Name:________________________ Class:________________ Date:__________

Chapter 02: External Analysis: The Identification of Opportunities and Threats

True / False

1. Strategy formulation begins with an analysis of a firm’s internal processes and capabilities.
   a. True
   b. False

ANSWER: False

2. Opportunities arise when a company can take advantage of conditions in its industry environment to formulate and implement strategies that enable it to become more profitable.
   a. True
   b. False

ANSWER: True

3. Threats arise when conditions in the external environment endanger the integrity and profitability of a company’s business.
   a. True
   b. False

ANSWER: True

4. The bottled water industry created new competitors for Coca-Cola, but it did not change the basic industry boundaries.
   a. True
   b. False

ANSWER: False

5. Mars, Hershey’s, Lindt and Nestle all compete in the same industry.
   a. True
   b. False

ANSWER: True

6. In Porter's Five Forces model, as each of the five forces grows stronger, it limits the ability of established companies to raise prices and earn greater profits.
   a. True
   b. False

ANSWER: True

7. Substitute products are not a threat if a company is the market leader.
   a. True
   b. False

ANSWER: False

8. Dave grew up in a household that primarily drank Minute Maid orange juice and lemonade. Now married with his own children, he continues to purchase Minute Maid products for his own family. This is an example of switching costs.
   a. True
   b. False

ANSWER: False

9. Cost reductions gained through mass-producing a standardized output are a source of scale economies.
   a. True
   b. False

ANSWER: True

10. The more commodity-like that an industry's product is, the lower the intensity of any price war that may develop.
   a. True
   b. False

ANSWER: False

11. Strong brand loyalty and high customer switching costs are low barriers to entering an industry.
   a. True
   b. False

ANSWER: False

12. Government deregulation of telephone service lowered the barriers to entry and lowered industry profit rates.
   a. True
   b. False

ANSWER: True

13. When buyers are in a weak bargaining position, companies in an industry must lower their prices to increase profits.
   a. True
   b. False

ANSWER: False

14. Dale Smith opened his forklift dealership twenty years ago. Over the last five years he has been approached by several larger operations looking to buy him out. He had hoped to pass the business onto his sons, but they aren’t interested in continuing the business and he is having a hard time letting go. This is an example of the exit barrier known as emotional attachment.
   a. True
   b. False

ANSWER: True

15. Sunshine Biscuits, a Kellogg company who make Cheez-Its, and Frito Lay who make Rold Gold Pretzels, are considered substitute products which increases competition and limits price.
   a. True
   b. False

ANSWER: True

16. Companies operating in high-technology industries are dependent on complementary products for their mutual success.
   a. True
   b. False

ANSWER: True

17. Starbucks and an independent local café are different in terms of their business techniques. They both sell coffee and, therefore, belong to the same strategic group.

a. True

b. False

ANSWER: False

18. Companies facing higher exit barriers find it harder to reduce capacity and face a greater threat of severe price competition.

a. True

b. False

ANSWER: True

19. Rapid growth in demand enables companies to expand their revenues and profits without taking market share away from competitors.

a. True

b. False

ANSWER: True

20. Movement between strategic groups is restricted by mobility barriers such as whether it is cost-effective to try to imitate or outperform competitors within the strategic group.

a. True

b. False

ANSWER: True

21. Successful innovation cannot transform the nature of industry competition.

a. True

b. False

ANSWER: False

22. One of the defining characteristics of the mature stage of the industry life cycle is that growth is low or zero.

a. True

b. False

ANSWER: True

23. Studying industry changes over time is essential for businesses to understand the strength of the competitive forces but does not provide insight into opportunities and threats in the industry.

a. True

b. False

ANSWER: False

24. The punctuated equilibrium view can be described as a freezing, but not an unfreezing, process in an industry's life cycle.

a. True

b. False

ANSWER: False

25. When the value of the dollar is low compared to the value of other currencies, products made in the United States are relatively inexpensive, and products made overseas are relatively expensive.
    a. True
    b. False

