# Manajemen Strategik
# Chapter 1 - 4

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# Chapter 1
# Theory Strategic Management

# External Assesment

**A note from David**

## The Nature of an External Audit

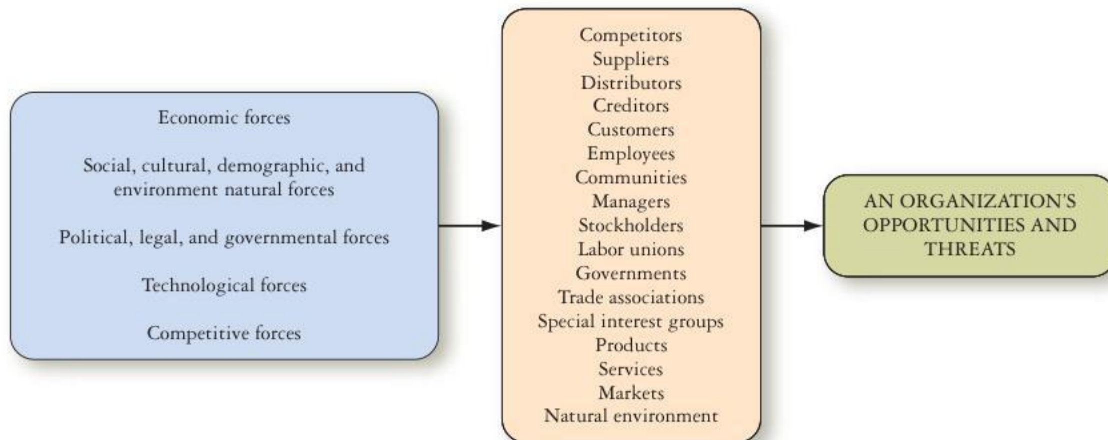
The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. Figure 3-1 illustrates how the external audit fits into the strategic-management process.

### Key External Forces

External forces can be divided into five broad categories: (1) economic forces; (2) social, cultural, demographic, and natural environment forces; (3) political, governmental, and legal forces; (4) technological forces; and (5) competitive forces. Relationships among these forces and an organization are depicted in Figure 3-2. External trends and events, such as the global economic recession, significantly affect products, services, markets, and organizations worldwide. The U.S. unemployment rate climbed to over 9 percent in July 2009 as more than 2.5 million jobs were lost in the United States in 2008—the most since 1945 when the country downsized from the war effort. The rate is expected to rise to 10.1 percent. All sectors witness rising unemployment rates, except for education, health-care services, and government employment. Many Americans are resorting to minimum wage jobs to make ends meet.

Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets. Foreign businesses and countries are willing to learn, adapt, innovate, and invent to compete successfully in the marketplace. There are more competitive new technologies in Europe and Asia today than ever before.




**The Process of Performing an External Audit**

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic-management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firms' industry, competitors, and markets.

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information.

Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a chalkboard. A prioritized list of these factors could be obtained by requesting that all managers rank the factors identified, from 1 for the most important opportunity/threat to 20

for the least important opportunity/threat. These key external factors can vary over time and by industry. Relationships with suppliers or distributors are often a critical success factor. Other variables commonly usedinclude market share, breadth of competing products, world economies, foreign affiliates, proprietary and key account advantages, price competitiveness, technological advancements, population shifts, interest rates, and pollution abatement.

Freund emphasized that these key external factors should be (1) important to achieving long-term and annual objectives, (2) measurable, (3) applicable to all competing firms, and (4) hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas. 1 A final list of the most important key external factors should be communicated and distributed widely in the organization. Both opportunities and threats can be key external factors.

**The Industrial Organization (I/O) View**

The Industrial Organization (I/O) approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm achieving competitive advantage. Proponents of the I/O view, such as Michael Porter, contend that organizational performance will be primarily determined by industry forces. Porter's FiveForces Model, presented later in this chapter, is an example of the I/O perspective, which focuses on analyzing external forces and industry variables as a basis for getting and keeping competitive advantage. Competitive advantage is determined largely by competitive positioning within an industry, according to I/O advocates. Managing strategically from the I/O perspective entails firms striving to compete in attractive industries, avoiding weak or faltering industries, and gaining a full understanding of key external factor relationships within that attractive industry. I/O research provides important contributions to our understanding of how to gain competitive advantage.

I/O theorists contend that external factors in general and the industry in which a firm chooses to compete has a stronger influence on the firm's performance than do the internal functional decisions managers make in marketing, finance, and the like. Firm performance, they contend, is primarily based more on industry properties, such as economies of scale, barriers to market entry, product differentiation, the economy, and level of competitiveness than on internal resources, capabilities, structure, and operations. The global economic recession's impact on both strong and weak firms has added credence of late to the notion that external forces are more important than internal. Many thousands of internally strong firms in 2006–2007 disappeared in 2008–2009.

The I/O view has enhanced our understanding of strategic management. However, it is not a question of whether external or internal factors are more important in gaining and maintaining competitive advantage. Effective integration and understanding of both external and internal factors is the key to securing and keeping a competitive advantage. In fact, as discussed in Chapter 6, matching key external opportunities/threats with key internal strengths/weaknesses provides the basis for successful strategy formulation.

**Economic Forces**

Increasing numbers of two-income households is an economic trend in the United States. Individuals place a premium on time. Improved customer service, immediate availability, trouble-free operation of products, and dependable maintenance and repair services are becoming more important. People today are more willing than ever to pay for good service if it limits inconvenience.

Economic factors have a direct impact on the potential attractiveness of various strategies. For example, when interest rates rise, funds needed for capital expansion become more costly or unavailable. Also, when interest rates rise, discretionary income declines, and the demand for discretionary goods falls. When stock prices increase, the desirability of equity as a source of capital for market development increases. Also, when the market rises, consumer and business wealth expands. A summary of economic variables that often represent opportunities and threats for organizations is provided in Table 3-1.

An economic variable of significant importance in strategic planning is gross domestic product (GDP), especially across countries. Table 3-2 lists the GDP of various countries in Asia for all of 2009. Unlike most countries in Europe and the Americas, most Asian countries expect positive GDP growth in 2009.

Trends in the dollar's value have significant and unequal effects on companies in different industries and in different locations. For example, the pharmaceutical, tourism, entertainment, motor vehicle, aerospace, and forest products industries benefit greatly when the dollar falls against the yen and euro. Agricultural and petroleum industries are hurt by the dollar's rise against the currencies of Mexico, Brazil, Venezuela, and Australia. Generally, a strong or high dollar makes U.S. goods more expensive in overseas markets. This worsens the U.S. trade deficit. When the value of the dollar falls, tourism-oriented firms benefit because

Americans do not travel abroaas much when the value of the dollar is low; rather, foreigners visit and vacation more in the United States.

A low value of the dollar means lower imports and higher exports; it helps U.S. companies' competitiveness in world markets. The dollar has fallen to five-year lows against the euro and yen, which makes U.S. goods cheaper to foreign consumers and combats deflation by pushing up prices of imports. However, European firms such as Volkswagen AG, Nokia Corp., and Michelin complain that the strong euro hurts their financial performance. The low value of the dollar benefits the U.S. economy in many ways. First, it helps stave off the risks of deflation in the United States and also reduces the U.S. trade deficit. In addition, the low value of the dollar raises the foreign sales and profits of domestic firms, thanks to dollar-induced gains, and encourages foreign countries to lower interest rates and loosen fiscal policy, which stimulates worldwide economic expansion. Some sectors, such as consumer staples, energy, materials, technology, and health care, especially benefit from a low value of the dollar. Manufacturers in many domestic industries in fact benefit because of a weak dollar, which forces foreign rivals to raise prices and extinguish discounts. Domestic firms with big overseas sales, such as McDonald's, greatly benefit from a weak dollar.

Between March and June 2009, the U.S. dollar weakened 11.0 percent against the euro, due to the growing United States debt, which may soon exceed $12 trillion. Table 3-3 lists some advantages and disadvantages of a weak U.S. dollar for American firms.

Rising unemployment rates across the United States have touched off a race among states to attract businesses with tax breaks and financial incentives. New Jersey has promised to send a $3,000 check to every small business that hires a new employee. Minnesota is offering tax-free zones for companies that create "green jobs." Colorado has created a $5 million fund for banks that open credit lines for small businesses. To minimize risk in incentive deals, may states write in claw-back provisions that require companies to return funds if they fail to create the promised number of jobs.

The slumping economy worldwide and depressed prices of assets has dramatically slowed the migration of people from country to country and from the city to the suburbs. Because people are not moving nearly as much as in years past, there is lower and lower demand for new or used houses. Thus the housing market is expected to remain very sluggish well into 2010 and 2011.

| Key Economic Variables to Be Monitored | |
|---|---|
| Shift to a service economy in the United States | Import/export factors |
| Availability of credit | Demand shifts for different categories of goods and services |
| Level of disposable income | Income differences by region and consumer groups |
| Propensity of people to spend | Price fluctuations |
| Interest rates | Export of labor and capital from the United States |
| Inflation rates | Monetary policies |
| Money market rates | Fiscal policies |
| Federal government budget deficits | Tax rates |
| Gross domestic product trend | European Economic Community (EEC) policies |
| Consumption patterns | Organization of Petroleum Exporting Countries (OPEC) policies |
| Unemployment trends | Coalitions of Lesser Developed Countries (LDC) policies |
| Worker productivity levels | |
| Value of the dollar in world markets | |
| Stock market trends | |
| Foreign countries' economic conditions | |

**Environment Forces**

Social, cultural, demographic, and environmental changes have a major impact on virtually all products, services, markets, and customers. Small, large, for-profit, and nonprofit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables. In every way, the United States is much different today than it was yesterday, and tomorrow promises even greater changes.

The United States is getting older and less white. The oldest members of America's 76 million baby boomers plan to retire in 2011, and this has lawmakers and younger taxpayers deeply concerned about who will pay their Social Security, Medicare, and Medicaid. Individuals age 65 and older in the United States as a percentage of the population will rise to 18.5 percent by 2025. The five "oldest" states and five "youngest" states in 2007 are given in Table 3-4.

By 2075, the United States will have no racial or ethnic majority. This forecast is aggravating tensions over issues such as immigration and affirmative action. Hawaii, California, and New Mexico already have no majority race or ethnic group.

The population of the world surpassed 7.0 billion in 2010; the United States has just over 310 million people. That leaves billions of people outside the United States who may be interested in the products and services produced through domestic firms. Remaining solely domestic is

an increasingly risky strategy, especially as the world population continues to grow to an estimated 8 billion in 2028 and 9 billion in 2054.

Social, cultural, demographic, and environmental trends are shaping the way Americans live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies. There are now more American households with people living alone or with unrelated people than there are households consisting of married couples with children. American households are making more and more purchases online. Beer consumption in the United States is growing at only 0.5 percent per year, whereas wine consumption is growing 3.5 percent and distilled spirits consumption is growing at 2.0 percent. 2 Beer is still the most popular alcoholic beverage in the United States, but its market share has dropped from 59.5 percent in its peak year of 1995 to 56.7 percent today. For a wine company such as Gallo, this trend is an opportunity, whereas for a firm such as Adolph Coors Brewing, this trend is an external threat.

The trend toward an older America is good news for restaurants, hotels, airlines, cruise lines, tours, resorts, theme parks, luxury products and services, recreational vehicles, home builders, furniture producers, computer manufacturers, travel services, pharmaceutical firms, automakers, and funeral homes. Older Americans are especially interested in health care, financial services, travel, crime prevention, and leisure. The world's longest-living people are the Japanese, with Japanese women living to 86.3 years and men living to 80.1 years on average. By 2050, the Census Bureau projects that the number of Americans age 100 and older will increase to over 834,000 from just under 100,000 centenarians in the United States in 2000. Americans age 65 and over will increase from 12.6 percent of the U.S. population in 2000 to 20.0 percent by the year 2050.

The aging American population affects the strategic orientation of nearly all organizations. Apartment complexes for the elderly, with one meal a day, transportation, and utilities included in the rent, have increased nationwide. Called lifecare facilities, these complexes now exceed 2 million. Some well-known companies building these facilities include Avon, Marriott, and Hyatt. Individuals age 65 and older in the United States comprise 13 percent of the total population; Japan's elderly population ratio is 17 percent, and Germany's is 19 percent.

Americans were on the move in a population shift to the South and West (Sunbelt) and away from the Northeast and Midwest (Frostbelt), but the recession and housing bust nationwide has slowed

migration throughout the United States. More Americans are staying in place rather than moving. New jobs are the primary reason people move across state lines, so with 3 million less jobs in the United States in 2008–2009 alone, there is less need to move. Falling home prices also have prompted people to avoid moving. The historical trend of people moving from the Northeast and Midwest to the Sunbelt and West has dramatically slowed. The worldwide recession is also reducing international immigration, down roughly 10 percent in both 2008 and 2009. Hard number data related to this information can represent key opportunities for many firms and thus can be essential for successful strategy formulation, including where to locate new plants and distribution centers and where to focus marketing efforts.

A summary of important social, cultural, demographic, and environmental variables that represent opportunities or threats for virtually all organizations is given in Table.

**Key Social, Cultural, Demographic, and Natural Environment Variables**

| | |
|---|---|
| Childbearing rates | Attitudes toward retirement |
| Number of special-interest groups | Attitudes toward leisure time |
| Number of marriages | Attitudes toward product quality |
| Number of divorces | Attitudes toward customer service |
| Number of births | Pollution control |
| Number of deaths | Attitudes toward foreign peoples |
| Immigration and emigration rates | Energy conservation |
| Social Security programs | Social programs |
| Life expectancy rates | Number of churches |
| Per capita income | Number of church members |
| Location of retailing, manufacturing, and service businesses | Social responsibility |
| Attitudes toward business | Attitudes toward careers |
| Lifestyles | Population changes by race, age, sex, and level of affluence |
| Traffic congestion | Attitudes toward authority |
| Inner-city environments | Population changes by city, county, state, region, and country |
| Average disposable income | Value placed on leisure time |
| Trust in government | Regional changes in tastes and preferences |
| Attitudes toward government | Number of women and minority workers |
| Attitudes toward work | Number of high school and college graduates by geographic area |
| Buying habits | Recycling |
| Ethical concerns | Waste management |
| Attitudes toward saving | Air pollution |
| Sex roles | Water pollution |
| Attitudes toward investing | Ozone depletion |
| Racial equality | Endangered species |
| Use of birth control | |
| Average level of education | |
| Government regulation | |

**Political, Governmental, and Legal Forces**

Federal, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations.

For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly. The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

In the face of a deepening global recession, countries worldwide are resorting to protectionism to safeguard their own industries. European Union (EU) nations, for example, have tightened their own trade rules and resumed subsidies for various of their own industries while barring imports from certain other countries. The EU recently restricted imports of U.S. chicken and beef. India is increasing tariffs on foreign steel. Russia perhaps has instituted the most protectionist measures in recent months by raising tariffs on most imports and subsidizing its own exports. Russia even imposed a new toll on trucks from the EU, Switzerland, and Turkmenistan. Despite these measures taken by other countries, the United States has largely refrained from "Buy American" policies and protectionist measures, although there are increased tariffs on French cheese and Italian water. Many economists say the current rash of trade constraints will make it harder for global economic growth to recover from the global recession. Global trade is expected to decrease 2.1 percent in 2009 compared to an increase of 6.2 percent in 2008. 3 Russia has said that "protective tariffs are necessary to allow Russian companies to survive the recession." This view unfortunately is also the view at an increasing number of countries.

Governments are taking control of more and more companies as the global economic recession cripples firms considered vital to the nation's financial stability. For example, France in 2009 took a 2.35 percent equity stake in troubled car-parts maker Valeo SA. President Nicolas Sarkozy of France has created a $20 billion strategic fund to lend cash to banks and carmakers as many governments become more protectionist. The United States of course also is taking equity stakes in financial institutions and carmakers and is "bailing out" companies too.

The UK government in 2009 took a 95 percent stake in the banking giant Royal Bank of Scotland Group PLC in a dramatic move toward nationalization. The government gave the bank $37 billion and insured another $300 billion of the bank's assets. The UK government also recently increased its stake in Lloyds Banking Group PLC to 75 percent. Similarly, the U.S. government has taken over Fannie Mae and Freddie Mac and has raised its stake even in Citigroup to 40 percent.

As more and more companies around the world accept government bailouts, those companies are being forced to march to priorities set by political leaders. Even in the United States, the federal government is battling the recession with its deepest intervention in the economy since the Great Depression. The U.S. government now is a strategic manager in industries from banking to insurance to autos. Governments worldwide are under pressure to protect jobs at home and
maintain the nation's industrial base. For example, in France, Renault SA's factory in Sandouville is one of the most unproductive auto factories in the world. However, Renault has taken $3.9 billion in low-interest loans from the French government, so the company cannot close any French factories for the duration of the loan or resort to mass layoffs in France for a year.

Political relations between Japan and China have thawed considerably in recent years, which is good for the world economy because China's low-cost manufactured goods have become essential for the functioning of most industrialized nations. Chinese premier Wen Jiabao addressed the Japanese parliament in 2007, something no Chinese leader has done for more than 20 years, and Japanese prime minister Shinzo Abe has visited Beijing. Japan's largest trading partner is China, and China's third-largest trading partner is Japan—after the European Union, number one, and the United States, number two.

Local, state, and federal laws; regulatory agencies; and special-interest groups can have a major impact on the strategies of small, large, for-profit, and nonprofit organizations. Many companies have altered or abandoned strategies in the past because of political or governmental actions. In the academic world, as state budgets have dropped in recent years, so too has state support for colleges and universities. Due to the decline in monies received from the state, many institutions of higher learning are doing more fundraising on their own—naming buildings and classrooms, for example, for donors. A summary of political, governmental, and legal variables that can represent key opportunities or threats to organizations is provided in Table

**Some Political, Governmental, and Legal Variables**

| | |
|---|---|
| Government regulations or deregulations | Sino-American relationships |
| Changes in tax laws | Russian-American relationships |
| Special tariffs | European-American relationships |
| Political action committees | African-American relationships |
| Voter participation rates | Import–export regulations |
| Number, severity, and location of government protests | Government fiscal and monetary policy changes |
| Number of patents | Political conditions in foreign countries |
| Changes in patent laws | Special local, state, and federal laws |
| Environmental protection laws | Lobbying activities |
| Level of defense expenditures | Size of government budgets |
| Legislation on equal employment | World oil, currency, and labor markets |
| Level of government subsidies | Location and severity of terrorist activities |
| Antitrust legislation | Local, state, and national elections |

**Technological Forces**

Revolutionary technological changes and discoveries are having a dramatic impact on organizations. CEO Chris DeWolfe of MySpace is using technology to expand the firm's 1,600-person workforce in 2009 even as the economic recession deepens. MySpace expects a 17 percent increase in revenue in 2009. Nearly half of the site's 130 million members worldwide are 35 and older, and 76 million of the members are from the United States. This compares to rival Facebook that has 150 million members worldwide but only 55 million in the United States. MySpace is continually redesigning the site and revamping the way its members can manage their profiles and categorize their friends, and enabling consumers to listen to free streaming audio and songs. Doug Morris, CEO of Universal Music Group, says, "There is a lot of conflict between technology and content, and Chris has successfully brought both together." 4

The Internet has changed the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off

between production standardization and flexibility. The Internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors.

To effectively capitalize on e-commerce, a number of organizations are establishing two new positions in their firms: chief information officer (CIO) and chief technology officer (CTO). This trend reflects the growing importance of information technology (IT) in strategic management. A CIO and CTO work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed. These individuals are responsible for developing, maintaining, and updating a company's information database. The CIO is more a manager, managing the firm's relationship with stakeholders; the CTO is more a technician, focusing on technical issues such as data acquisition, data processing, decision-support systems, and software and hardware acquisition.

Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements can dramatically affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position. Technological advancements can create new markets, result in a proliferation of new and improved products, change the relative competitive cost positions in an industry, and render existing products and services obsolete. Technological changes can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers. Technological advancements can create new competitive advantages that are more powerful than existing advantages. No company or industry today is insulated against emerging technological developments. In high-tech industries, identification and evaluation of key technological opportunities and threats can be the most important part of the external strategic-management audit.

Organizations that traditionally have limited technology expenditures to what they can fund after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

In practice, critical decisions about technology too often are delegated to lower organizational levels or are made without an understanding of their strategic implications. Many strategists spend countless hours determining market share, positioning products in terms of features and price, forecasting sales and market size, and monitoring distributors; yet too often, technology does not receive the same respect.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. A recent article in the Wall Street Journal detailed how wireless technology will change 10 particular industries. 5 Table 3-7 provides a glimpse of this article.

| Examples of the Impact of Wireless Technology |
| --- |
| Airlines—Many airlines now offer wireless technology in flight. |
| Automotive—Vehicles are becoming wireless. |
| Banking—Visa sends text message alerts after unusual transactions. |
| Education—Many secondary (and even college) students may use smart phones for math because research shows this to be greatly helpful. |
| Energy—Smart meters now provide power on demand in your home or business. |
| Health Care—Patients use mobile devices to monitor their own health, such as calories consumed. |
| Hotels—Days Inn sends daily specials and coupons to hotel guests via text messages. |
| Market Research—Cell phone respondents provide more honest answers, perhaps because they are away from eavesdropping ears. |
| Politics—President Obama won the election partly by mobilizing Facebook and MySpace users, revolutionizing political campaigns. Obama announced his vice presidential selection of Joe Biden by a text message. |
| Publishing—eBooks are increasingly available. |

*Source:* Based on Joe Mullich, "10 Industries That Wireless Will Change," *Wall Street Journal* (April 1, 2009): A12.

## Competitive Forces

The top U.S. competitors in four different industries are identified in Table 3-8. An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies.

Collecting and evaluating information on competitors is essential for successful strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information. Addressing questions about competitors such as those presented in Table 3-9 is important in performing an external audit.

Competition in virtually all industries can be described as intense—and sometimes as cutthroat. For example, Walgreens and CVS pharmacies are located generally across the street from each other and battle each other every day on price and customer service. Most automobile dealerships also are located close to each other. Dollar General, based in Goodlettsville, Tennessee, and Family Dollar, based in Matthews, North Carolina, compete intensely on price to attract customers. Best Buy dropped prices wherever possible to finally put Circuit City totally out of business.

Seven characteristics describe the most competitive companies:

1. Market share matters; the 90th share point isn't as important as the 91st, and nothing is more dangerous than falling to 89.
2. Understand and remember precisely what business you are in.
3. Whether it's broke or not, fix it—make it better; not just products, but the whole company, if necessary.
4. Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success.
5. Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market.
6. People make a difference; tired of hearing it? Too bad.
7. There is no substitute for quality and no greater threat than failing to be cost-competitive on a global basis.

**Key Questions About Competitors**

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

**Competitive Intelligence Programs**

What is competitive intelligence? Competitive intelligence (CI), as formally defined by the Society of Competitive Intelligence Professionals (SCIP), is a systematic and ethical process

for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals (SCIP Web site).
Good competitive intelligence in business, as in the military, is one of the keys to success. The more information and knowledge a firm can obtain about its competitors, the more likely it is that it can formulate and implement effective strategies. Major competitors' weaknesses can represent external opportunities; major competitors' strengths may represent key threats.
In April 2009, Starwood Hotels & Resorts Worldwide sued Hilton Hotels Corp. for allegedly stealing more than 100,000 confidential electronic and paper documents containing "Starwood's most competitively sensitive information." The complaint alleges that two Starwood executives, Ross Klein and Amar Lalvani, resigned from Starwood to join Hilton and took this information with them. The legal complaint says, "This is the clearest imaginable case of corporate espionage, theft of trade secrets, unfair competition and computer fraud." In addition to monetary awards, Starwood is seeking to force Hilton to cancel the rollout of the Denizen hotel chain. Hilton is owned by Blackstone Group.

Hiring top executives from rival firms is also a way companies obtain competitive intelligence. Just two days after Facebook's COO, Owen Van Natta, left the company in 2009, he accepted the CEO job at MySpace, replacing then CEO and cofounder Chris DeWolfe. Van Natta had previously also been Facebook's COO, chief revenue officer, and vice president of operations. The MySpace appointment now pits CEO Van Natta against his old boss at Facebook, CEO Mark Zuckerberg. Facebook passed MySpace in visitors worldwide in 2008 and is closing in on leadership in the United States. Both firms are fierce rivals in the Internet social-networking business.
A recent article in the Wall Street Journal detailed how computer spies recently broke into the Pentagon's $300 billion Joint Strike fighter project, one of the costliest weapons programs ever. 8 This intrusion and similar episodes of late have confirmed that any information a firm has available to anyone within the firm online may be at risk of being copied and/or siphoned away by adversaries or rival firms. A recent Pentagon report says the Chinese military in particular has made "steady progress" in developing online-warfare techniques, but rival firms in many industries have expert computer engineers who may be capable of similar unethical/unlawful tactics.

Many U.S. executives grew up in times when U.S. firms dominated foreign competitors so much that gathering competitive intelligence did not seem worth the effort. Too many of these executives still cling to these attitudes—to the detriment of their organizations today. Even

most MBA programs do not offer a course in competitive and business intelligence, thus reinforcing this attitude. As a consequence, three strong misperceptions about business intelligence prevail among U.S. executives today:

- Running an intelligence program requires lots of people, computers, and other resources.
- Collecting intelligence about competitors violates antitrust laws; business intelligence equals espionage.
- Intelligence gathering is an unethical business practice.

Any discussions with a competitor about price, market, or geography intentions could violate antitrust statutes. However, this fact must not lure a firm into underestimating the need for and benefits of systematically collecting information about competitors for Strategic Planning purposes. The Internet has become an excellent medium for gathering competitive intelligence. Information gathering from employees, managers, suppliers, distributors, customers, creditors, and consultants also can make the difference between having superior or just average intelligence and overall competitiveness.

Firms need an effective competitive intelligence (CI) program. The three basic objectives of a CI program are (1) to provide a general understanding of an industry and its competitors, (2) to identify areas in which competitors are vulnerable and to assess the impact strategic actions would have on competitors, and (3) to identify potential moves that a competitor might make that would endanger a firm's position in the market. 10 Competitive information is equally applicable for strategy formulation, implementation, and evaluation decisions. An effective CI program allows all areas of a firm to access consistent and verifiable information in making decisions. All members of an organizationfrom the chief executive officer to custodians—are valuable intelligence agents and should feel themselves to be a part of the CI process. Special characteristics of a successful CI program include flexibility, usefulness, timeliness, and cross-functional cooperation.

The increasing emphasis on competitive analysis in the United States is evidenced by corporations putting this function on their organizational charts under job titles such as Director of Competitive Analysis, Competitive Strategy Manager, Director of Information Services, or Associate Director of Competitive Assessment. The responsibilities of a director of competitive analysis include planning, collecting data, analyzing data, facilitating the process of gathering and analyzing data, disseminating intelligence on a timely basis, researching special issues, and recognizing what information is important and who needs to

know. Competitive intelligence is not corporate espionage because 95 percent of the information a company needs to make strategic decisions is available and accessible to the public. Sources of competitive information include trade journals, want ads, newspaper articles, and government filings, as well as customers, suppliers, distributors, competitors themselves, and the Internet.

Unethical tactics such as bribery, wiretapping, and computer break-ins should never be used to obtain information. Marriott and Motorola—two U.S. companies that do a particularly good job of gathering competitive intelligence—agree that all the information you could wish for can be collected without resorting to unethical tactics. They keep their intelligence staffs small, usually under five people, and spend less than $200,000 per year on gathering competitive intelligence.

Unilever recently sued Procter & Gamble (P&G) over that company's corporate-espionage activities to obtain the secrets of its Unilever hair-care business. After spending $3 million to establish a team to find out about competitors in the domestic hair-care industry, P&G allegedly took roughly 80 documents from garbage bins outside Unilever's Chicago offices. P&G produces Pantene and Head & Shoulders shampoos; Unilever has hair-care brands such as ThermaSilk, Suave, Salon Selectives,and Finesse. Similarly, Oracle Corp. recently admitted that detectives it hired paid janitors to go through Microsoft Corp.'s garbage, looking for evidence to use in court.

**Market Commonality and Resource Similarity**

By definition, competitors are firms that offer similar products and services in the same market. Markets can be geographic or product areas or segments. For example, in the insurance industry the markets are broken down into commercial/consumer, health/life, or Europe/Asia. Researchers use the terms market commonality and resource similarity to study rivalry among competitors. Market commonality can be defined as the number and significance of markets that a firm competes in with rivals. 11 Resource similarity is the extent to which the type and amount of a firm's internal resources are comparable to a rival. 12 One way to analyze competitivenessbetween two or among several firms is to investigate market commonality and resource similarity issues while looking for areas of potential competitive advantage along each firm's value chain.

Competitive Analysis: Porter's Five-Forces Model

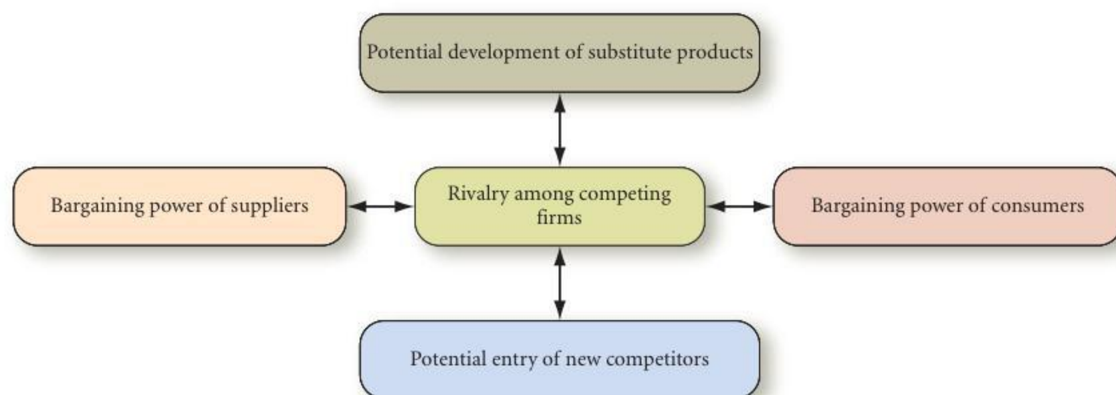
As illustrated in Figure 3-3, Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries. Table 3-10 reveals the average profit margin and return on investment for firms in different industries. Note the substantial variation among industries. For example, the range in profit margin goes from 0 to 18 for food production to computer software, respectively. Intensity of competition is highest in lower-return industries. The collective impact of competitive forces is so brutal in some industries that the market is clearly "unattractive" from a profit-making standpoint. Rivalry among existing firms is severe, new rivals can enter the industry with relative ease, and both suppliers and customers can exercise considerable bargaining leverage. According to Porter, the nature of competitiveness in a given industry can be viewed as a composite of five forces:

1. Rivalry among competing firms
2. Potential entry of new competitors
3. Potential development of substitute products
4. Bargaining power of suppliers
5. Bargaining power of consumers

The following three steps for using Porter's Five-Forces Model can indicate whether competition in a given industry is such that the firm can make an acceptable profit:

- Identify key aspects or elements of each competitive force that impact the firm.
- Evaluate how strong and important each element is for the firm.

Decide whether the collective strength of the elements is worth the firm entering or staying in the industry.



**Rivalry Among Competing Firms**

Rivalry among competing firms is usually the most powerful of the five competitive forces. The strategies pursued by one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Changes in strategy by one firm may be met with retaliatory countermoves, such as lowering prices, enhancing quality, adding features, providing services, extending warranties, and increasing advertising.

Free-flowing information on the Internet is driving down prices and inflation worldwide. The Internet, coupled with the common currency in Europe, enables consumers to make price comparisons easily across countries. Just for a moment, consider the implications for car dealers who used to know everything about a new car's pricing, while you, the consumer, knew very little. You could bargain, but being in the dark, you rarely could win. Now you can shop online in a few hours at every dealership within 500 miles to find the best price and terms. So you, the consumer, can win. This is true in many, if not most, business-to-consumer and business-to-business sales transactions today.

The intensity of rivalry among competing firms tends to increase as the number of competitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price cutting becomes common. Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when consumer demand is growing slowly or declines such that rivals have excess capacity and/or inventory; when the products being sold are commodities (not easily differentiated such as gasoline); when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive. When rival firms sense weakness, typically they will intensify both marketing and production efforts to capitalize on the "opportunity." Table 3-11 summarizes conditions that cause high rivalry among competing firms.

**Conditions That Cause High Rivalry Among Competing Firms**

1. High number of competing firms
2. Similar size of firms competing
3. Similar capability of firms competing
4. Falling demand for the industry's products
5. Falling product/service prices in the industry
6. When consumers can switch brands easily
7. When barriers to leaving the market are high
8. When barriers to entering the market are low
9. When fixed costs are high among firms competing
10. When the product is perishable
11. When rivals have excess capacity
12. When consumer demand is falling
13. When rivals have excess inventory
14. When rivals sell similar products/services
15. When mergers are common in the industry

**Potential Entry of New Competitors**

Whenever new firms can easily enter a particular industry, the intensity of competitiveness among firms increases. Barriers to entry, however, can include the need to gain economies of scale quickly, the need to gain technology and specialized know-how, the lack of experience, strong customer loyalty, strong brand preferences, large capital requirements, lack of adequate distribution channels, government regulatory policies, tariffs, lack of access to raw materials, possession of patents, undesirable locations, counterattack by entrenched firms, and potential saturation of the market.

Despite numerous barriers to entry, new firms sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources. The strategist's job, therefore, is to identify potential new firms entering the market, to monitor the new rival firms' strategies, to counterattack as needed, and to capitalize on existing strengths and opportunities. When the threat of new firms entering the market is strong, incumbent firms generally fortify their positions and take actions to deter new entrants, such as lowering prices, extending warranties, adding features, or offering financing specials.

**Potential Development of Substitute Products**

In many industries, firms are in close competition with producers of substitute products in other industries. Examples are plastic container producers competing with glass, paperboard,

and aluminum can producers, and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of substitute products puts a ceiling on the price that can be charged before consumers will switch to the substitute product. Price ceilings equate to profit ceilings and more intense competition among rivals. Producers of eyeglasses and contact lenses, for example, face increasing competitive pressures from laser eye surgery. Producers of sugar face similar pressures from artificial sweeteners. Newspapers and magazines face substitute-product competitive pressures from the Internet and 24-hour cable television. The magnitude of competitive pressure derived from development of substitute products is generally evidenced by rivals' plans for expanding production capacity, as well as by their sales and profit growth numbers.

Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers' switching costs decrease. The competitive strength of substitute products is best measured by the inroads into the market share those products obtain, as well as those firms' plans for increased capacity and market penetration.

**Bargaining Power of Suppliers**

The bargaining power of suppliers affects the intensity of competition in an industry, especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly. It is often in the best interest of both suppliers and producers to assist each other with reasonable prices, improved quality, development of new services, just-in-time deliveries, and reduced inventory costs, thus enhancing long-term profitability for all concerned.

Firms may pursue a backward integration strategy to gain control or ownership of suppliers. This strategy is especially effective when suppliers are unreliable, too costly, or not capable of meeting a firm's needs on a consistent basis. Firms generally can negotiate more favorable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

However, in many industries it is more economical to use outside suppliers of component parts than to self-manufacture the items. This is true, for example, in the outdoor power equipment industry where producers of lawn mowers, rotary tillers, leaf blowers, and edgers

such as Murray generally obtain their small engines from outside manufacturers such as Briggs & Stratton who specialize in such engines and have huge economies of scale.

In more and more industries, sellers are forging strategic partnerships with select suppliers in efforts to (1) reduce inventory and logistics costs (e.g., through just-in-time deliveries); (2) speed the availability of next-generation components; (3) enhance the quality of the parts and components being supplied and reduce defect rates; and (4) squeeze out important cost savings for both themselves and their suppliers.

**Bargaining Power of Consumers**

When customers are concentrated or large or buy in volume, their bargaining power represents a major force affecting the intensity of competition in an industry. Rival firms may offer extended warranties or special services to gain customer loyalty whenever the bargaining power of consumers is substantial. Bargaining power of consumers also is higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage, and accessory packages to a greater extent.

The bargaining power of consumers can be the most important force affecting competitive advantage. Consumers gain increasing bargaining power under the following circumstances:

- If they can inexpensively switch to competing brands or substitutes
- If they are particularly important to the seller
- If sellers are struggling in the face of falling consumer demand
- If they are informed about sellers' products, prices, and costs

If they have discretion in whether and when they purchase the product

**Sources of External Information**

A wealth of strategic information is available to organizations from both published and unpublished sources. Unpublished sources include customer surveys, market research, speeches at professional and shareholders' meetings, television programs, interviews, and conversations with stakeholders. Published sources of strategic information include periodicals, journals, reports, government documents, abstracts, books, directories, newspapers, and manuals. The Internet has made it easier for firms to gather, assimilate, and evaluate information.

There are many excellent Web sites for gathering strategic information, but six that the author uses routinely are listed here:

- http://marketwatch.multexinvestor.com
- http://moneycentral.msn.com
- http://finance.yahoo.com
- www.clearstation.com
- https://us.etrade.com/e/t/invest/marketswww.hoovers.com

Most college libraries subscribe to Standard & Poor's (S&P's) Industry Surveys. These documents are exceptionally up-to-date and give valuable information about many different industries. Each report is authored by a Standard & Poor's industry research analyst and includes the following sections:

- Current Environment
- Industry Trends
- How the Industry Operates
- Key Industry Ratios and Statistics
- How to Analyze a Company
- Glossary of Industry Terms
- Additional Industry Information
- References
- Comparative Company Financial Analysis

**Forecasting Tools and Techniques**

Forecasts are educated assumptions about future trends and events. Forecasting is a complex activity because of factors such as technological innovation, cultural changes, new products, improved services, stronger competitors, shifts in government priorities, changing social values, unstable economic conditions, and unforeseen events. Managers often must rely on published forecasts to effectively identify key external opportunities and threats.

A sense of the future permeates all action and underlies every decision a person makes. People eat expecting to be satisfied and nourished in the future. People sleep assuming that in the future they will feel rested. They invest energy, money, and time because they believe their efforts will be rewarded in the future. They build highways assuming that automobiles and trucks will need them in the future. Parents educate children on the basis of forecasts that they will need certain skills,

attitudes, and knowledge when they grow up. The truth is we all make implicit forecasts throughoutour daily lives. The question, therefore, is not whether we should forecast but rather how we can best forecast to enable us to move beyond our ordinarily unarticulated assumptions about the future. Can we obtain information and then make educated assumptions (forecasts) to better guide our current decisions to achieve a more desirable future state of affairs? We should go into the future with our eyes and our minds open, rather than stumble into the future with our eyes closed.

Many publications and sources on the Internet forecast external variables. Several published examples include Industry Week's "Trends and Forecasts," BusinessWeek's "Investment Outlook," and Standard & Poor's Industry Survey. The reputation and continued success of these publications depend partly on accurate forecasts, so published sources of information can offerexcellent projections. An especially good Web site for industry forecasts is finance.yahoo.com.

Just insert a firm's stock symbol and go from there.

