to monopoly.

THE END 😊