ANSWER: True

26. Changes in the characteristics of a population, such as age or race, are irrelevant to the analysis of an industry's macroenvironment.
    a. True
    b. False

ANSWER: False

27. Deregulation of the mortgage industry is an example of how political and legal forces can impact an industry.
    a. True
    b. False

ANSWER: True

28. Technological change can represent both an opportunity and a threat.
    a. True
    b. False

ANSWER: True

29. Interest rates have an impact on the sale of automobiles, appliances, and capital equipment. This represents a macroeconomic force.
    a. True
    b. False

ANSWER: True

Multiple Choice

30. Which of the following identifies the main difference between an opportunity and a threat for a company’s environment?
    a. Opportunities open a company up for risks to their profitability while threats allow for implementation of strategies which can increase profitability.
    b. Opportunities provide a company the freedom to take advantage of conditions in the environment while threats can mean peril for a company’s integrity and profitability.
    c. Opportunities arise in the external environment while threats primarily play out in the internal environment of a company.
    d. Opportunities generally relate to the increased competition provided by new arrivals to the industry and threats are focused on the exiting of competitors in the industry.
    e. The only difference between an opportunity and a threat is whether a company decides to pursue new strategies or to stick with proven strategies as a result of the new element or condition.

ANSWER: b

31. A group of firms manufactures writing implements such as pens, pencils, and markers. This group should be referred to as a(n):

a. substitute.
b. market segment.
c. service provider.
d. regulator.
e. industry.

ANSWER: e

32. An impact that the changing industry boundaries have had is that:
a. owners of companies can now define boundaries.
b. there is an increase in the number of competitors within an industry.
c. technological changes do not affect companies anymore.
d. the pattern of customer needs does not affect companies anymore.
e. the number of product substitutes available for customers has reduced.

ANSWER: b

33. Porter's Five Forces model did not recognize the:
a. power of complement providers.
b. risk of entry by potential competitors.
c. intensity of rivalry among established companies within an industry.
d. bargaining power of suppliers.
e. closeness of substitutes to an industry's products.

ANSWER: a

34. Which of the following statements correctly describes potential competitors in an industry?
a. They threaten the profitability of established companies.
b. They are usually encouraged by established companies.
c. They find it easier to enter an industry when the entry barriers are high.
d. They find it easier to enter an industry when established companies have economies of scale.
e. They usually have an absolute cost advantage over established companies.

ANSWER: a

35. Which of the following would not diminish the risk of entry of potential competitors for an established company within an industry?
a. Government prohibition of market entry in the company’s industry.
b. Consumers prefer the established company’s product.
c. Potential competitors cannot match the established company’s lower cost structure.
d. The established company does not benefit from cost reductions due to mass production of standardized products.
e. Customers are locked into the established company’s product due to the high amount of energy, time, and money it would take to switch to a new product.

ANSWER: d

36. If economies of scale are an industry's primary entry barrier, a new entrant's major concern is:
a. its inability to counter brand loyalty that customers have for established companies in the industry.

b. the inferior quality of its products.

c. its inability to match the innovation of the established firm.

d. its inability to produce in sufficient volume to match the cost advantages of established producers.

e. its inability to get buyers to switch to its product.

ANSWER: d

37. As a barrier to new entry, absolute cost advantages can be based on:

a. continuous advertising of brand and company names, and product innovation achieved through research and development.

b. high product quality, service-oriented innovations, and good after-sales service.

c. cost reductions that arise from the mass production of standardized output.

d. the unique ability of established companies to spread fixed costs over a large volume.

e. superior production operations and processes due to accumulated experience, patents, or trade secrets.

ANSWER: e

38. Which of the following is not a result of intense rivalry within an industry?

a. Raised costs

b. Lowered prices

c. Reduced spending on non-price-competitive strategies

d. Threat to profitability

e. None of these are results of intense rivalry within an industry.