Sometimes organizations must develop their own projections. Most organizations forecast (project) their own revenues and profits annually. Organizations sometimes forecast market share or customer loyalty in local areas. Because forecasting is so important in strategic management and because the ability to forecast (in contrast to the ability to use a forecast) is essential, selected forecasting tools are examined further here.

Forecasting tools can be broadly categorized into two groups: quantitative techniques and qualitative techniques. Quantitative forecasts are most appropriate when historical data are available and when the relationships among key variables are expected to remain the same in the future. Linear regression, for example, is based on the assumption that the future will be just like the past—which, of course, it never is. As historical relationships become less stable, quantitative forecasts become less accurate.

No forecast is perfect, and some forecasts are even wildly inaccurate. This fact accents the need for strategists to devote sufficient time and effort to study the underlying bases for published forecasts and to develop internal forecasts of their own. Key external opportunities and threats can be effectively identified only through good forecasts. Accurate forecasts can

provide major competitive advantages for organizations. Forecasts are vital to the strategic-management process and to the success of organizations.

**Making Assumptions**

Planning would be impossible without assumptions. McConkey defines assumptions as the "best present estimates of the impact of major external factors, over which the manager has little if any control, but which may exert a significant impact on performance or the ability to achieve desired results." 16 Strategists are faced with countless variables and imponderables that can be neither controlled nor predicted with 100 percent accuracy. Wild guesses should never be made in formulating strategies, but reasonable assumptions based on available information must always be made.

By identifying future occurrences that could have a major effect on the firm and by making reasonable assumptions about those factors, strategists can carry the strategic-management process forward. Assumptions are needed only for future trends and events that are most likely to have a significant effect on the company's business. Based on the best information at the time, assumptions serve as checkpoints on the validity of strategies. If future occurrences deviate significantly from assumptions, strategists know that corrective actions may be needed. Without reasonable assumptions, the strategy-formulation process could not proceed effectively. Firms that have the best information generally make the most accurate assumptions, which can lead to major competitive advantages.

# Chapter 2
# KONSEP STRATEGI DAN VISI-MISI PERUSAHAAN

# Konsep Strategi dan Visi-Misi Perusahaan

Istilah manajemen berasal dari kata management (bahasa Inggris), turunan dari kata " to manage" yang artinya mengurus atau tata laksana atau ketatalaksanaan. Sehingga manajemen dapat diartikan bagaimana cara manajer (orangnya) mengatur, membimbing dan memimpin semua orang yang menjadi pembantunya agar usaha yang sedang digarap dapat mencapai tujuan yang telah ditetapkan sebelumnya.

**Pengertian Manajemen menurut beberapa ahli yaitu :**

Menurut R. Terry, Manajemen merupakan suatu proses khas yang terdiri dari tindakan-tindakan perencanaan, pengorganisasian, penggerakan dan pengendalian yang dilakukan untuk menentukan serta mencapai sasaran yang telah ditentukan melalui pemanfaatan sumberdaya manusia dan sumberdaya lainnya.

Menurut James A.F. Stoner, Manajemen merupakan suatu proses perencanaan, pengorganisasian, kepemimpinan, dan pengendalian upaya dari anggota organisasi serta penggunaan semua sumber daya yang ada pada organisasi untuk mencapai tujuan organisasi yang telah ditetapkan sebelumnya.

Menurut Horold Koontz dan Cyril O'donnel, Manajemen adalah usaha untuk mencapai suatu tujuan tertentu melalui kegiatan orang lain.

Mengenai definisi manajemen, sebenarnya ada banyak versi, namun demikian pengertian manajemen itu sendiri secara umum yang bisa kita jadikan pegangan adalah bahwa "Manajemen adalah suatu proses yang terdiri dari rangkaian kegiatan, seperti perencanaan, pengorganisasian, pengarahan dan pengendalian atau pengawasan, yang dilakukan untuk menentukan dan mencapai tujuan yang telah ditetapkan melalui pemanfaatan sumberdaya manusia dan sumberdaya lainnya yang terbatas".

**Pengertian Strategik**

Asal kata "strategi" adalah turunan dari kata dalam bahasa Yunani, strategos.

Pengertian strategi menurut Glueck dan Jauch adalah Rencana yang disatukan, luas dan berintegrasi yang menghubungkan keunggulan strategis perusahaan dengan tantangan lingkungan, yang dirancang untuk memastikan bahwa tujuan utama dari perusahaan dapat dicapai melalui pelaksanaan yang tepat oleh organisasi.

Pengertian strategi secara umum dan khusus sebagai berikut :

Pengertian Umum

Strategi adalah proses penentuan rencana para pemimpin puncak yang berfokus pada tujuan jangka panjang organisasi, disertai penyusunan suatu cara atau upaya bagaimana agar tujuan tersebut dapat dicapai.

Pengertian Khusus

Strategi merupakan tindakan yang bersifat incremental (senantiasa meningkat) dan terus-menerus, serta dilakukan berdasarkan sudut pandang tentang apa yang diharapkan oleh para pelanggan di masa depan. Dengan demikian, strategi hampir selalu dimulai dari apa yang dapat terjadi dan bukan dimulai dari apa yang terjadi. Terjadinya kecepatan inovasi pasar yang baru dan perubahan pola konsumen memerlukan kompetensi inti (core competencies). Perusahaan perlu mencari kompetensi inti di dalam bisnis yang dilakukan.

Jadi dapat disimpulkan secara singkat bahwa strategi adalah rencana jangka panjang dengan diikuti tindakan-tindakan yang ditujukan untuk mencapai tujuan tertentu yang telah ditetapkan sebelumnya berdasarkan analisis dan pengamatan lingkungan.

Pengertian Manajemen Strategik

Pengertian Manajemen Strategik menurut beberapa ahli yaitu :

Pengertian manajemen strategis menurut J. David Hunger dan Thomas L. Wheelen adalah "Strategic Management is that a set of managerial decisions and actions that determines the long-run performance of a corporation", dan jika diterjemahkan secara bebas maka Manajemen strategis adalah serangkaian keputusan dan tindakan manajerial yang menentukan kinerja perusahaan dalam jangka panjang.

Pengertian manajemen strategis menurut Pearch dan Robinson (1997) dikatakan bahwa manajemen stratejik adalah kumpulan dan tindakan yang menghasilkan perumusan (formulasi) dan pelaksanaan (implementasi) rencana-rencana yang dirancang untuk mencapai sasaran-sasaran organisasi.

Pengertian manajemen strategi menurut Fred R. David adalah bahwa manajemen strategi adalah seni dan ilmu untuk memformulasi, menginplementasi, dan mengevaluasi keputusan lintas fungsi yang memungkinkan organisasi dapat mencapai tujuan.

Pengertian manajemen strategis menurut Lawrence R. Jauch dan Wiliam F. Gluech (Manajemen Strategis dan Kebijakan Perusahaan, 1998) : Manajemen Strategis adalah sejumlah keputusan dan tindakan yang mengarah pada penyusunan suatu strategi atau sejumlah strategi yang efektif untuk membantu mencapai sasaran perusahaan.

Jadi secara umum dapat dijelaskan bahwa manajemen strategis merupakan proses atau rangkaian kegiatan pengambilan keputusan yang bersifat mendasar dan menyeluruh, disertai penetapan cara melaksanakannya, yang dibuat oleh pimpinan dan diimplementasikan oleh seluruh jajaran di dalam suatu organisasi, untuk mencapai tujuan.

Oleh karena itu manajemen strategi sangat penting bagi suatu organisasi/ perusahaan di dunia bisnis karena :

- Memberikan arah pencapaian tujuan organisasi/ perusahaan
- Membantu memikirkan kepentingan berbagai pihak
- Dapat mengantisipasi setiap perubahan kembali secara merata
- Berhubungan dengan efisiensi dan efektifitas

Hirarki Strategi

Strategi-strategi itu berinteraksi erat dan berkelanjutan serta harus diintegrasikan dengan baik demi kesuksesan perusahaan.Pelaksanaan khususnya sangat bervariasi antar satu perusahaan.

Manajemen strategik dimulai dari satu atau semua level hirarki dalam organisasi.Lima Elemen Dasar Proses Manajemen Strategik :

- Menetapkan visi, misi dan tujuan organisasi

- Pengamatan Lingkungan
- Perumusan dan Pemilihan Strategi
- Implementasi strategi
- Evaluasi kinerja dan Pengendalian/tindakan koreksi
- Model manajemen strategik

Model manajemen strategik dimulai dari pengamatan lingkungan ke perumusan strategi (termasuk penetapan misi, tujuan, strategi, dan kebijakan) diteruskan ke implementasi strategi (termasuk pengembangan program, anggaran, dan prosedur), dan terakhir evaluasi dan pengendalian.

MENETAPKAN TUJUAN PERUSAHAAN

Tujuan perusahaan adalah hasil akhir aktivitas perencanaan yang telah dietapkan perusahaan. Tujuan perusahaan merumuskan apa yang akan diselesaikan dan kapan akan diselesaikan, dan sebaiknya diukur jika memungkinkan. Jadi tujuan perusahaan adalah hasil akhir yang ingin dicapai perusahaan. Pencapaian tujuan perusahaan merupakan hasil dari penyelesaian misi perusahaan.

Beberapa bidang dimana perusahaan perlu membuat tujuan dan sasaran adalah :

- Profitabilitas (laba bersih yang ingin diapai)
- Efisiensi (biaya rendah)
- Pertumbuhan (kenaikan aset, total penjualan dsb)
- Kekayaan pemegang saham (dividen dan apresiasi harga saham)
- Penggunaan sumber daya (ROE atau ROI)
- Reputasi ( diperhitungkan sebagai perusahaan yang “terkenal”)
- Kontribusi untuk karyawan ( keamanan kerja, upah)
- Kontribusi untuk lingkungan (pajak, amal, CSR, produk bermanfaat)
- Kepemimpinan pasar (pangsa pasar)
- Kepemimpinan teknologi (inovasi, kreatifitas)
- Kelangsungan hidup (menghindari kebangkrutan); dan atau
- Kebutuhan pribadi manajemen puncak ( menggunakan peruahaan untuk tujuan pribadi, seperti menyediakan pekerjaan untuk keluarga)

(Ref : Hunger & Wheelen, Strategic Management, Addison-Wesley, 2013.)

Tujuan perusahaan menyediakan dasar untuk perencanaan, pengorganisasian, permotivasian dan pengendalian. Tujuan ditetapkan sebagai petunjuk dalam pengambilan keputusan, meningkatkan efisiensi serta menjadi petunjuk untuk melakukan performance appraisal. Tanpa tujuan dan komunikasi yang efektif, perilaku dalam perusahaan dapat tersesat keberbagai arah.

Secara umum, tujuan perusahaan biasanya dikatagorikan dalam dua jenis, yaitu tujuan jangka pendek dan tujuan jangka panjang. Tujuan jangka pendek adalah sasaran perusahaan yang ingindicapai biasanya dalam kurun waktu satu sampai dua tahun. Tujuan jangka panjang adalah sasaran perusahaan yang ingin dicapai untuk kurun waktu dua sampai lima tahun.

Baik buruknya suatu tujuan secara umum biasanya ditentukan oleh bagaimana tujuan tersebut benar-benar berguna bagi perusahaan.

Beberapa petunjuk yang dapat membantu manajemen membuat tujuan yang berkualitas, yaitu :

- Mengembangkan tujuan perusahaan secara spesifik
- Menyusun tujuan perusahaan yang mampu dicapai
- Membentuk tujuan perusahaan yang sifatnya fleksibel

Membentuk tujuan perusahaan

Organisasi dibentuk untuk mencapai tujuan yang telah ditetapkan oleh pimpinan organisasi beserta anggotanya. Tujuan organisasi tidak sama, hal ini dilihat dari jenis organisasi. Organisasi bisinis mempunyai tujuan untuk meningkatkan profitabilitas atau keuntungan, sedangkan organisasi publik memiliki tujuan dalam pemberian pelayanan publik yang lebih baik atau public service.

Tujuan organisasi adalah “sebagai suatu pernyataan tentang keadaan yang diinginkan dimana organisasi bermaksud untuk merealisasikan” dan sebagai “pernyataan tentang keadaan diwaktu yang akan datang dimana organisasi sebagai kolektifitas mencoba untuk

menimbukannya. Tujuan organisasi tersebut antara lain (1) hasil akhir yang diinginkan diwaktu mendatang (2) usaha-usaha atau kegiatan-kegiatan yang diarahkan.

Konsep tujuan organisasi dipandang secara luas mempunyai beberapa fungsi penting yang bervariasi menurut waktu dan keadaan. Berbagai fungsi tujuan antara lain sebagai berikut:

- Pedoman bagi kegiatan, melalui penggambaran hasil akhir diwaktu yang akan datang. Memberikan arah dan pemusatan kegiatan organisasi mengenai apa yang harus atau tidak dilakukan.
- Sumber legitimasi, melalui pembenaran kegiatan – kegiatannya. Akan meningkatkan kemampuan organisasi untuk mendapatkan berbagai sumber daya dan dukungan dari lingkungan sekitarnya.
- Standar pelaksanaan, memberikan standar langsung bagi penilaian pelaksanaan kegiatan (prestasi organisasi).
- Sumber motivasi, karena sering memberikan insentif bagi para anggota.
- Dasar rasional pengorganisasian, karena antara tujuan dan struktur organisasi saling berinteraksi dalam kegiatan – kegiatan untuk mencapai tujuan.

Tujuan dan manfaat organisasi antara lain untuk:

- mengatasi terbatasnya kemampuan, kemauan dan sumberdaya yang dimilinya dalam mencapai tujuan;
- mencapai tujuan secara lebih efektif dan efesien dan efisien karena dikerjakan bersama-sama ( motif pencapaian tujuan);
- wadah memanfaatkan smber daya dan teknologi bersama-sama;
- wadah mengembangkan potensi dan spesialisasi yang dimiliki seseorang (motif berprestasi);
- wadah mendapatkan jabatan dan pembagian kerja:
- wadah mengelola lingkungan bersama-sama;
- wadah mencari keuntungan bersama-sama (motif uang);
- wadah menggunakan kekuasaan dan pengawasan ( motif kekuasaan);
- wadah mendapatkan penghargaan (motif penghargaan);

- wadah emmenuhi kebutuhan manusia yang semakin banyak dan kompleks;
- wadah menambah pergaulan;
- wadah memanfaatkan waktu luang.

Pandangan tetang tujuan organisasi di atas dapat disimpulkan bahwa, semua organisasi memiliki tujuan yang sama yakni, memajukan dan mensejahterakan orang-orang yang ada dalam organisasi tersebut. Tujuan spesifik dari organisasi bergantung pada bentuk dan jenis organisasi, sehngga tujuan spesifik tersebut bisa diwujudkan melalui jenis organisasi yang menjalankan bentuk usaha atau kegiatannya.

Sasaran (goal) organisasi adalah suatu keadaan atau kondisi yang ingin dicapai oleh suatu organisasi. Berbagai jenis sasaran dalam organisasi:
1. Organisasi bisa mempunyai sasaran lebih dari satu.
2. Organisasi dimungkinkan mempunyai sasaran yang berlawanan.
3. Sasaran saling berkaitan satu sama lain.
4. Ada berbeda pandangan terhadap sasaran yang akan ditetapkan.

Sasaran (Goal) Organisasi dan Pengukuran Efektifitas

- Sasaran ataupun tujuan merupakan alasan bagi eksistensi organisasi.
- Sasaran ataupun tujuan sangat penting bagi proses manajemen yang dijalankan dalam suatu organisasi. Memberi pengakuan, Arah bagi organisasi, pengukuran organisasi, mengurangi ketidakpastian.

Jenis-jenis Sasaran Organisasi

- Sasaran Resmi (Official goal) yakni tujuan yang telah ditetapkan secara legal sesuai dengan visi yang telah ditetapkan.
- Sasaran yang sebenarnya diinginkan (Operative goal), yakni sasraan yang dicapai, namun mengaami perubahan, sehingga dimunculkan kembali sasaran yang diinginkan, sesuai dengan tujuan semula.

Pihak yang menetapkan sasaran Organisasi

1. Pemimpin Tunggal, terjadi pada perusahaan berukuran kecil dimana pemimpin dipegang oleh pemilik.

2. Koalisi Kelompok Pimpinan, terjadi pada organisasi besar.

Sasaran adalah merupakan penjabaran dari tujuan organisasi, dalam bentuk terakhir dan akan dapat dicapai atau dihasilkan dalam jangka waktu tahunan, semesteran, atau bulanan. Sasaran juga menggambarkan hal yang ingin dicapai melalui tindakan-tindakan yang akan dilakukan untuk mencapai tujuan, oleh karena itu sasaran yang ditetapkan diharapkan dapat memberikan fokus pada penyusunan progam dan kegiatan yang bersifat spesifik, terinci, dapat diukur dan dapat dicapai. Sasaran organisasi yang ditetapkan pada dasarnya merupakan bagian dari proses perencanaan strategis dengan fokus utama berupa tindakan dan alokasi sumber daya organisasi dalam rencana kegiatan atau operasional organisasi yang akan dilaksanakan.

Pandangan tentang sasaran organisasi diatas dapat penulis simpulkan bahwa, penetapan tujuan dan sasaran didasarkan pada identifikasi faktor-faktor kunci keberhasilan yang ditetapkan setelah penetapan visi dan misi. Penetapan tujuan akan mengarah kepada perumusan sasaran, kebijakan, program dan kegiatan dalam rangka merealisasikan visi dan misi. Sasaran menggambarkan hal-hal yang ingin dicapai melalui tindakan-tindakan terfokus yang bersifat spesifik, terinci, terukur dan dapat dicapai.

Jika kita mulai dari dasar, tujuan dari strategi adalah untuk mencapai tujuan tertentu. Bagi perusahaan, tujuan dasarnya adalah untuk bertahan hidup dan sejahtera. Bertahan hidup, dalam jangka panjang, mengharuskan perusahaan mendapatkan tingkat pengembalian modal yang melebihi biaya modalnya. Ada dua cara yang mungkin untuk mencapai ini. Pertama, perusahaan dapat mencari suatu industri di mana tingkat keuntungan secara keseluruhan menarik. Kedua, perusahaan dapat mencapai posisi keuntungan vis-à-vis pesaingnya di dalam suatu industri, yang memungkinkannya untuk memperoleh laba yang melebihi rata-rata industri.

Kedua sumber kinerja superior ini menentukan dua tingkat dasar strategi dalam suatu perusahaan:

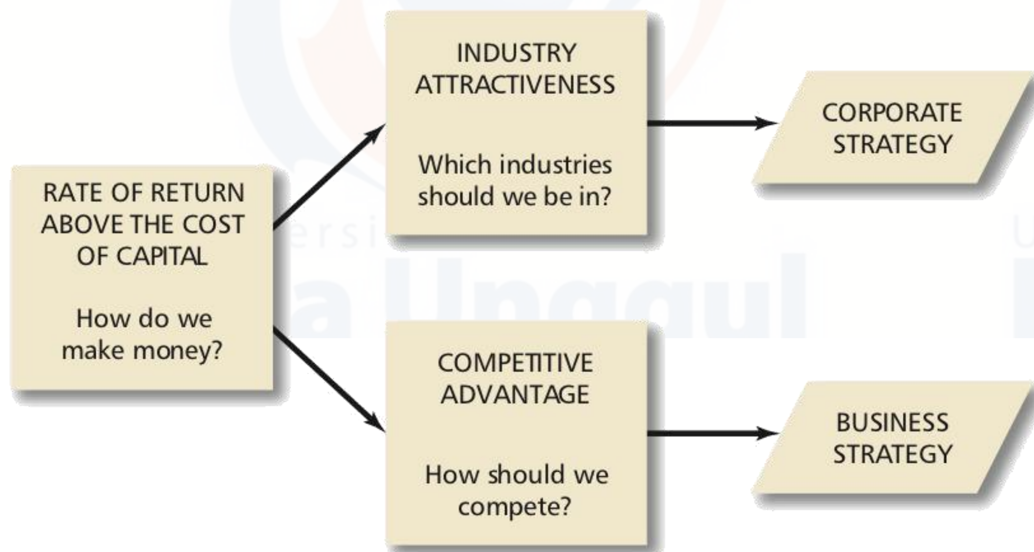
● Strategi perusahaan menentukan ruang lingkup perusahaan dalam industri dan pasar, tempat dia bersaing. Keputusan strategi perusahaan yang harus diambil adalah: diversifikasi, integrasi vertikal, akuisisi dan usaha baru; dan alokasi sumber daya antara berbagai perusahaan yang berbeda.