ANSWER: c

39. Which of the following industry structures is made up of a several small or medium-sized companies, none of which is positioned to determine industry price?

a. Fragmented industry

b. Consolidated industry

c. Oligopoly

d. Monopoly

e. Monopolistic competition

ANSWER: a

40. A consolidated industry structure:

a. consists of several small companies or medium-size companies, none of which is positioned to determine industry price.

b. constitutes a threat rather than an opportunity.

c. is dominated by a small number of companies or, in extreme cases, by just one company, and such companies often are positioned to determine industry prices.

d. provides no scope for an oligopoly to exist.

e. is characterized by low-entry barriers and commodity-type products.

ANSWER: c

41. Which of the following is NOT a determinant of the extent of rivalry among established companies?

a. Industry competitive structure

b. Demand conditions
c. Cost conditions
d. The height of exit barriers in the industry
e. The bargaining power of buyers

ANSWER: e

42. The extent of rivalry among established companies is lowest when:
a. the industry's product is a commodity.
b. demand is growing rapidly.
c. exit barriers are substantial.
d. the industry is entering a decline stage.
e. the fixed costs are high.

ANSWER: b

43. The bargaining power of an industry's suppliers is greater when:
a. the supply industry is fragmented.
b. switching costs are minimal for companies because of little difference among products offered by different suppliers.
c. the industry buys in large quantities.
d. the product that suppliers sell has many substitutes and is not vital to the companies.
e. the industry is not an important customer to the suppliers.

ANSWER: e

44. Which of the following is a difference between the bargaining power of buyers and the bargaining power of suppliers?
a. A powerful buyer lower costs, while suppliers raise costs to squeeze profits out of an industry.
b. Buyers have the most bargaining power in a monopoly, while suppliers need multiple product substitutes to have bargaining power.
c. Only suppliers have the ability to make demands based on their power relative to that of the company.
d. Buyers bargaining power can raise costs by demanding better quality, while suppliers can raise costs by providing lower quality products.
e. The potential of a supplier with strong bargaining power is considered a threat, while a buyer with strong bargaining power does not pose a threat to the industry.

ANSWER: d

45. Which of the following statements about complementors is true?
a. Their impact on industries was first recognized by Porter's Five Forces model.
b. They have little importance in high-technology industries.
c. They have the power to impact the sales of the industry to which they supply complement products.
d. They tend to increase the sales of the industry they are supplying complements to by producing fewer low-quality complement products.
e. They cannot gain enough power to extract profits from the industry to which they supply complement products.

ANSWER: c

46. Economies of scale can arise from:
   a. cost reductions gained through decreased production.
   b. high prices on bulk purchases of raw material inputs and component parts.
   c. an advantage gained by spreading fixed production costs over a large production volume.
   d. increased spending on marketing and advertising activities.
   e. poor production operations.

ANSWER: c

47. Brand loyalty can be created by:
   a. minimal advertising.
   b. not using patents to protect products.
   c. cutting the costs for research and development.
   d. emphasizing high-quality products.
   e. minimizing after-sales service.

ANSWER: d

48. Which of the following statements about government regulations in the context of entry barriers of an industry is true?
   a. Government deregulation in an industry results in significant reduction in competition.
   b. Government regulation is not a major entry barrier for any industries.
   c. Falling entry barriers due to government deregulation results in higher competition and lower industry profit rates.
   d. The threat of new entrants is reduced when the government deregulates an industry.
   e. Companies that enjoy brand loyalty and have significant scale economies are the ones who face major threat of competition due to government deregulation.

ANSWER: c

49. Which of the following costs arise when a customer invests time, energy, and money shifting from the products offered by one established company to the products offered by a new entrant?
   a. Overhead
   b. Incremental
   c. Marginal
   d. Opportunity
   e. Switching

ANSWER: e

50. Which of the following statements about rivalry in the context of established companies is true?
   a. It significantly reduces the costs of established companies.
   b. It squeezes profits out of an industry.
   c. It enables companies to lower their spending on non-price-competitive strategies.
   d. It forces companies to reduce prices when it is less intense.
   e. It is unaffected by the demand conditions of an industry.

ANSWER: b

51. What makes up the competitive structure of an industry?

a. Market segments
b. The number and size distribution of companies
c. The number of consumers
d. The number of manufacturing plants
e. The quality of products produced

ANSWER: b

52. Common exit barriers include all the following EXCEPT:

a. investments in assets such as specific machines, equipment, or operating facilities that are of little or no value in alternative uses.
b. emotional attachments to an industry.
c. high fixed costs associated with leaving an industry.
d. bankruptcy regulations that keep unprofitable assets in the industry.
e. economic independence because a company is able to rely on a single industry for its entire revenue and all profits.

ANSWER: e

53. An industry's buyers have high bargaining power when:

a. they purchase in small quantities.
b. switching costs are low.
c. it is economically impossible for them to purchase an input from several companies at once.
d. the supply industry depends upon buyers for a very small percentage of its total orders.
e. the industry is a monopoly.

ANSWER: b

54. The level of industry demand:

a. has little effect on competition in the industry.
b. is one of the determinants of the intensity of rivalry in the industry.
c. increases when customers exit a marketplace.
d. does not impact the market share that established companies hold.
e. decreases the rivalry among established companies, when in decline.

ANSWER: b

55. When shopping for clothing such as shirts and jeans, Tyrone only buys products from Eastern Clothing Company even if there are several other companies that offer similar products at lower prices. Tyrone's preference for Eastern Clothing Company demonstrates:

a. lack of demand.
b. bargaining power.
c. risk of entry.
d. brand loyalty.
e. lack of economies of scale

ANSWER: d

56. The Smith boys want to get the new Xbox console for Christmas, but their parents are hesitant to buy it because the

family already owns the two latest versions of the PlayStation consoles with multiple games and extra controllers. Their decision to remain with the PlayStation is due to which of the following?

a. Switching costs
b. Bargaining power
c. Risk of entry
d. Brand loyalty
e. Lack of economies of scale

ANSWER: a

57. Suppliers in an industry are most powerful when:

a. there are few substitutes for the products that they sell.
b. switching costs are low.
c. companies in the industry threaten to enter the suppliers' industry.
d. their profitability is significantly affected by the purchases of companies in a particular industry.
e. they refrain from entering their customers' industry because of lack of resources.

ANSWER: a

58. Which of the following is NOT considered a benefit of industry analysis?

a. It can be a powerful tool to aid in a manager's strategic thinking.
b. It recognizes how competitive forces are isolated and do not impact each other.
c. It stimulates systematic thinking about strategic choices.
d. It makes it easier to identify opportunities and threats within an industry.
e. It can result in profitable changes to existing strategies.

ANSWER: b

59. Which of the following is NOT an implication that strategic groups must address when considering threats and opportunities?

a. Threats to profitability come from rivals within the strategic group.
b. Customers see the products of those in a strategic group as substitutes for on another.
c. Competition comes on two fronts, from those within the strategic group as well as those in other strategic groups within the industry.
d. Different strategic groups have distinctive and varied relationships with each of the identified competitive forces.
e. The strength of competitive forces facing strategic groups is a result of the competitive positioning approach chosen by the group.

ANSWER: c

60. Mobility barriers:

a. allow industries to change their strategy and compete in an alternate strategic group.
b. inhibit the movement of companies between strategic groups in an industry.
c. inhibit companies from shifting between suppliers for raw materials.
d. are factors that operate outside of an industry.
e. exclude the barriers to entry into a group and the barriers to exit from a company's existing strategic group.

ANSWER: b

61. In growth industries:
    a. the intensity of rivalry is very high.
    b. technological expertise is the most important entry barrier.
    c. the threat from potential competitors is typically highest.
    d. distribution channels are poorly developed.
    e. buyers are not familiar with the industry's products.

ANSWER: c

62. Entry barriers in embryonic industries tend to be based on:
    a. brand loyalty.
    b. economies of scale.
    c. absolute cost advantages.
    d. regulatory advantage.
    e. technological knowhow.