● Strategi bisnis berkaitan dengan bagaimana perusahaan bersaing dalam industri atau pasar tertentu. Jika perusahaan ingin berkembang dalam suatu industri, perusahaan harus membangun keunggulan kompetitif atas para pesaingnya. Oleh karena itu, bidang strategi ini juga disebut sebagai strategi kompetitif.

Perbedaan ini dapat diekspresikan dalam istilah yang lebih sederhana. Pertanyaan dasar yang dihadapi perusahaan adalah: "Bagaimana kita menghasilkan uang?" Jawaban atas pertanyaan ini sesuai dengan dua pilihan strategis dasar yang telah didentifikasi di atas: "Di mana untuk bersaing?" ("Di mana industri dan pasar seharusnya kita berada?" ) dan "Bagaimana seharusnya kita bersaing?"

Perbedaan antara strategi perusahaan dan strategi bisnis sesuai dengan struktur organisasi sebagian besar perusahaan besar. Strategi perusahaan adalah tanggung jawab tim manajemen puncak dan staf strategi perusahaan. Strategi bisnis terutama tanggung jawab manajemen divisi.

Sebagai pendekatan terpadu terhadap strategi perusahaan, tulisan ini membahas strategi bisnis dan perusahaan. Namun, penekanan utama saya adalah strategi bisnis. Ini karena persyaratan penting untuk kesuksesan perusahaan adalah kemampuannya untuk membangun keunggulan kompetitif. Oleh karena itu, masalah strategi bisnis mendahului strategi perusahaan. Pada saat yang sama, kedua dimensi strategi ini saling terkait: ruang lingkup bisnis perusahaan memiliki implikasi terhadap sumber keunggulan kompetitif, dan sifat keunggulan kompetitif perusahaan menentukan berbagai bisnis yang dapat berhasil di dalamnya.




**Menggambarkan Strategi Perusahaan**

Dua pertanyaan yang sama "Di mana perusahaan bersaing?" Dan "Bagaimana persaingannya?" Juga memberikan dasar bagi kita untuk menggambarkan strategi yang sedang ditempuh perusahaan. Pertanyaan ini memiliki beberapa dimensi, dan berkaitan dengan industri atau industri di mana perusahaan itu berada, produk yang disuplai, kelompok pelanggan yang ditargetkan, negara-negara dan tempat di mana ia beroperasi dan berbagai aktivitas vertikal yang dilakukan.

Sebagai ilustrasi, strategi Coca-Cola terdiri dari dua elemen ini:

● Coca-Cola bersaing di industri minuman ringan di mana persediaannya terkonsentrasi untuk minuman bermerek (seperti Coca-Cola, Sprite, Fanta, Tab, dan Fresca) dan memasok minuman lain (seperti Minute Maid, Hi-C, dan Five Alive jus buah, dan air botol Dasani).

● Secara geografis, Coca-Cola bersaing di seluruh dunia. Pasar utamanya adalah AS (27% penjualan) diikuti oleh Meksiko, Brasil, Jepang, dan China.

● Dalam hal ruang lingkup vertikal, kegiatan utama Coca-Cola adalah pengembangan produk, manajemen merek, dan pembuatan dan distribusi konsentrat. Produksi dan distribusi minuman ringannya dilakukan oleh perusahaan kembarnya Coca-Cola Enterprises dan pembotolan lokal waralaba.

Coca-Cola melakukan sebuah strategi diferensiasi yang bergantung pada citra merek dan dikembangkan melalui iklan dan promosi. Coca cola berusaha meraih kepemimpinan pangsa pasar melalui pemasaran massal dan melalui hubungan yang erat dengan perusahaan pembotolan di setiap negara, di mana Coca-cola melakukan bisnis. Namun, strategi tidak

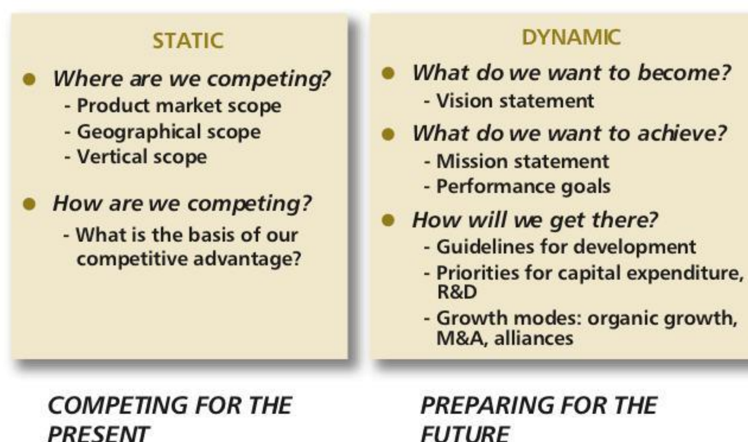
hanya tentang "bersaing untuk hari ini", melainkan juga dengan "bersaing untuk besok." Konsep strategi dinamis ini melibatkan penetapan tujuan untuk masa depan dan menentukan bagaimana tujuan tersebut akan dicapai.

Tujuan jangka panjang berhubungan dengan tujuan keseluruhan dari perusahaan (misi), apa yang ingin dicapai (visi) dan target kinerja yang spesifik. Dalam kasus Coca-Cola, dimensi strategi dinamisnya diuraikan secara luas dalam pernyataan visi (untuk menyegarkan dunia) dan misi yang diuraikan dalam dalam lima perspekti, yaitu: orang, produk, planet, mitra, dan laba.

Secara lebih spesifik tujuan perusahaan diuraikan dalam presentasi analis: jangka panjang pertumbuhan volume 3-4%, pertumbuhan pendapatan 5-6%, dan pertumbuhan laba operasional 6-8%. Tujuan-tujuan yang harus dicapai melalui pertumbuhan penjualan minuman, memanfaatkan peluang pertumbuhan di pasar negara berkembang, mempercepat inovasi dan membangunan core competency.

Bagaimana perusahaan membuat strategi telah menjadi salah satu perdebatan yang paling hangat dalam isu manajemen strategis. Penekanan pada analisis strategi memunculkan pandangan bahwa strategi adalah formulasi yang diperoleh dari manajer yang terlibat dalam proses rasional analisis. Namun, strategi mungkin juga muncul melalui adaptasi terhadap keadaan.

Describing firm strategy: competing in the present, preparing for the future




Collis dan Rukstad mengidentifikasi hirarki strategi laporan:

- Pernyataan misi adalah dasar pernyataan dari organisasi tujuan, itu alamat "mengapa kita ada."
- Pernyataan prinsip atau nilai Serikat "apa yang kita percaya dan bagaimana kita akan berperilaku."
- Pernyataan visi "kita ingin menjadi apa"
- Pernyataan strategis mengartikulasikan "apa keunggulan kompetitif kami, dan apa rencana permainan kami."

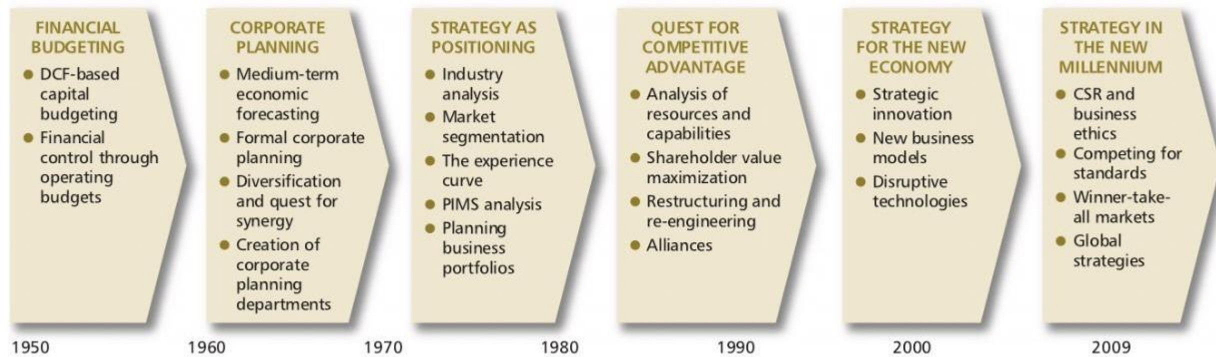
Collis dan Rukstad berpendapat bahwa pernyataan strategis ini harus terdiri tiga komponen, yaitu: tujuan, lingkup (di mana kita akan bersaing) dan keuntungan (bagaimana kita akan bersaing). Evolusi strategi bisnis telah lebih didorong dengan kebutuhan praktis bisnis daripada oleh perkembangan teori. selama tahun 1950-an dan 1960-an, eksekutif senior yang mengalami peningkatan kesulitan dalam koordinasi keputusan dan mempertahankan kontrol di perusahaan yang berkembang dalam ukuran dan kompleksitas.

Teknik perencanaan perusahaan terbukti berguna untuk mengembangkan dan membimbing diversikasi strategi yang banyak digunakan oleh perusahaan besar yang selama tahun 1960-an. Pada pertengahan 1960-an, sebagian besar perusahaan AS dan Eropa telah mendirikan departemen dalam organisasi.

Selama akhir 1970-an dan awal tahun 1980-an, perhatian difokuskan pada sumber profit dalam industri lingkungan. Michael Porter dari Harvard Business School merintis aplikasi ekonomi industri untuk menganalisis profitabilitas industri.

Michael Porter memberikan jawaban untuk pertanyaan "apa itu strategi?" Porter menekankan bahwa: "strategi kompetitif adalah sesuatu yang berbeda. Artinya sengaja memilih yang berbeda mengatur kegiatan untuk memberikan yang campuran nilai yang unik."

Evolution of strategic management: dominant themes




Gambar dibawah ini menunjukkan kerangka dasar untuk analisis strategi yang akan kita gunakan. Empat elemen keberhasilan strategi dirombak menjadi dua kelompok — perusahaan dan lingkungan industri — dengan strategi yang membentuk hubungan di antara keduanya. Perusahaan ini mewujudkan tiga set elemen-elemen ini:

- tujuan dan nilai ("tujuan jangka panjang yang sederhana, konsisten,"),
- sumber daya dan kemampuan ("penilaian sumber daya obyektif"), dan struktur dan sistem ("pelaksanaan yang efektif").
- Lingkungan industri ("pemahaman mendalam tentang lingkungan kompetitif") ditentukan oleh hubungan perusahaan dengan pelanggan, pesaing, dan pemasok.

Pandangan strategi ini sebagai penghubung antara perusahaan dan lingkungan industri memiliki kemiripan yang erat dengan Kerangka Kerja SWOT yang banyak digunakan, tetapi lebih sederhana. Tugas dari strategi bisnis, kemudian, adalah untuk menentukan bagaimana perusahaan akan mengerahkan sumber dayanya di dalam lingkungannya dan dengan demikian memenuhi tujuan jangka panjangnya, dan bagaimana mengatur dirinya sendiri untuk menerapkan strategi itu.

The basic framework: strategy as a link between the firm and its environmen.

Sebuah studi terbaru, peneliti menyimpulkan 90 persen dari semua perusahaan telah menggunakan sebuah pernyataan misi kadang-kadang dalam lima tahun sebelumnya. kita ingin menjadi apa? hal ini terutama penting untuk manajer dan eksekutif di setiap organisasi untuk menyepakati dasar visi bahwa perusahaan berusaha untuk mencapai tujuan dalam jangka panjang.

Sebuah pernyataan visi harus menjawab pertanyaan dasar, "kita ingin menjadi apa?" visi yang jelas memberikan dasar untuk mengembangkan pernyataan misi yang komprehensif. Pernyataan visi harus singkat, lebih disukai satu kalimat, dan banyak manajer mungkin harus memiliki masukan untuk mengembangkan pernyataan tersebut.

Untuk mengembangkan pernyataan misi, sebagian besar didasarkan pada pedoman yang ditetapkan pada pertengahan 1970-an oleh Peter Drucker, yang sering disebut "Bapa manajemen modern" karena Perintis studi di General Motors Corporation dan menulis 22 buku dan ratusan artikel. Harvard Business review telah menyebut Drucker sebagai "pemikir manajemen yang unggul."

Raja dan Cleland menyarankan agar organisasi berhati-hati dalam mengembangkan pernyataan misi untuk menuai keuntungan sebagai berikut:

- memastikan kebulatan tujuan dalam organisasi
- memberikan dasar, atau standar, untuk mengalokasikan sumber daya organisasi
- membangun iklim organisasi

- melayani sebagai titik fokus bagi individu untuk mengidentifikasi tujuan dan arah organisasi, dan untuk mencegah mereka yang tdk bisa ikut serta lebih lanjut dalam kegiatan organisas
- memfasilitasi penjabaran tujuan menjadi pekerjaan struktur yang melibatkan tugas tugas dan tanggung jawab dalam elemen organisasi
- menentukan tujuan organisasi dan kemudian menerjemahkan tujuan ini sedemikian rupa sehingga biaya, waktu, dan parameter kinerja dapat dinilai dan dikendalikan.

Sepuluh manfaat dari memiliki jelas misi dan visi

1. mencapai kejelasan tujuan di antara semua manajer dan karyawan.
2. memberikan dasar untuk semua perencanaan strategis kegiatan, termasuk internal dan eksternal penilaian, menetapkan tujuan, mengembangkan strategi, memilih antara strategi alternatif, menyusun kebijakan, membangun struktur organisasi, mengalokasikan sumber daya, dan mengevaluasi kinerja.
3. memberikan arah.
4. memberikan titik fokus untuk semua pemangku kepentingan dari perusahaan.
5. mengatasi perbedaan pandangan antara manajer.
6. mempromosikan harapan bersama di antara semua manajer dan karyawan.
7. Kelayakan proyek untuk semua pemangku kepentingan.
8. proyek teratur, termotivasi, dan mendapat dukungan yang layak.
9. mencapai kinerja organisasi yang lebih tinggi.
10. mencapai sinergi antara semua manajer dan karyawan.

Pernyataan misi memiliki variasi, tetapi harus memasukkan sembilan komponen:

- pelanggan?
- produk atau jasa paling utama?
- pasar-geografis, di manakah perusahaan bersaing?
- teknologi apakah yang digunakan perusahaan saat ini?
- perhatian untuk bertahan hidup, pertumbuhan, dan profitabilitas
- filsafat-apakah dasar keyakinan, nilai-nilai, aspirasi, dan etika prioritas perusahaan?
- konsep diri-ompetensi atau keunggulan kompetitif utama?

- perhatian untuk citra publik-apakah perusahaan responsif terhadap sosial, masyarakat, dan kepedulian lingkungan?
- perhatian untuk karyawan-apakah karyawan aset berharga dari perusahaan?

Organisasi dewasa ini perlu merumuskan visi yang jelas, misi yang mendukung pencapaian misi, tujuan yang mudah untuk dicapai dan strategi organisasi yang mempu mewujudkan. Antara Visi, Misi, dan Perencenaan Strategis memiliki hubungan yang sangat erat dan saling mebutuhkan. Visi adalah rumusan umum mengenai keadaan yang diinginkan pada akhir periode perencanaan, Misi adalah rumusan umum mengenai upaya-upaya yang akan dilaksanakan untuk mewujudkan Visi, sedangkan Perencanaan Strategis merupakan proses memutuskan program-program yang akan dilaksanakan oleh organisasi dan perkiraan jumlah sumber daya yang akan dialokasikan ke setiap program jangka panjang selama beberapa tahun ke depan.

Dengan demikian perencanaan strategis digunakan untuk menentukan / mewujutkan visi dan misi organisasi dan membagi-bagi sumber daya yang diperlukan untuk mencapainya. Jadi dapat dikatakan suatu organisasi pada mulanya memiliki cita-cita atau tujuan akhir yang ingin dicapai dalam jagka panjang yang disebut visi, selanjutnya untuk mencapai / mewujutkan visi organisasi yang telah ditentukan tersebut, organisasi merumuskan upaya-upaya umum yang hendak dilakukan yang disebut misi, kemudian untuk mewujutkan misi, organisasi membuat / merumuskan upaya-upaya khusus yang dirasa paling efektif dan efisien untuk mencapai cita-cita organisasi yang disebut perencanaan strategis.

Lebih jelasnya visi merupakan pernyataan tentang gambaran keadaan dan karakteristik yang ingin dicapai oleh suatu lembaga pada jauh dimasa yang akan datang. Misi merupakan pernyataan tentang apa yang harus dikerjakan oleh lembaga dalam usahanya mewujudkan visi, dan hubungannya dengan rencana strategis adalah memberikan arah yang akan membawa lembaga dalam mencapai tujuan yang sesuai dengan visi dan misi yang telah dirumuskan.

Berikut contoh-contoh visi yang diambil dari beberapa perusahaan, instansi, atau organisasi.

1. Contoh Visi dan Misi Organisasi

a. Visi

“Mewujudkan generasi muda yang tangguh, mandiri, terampil dan berakhlak mulia”

b. Misi

Sebagai upaya mencapai visi tersebut. maka misi organisasi kami adalah;

- Mengadakan kegiatan-kegiatan kepemudaan di masyarakat.
- Mengadakan pelatihan-pelatihan bisnis pertanian, perniagaan dan bisnis kreatif.
- Membantu dalam pengabdian dan menjaga lingkungan.
- Meningkatkan prestasi baik dalam bidang olahraga maupun bidang keilmuan lainnya.
- Mempererat tali persaudaraan dengan pertemuan-pertemuan rutin.

1. Contoh Visi dan Misi Kemenristekdikti

a. Visi

“Terwujudnya pendidikan tinggi yang bermutu serta kemampuan iptek dan inovasi untuk mendukung daya saing bangsa"

b. Misi

Sebagai upaya untuk mewujudkan visi tersebut di atas, maka misi Kemenristekdikti adalah :

- Meningkatkan akses, relevansi, dan mutu pendidikan tinggi untuk menghasilkan SDM yang berkualitas; dan
- Meningkatkan kemampuan Iptek dan inovasi untuk menghasilkan nilai tambah produk inovasi.

2. Contoh Visi dan Misi Indosatooredoo

a. Visi

Menjadi Perusahaan Telekomunikasi Digital Terdepan di Indonesia

b. Misi

- Layanan dan Produk yang Membebaskan
- Jaringan Data yang Unggul
- Memperlakukan Pelanggan Sebagai Sahabat
- Transformasi Digital

4. Contoh Visi dan Misi Universitas Indonesia (UI)

Visi 2015-2019

Mewujudkan Universitas Indonesia menjadi PTN BH yang mandiri dan unggul serta mampu menyelesaikan masalah dan tantangan pada tingkat nasional maupun global, menuju unggulan di Asia Tenggara

Misi

- Menyediakan akses yang luas dan adil, serta pendidikan dan pengajaran yang berkualitas.
- Menyelenggarakan kegiatan Tridharma yang bermutu dan relevan dengan tantangan nasional serta global.
- Menciptakan lulusan yang berintelektualitas tinggi, berbudi luhur dan mampu bersaing secara global.
- Menciptakan iklim akademik yang mampu mendukung perwujudan visi UI

4. Contoh Visi dan Misi Bahasa Inggris (Alfamart)

Visi

“To be Indonesia’s largest and globally competitive widely owned retail distribution network that empowers small entrepreneurs and fulfills customer needs and expectations”

Misi

- To satisfy customer needs and expectations by focusing on high quality products and services.
- To implement ethical business practices, to be the best in all of our actions.
- To develop entrepreneurial spirits and skills in the Company and the society.
- To develop a reliable, healthy and growing organization which benefits all stakeholders.