ANSWER: e

63. Which of the following statements about growth industries is true?
    a. They typically have high barriers to entry.
    b. They tend to be characterized by weak rivalry.
    c. They are characterized by low demands.
    d. They increase prices because customers are more aware of the industry's product.
    e. They inhibit the development of distribution channels.

ANSWER: b

64. Demand reaches total saturation in which of the following stages of the industry life cycle?
    a. Embryonic
    b. Growth
    c. Shakeout
    d. Maturity
    e. Decline

ANSWER: d

65. First-time demand expands rapidly due to new customers entering the market in which of the following stages of the industry life cycle?
    a. Embryonic
    b. Growth
    c. Shakeout
    d. Maturity
    e. Decline

ANSWER: b

66. As an industry enters the shakeout stage:
    a. rivalry among companies declines.

b. demand grows at a high rate.
c. prices of products increase.
d. excess productive capacity emerges.
e. new entrants come into the market.

ANSWER: d

67. As an industry enters the decline stage:
a. growth becomes negative.
b. rivalry among established companies usually decreases.
c. competitive pressures abate.
d. capacity reduces.
e. demand remains the same.

ANSWER: a

68. In the late 1800s, when the automobile was first manufactured, the automobile industry would have been considered which of the following industries?
a. Mature
b. Shakeout
c. Embryonic
d. Growth
e. Declining

ANSWER: c

69. Which of the following occurs immediately after the growth stage of the industry life cycle?
a. Growth slows because buyers are unfamiliar with the product.
b. Demand is limited to replacements only and growth is zero.
c. Saturation of demand is approached because fewer first-time buyers remain.
d. Growth is dependent on new entrants to the market, such as population increases.
e. Social changes, demographics, and international competition cause negative growth.

ANSWER: c

70. Which of the following is currently an embryonic industry?
a. Personal computers
b. Biotechnology
c. Internet retailing
d. Nanotechnology
e. Wireless communications

ANSWER: d

71. Which of the following is a benefit of innovation in an industry?
a. It allows smaller companies the ability to compete with large, established companies by reducing entry barriers and lowering fixed costs of production.
b. It breaks the life cycle pattern and causes growth so rapid it causes stages to be skipped altogether.
c. It emphasizes the importance of industry structure.

d. It secures the profitability of strategic groups within an industry.

e. It increases the barriers to entry to reduce rivalry and competition.

ANSWER: a

72. Which of the following is NOT one of the macroeconomic forces?

a. Interest rates

b. Inflation rates

c. Cultural changes

d. Currency exchange rates

e. Growth rate of the economy

ANSWER: c

73. Julian was asked to examine the demographic forces facing his employer, a clothing manufacturer. Which of the following factors is Julian most likely to examine?

a. Government regulations

b. Inflation rates

c. Manufacturing technology

d. Age of the population

e. Society's growing interest in exercise

ANSWER: d

74. Many beverage manufacturers are noticing that sales for bottled water and fruit-based beverages is increasing compared to carbonated drinks because customers are increasingly becoming health conscious. This change in customer preferences can be attributed to which of the following factors of the macroenvironment?

a. Economic forces

b. Demographic forces

c. Technological forces

d. Political forces

e. Social forces

ANSWER: e

75. Due to a recent relaxation in the pollution control laws by the government, Alpha Motors has reduced the production of its electric-powered cars. The company is responding to a change in which of the following macroenvironmental forces?

a. Macroeconomic

b. Demographic

c. Political and legal

d. Social

e. Global

ANSWER: c

76. Americans are currently living longer now than in the past because of advances in medicine. As a result, the sale of products that meet the needs of older individuals, such as devices that assist in walking and movement, have increased. In the context of an industry's macroenvironment, age is considered which type of force?

a. Technological

b. Demographic
c. Social
d. Political
e. Legal

ANSWER: b

77. Philip Morris capitalized on the growing health consciousness trend when it acquired Miller Brewing Company, and then redefined competition in the beer industry with its introduction of low-calorie beer (Miller Lite). This health trend represents which type of force?