# Chapter 3
# EXTERNAL ASSEMENT

Universitas Esa Unggul

# External Assesment

**A note from David**

## The Nature of an External Audit

The purpose of an external audit is to develop a finite list of opportunities that could benefit a firm and threats that should be avoided. As the term finite suggests, the external audit is not aimed at developing an exhaustive list of every possible factor that could influence the business; rather, it is aimed at identifying key variables that offer actionable responses. Firms should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. Figure 3-1 illustrates how the external audit fits into the strategic-management process.

### Key External Forces

External forces can be divided into five broad categories: (1) economic forces; (2) social, cultural, demographic, and natural environment forces; (3) political, governmental, and legal forces; (4) technological forces; and (5) competitive forces. Relationships among these forces and an organization are depicted in Figure 3-2. External trends and events, such as the global economic recession, significantly affect products, services, markets, and organizations worldwide. The U.S. unemployment rate climbed to over 9 percent in July 2009 as more than 2.5 million jobs were lost in the United States in 2008—the most since 1945 when the country downsized from the war effort. The rate is expected to rise to 10.1 percent. All sectors witness rising

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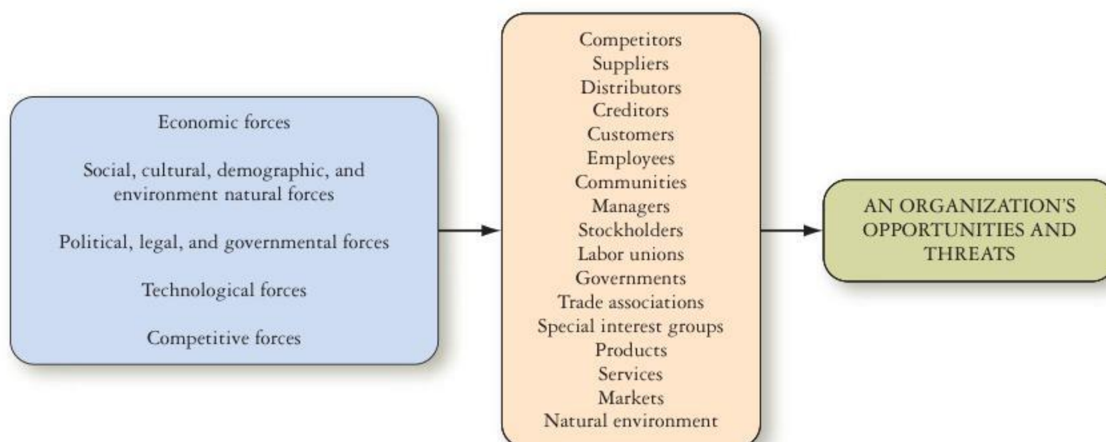
unemployment rates, except for education, health-care services, and government employment. Many Americans are resorting to minimum wage jobs to make ends meet.

Changes in external forces translate into changes in consumer demand for both industrial and consumer products and services. External forces affect the types of products developed, the nature of positioning and market segmentation strategies, the type of services offered, and the choice of businesses to acquire or sell. External forces directly affect both suppliers and distributors. Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission, to design strategies to achieve long-term objectives, and to develop policies to achieve annual objectives.

The increasing complexity of business today is evidenced by more countries developing the capacity and will to compete aggressively in world markets. Foreign businesses and countries are willing to learn, adapt, innovate, and invent to compete successfully in the marketplace. There are more competitive new technologies in Europe and Asia today than ever before.



## The Process of Performing an External Audit

The process of performing an external audit must involve as many managers and employees as possible. As emphasized in earlier chapters, involvement in the strategic-management process can lead to understanding and commitment from organizational members. Individuals appreciate having the opportunity to contribute ideas and to gain a better understanding of their firms' industry, competitors, and markets.

To perform an external audit, a company first must gather competitive intelligence and information about economic, social, cultural, demographic, environmental, political, governmental, legal, and technological trends. Individuals can be asked to monitor various sources of information, such as key magazines, trade journals, and newspapers. These persons can submit periodic scanning reports to a committee of managers charged with performing the external audit. This approach provides a continuous stream of timely strategic information and involves many individuals in the external-audit process. The Internet provides another source for gathering strategic information, as do corporate, university, and public libraries. Suppliers, distributors, salespersons, customers, and competitors represent other sources of vital information.

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Once information is gathered, it should be assimilated and evaluated. A meeting or series of meetings of managers is needed to collectively identify the most important opportunities and threats facing the firm. These key external factors should be listed on flip charts or a chalkboard. A prioritized list of these factors could be obtained by requesting that all managers rank the factors identified, from 1 for the most important opportunity/threat to 20 for the least important opportunity/threat. These key external factors can vary over time and by industry. Relationships with suppliers or distributors are often a critical success factor. Other variables commonly used include market share, breadth of competing products, world economies, foreign affiliates, proprietary and key

account advantages, price competitiveness, technological advancements, population shifts, interest rates, and pollution abatement.

Freund emphasized that these key external factors should be (1) important to achieving long-term and annual objectives, (2) measurable, (3) applicable to all competing firms, and (4) hierarchical in the sense that some will pertain to the overall company and others will be more narrowly focused on functional or divisional areas. 1 A final list of the most important key external factors should be communicated and distributed widely in the organization. Both opportunities and threats can be key external factors.

**The Industrial Organization (I/O) View**

The Industrial Organization (I/O) approach to competitive advantage advocates that external (industry) factors are more important than internal factors in a firm achieving competitive advantage. Proponents of the I/O view, such as Michael Porter, contend that organizational performance will be primarily determined by industry forces. Porter's FiveForces Model, presented later in this chapter, is an example of the I/O perspective, which focuses on analyzing external forces and industry variables as a basis for getting and keeping competitive advantage. Competitive advantage is determined largely by competitive positioning within an industry, according to I/O advocates. Managing strategically from the I/O perspective entails firms striving to compete in attractive industries, avoiding weak or faltering industries, and gaining a full understanding of key external factor relationships within that attractive industry. I/O research provides important contributions to our understanding of how to gain competitive advantage.

I/O theorists contend that external factors in general and the industry in which a firm chooses to compete has a stronger influence on the firm's performance than do the internal functional decisions managers make in marketing, finance, and the like. Firm performance, they contend, is primarily based more on industry properties, such as economies of scale,

barriers to market entry, product differentiation, the economy, and level of competitiveness than on internal resources, capabilities, structure, and operations. The global economic recession's impact on both strong and weak firms has added credence of late to the notion that external forces are more important than internal. Many thousands of internally strong firms in 2006–2007 disappeared in 2008–2009.

The I/O view has enhanced our understanding of strategic management. However, it is not a question of whether external or internal factors are more important in gaining and maintaining competitive advantage. Effective integration and understanding of both external and internal factors is the key to securing and keeping a competitive advantage. In fact, as discussed in Chapter 6, matching key external opportunities/threats with key internal strengths/weaknesses provides the basis for successful strategy formulation.

**Economic Forces**

Increasing numbers of two-income households is an economic trend in the United States. Individuals place a premium on time. Improved customer service, immediate availability, trouble-free operation of products, and dependable maintenance and repair services are becoming more important. People today are more willing than ever to pay for good service if it limits inconvenience.

Economic factors have a direct impact on the potential attractiveness of various strategies. For example, when interest rates rise, funds needed for capital expansion become more costly or unavailable. Also, when interest rates rise, discretionary income declines, and the demand for discretionary goods falls. When stock prices increase, the desirability of equity as a source of capital for market development increases. Also, when the market rises, consumer and business wealth expands. A summary of economic variables that often represent opportunities and threats for organizations is provided in Table 3-1.

An economic variable of significant importance in strategic planning is gross domestic product (GDP), especially across countries. Table 3-2 lists the GDP of various countries in Asia for all of 2009. Unlike most countries in Europe and the Americas, most Asian countries expect positive GDP growth in 2009.

Trends in the dollar's value have significant and unequal effects on companies in different industries and in different locations. For example, the pharmaceutical, tourism, entertainment, motor vehicle, aerospace, and forest products industries benefit greatly when the dollar falls against the yen and euro. Agricultural and petroleum industries are hurt by the dollar's rise against the currencies of Mexico, Brazil, Venezuela, and Australia. Generally, a strong or high dollar makes U.S. goods more expensive in overseas markets. This worsens the U.S. trade deficit. When the value of the dollar falls, tourism-oriented firms benefit because Americans do not travel abroaas much when the value of the dollar is low; rather, foreigners visit and vacation more in the United States.

A low value of the dollar means lower imports and higher exports; it helps U.S. companies' competitiveness in world markets. The dollar has fallen to five-year lows against the euro and yen, which makes U.S. goods cheaper to foreign consumers and combats deflation by pushing up prices of imports. However, European firms such as Volkswagen AG, Nokia Corp., and Michelin complain that the strong euro hurts their financial performance. The low value of the dollar benefits the U.S. economy in many ways. First, it helps stave off the risks of deflation in the United States and also reduces the U.S. trade deficit. In addition, the low value of the dollar raises the foreign sales and profits of domestic firms, thanks to dollar-induced gains, and encourages foreign countries to lower interest rates and loosen fiscal policy, which stimulates worldwide economic expansion. Some sectors, such as consumer staples, energy, materials, technology, and health care, especially benefit from a low value of the dollar.

Manufacturers in many domestic industries in fact benefit because of a weak dollar, which forces foreign rivals to raise prices and extinguish discounts. Domestic firms with big overseas sales, such as McDonald's, greatly benefit from a weak dollar.

Between March and June 2009, the U.S. dollar weakened 11.0 percent against the euro, due to the growing United States debt, which may soon exceed $12 trillion. Table 3-3 lists some advantages and disadvantages of a weak U.S. dollar for American firms.
Rising unemployment rates across the United States have touched off a race among states to attract businesses with tax breaks and financial incentives. New Jersey has promised to send a $3,000 check to every small business that hires a new employee. Minnesota is offering tax-free zones for companies that create "green jobs." Colorado has created a $5 million fund for banks that open credit lines for small businesses. To minimize risk in incentive deals, may states write in claw-back provisions that require companies to return funds if they fail to create the promised number of jobs.

The slumping economy worldwide and depressed prices of assets has dramatically slowed the migration of people from country to country and from the city to the suburbs. Because people are not moving nearly as much as in years past, there is lower and lower demand for new or used houses. Thus the housing market is expected to remain very sluggish well into 2010 and 2011.

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**Key Economic Variables to Be Monitored**

| | |
|---|---|
| Shift to a service economy in the United States | Import/export factors |
| Availability of credit | Demand shifts for different categories of goods and services |
| Level of disposable income | Income differences by region and consumer groups |
| Propensity of people to spend | Price fluctuations |
| Interest rates | Export of labor and capital from the United States |
| Inflation rates | Monetary policies |
| Money market rates | Fiscal policies |
| Federal government budget deficits | Tax rates |
| Gross domestic product trend | European Economic Community (EEC) policies |
| Consumption patterns | Organization of Petroleum Exporting Countries (OPEC) policies |
| Unemployment trends | Coalitions of Lesser Developed Countries (LDC) policies |
| Worker productivity levels | |
| Value of the dollar in world markets | |
| Stock market trends | |
| Foreign countries' economic conditions | |

**Environment Forces**

Social, cultural, demographic, and environmental changes have a major impact on virtually all products, services, markets, and customers. Small, large, for-profit, and nonprofit organizations in all industries are being staggered and challenged by the opportunities and threats arising from changes in social, cultural, demographic, and environmental variables. In every way, the United States is much different today than it was yesterday, and tomorrow promises even greater changes.

The United States is getting older and less white. The oldest members of America's 76 million baby boomers plan to retire in 2011, and this has lawmakers and younger taxpayers deeply concerned about who will pay their Social Security, Medicare, and Medicaid. Individuals age 65 and older in the United States as a percentage of the population will rise to 18.5 percent by 2025. The five "oldest" states and five "youngest" states in 2007 are given in Table 3-4.



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By 2075, the United States will have no racial or ethnic majority. This forecast is aggravating tensions over issues such as immigration and affirmative action. Hawaii, California, and New Mexico already have no majority race or ethnic group.

The population of the world surpassed 7.0 billion in 2010; the United States has just over 310 million people. That leaves billions of people outside the United States who may be interested in the products and services produced through domestic firms. Remaining solely domestic is an increasingly risky strategy, especially as the world population continues to grow to an estimated 8 billion in 2028 and 9 billion in 2054.

Social, cultural, demographic, and environmental trends are shaping the way Americans live, work, produce, and consume. New trends are creating a different type of consumer and, consequently, a need for different products, different services, and different strategies. There are now more American households with people living alone or with unrelated people than there are households consisting of married couples with children. American households are making more and more purchases online. Beer consumption in the United States is growing at only 0.5 percent per year, whereas wine consumption is growing 3.5 percent and distilled spirits consumption is growing at 2.0 percent. 2 Beer is still the most popular alcoholic beverage in the United States, but its market share has dropped from 59.5 percent in its peak year of 1995 to 56.7 percent today. For a wine company such as Gallo, this trend is an opportunity, whereas for a firm such as Adolph Coors Brewing, this trend is an external threat.

The trend toward an older America is good news for restaurants, hotels, airlines, cruise lines, tours, resorts, theme parks, luxury products and services, recreational vehicles, home builders, furniture producers, computer manufacturers, travel services, pharmaceutical firms, automakers, and funeral homes. Older Americans are especially interested in health care, financial services, travel, crime prevention, and leisure. The world’s longest-living

people are the Japanese, with Japanese women living to 86.3 years and men living to 80.1 years on average. By 2050, the Census Bureau projects that the number of Americans age 100 and older will increase to over 834,000 from just under 100,000 centenarians in the United States in 2000. Americans age 65 and over will increase from 12.6 percent of the U.S. population in 2000 to 20.0 percent by the year 2050.

The aging American population affects the strategic orientation of nearly all organizations. Apartment complexes for the elderly, with one meal a day, transportation, and utilities included in the rent, have increased nationwide. Called lifecare facilities, these complexes now exceed 2 million. Some well-known companies building these facilities include Avon, Marriott, and Hyatt. Individuals age 65 and older in the United States comprise 13 percent of the total population; Japan's elderly population ratio is 17 percent, and Germany's is 19 percent.

Americans were on the move in a population shift to the South and West (Sunbelt) and away from the Northeast and Midwest (Frostbelt), but the recession and housing bust nationwide has slowed migration throughout the United States. More Americans are staying in place rather than moving. New jobs are the primary reason people move across state lines, so with 3 million less jobs in the United States in 2008–2009 alone, there is less need to move. Falling home prices also have prompted people to avoid moving. The historical trend of people moving from the Northeast and

Midwest to the Sunbelt and West has dramatically slowed. The worldwide recession is also reducing international immigration, down roughly 10 percent in both 2008 and 2009. Hard number data related to this information can represent key opportunities for many firms and thus can be essential for successful strategy formulation, including where to locate new plants and distribution centers and where to focus marketing efforts.

A summary of important social, cultural, demographic, and environmental variables that represent opportunities or threats for virtually all organizations is given in Table.

**Key Social, Cultural, Demographic, and Natural Environment Variables**

| | |
|---|---|
| Childbearing rates | Attitudes toward retirement |
| Number of special-interest groups | Attitudes toward leisure time |
| Number of marriages | Attitudes toward product quality |
| Number of divorces | Attitudes toward customer service |
| Number of births | Pollution control |
| Number of deaths | Attitudes toward foreign peoples |
| Immigration and emigration rates | Energy conservation |
| Social Security programs | Social programs |
| Life expectancy rates | Number of churches |
| Per capita income | Number of church members |
| Location of retailing, manufacturing, and service businesses | Social responsibility |
| Attitudes toward business | Attitudes toward careers |
| Lifestyles | Population changes by race, age, sex, and level of affluence |
| Traffic congestion | Attitudes toward authority |
| Inner-city environments | Population changes by city, county, state, region, and country |
| Average disposable income | Value placed on leisure time |
| Trust in government | Regional changes in tastes and preferences |
| Attitudes toward government | Number of women and minority workers |
| Attitudes toward work | Number of high school and college graduates by geographic area |
| Buying habits | Recycling |
| Ethical concerns | Waste management |
| Attitudes toward saving | Air pollution |
| Sex roles | Water pollution |
| Attitudes toward investing | Ozone depletion |
| Racial equality | Endangered species |
| Use of birth control | |
| Average level of education | |
| Government regulation | |

**Political, Governmental, and Legal Forces**

Federal, state, local, and foreign governments are major regulators, deregulators, subsidizers, employers, and customers of organizations. Political, governmental, and legal factors, therefore, can represent key opportunities or threats for both small and large organizations.

For industries and firms that depend heavily on government contracts or subsidies, political forecasts can be the most important part of an external audit. Changes in patent laws, antitrust legislation, tax rates, and lobbying activities can affect firms significantly. The increasing global interdependence among economies, markets, governments, and organizations makes it imperative that firms consider the possible impact of political variables on the formulation and implementation of competitive strategies.

In the face of a deepening global recession, countries worldwide are resorting to protectionism to safeguard their own industries. European Union (EU) nations, for example, have tightened their own trade rules and resumed subsidies for various of their own industries while barring imports from certain other countries. The EU recently restricted imports of U.S. chicken and beef. India is increasing tariffs on foreign steel. Russia perhaps has instituted the most protectionist measures in recent months by raising tariffs on most imports and subsidizing its own exports. Russia even imposed a new toll on trucks from the EU, Switzerland, and Turkmenistan. Despite these measures taken by other countries, the United States has largely refrained from "Buy American" policies and protectionist measures, although there are increased tariffs on French cheese and Italian water. Many economists say the current rash of trade constraints will make it harder for global economic growth to recover from the global recession. Global trade is expected to decrease 2.1 percent in 2009 compared to an increase of 6.2 percent in 2008. 3 Russia has said that "protective tariffs are necessary to allow Russian

companies to survive the recession." This view unfortunately is also the view at an increasing number of countries.

Governments are taking control of more and more companies as the global economic recession cripples firms considered vital to the nation's financial stability. For example, France in 2009 took a 2.35 percent equity stake in troubled car-parts maker Valeo SA. President Nicolas Sarkozy of France has created a $20 billion strategic fund to lend cash to banks and carmakers as many governments become more protectionist. The United States of course also is taking equity stakes in financial institutions and carmakers and is "bailing out" companies too.

The UK government in 2009 took a 95 percent stake in the banking giant Royal Bank of Scotland Group PLC in a dramatic move toward nationalization. The government gave the bank $37 billion and insured another $300 billion of the bank's assets. The UK government also recently increased its stake in Lloyds Banking Group PLC to 75 percent. Similarly, the U.S. government has taken over Fannie Mae and Freddie Mac and has raised its stake even in Citigroup to 40 percent.

As more and more companies around the world accept government bailouts, those companies are being forced to march to priorities set by political leaders. Even in the United States, the federal government is battling the recession with its deepest intervention in the economy since the Great Depression. The U.S. government now is a strategic manager in industries from banking to insurance to autos. Governments worldwide are under pressure to protect jobs at home and maintain the nation's industrial base. For example, in France, Renault SA's factory in Sandouville is one of the most unproductive auto factories in the world. However, Renault has taken $3.9 billion in low-interest loans from the French government, so the company cannot close any French factories for the duration of the loan or resort to mass layoffs in France for a year.

Political relations between Japan and China have thawed considerably in recent years, which is good for the world economy because China's low-cost manufactured goods have become essential for the functioning of most industrialized nations. Chinese premier Wen Jiabao addressed the Japanese parliament in 2007, something no Chinese leader has done for more than 20 years, and Japanese prime minister Shinzo Abe has visited Beijing. Japan's largest trading partner is China, and China's third-largest trading partner is Japan—after the European Union, number one, and the United States, number two.

Local, state, and federal laws; regulatory agencies; and special-interest groups can have a major impact on the strategies of small, large, for-profit, and nonprofit organizations. Many companies have altered or abandoned strategies in the past because of political or governmental actions. In the academic world, as state budgets have dropped in recent years, so too has state support for colleges and universities. Due to the decline in monies received from the state, many institutions of higher learning are doing more fundraising on their own—naming buildings and classrooms, for example, for donors. A summary of political, governmental, and legal variables that can represent key opportunities or threats to organizations is provided in Table

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**Some Political, Governmental, and Legal Variables**

| | |
|---|---|
| Government regulations or deregulations | Sino-American relationships |
| Changes in tax laws | Russian-American relationships |
| Special tariffs | European-American relationships |
| Political action committees | African-American relationships |
| Voter participation rates | Import–export regulations |
| Number, severity, and location of government protests | Government fiscal and monetary policy changes |
| Number of patents | Political conditions in foreign countries |
| Changes in patent laws | Special local, state, and federal laws |
| Environmental protection laws | Lobbying activities |
| Level of defense expenditures | Size of government budgets |
| Legislation on equal employment | World oil, currency, and labor markets |
| Level of government subsidies | Location and severity of terrorist activities |
| Antitrust legislation | Local, state, and national elections |

**Technological Forces**

Revolutionary technological changes and discoveries are having a dramatic impact on organizations. CEO Chris DeWolfe of MySpace is using technology to expand the firm's 1,600-person workforce in 2009 even as the economic recession deepens. MySpace expects a 17 percent increase in revenue in 2009. Nearly half of the site's 130 million members worldwide are 35 and older, and 76 million of the members are from the United States. This compares to rival Facebook that has 150 million members worldwide but only 55 million in the United States. MySpace is continually redesigning the site and revamping the way its members can manage their profiles and categorize their friends, and enabling consumers to listen to free streaming audio and songs. Doug Morris, CEO of Universal Music Group, says, "There is a lot of conflict between technology and content, and Chris has successfully brought both together." 4

The Internet has changed the very nature of opportunities and threats by altering the life cycles of products, increasing the speed of distribution, creating new products and services, erasing limitations of traditional geographic markets, and changing the historical trade-off between production standardization and flexibility. The Internet is altering economies of scale, changing entry barriers, and redefining the relationship between industries and various suppliers, creditors, customers, and competitors.

To effectively capitalize on e-commerce, a number of organizations are establishing two new positions in their firms: chief information officer (CIO) and chief technology officer (CTO). This trend reflects the growing importance of information technology (IT) in strategic management. A CIO and CTO work together to ensure that information needed to formulate, implement, and evaluate strategies is available where and when it is needed. These individuals are responsible for developing, maintaining, and updating a company's information database. The CIO is more a manager, managing the firm's relationship with stakeholders; the CTO is more a technician, focusing on technical

issues such as data acquisition, data processing, decision-support systems, and software and hardware acquisition.

Technological forces represent major opportunities and threats that must be considered in formulating strategies. Technological advancements can dramatically affect organizations' products, services, markets, suppliers, distributors, competitors, customers, manufacturing processes, marketing practices, and competitive position. Technological advancements can create new markets, result in a proliferation of new and improved products, change the relative competitive cost positions in an industry, and render existing products and services obsolete. Technological changes can reduce or eliminate cost barriers between businesses, create shorter production runs, create shortages in technical skills, and result in changing values and expectations of employees, managers, and customers. Technological advancements can create new competitive advantages that are more powerful than existing advantages. No company or industry today is insulated against emerging technological developments. In high-tech industries, identification and evaluation of key technological opportunities and threats can be the most important part of the external strategic-management audit.

Organizations that traditionally have limited technology expenditures to what they can fund after meeting marketing and financial requirements urgently need a reversal in thinking. The pace of technological change is increasing and literally wiping out businesses every day. An emerging consensus holds that technology management is one of the key responsibilities of strategists. Firms should pursue strategies that take advantage of technological opportunities to achieve sustainable, competitive advantages in the marketplace.

In practice, critical decisions about technology too often are delegated to lower organizational levels or are made without an understanding of their strategic implications. Many strategists spend countless hours determining market share, positioning products in

terms of features and price, forecasting sales and market size, and monitoring distributors; yet too often, technology does not receive the same respect.

Not all sectors of the economy are affected equally by technological developments. The communications, electronics, aeronautics, and pharmaceutical industries are much more volatile than the textile, forestry, and metals industries. A recent article in the Wall Street Journal detailed how wireless technology will change 10 particular industries. 5 Table 3-7 provides a glimpse of this article.

**Examples of the Impact of Wireless Technology**

Airlines—Many airlines now offer wireless technology in flight.

Automotive—Vehicles are becoming wireless.

Banking—Visa sends text message alerts after unusual transactions.

Education—Many secondary (and even college) students may use smart phones for math because research shows this to be greatly helpful.

Energy—Smart meters now provide power on demand in your home or business.

Health Care—Patients use mobile devices to monitor their own health, such as calories consumed.

Hotels—Days Inn sends daily specials and coupons to hotel guests via text messages.

Market Research—Cell phone respondents provide more honest answers, perhaps because they are away from eavesdropping ears.

Politics—President Obama won the election partly by mobilizing Facebook and MySpace users, revolutionizing political campaigns. Obama announced his vice presidential selection of Joe Biden by a text message.

Publishing—eBooks are increasingly available.

*Source:* Based on Joe Mullich, "10 Industries That Wireless Will Change," *Wall Street Journal* (April 1, 2009): A12.

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## Competitive Forces

The top U.S. competitors in four different industries are identified in Table 3-8. An important part of an external audit is identifying rival firms and determining their strengths, weaknesses, capabilities, opportunities, threats, objectives, and strategies.

Collecting and evaluating information on competitors is essential for successful strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide

sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information. Addressing questions about competitors such as those presented in Table 3-9 is important in performing an external audit.

Competition in virtually all industries can be described as intense—and sometimes as cutthroat. For example, Walgreens and CVS pharmacies are located generally across the street from each other and battle each other every day on price and customer service. Most automobile dealerships also are located close to each other. Dollar General, based in Goodlettsville, Tennessee, and Family

Dollar, based in Matthews, North Carolina, compete intensely on price to attract customers. Best Buy dropped prices wherever possible to finally put Circuit City totally out of business.

Seven characteristics describe the most competitive companies:

1. Market share matters; the 90th share point isn't as important as the 91st, and nothing is more dangerous than falling to 89.
2. Understand and remember precisely what business you are in.
3. Whether it's broke or not, fix it—make it better; not just products, but the whole company, if necessary.
4. Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success.
5. Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market.
6. People make a difference; tired of hearing it? Too bad.
7. There is no substitute for quality and no greater threat than failing to be cost-competitive on a global basis.

**Key Questions About Competitors**

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

**Competitive Intelligence Programs**

What is competitive intelligence? Competitive intelligence (CI), as formally defined by the Society of Competitive Intelligence Professionals (SCIP), is a systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals (SCIP Web site).

Good competitive intelligence in business, as in the military, is one of the keys to success. The more information and knowledge a firm can obtain about its competitors, the more likely it is that it can formulate and implement effective strategies. Major competitors' weaknesses can represent external opportunities; major competitors' strengths may represent key threats.

In April 2009, Starwood Hotels & Resorts Worldwide sued Hilton Hotels Corp. for allegedly stealing more than 100,000 confidential electronic and paper documents containing "Starwood's most competitively sensitive information." The complaint alleges that two Starwood executives, Ross Klein and Amar Lalvani, resigned from Starwood to join Hilton and took this information with them. The legal complaint says, "This is the clearest imaginable case of corporate espionage, theft of trade secrets, unfair competition and computer fraud." In addition to monetary awards, Starwood is seeking

to force Hilton to cancel the rollout of the Denizen hotel chain. Hilton is owned by Blackstone Group.

Hiring top executives from rival firms is also a way companies obtain competitive intelligence. Just two days after Facebook's COO, Owen Van Natta, left the company in 2009, he accepted the CEO job at MySpace, replacing then CEO and cofounder Chris DeWolfe. Van Natta had previously also been Facebook's COO, chief revenue officer, and vice president of operations. The MySpace appointment now pits CEO Van Natta against his old boss at Facebook, CEO Mark Zuckerberg. Facebook passed MySpace in visitors worldwide in 2008 and is closing in on leadership in the United States. Both firms are fierce rivals in the Internet social-networking business.

A recent article in the Wall Street Journal detailed how computer spies recently broke into the Pentagon's $300 billion Joint Strike fighter project, one of the costliest weapons programs ever. 8 This intrusion and similar episodes of late have confirmed that any information a firm has available to anyone within the firm online may be at risk of being copied and/or siphoned away by adversaries or rival firms. A recent Pentagon report says the Chinese military in particular has made "steady progress" in developing online-warfare techniques, but rival firms in many industries have expert computer engineers who may be capable of similar unethical/unlawful tactics.

Many U.S. executives grew up in times when U.S. firms dominated foreign competitors so much that gathering competitive intelligence did not seem worth the effort. Too many of these executives still cling to these attitudes—to the detriment of their organizations today. Even most MBA programs do not offer a course in competitive and business intelligence, thus reinforcing this attitude. As a consequence, three strong misperceptions about business intelligence prevail among U.S. executives today:

- Running an intelligence program requires lots of people, computers, and other resources.

- Collecting intelligence about competitors violates antitrust laws; business intelligence equals espionage.
- Intelligence gathering is an unethical business practice.

Any discussions with a competitor about price, market, or geography intentions could violate antitrust statutes. However, this fact must not lure a firm into underestimating the need for and benefits of systematically collecting information about competitors for Strategic Planning purposes. The Internet has become an excellent medium for gathering competitive intelligence. Information gathering from employees, managers, suppliers, distributors, customers, creditors, and consultants also can make the difference between having superior or just average intelligence and overall competitiveness.

Firms need an effective competitive intelligence (CI) program. The three basic objectives of a CI program are (1) to provide a general understanding of an industry and its competitors, (2) to identify areas in which competitors are vulnerable and to assess the impact strategic actions would have on competitors, and (3) to identify potential moves that a competitor might make that would endanger a firm's position in the market. 10 Competitive information is equally applicable for strategy formulation, implementation, and evaluation decisions. An effective CI program allows all areas of a firm to access consistent and verifiable information in making decisions. All members of an organizationfrom the chief executive officer to custodians—are valuable intelligence agents and should feel themselves to be a part of the CI process. Special characteristics of a successful CI program include flexibility, usefulness, timeliness, and cross-functional cooperation.

The increasing emphasis on competitive analysis in the United States is evidenced by corporations putting this function on their organizational charts under job titles such as Director of Competitive Analysis, Competitive Strategy Manager, Director of Information Services, or Associate Director of Competitive Assessment. The

responsibilities of a director of competitive analysis include planning, collecting data, analyzing data, facilitating the process of gathering and analyzing data, disseminating intelligence on a timely basis, researching special issues, and recognizing what information is important and who needs to know. Competitive intelligence is not corporate espionage because 95 percent of the information a company needs to make strategic decisions is available and accessible to the public. Sources of competitive information include trade journals, want ads, newspaper articles, and government filings, as well as customers, suppliers, distributors, competitors themselves, and the Internet.

Unethical tactics such as bribery, wiretapping, and computer break-ins should never be used to obtain information. Marriott and Motorola—two U.S. companies that do a particularly good job of gathering competitive intelligence—agree that all the information you could wish for can be collected without resorting to unethical tactics. They keep their intelligence staffs small, usually under five people, and spend less than $200,000 per year on gathering competitive intelligence.

Unilever recently sued Procter & Gamble (P&G) over that company's corporate-espionage activities to obtain the secrets of its Unilever hair-care business. After spending $3 million to establish a team to find out about competitors in the domestic hair-care industry, P&G allegedly took roughly 80 documents from garbage bins outside Unilever's Chicago offices. P&G produces Pantene and Head & Shoulders shampoos; Unilever has hair-care brands such as ThermaSilk, Suave, Salon Selectives, and Finesse. Similarly, Oracle Corp. recently admitted that detectives it hired paid janitors to go through Microsoft Corp.'s garbage, looking for evidence to use in court.

**Market Commonality and Resource Similarity**

By definition, competitors are firms that offer similar products and services in the same market. Markets can be geographic or product areas or segments. For example, in the

insurance industry the markets are broken down into commercial/consumer, health/life, or Europe/Asia. Researchers use the terms market commonality and resource similarity to study rivalry among competitors. Market commonality can be defined as the number and significance of markets that a firm competes in with rivals. 11 Resource similarity is the extent to which the type and amount of a firm's internal resources are comparable to a rival. 12 One way to analyze competitiveness between two or among several firms is to investigate market commonality and resource similarity issues while looking for areas of potential competitive advantage along each firm's value chain.

Competitive Analysis: Porter's Five-Forces Model

As illustrated in Figure 3-3, Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries. Table 3-10 reveals the average profit margin and return on investment for firms in different industries. Note the substantial variation among industries. For example, the range in profit margin goes from 0 to 18 for food production to computer software, respectively. Intensity of competition is highest in lower-return industries. The collective impact of competitive forces is so brutal in some industries that the market is clearly "unattractive" from a profit-making standpoint. Rivalry among existing firms is severe, new rivals can enter the industry with relative ease, and both suppliers and customers can exercise considerable bargaining leverage. According to Porter, the nature of competitiveness in a given industry can be viewed as a composite of five forces:

1. Rivalry among competing firms
2. Potential entry of new competitors
3. Potential development of substitute products
4. Bargaining power of suppliers
5. Bargaining power of consumers

The following three steps for using Porter's Five-Forces Model can indicate whether competition in a given industry is such that the firm can make an acceptable profit:

- Identify key aspects or elements of each competitive force that impact the firm.
- Evaluate how strong and important each element is for the firm.
- Decide whether the collective strength of the elements is worth the firm entering or staying in the industry.

**Rivalry Among Competing Firms**

Rivalry among competing firms is usually the most powerful of the five competitive forces. The strategies pursued by one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Changes in strategy by one firm may be met with retaliatory countermoves, such as lowering prices, enhancing quality, adding features, providing services, extending warranties, and increasing advertising.

Free-flowing information on the Internet is driving down prices and inflation worldwide. The Internet, coupled with the common currency in Europe, enables consumers to make price comparisons easily across countries. Just for a moment, consider the implications for car dealers who used to know everything about a new car's pricing, while you, the consumer, knew very little. You could bargain, but being in the dark, you rarely could win. Now you can shop online in a few hours at every dealership within 500 miles to find the best price and terms. So you, the consumer, can win. This is true in many, if not most, business-to-consumer and business-to-business sales transactions today.

The intensity of rivalry among competing firms tends to increase as the number of competitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price cutting becomes common. Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when consumer demand is growing slowly or declines such that rivals have excess capacity and/or inventory; when the products being sold are commodities (not easily differentiated such as gasoline); when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive. When rival firms sense weakness, typically they will intensify both marketing and production efforts to capitalize on the "opportunity." Table 3-11 summarizes conditions that cause high rivalry among competing firms.

**Conditions That Cause High Rivalry Among Competing Firms**

1. High number of competing firms
2. Similar size of firms competing
3. Similar capability of firms competing
4. Falling demand for the industry's products
5. Falling product/service prices in the industry
6. When consumers can switch brands easily
7. When barriers to leaving the market are high
8. When barriers to entering the market are low
9. When fixed costs are high among firms competing
10. When the product is perishable
11. When rivals have excess capacity
12. When consumer demand is falling
13. When rivals have excess inventory
14. When rivals sell similar products/services
15. When mergers are common in the industry

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**Potential Entry of New Competitors**

Whenever new firms can easily enter a particular industry, the intensity of competitiveness among firms increases. Barriers to entry, however, can include the need to gain economies of scale quickly, the need to gain technology and specialized know-how, the lack of experience, strong customer loyalty, strong brand preferences, large capital requirements, lack of adequate distribution channels, government regulatory policies, tariffs, lack of access to raw materials, possession of patents, undesirable locations, counterattack by entrenched firms, and potential saturation of the market.

Despite numerous barriers to entry, new firms sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources. The strategist's job, therefore, is to identify potential new firms entering the market, to monitor the new rival firms' strategies, to counterattack as needed, and to capitalize on existing strengths and opportunities. When the threat of new firms entering the market is strong, incumbent firms generally fortify their positions and take actions to deter new entrants, such as lowering prices, extending warranties, adding features, or offering financing specials.

**Potential Development of Substitute Products**

In many industries, firms are in close competition with producers of substitute products in other industries. Examples are plastic container producers competing with glass, paperboard, and aluminum can producers, and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of substitute products puts a ceiling on the price that can be charged before consumers will switch to the substitute product. Price ceilings equate to profit ceilings and more intense competition among rivals. Producers of eyeglasses and contact lenses, for example, face increasing competitive pressures from laser eye surgery. Producers of sugar face similar pressures from artificial sweeteners. Newspapers and magazines face substitute-product competitive pressures from the Internet and 24-hour cable television. The magnitude of competitive pressure derived from development of substitute products is generally evidenced by rivals' plans for expanding production capacity, as well as by their sales and profit growth numbers.

Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers' switching costs decrease. The competitive strength of substitute products is best measured by the inroads into the market share those products obtain, as well as those firms' plans for increased capacity and market penetration.

**Bargaining Power of Suppliers**

The bargaining power of suppliers affects the intensity of competition in an industry, especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly. It is often in the best interest of both suppliers and producers to assist each other with reasonable prices, improved quality, development of new services, just-in-time deliveries, and reduced inventory costs, thus enhancing long-term profitability for all concerned

Firms may pursue a backward integration strategy to gain control or ownership of suppliers. This strategy is especially effective when suppliers are unreliable, too costly, or not capable of meeting a firm's needs on a consistent basis. Firms generally can negotiate more favorable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

However, in many industries it is more economical to use outside suppliers of component parts than to self-manufacture the items. This is true, for example, in the outdoor power equipment industry where producers of lawn mowers, rotary tillers, leaf blowers, and edgers such as Murray generally obtain their small engines from outside manufacturers such as Briggs & Stratton who specialize in such engines and have huge economies of scale.

In more and more industries, sellers are forging strategic partnerships with select suppliers in efforts to (1) reduce inventory and logistics costs (e.g., through just-in-time deliveries); (2) speed the availability of next-generation components; (3) enhance the quality of the parts and components being supplied and reduce defect rates; and (4) squeeze out important cost savings for both themselves and their suppliers. 13

**Bargaining Power of Consumers**

When customers are concentrated or large or buy in volume, their bargaining power represents a major force affecting the intensity of competition in an industry. Rival firms may offer extended warranties or special services to gain customer loyalty whenever the bargaining power of consumers is substantial. Bargaining power of consumers also is higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage, and accessory packages to a greater extent.

The bargaining power of consumers can be the most important force affecting competitive advantage. Consumers gain increasing bargaining power under the following circumstances:

- If they can inexpensively switch to competing brands or substitutes
- If they are particularly important to the seller
- If sellers are struggling in the face of falling consumer demand
- If they are informed about sellers' products, prices, and costs
- If they have discretion in whether and when they purchase the product 14

**Sources of External Information**

A wealth of strategic information is available to organizations from both published and unpublished sources. Unpublished sources include customer surveys, market research, speeches at professional and shareholders' meetings, television programs, interviews, and conversations with stakeholders. Published sources of strategic information include periodicals, journals, reports, government documents, abstracts, books, directories, newspapers, and manuals. The Internet has made it easier for firms to gather, assimilate, and evaluate information.