a. Social
b. Political
c. Legal
d. Technological
e. Demographic

ANSWER: a

Essay

78. Briefly describe the five stages of the industry life cycle.

ANSWER: An embryonic industry is one that is just beginning to develop. Growth at this stage is slow because of factors such as buyers' unfamiliarity with the industry's product, high prices due to the inability of companies to leverage significant scale economies, and poorly developed distribution channels. Barriers to entry tend to be based on access to key technological knowhow rather than cost economies or brand loyalty. If the core knowhow required to compete in the industry is complex and difficult to grasp, barriers to entry can be quite high, and established companies will be protected from potential competitors. Rivalry in embryonic industries is based not so much on price as on educating customers, opening up distribution channels, and perfecting the design of the product. Such rivalry can be intense, and the company that is the first to solve design problems often has the opportunity to develop a significant market position.

Once demand for an industry's product begins to increase, it develops the characteristics of a growth industry. In a growth industry, first-time demand is expanding rapidly as many new customers enter the market. Typically, an industry grows when customers become familiar with the product, prices fall because scale economies have been attained, and distribution channels develop. Normally, the importance of control over technological knowledge as a barrier to entry has diminished by the time an industry enters its growth stage. Because few companies have yet to achieve significant scale economies or built brand loyalty, other entry barriers tend to be relatively low early in the growth stage. Thus, the threat from potential competitors is typically highest at this point. Paradoxically, high growth means that new entrants can be absorbed into an industry without a marked increase in the intensity of rivalry. Thus, rivalry tends to be relatively low.

Sooner or later, the rate of growth slows, and the industry enters the shakeout stage. In the shakeout stage, demand approaches saturation levels: more and more of the demand is limited to replacement because fewer potential first-time buyers remain. As an industry enters the shakeout stage, rivalry between companies can build. Typically, companies that have become accustomed to rapid growth continue to add capacity at rates consistent with past growth. However, demand is no longer growing at historic rates, and the consequence is excess productive capacity.

The shakeout stage ends when the industry enters its mature stage. The market is fully saturated, demand is limited to replacement demand, and growth is low or zero. Typically, the growth that remains comes from population expansion, bringing new customers into the market, or increasing replacement demand. As an industry enters maturity, barriers to entry increase, and the threat of entry from potential competitors decreases. As growth slows during the shakeout, companies can no longer maintain historic growth rates merely by holding on to their market share. Competition for market share develops, driving down prices and often producing a price war. To survive the shakeout, companies begin to focus on minimizing costs and building brand loyalty. By the time an industry matures, the surviving companies are those that have secured brand loyalty and efficient, low-cost operations. Because both of those factors constitute a significant barrier to entry, the threat of entry by potential competitors is often greatly diminished.

Eventually, most industries enter a stage of decline: growth becomes negative for a variety of reasons, including technological substitution, social changes, demographics, and international competition. Within a declining industry, the degree of rivalry among established companies usually increases. Depending on the speed of the decline and the height of exit barriers, competitive pressures can become as fierce as in the shakeout stage. The largest problem in a declining industry is that falling demand leads to the emergence of excess capacity.

79. Describe the major limitations of the models for industry analysis. Does the existence of these limitations mean that the models are not useful? Why or why not?

ANSWER: The competitive forces, strategic group, and industry life-cycle models all have limitations. The competitive forces and strategic group models present a static picture of competition that deemphasizes the role of innovation. Yet innovation can revolutionize industry structure and completely shift the strength of different competitive forces. The competitive forces and strategic group models have been criticized for de-emphasizing the importance of individual company differences. A company will not be profitable just because it is part of an attractive industry or strategic group; much more is required. The industry life-cycle model is a generalization that is not always followed; particularly when innovation revolutionizes an industry.