There are many excellent Web sites for gathering strategic information, but six that the author uses routinely are listed here:

- http://marketwatch.multexinvestor.com
- http://moneycentral.msn.com
- http://finance.yahoo.com
- www.clearstation.com
- https://us.etrade.com/e/t/invest/marketswww.hoovers.com

Most college libraries subscribe to Standard & Poor's (S&P's) Industry Surveys. These documents are exceptionally up-to-date and give valuable information about many different industries. Each report is authored by a Standard & Poor's industry research analyst and includes the following sections:

- Current Environment
- Industry Trends
- How the Industry Operates
- Key Industry Ratios and Statistics
- How to Analyze a Company
- Glossary of Industry Terms
- Additional Industry Information
- References
- Comparative Company Financial Analysis

**Forecasting Tools and Techniques**

Forecasts are educated assumptions about future trends and events. Forecasting is a complex activity because of factors such as technological innovation, cultural changes, new products, improved services, stronger competitors, shifts in government priorities, changing social values, unstable economic conditions, and unforeseen events. Managers

often must rely on published forecasts to effectively identify key external opportunities and threats.

A sense of the future permeates all action and underlies every decision a person makes. People eat expecting to be satisfied and nourished in the future. People sleep assuming that in the future they will feel rested. They invest energy, money, and time because they believe their efforts will be rewarded in the future. They build highways assuming that automobiles and trucks will need them in the future. Parents educate children on the basis of forecasts that they will need certain skills, attitudes, and knowledge when they grow up. The truth is we all make implicit forecasts throughout our daily lives. The question, therefore, is not whether we should forecast but rather how we can best forecast to enable us to move beyond our ordinarily unarticulated assumptions about the future. Can we obtain information and then make educated assumptions (forecasts) to better guide our current decisions to achieve a more desirable future state of affairs? We should go into the future with our eyes and our minds open, rather than stumble into the future with our eyes closed.

Many publications and sources on the Internet forecast external variables. Several published examples include Industry Week's "Trends and Forecasts," BusinessWeek's "Investment Outlook," and Standard & Poor's Industry Survey. The reputation and continued success of these publications depend partly on accurate forecasts, so published sources of information can offer excellent projections. An especially good Web site for industry forecasts is finance.yahoo.com.

Just insert a firm's stock symbol and go from there.

Sometimes organizations must develop their own projections. Most organizations forecast (project) their own revenues and profits annually. Organizations sometimes forecast market share or customer loyalty in local areas. Because forecasting is so important in strategic management and because the ability to forecast (in contrast to the

ability to use a forecast) is essential, selected forecasting tools are examined further here.

Forecasting tools can be broadly categorized into two groups: quantitative techniques and qualitative techniques. Quantitative forecasts are most appropriate when historical data are available and when the relationships among key variables are expected to remain the same in the future. Linear regression, for example, is based on the assumption that the future will be just like the past—which, of course, it never is. As historical relationships become less stable, quantitative forecasts become less accurate.

No forecast is perfect, and some forecasts are even wildly inaccurate. This fact accents the need for strategists to devote sufficient time and effort to study the underlying bases for published forecasts and to develop internal forecasts of their own. Key external opportunities and threats can be effectively identified only through good forecasts. Accurate forecasts can provide major competitive advantages for organizations. Forecasts are vital to the strategic-management process and to the success of organizations.

**Making Assumptions**

Planning would be impossible without assumptions. McConkey defines assumptions as the "best present estimates of the impact of major external factors, over which the manager has little if any control, but which may exert a significant impact on performance or the ability to achieve desired results." 16 Strategists are faced with countless variables and imponderables that can be neither controlled nor predicted with 100 percent accuracy. Wild guesses should never be made in formulating strategies, but reasonable assumptions based on available information must always be made.

By identifying future occurrences that could have a major effect on the firm and by making reasonable assumptions about those factors, strategists can carry the strategic-

management process forward. Assumptions are needed only for future trends and events that are most likely to have a significant effect on the company's business. Based on the best information at the time, assumptions serve as checkpoints on the validity of strategies. If future occurrences deviate significantly from assumptions, strategists know that corrective actions may be needed. Without reasonable assumptions, the strategy-formulation process could not proceed effectively. Firms that have the best information generally make the most accurate assumptions, which can lead to major competitive advantages.

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# Chapter 4
# COMPETITIVE FORCE

# Competitive Force

**A note from David and Whellan**

Collecting and evaluating information on competitors is essential for successful strategy formulation. Identifying major competitors is not always easy because many firms have divisions that compete in different industries. Many multidivisional firms do not provide sales and profit information on a divisional basis for competitive reasons. Also, privately held firms do not publish any financial or marketing information. Addressing questions about competitors such as those presented in Table below is important in performing an external audit.

**Key Questions About Competitors**

1. What are the major competitors' strengths?
2. What are the major competitors' weaknesses?
3. What are the major competitors' objectives and strategies?
4. How will the major competitors most likely respond to current economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our alternative company strategies?
6. How vulnerable are our alternative strategies to successful counterattack by our major competitors?
7. How are our products or services positioned relative to major competitors?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How have the sales and profit rankings of major competitors in the industry changed over recent years? Why have these rankings changed that way?
11. What is the nature of supplier and distributor relationships in this industry?
12. To what extent could substitute products or services be a threat to competitors in this industry?

Competition in virtually all industries can be described as intense—and sometimes as cutthroat. For example, Walgreens and CVS pharmacies are located generally across the street from each other and battle each other every day on price and customer service. Most automobile dealerships also are located close to each other. Dollar General, based in Goodlettsville, Tennessee, and Family Dollar, based in Matthews, North Carolina, compete intensely on price to attract customers. Best Buy dropped prices wherever possible to finally put Circuit City totally out of business.

Seven characteristics describe the most competitive companies:

1. Market share matters; the 90th share point isn't as important as the 91st, and nothing is more dangerous than falling to 89.
2. Understand and remember precisely what business you are in.
3. Whether it's broke or not, fix it—make it better; not just products, but the whole company, if necessary.
4. Innovate or evaporate; particularly in technology-driven businesses, nothing quite recedes like success.
5. Acquisition is essential to growth; the most successful purchases are in niches that add a technology or a related market.
6. People make a difference; tired of hearing it? Too bad.
7. There is no substitute for quality and no greater threat than failing to be cost-competitive on a global basis.

## Competitive Intelligence Programs

What is competitive intelligence? Competitive intelligence (CI), as formally defined by the Society of Competitive Intelligence Professionals (SCIP), is a systematic and ethical process for gathering and analyzing information about the competition's activities and general business trends to further a business's own goals (SCIP Web site).

Good competitive intelligence in business, as in the military, is one of the keys to success. The more information and knowledge a firm can obtain about its competitors, the more likely it is that it can formulate and implement effective strategies. Major competitors' weaknesses can represent external opportunities; major competitors' strengths may represent key threats.

In April 2009, Starwood Hotels & Resorts Worldwide sued Hilton Hotels Corp. for allegedly stealing more than 100,000 confidential electronic and paper documents containing "Starwood's most competitively sensitive information." The complaint alleges that two Starwood executives, Ross Klein and Amar Lalvani, resigned from Starwood to join Hilton and took this information with them. The legal complaint says, "This is the clearest imaginable case of corporate espionage, theft of trade secrets, unfair competition and computer fraud." In addition to monetary

awards, Starwood is seeking to force Hilton to cancel the rollout of the Denizen hotel chain. Hilton is owned by Blackstone Group.

Hiring top executives from rival firms is also a way companies obtain competitive intelligence. Just two days after Facebook's COO, Owen Van Natta, left the company in 2009, he accepted the CEO job at MySpace, replacing then CEO and cofounder Chris DeWolfe. Van Natta had previously also been Facebook's COO, chief revenue officer, and vice president of operations. The MySpace appointment now pits CEO Van Natta against his old boss at Facebook, CEO Mark Zuckerberg. Facebook passed MySpace in visitors worldwide in 2008 and is closing in on leadership in the United States. Both firms are fierce rivals in the Internet social-networking business.

A recent article in the Wall Street Journal detailed how computer spies recently broke into the Pentagon's $300 billion Joint Strike fighter project, one of the costliest weapons programs ever. This intrusion and similar episodes of late have confirmed that any information a firm has available to anyone within the firm online may be at risk of being copied and/or siphoned away by adversaries or rival firms. A recent Pentagon report says the Chinese military in particular has made "steady progress" in developing online-warfare techniques, but rival firms in many industries have expert computer engineers who may be capable of similar unethical/unlawful tactics.

Many U.S. executives grew up in times when U.S. firms dominated foreign competitors so much that gathering competitive intelligence did not seem worth the effort. Too many of these executives still cling to these attitudes—to the detriment of their organizations today. Even most MBA programs do not offer a course in competitive and business intelligence, thus reinforcing this attitude. As a consequence, three strong misperceptions about business intelligence prevail among U.S. executives today:

1. Running an intelligence program requires lots of people, computers, and other resources.
2. Collecting intelligence about competitors violates antitrust laws; business intelligence equals espionage.
3. Intelligence gathering is an unethical business practice.

Any discussions with a competitor about price, market, or geography intentions could violate antitrust statutes. However, this fact must not lure a firm into underestimating the need for and

benefits of systematically collecting information about competitors for Strategic Planning purposes. The Internet has become an excellent medium for gathering competitive intelligence. Information gathering from employees, managers, suppliers, distributors, customers, creditors, and consultants also can make the difference between having superior or just average intelligence and overall competitiveness.

Firms need an effective competitive intelligence (CI) program. The three basic objectives of a CI program are (1) to provide a general understanding of an industry and its competitors, (2) to identify areas in which competitors are vulnerable and to assess the impact strategic actions would have on competitors, and (3) to identify potential moves that a competitor might make that would endanger a firm's position in the market. Competitive information is equally applicable for strategy formulation, implementation, and evaluation decisions. An effective CI program allows all areas of a firm to access consistent and verifiable information in making decisions. All members of an organizationfrom the chief executive officer to custodians—are valuable intelligence agents and should feel themselves to be a part of the CI process. Special characteristics of a successful CI program include flexibility, usefulness, timeliness, and cross-functional cooperation.

The increasing emphasis on competitive analysis in the United States is evidenced by corporations putting this function on their organizational charts under job titles such as Director of Competitive Analysis, Competitive Strategy Manager, Director of Information Services, or Associate Director of Competitive Assessment. The responsibilities of a director of competitive analysis include planning, collecting data, analyzing data, facilitating the process of gathering and analyzing data, disseminating intelligence on a timely basis, researching special issues, and recognizing what information is important and who needs to know. Competitive intelligence is not corporate espionage because 95 percent of the information a company needs to make strategic decisions is available and accessible to the public. Sources of competitive information include trade journals, want ads, newspaper articles, and government filings, as well as customers, suppliers, distributors, competitors themselves, and the Internet.

Unethical tactics such as bribery, wiretapping, and computer break-ins should never be used to obtain information. Marriott and Motorola—two U.S. companies that do a particularly good job of gathering competitive intelligence—agree that all the information you could wish for can be

collected without resorting to unethical tactics. They keep their intelligence staffs small, usually under five people, and spend less than $200,000 per year on gathering competitive intelligence.

Unilever recently sued Procter & Gamble (P&G) over that company's corporate-espionage activities to obtain the secrets of its Unilever hair-care business. After spending $3 million to establish a team to find out about competitors in the domestic hair-care industry, P&G allegedly took roughly 80 documents from garbage bins outside Unilever's Chicago offices. P&G produces Pantene and Head & Shoulders shampoos; Unilever has hair-care brands such as ThermaSilk, Suave, Salon Selectives, and Finesse. Similarly, Oracle Corp. recently admitted that detectives it hired paid janitors to go through Microsoft Corp.'s garbage, looking for evidence to use in court.

Much external environmental scanning is done on an informal and individual basis. Information is obtained from a variety of sources—suppliers, customers, industry publications, employees, industry experts, industry conferences, and the Internet. For example, scientists and engineers working in a firm's R&D lab can learn about new products and competitors' ideas at professional meetings; someone from the purchasing department, speaking with supplier-representatives' personnel, may also uncover valuable bits of information about a competitor. A study of product innovation found that 77% of all product innovations in scientific instruments and 67% in semiconductors and printed circuit boards were initiated by the customer in the form of inquiries and complaints. In these industries, the sales force and service departments must be especially vigilant.

A recent survey of global executives by McKinsey & Company found that the single factor contributing most to the increasing competitive intensity in their industries was the improved capabilities of competitors. Yet, without competitive intelligence, companies run the risk of flying blind in the marketplace. In a 2008 survey of global executives, the majority revealed that their companies typically learned about a competitor's price change or significant innovation too late to respond before it was introduced into the market. According to work by Ryall, firms can have competitive advantages simply because their rivals have erroneous beliefs about them. This is why competitive intelligence has become an important part of environmental scanning in most companies.

Competitive intelligence is a formal program of gathering information on a company's competitors. Often called business intelligence, it is one of the fastest growing fields within strategic management. Research indicates that there is a strong association between corporate performance and competitive intelligence activities. 68 According to a survey of competitive intelligence professionals, the primary reasons for practicing competitive intelligence are to build industry awareness (90.6%), support the strategic planning process (79.2%), develop new products (73.6%), and create new marketing strategies and tactics. As early as the 1990s, 78% of large U.S. corporations conducted competitive intelligence activities. In about a third of the firms, the competitive/business intelligence function is housed in its own unit, with the remainder being housed within marketing, strategic planning, information services, business development (merger & acquisitions), product development, or other units. According to a 2007 survey of 141 large American corporations, spending on competitive intelligence activities was rising from $1 billion in 2007 to $10 billion by 2012. At General Mills, for example, all employees have been trained to recognize and tap sources of competitive information. Janitors no longer simply place orders with suppliers of cleaning materials; they also ask about relevant practices at competing firms!

**Source of Competitive Intellegence**

Most corporations use outside organizations to provide them with environmental data. Firms such as A. C. Nielsen Co. provide subscribers with bimonthly data on brand share, retail prices, percentages of stores stocking an item, and percentages of stock-out stores. Strategists can use this data to spot regional and national trends as well as to assess market share. Information on market conditions, government regulations, industry competitors, and new products can be bought from "information brokers" such as Market Research.com (Findex), LexisNexis (company and country analyses), and Finsbury Data Services. Company and industry profiles are generally available from the Hoover's Web site, at www.hoovers.com. Many business corporations have established their own in-house libraries and computerized information systems to deal with the growing mass of available information.

The Internet has changed the way strategists engage in environmental scanning. It provides the quickest means to obtain data on almost any subject. Although the scope and quality of Internet information is increasing geometrically, it is also littered with "noise," misinformation, and utter nonsense. For example, a number of corporate Web sites are sending unwanted guests to specially

constructed bogus Web sites. Unlike the library, the Internet lacks the tight bibliographic control standards that exist in the print world. There is no ISBN or Dewey Decimal System to identify, search, and retrieve a document. Many Web documents lack the name of the author and the date of publication. A Web page providing useful information may be accessible on the Web one day and gone the next. Unhappy ex-employees, far-out environmentalists, and prank-prone hackers create "blog" Web sites to attack and discredit an otherwise reputable corporation. Rumors with no basis in fact are spread via chat rooms and personal Web sites. This creates a serious problem for researchers. How can one evaluate the information found on the Internet?

Some companies choose to use industrial espionage or other intelligence-gathering techniques to get their information straight from their competitors. According to a survey by the American Society for Industrial Security, PricewaterhouseCoopers, and the United States Chamber of Commerce, Fortune 1000 companies lost an estimated $59 billion in one year alone due to the theft of trade secrets. 74 By using current or former competitors' employees and private contractors, some firms attempt to steal trade secrets, technology, business plans, and pricing strategies. For example, Avon Products hired private investigators to retrieve from a public dumpster documents (some of them shredded) that Mary Kay Corporation had thrown away. Oracle Corporation also hired detectives to obtain the trash of a think tank that had defended the pricing practices of its rival Microsoft. Studies reveal that 32% of the trash typically found next to copy machines contains confidential company data, in addition to personal data (29%) and gossip (39%). 75 Even P&G, which defends itself like a fortress from information leaks, is vulnerable. A competitor was able to learn the precise launch date of a concentrated laundry detergent in Europe when one of its people visited the factory where machinery was being made. Simply asking a few questions about what a certain machine did, whom it was for, and when it would be delivered was all that was necessary.

Some of the firms providing investigatory services are Kroll Inc. with 4,000 employees in 25 countries, Fairfax, Security Outsourcing Solutions, Trident Group, and Diligence Inc. 76 Trident, for example, specializes in helping American companies enter the Russian market and is a U.S.-based corporate intelligence firm founded and managed by former veterans of Russian intelligence services, like the KGB.

To combat the increasing theft of company secrets, the United States government passed the Economic Espionage Act in 1996. The law makes it illegal (with fines up to $5 million and 10

years in jail) to steal any material that a business has taken “reasonable efforts” to keep secret and that derives its value from not being known. 78 The Society of Competitive Intelligence Professionals (www.scip.org) urges strategists to stay within the law and to act ethically when searching for information. The society states that illegal activities are foolish because the vast majority of worthwhile competitive intelligence is available publicly via annual reports, Web sites, and libraries. Unfortunately, a number of firms hire “kites,” consultants with questionable reputations, who do what is necessary to get information when the selected methods do not meet SPIC ethical standards or are illegal. This allows the company that initiated the action to deny that it did anything wrong.

**Monitoring Competitors for Strategic Planning**

The primary activity of a competitive intelligence unit is to monitor competitors—organizations that offer same, similar, or substitutable products or services in the business area in which a particular company operates. To understand a competitor, it is important to answer the following 10 questions:

1. Why do your competitors exist? Do they exist to make profits or just to support another unit?
2. Where do they add customer value—higher quality, lower price, excellent credit terms, or better service?
3. Which of your customers are the competitors most interested in? Are they cherry-picking your best customers, picking the ones you don’t want, or going after all of them?
4. What is their cost base and liquidity? How much cash do they have? How do they get their supplies?
5. Are they less exposed with their suppliers than your firm? Are their suppliers better than yours?
6. What do they intend to do in the future? Do they have a strategic plan to target your market segments? How committed are they to growth? Are there any succession issues?
7. How will their activity affect your strategies? Should you adjust your plans and operations?
8. How much better than your competitor do you need to be in order to win customers? Do either of you have a competitive advantage in the marketplace?

9. Will new competitors or new ways of doing things appear over the next few years? Who is a potential new entrant?
10. If you were a customer, would you choose your product over those offered by your competitors? What irritates your current customers? What competitors solve these particular customer complaints?

To answer these and other questions, competitive intelligence professionals utilize a number of analytical techniques. In addition to the previously discussed SWOT analysis, Michael Porter's industry forces analysis, and strategic group analysis, some of these techniques are Porter's four-corner exercise, Treacy and Wiersema's value disciplines, Gilad's blind spot analysis, and war gaming.

Done right, competitive intelligence is a key input to strategic planning. Avnet Inc., one of the world's largest distributors of electronic components, uses competitive intelligence in its growth by acquisition strategy.

**Market Commonality and Resource Similarity**

By definition, competitors are firms that offer similar products and services in the same market. Markets can be geographic or product areas or segments. For example, in the insurance industry the markets are broken down into commercial/consumer, health/life, or Europe/Asia. Researchers use the terms market commonality and resource similarity to study rivalry among competitors. Market commonality can be defined as the number and significance of markets that a firm competes in with rivals. Resource similarity is the extent to which the type and amount of a firm's internal resources are comparable to a rival. One way to analyze competitiveness between two or among several firms is to investigate market commonality and resource similarity issues while looking for areas of potential competitive advantage along each firm's value chain.