80. Consider the macroenvironment facing a large, international airline headquartered in the United States (such as American Airlines or United Airlines). Give at least three examples of important trends or events from each of the segments of the airline's macroenvironment (macroeconomic, global, technological, demographic, social, political, and legal), and explain whether each represents a threat or an opportunity for the firm.

ANSWER: The airline industry benefits from low interest rates, part of the macroeconomic environment, because it enables airlines to borrow the funds for purchasing new planes at a lower cost.

Americans are taking shorter but more frequent vacations. This social trend presents an opportunity for airlines to sell more tickets.

Technological advances have allowed railroads to use fast, fuel-efficient bullet trains, which can economically substitute for planes on short, heavily-traveled commuter routes, such as along the Boston–New York–Washington, D.C. corridor. This development threatens airlines because it reduces the number of tickets they can sell and the prices they can charge in those markets.

81. Identify the six forces that shape competition in an industry. Describe how changes in the strength of these forces affects prices, profitability, and under which circumstances each can be considered a threat or opportunity. Why is a competitive analysis using the competitive forces framework a benefit to industry?

ANSWER: The six forces that shape competition within an industry are identified as: (1) the risk of entry by potential competitors, (2) the intensity of rivalry among established companies within an industry, (3) the bargaining power of buyers, (4) the bargaining power of suppliers, (5) the closeness of substitutes to an industry's products, and (6) the power of complement providers.

As each of these forces grows stronger, it limits the ability of established companies to raise prices and earn greater profits. Within this framework, a strong competitive force can be regarded as a threat because it depresses profits. A weak competitive force can be viewed as an opportunity because it allows a company to earn greater profits. The strength of the six forces may change over time as industry conditions change. Managers face the task of recognizing how changes in the six forces give rise to new opportunities and threats, which helps in formulating appropriate strategic responses. In addition, it is possible for a company, through its choice of strategy, to alter the strength of one or more of the forces to its advantage.

The analysis of competition in the industry environment using the competitive forces framework is a powerful tool that helps managers think strategically. It is important to recognize that one competitive force often affects others, and all forces need to be considered when performing industry analysis. For example, new entries due to low entry barriers increase competition in the industry and drive down prices and profit rates, other things being equal. If buyers are powerful, they may take advantage of the increased choice resulting from new entry to further bargain down prices, increasing the intensity of competition and making it more difficult to make a decent profit in the industry. It is important to understand how one force might impact upon another. An analysis of industry opportunities and threats can lead directly to a change in strategy by companies within the industry. This, of course, is the crucial point—analyzing the industry environment in order to identify opportunities and threats leads logically to a discussion of what strategies should be adopted to exploit opportunities and counter threats.

82. Define a strategic group. What are some examples of how strategic groups differ in the way they bring their products to market? What are the implications for identifying threats and opportunities?

ANSWER: Within most industries it is possible to observe groups of companies in which each company follows a strategy similar to that pursued by other companies in the group, but different from the strategy pursued by companies in other groups. These different groups of companies are known as strategic groups.

Companies in an industry often differ significantly from one another with regard to the way they strategically position their products in the market. Factors such as the distribution channels they use, the market segments they serve, the quality of products, technological leadership, customer service, pricing policy, advertising policy, and promotions, all affect product position.

The concept of strategic groups has a number of implications for the identification of opportunities and threats within an industry. First, because all companies in a strategic group are pursuing a similar strategy, customers tend to view the products of such enterprises as direct substitutes for each other. Thus, a company’s closest competitors are those in its strategic group, not those in other strategic groups in the industry. The most immediate threat to a company’s profitability comes from rivals within its own strategic group. A second competitive implication is that different strategic groups can have different relationships to each of the competitive forces; thus, each strategic group may face a different set of opportunities and threats. Each of the following can be a relatively strong or weak competitive force depending on the competitive positioning approach adopted by each strategic group in the industry: the risk of new entry by potential competitors; the degree of rivalry among companies within a group; the bargaining power of buyers; the bargaining power of suppliers; and the competitive force of substitute and complementary products.