## Competitive Analysis: Porter's Five-Forces Model

As illustrated in Figure below, Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries. The intensity of competition among firms varies widely across industries.

The Five-Forces Model of Competition

According to Porter, the nature of competitiveness in a given industry can be viewed as a composite of five forces:

1. Rivalry among competing firms
2. Potential entry of new competitors
3. Potential development of substitute products
4. Bargaining power of suppliers
5. Bargaining power of consumers

The following three steps for using Porter's Five-Forces Model can indicate whether competition in a given industry is such that the firm can make an acceptable profit:

1. Identify key aspects or elements of each competitive force that impact the firm.
2. Evaluate how strong and important each element is for the firm.
3. Decide whether the collective strength of the elements is worth the firm entering or staying in the industry.

**Rivalry Among Competing Firms**

Rivalry among competing firms is usually the most powerful of the five competitive forces. The strategies pursued by one firm can be successful only to the extent that they provide competitive advantage over the strategies pursued by rival firms. Changes in strategy by one firm may be met with retaliatory countermoves, such as lowering prices, enhancing quality, adding features, providing services, extending warranties, and increasing advertising.

Free-flowing information on the Internet is driving down prices and inflation worldwide. The Internet, coupled with the common currency in Europe, enables consumers to make price comparisons easily across countries. Just for a moment, consider the implications for car dealers who used to know everything about a new car's pricing, while you, the consumer, knew very little. You could bargain, but being in the dark, you rarely could win. Now you can shop online in a few hours at every dealership within 500 miles to find the best price and terms. So you, the consumer, can win. This is true in many, if not most, business-to-consumer and business-to-business sales transactions today.

The intensity of rivalry among competing firms tends to increase as the number of competitors increases, as competitors become more equal in size and capability, as demand for the industry's products declines, and as price cutting becomes common. Rivalry also increases when consumers can switch brands easily; when barriers to leaving the market are high; when fixed costs are high; when the product is perishable; when consumer demand is growing slowly or declines such that rivals have excess capacity and/or inventory; when the products being sold are commodities (not easily differentiated such as gasoline); when rival firms are diverse in strategies, origins, and culture; and when mergers and acquisitions are common in the industry. As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive. When rival firms sense weakness, typically they will intensify both marketing and production efforts to capitalize on the "opportunity." Table below summarizes conditions that cause high rivalry among competing firms.

**TABLE 3-11 Conditions That Cause High Rivalry Among Competing Firms**

1. High number of competing firms
2. Similar size of firms competing
3. Similar capability of firms competing
4. Falling demand for the industry's products
5. Falling product/service prices in the industry
6. When consumers can switch brands easily
7. When barriers to leaving the market are high
8. When barriers to entering the market are low
9. When fixed costs are high among firms competing
10. When the product is perishable
11. When rivals have excess capacity
12. When consumer demand is falling
13. When rivals have excess inventory
14. When rivals sell similar products/services
15. When mergers are common in the industry

**Potential Entry of New Competitors**

Whenever new firms can easily enter a particular industry, the intensity of competitiveness among firms increases. Barriers to entry, however, can include the need to gain economies of scale quickly, the need to gain technology and specialized know-how, the lack of experience, strong customer loyalty, strong brand preferences, large capital requirements, lack of adequate distribution channels, government regulatory policies, tariffs, lack of access to raw materials, possession of patents, undesirable locations, counterattack by entrenched firms, and potential saturation of the market.

Despite numerous barriers to entry, new firms sometimes enter industries with higher-quality products, lower prices, and substantial marketing resources. The strategist's job, therefore, is to identify potential new firms entering the market, to monitor the new rival firms' strategies, to counterattack as needed, and to capitalize on existing strengths and opportunities. When the threat of new firms entering the market is strong, incumbent firms generally fortify their positions and take actions to deter new entrants, such as lowering prices, extending warranties, adding features, or offering financing specials.

**Potential Development of Substitute Products**

In many industries, firms are in close competition with producers of substitute products in other industries. Examples are plastic container producers competing with glass, paperboard, and aluminum can producers, and acetaminophen manufacturers competing with other manufacturers of pain and headache remedies. The presence of substitute products puts a ceiling on the price that can be charged before consumers will switch to the substitute product. Price ceilings equate to profit ceilings and more intense competition among rivals. Producers of eyeglasses and contact lenses, for example, face increasing competitive pressures from laser eye surgery. Producers of sugar face similar pressures from artificial sweeteners. Newspapers and magazines face substitute-product competitive pressures from the Internet and 24-hour cable television. The magnitude of competitive pressure derived from development of substitute products is generally evidenced by rivals' plans for expanding production capacity, as well as by their sales and profit growth numbers.

Competitive pressures arising from substitute products increase as the relative price of substitute products declines and as consumers' switching costs decrease. The competitive strength of substitute products is best measured by the inroads into the market share those products obtain, as well as those firms' plans for increased capacity and market penetration.

**Bargaining Power of Suppliers**

The bargaining power of suppliers affects the intensity of competition in an industry, especially when there is a large number of suppliers, when there are only a few good substitute raw materials, or when the cost of switching raw materials is especially costly. It is often in the best interest of both suppliers and producers to assist each other with reasonable prices, improved quality, development of new services, just-in-time deliveries, and reduced inventory costs, thus enhancing long-term profitability for all concerned.

Firms may pursue a backward integration strategy to gain control or ownership of suppliers. This strategy is especially effective when suppliers are unreliable, too costly, or not capable of meeting a firm's needs on a consistent basis. Firms generally can negotiate more favorable terms with suppliers when backward integration is a commonly used strategy among rival firms in an industry.

However, in many industries it is more economical to use outside suppliers of component parts than to self-manufacture the items. This is true, for example, in the outdoor power equipment industry where producers of lawn mowers, rotary tillers, leaf blowers, and edgers such as Murray generally obtain their small engines from outside manufacturers such as Briggs & Stratton who specialize in such engines and have huge economies of scale.

In more and more industries, sellers are forging strategic partnerships with select suppliers in efforts to (1) reduce inventory and logistics costs (e.g., through just-in-time deliveries); (2) speed the availability of next-generation components; (3) enhance the quality of the parts and components being supplied and reduce defect rates; and (4) squeeze out important cost savings for both themselves and their suppliers.

**Bargaining Power of Consumers**

When customers are concentrated or large or buy in volume, their bargaining power represents a major force affecting the intensity of competition in an industry. Rival firms may offer extended warranties or special services to gain customer loyalty whenever the bargaining power of consumers is substantial. Bargaining power of consumers also is higher when the products being purchased are standard or undifferentiated. When this is the case, consumers often can negotiate selling price, warranty coverage, and accessory packages to a greater extent.

The bargaining power of consumers can be the most important force affecting competitive advantage. Consumers gain increasing bargaining power under the following circumstances:

1. If they can inexpensively switch to competing brands or substitutes
2. If they are particularly important to the seller
3. If sellers are struggling in the face of falling consumer demand
4. If they are informed about sellers' products, prices, and costs
5. If they have discretion in whether and when they purchase the product

**Sources of External Information**

A wealth of strategic information is available to organizations from both published and unpublished sources. Unpublished sources include customer surveys, market research, speeches at professional and shareholders' meetings, television programs, interviews, and conversations with stakeholders. Published sources of strategic information include periodicals, journals, reports, government documents, abstracts, books, directories, newspapers, and manuals. The Internet has made it easier for firms to gather, assimilate, and evaluate information.

There are many excellent Web sites for gathering strategic information, but six that the author uses routinely are listed here:

1. http://marketwatch.multexinvestor.com
2. http://moneycentral.msn.com
3. http://finance.yahoo.com
4. www.clearstation.com
5. https://us.etrade.com/e/t/invest/markets
6. www.hoovers.com

Most college libraries subscribe to Standard & Poor's (S&P's) Industry Surveys. These documents are exceptionally up-to-date and give valuable information about many different industries. Each report is authored by a Standard & Poor's industry research analyst and includes the following sections:

1. Current Environment
2. Industry Trends
3. How the Industry Operates
4. Key Industry Ratios and Statistics
5. How to Analyze a Company
6. Glossary of Industry Terms
7. Additional Industry Information
8. References
9. Comparative Company Financial Analysis

**Forecasting Tools and Techniques**

Forecasts are educated assumptions about future trends and events. Forecasting is a complex activity because of factors such as technological innovation, cultural changes, new products, improved services, stronger competitors, shifts in government priorities, changing social values, unstable economic conditions, and unforeseen events. Managers often must rely on published forecasts to effectively identify key external opportunities and threats.

A sense of the future permeates all action and underlies every decision a person makes. People eat expecting to be satisfied and nourished in the future. People sleep assuming that in the future they will feel rested. They invest energy, money, and time because they believe their efforts will be rewarded in the future. They build highways assuming that automobiles and trucks will need them in the future. Parents educate children on the basis of forecasts that they will need certain skills, attitudes, and knowledge when they grow up. The truth is we all make implicit forecasts throughout our daily lives. The question, therefore, is not whether we should forecast but rather how we can best forecast to enable us to move beyond our ordinarily unarticulated assumptions about the future. Can we obtain information and then make educated assumptions (forecasts) to better guide our current

decisions to achieve a more desirable future state of affairs? We should go into the future with our eyes and our minds open, rather than stumble into the future with our eyes closed.

Many publications and sources on the Internet forecast external variables. Several published examples include Industry Week's "Trends and Forecasts," BusinessWeek's "Investment Outlook," and Standard & Poor's Industry Survey. The reputation and continued success of these publications depend partly on accurate forecasts, so published sources of information can offer excellent projections. An especially good Web site for industry forecasts is finance.yahoo.com. Just insert a firm's stock symbol and go from there.

Sometimes organizations must develop their own projections. Most organizations forecast (project) their own revenues and profits annually. Organizations sometimes forecast market share or customer loyalty in local areas. Because forecasting is so important in strategic management and because the ability to forecast (in contrast to the ability to use a forecast) is essential, selected forecasting tools are examined further here.

Forecasting tools can be broadly categorized into two groups: quantitative techniques and qualitative techniques. Quantitative forecasts are most appropriate when historical data are available and when the relationships among key variables are expected to remain the same in the future. Linear regression, for example, is based on the assumption that the future will be just like the past—which, of course, it never is. As historical relationships become less stable, quantitative forecasts become less accurate.

No forecast is perfect, and some forecasts are even wildly inaccurate. This fact accents the need for strategists to devote sufficient time and effort to study the underlying bases for published forecasts and to develop internal forecasts of their own. Key external opportunities and threats can be effectively identified only through good forecasts. Accurate forecasts can provide major competitive advantages for organizations. Forecasts are vital to the strategic-management process and to the success of organizations.

**Making Assumptions**

Planning would be impossible without assumptions. McConkey defines assumptions as the "best present estimates of the impact of major external factors, over which the manager has little if any control, but which may exert a significant impact on performance or the ability to achieve desired results." Strategists are faced with countless variables and imponderables that can be neither controlled nor predicted with 100 percent accuracy. Wild guesses should never be made in formulating strategies, but reasonable assumptions based on available information must always be made.

By identifying future occurrences that could have a major effect on the firm and by making reasonable assumptions about those factors, strategists can carry the strategic-management process forward. Assumptions are needed only for future trends and events that are most likely to have a significant effect on the company's business. Based on the best information at the time, assumptions serve as checkpoints on the validity of strategies. If future occurrences deviate significantly from assumptions, strategists know that corrective actions may be needed. Without reasonable assumptions, the strategy-formulation process could not proceed effectively. Firms that have the best information generally make the most accurate assumptions, which can lead to major competitive advantages.

## Industry Evolution

Over time, most industries evolve through a series of stages from growth through maturity to eventual decline. The strength of each of the six forces mentioned earlier varies according to the stage of industry evolution. The industry life cycle is useful for explaining and predicting trends among the six forces that drive industry competition. For example, when an industry is new, people often buy the product, regardless of price, because it fulfills a unique need. This usually occurs in a fragmented industry—where no firm has large market share, and each firm serves only a small piece of the total market in competition with others (for example, cleaning services). As new competitors enter the industry, prices drop as a result of competition. Companies use the experience curve and economies of scale to reduce costs faster than the competition. Companies integrate to reduce costs even further by acquiring their suppliers and distributors. Competitors

try to differentiate their products from one another's in order to avoid the fierce price competition common to a maturing industry.

By the time an industry enters maturity, products tend to become more like commodities. This is now a consolidated industry—dominated by a few large firms, each of which struggles to differentiate its products from those of the competition. As buyers become more sophisticated over time, purchasing decisions are based on better information. Price becomes a dominant concern, given a minimum level of quality and features, and profit margins decline. The automobile, petroleum, and major home appliance industries are examples of mature, consolidated industries each controlled by a few large competitors. In the case of the United States major home appliance industry, the industry changed from being a fragmented industry (pure competition) composed of hundreds of appliance manufacturers in the industry's early years to a consolidated industry (mature oligopoly) composed of three companies controlling over 90% of United States appliance sales. A similar consolidation is occurring now in European major home appliances.

As an industry moves through maturity toward possible decline, its products' growth rate of sales slows and may even begin to decrease. To the extent that exit barriers are low, firms begin converting their facilities to alternate uses or sell them to other firms. The industry tends to consolidate around fewer but larger competitors. The tobacco industry is an example of an industry currently in decline.

**Categorizing International Industries**

According to Porter, world industries vary on a continuum from multidomestic to global. Multidomestic industries are specific to each country or group of countries. This type of international industry is a collection of essentially domestic industries, such as retailing and insurance. The activities in a subsidiary of a multinational corporation (MNC) in this type of industry are essentially independent of the activities of the MNC's subsidiaries in other countries. Within each country, it has a manufacturing facility to produce goods for sale within that country. The MNC is thus able to tailor its products or services to the very specific needs of consumers in a particular country or group of countries having similar societal environments.

Global industries, in contrast, operate worldwide, with MNCs making only small adjustments for country-specific circumstances. In a global industry an MNC's activities in one country are significantly affected by its activities in other countries. MNCs in global industries produce products or services in various locations throughout the world and sell them, making only minor adjustments for specific country requirements. Examples of global industries are commercial aircraft, television sets, semiconductors, copiers, automobiles, watches, and tires. The largest industrial corporations in the world in terms of sales revenue are, for the most part, MNCs operating in global industries.

The factors that tend to determine whether an industry will be primarily multidomestic or primarily global are:

1. Pressure for coordination within the MNCs operating in that industry
2. Pressure for local responsiveness on the part of individual country markets

To the extent that the pressure for coordination is strong and the pressure for local responsiveness is weak for MNCs within a particular industry, that industry will tend to become global. In contrast, when the pressure for local responsiveness is strong and the pressure for coordination is weak for multinational corporations in an industry, that industry will tend to be multidomestic. Between these two extremes lie a number of industries with varying characteristics of both multidomestic and global industries. These are regional industries, in which MNCs primarily coordinate their activities within regions, such as the Americas or Asia. The major home appliance industry is a current example of a regional industry becoming a global industry. Japanese appliance makers, for example, are major competitors in Asia, but only minor players in Europe or America. The dynamic tension between the pressure for coordination and the pressure for local responsiveness is contained in the phrase, "Think globally but act locally."

**International Risk Assessment**

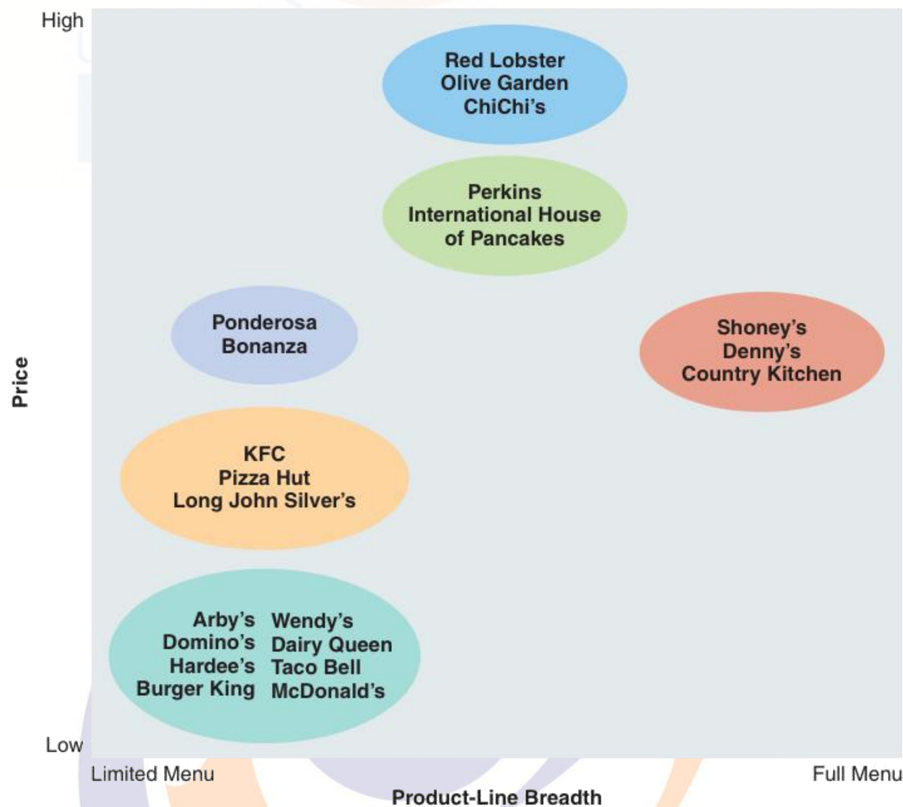
Some firms develop elaborate information networks and computerized systems to evaluate and rank investment risks. Small companies may hire outside consultants, such as Boston's Arthur D. Little Inc., to provide political-risk assessments. Among the many systems that exist to assess political and economic risks are the Business Environment Risk Index, the Economist Intelligence Unit, and Frost and Sullivan's World Political Risk Forecasts. The Economist Intelligence Unit, for example, provides a constant flow of analysis and forecasts on more than 200 countries and eight key industries. Regardless of the source of data, a firm must develop its own method of assessing risk. It must decide on its most important risk factors and then assign weights to each.

## Strategic Groups

A strategic group is a set of business units or firms that "pursue similar strategies with similar resources." Categorizing firms in any one industry into a set of strategic groups is very useful as a way of better understanding the competitive environment. Research shows that some strategic groups in the same industry are more profitable than others. Because a corporation's structure and culture tend to reflect the kinds of strategies it follows, companies or business units belonging to a particular strategic group within the same industry tend to be strong rivals and tend to be more similar to each other than to competitors in other strategic groups within the same industry.

For example, although McDonald's and Olive Garden are a part of the same industry, the restaurant industry, they have different missions, objectives, and strategies, and thus they belong to different strategic groups. They generally have very little in common and pay little attention to each other when planning competitive actions. Burger King and Hardee's, however, have a great deal in common with McDonald's in terms of their similar strategy of producing a high volume of low-priced meals targeted for sale to the average family. Consequently, they are strong rivals and are organized to operate similarly.

Strategic groups in a particular industry can be mapped by plotting the market positions of industry competitors on a two-dimensional graph, using two strategic variables as the vertical and horizontal axes (See Figure below):




1. Select two broad characteristics, such as price and menu, that differentiate the companies in an industry from one another.
2. Plot the firms, using these two characteristics as the dimensions.
3. Draw a circle around those companies that are closest to one another as one strategic group, varying the size of the circle in proportion to the group's share of total industry sales. (You could also name each strategic group in the restaurant industry with an identifying title, such as quick fast food or buffet-style service.)

Other dimensions, such as quality, service, location, or degree of vertical integration, could also be used in additional graphs of the restaurant industry to gain a better understanding of how the various firms in the industry compete. Keep in mind, however, that the two dimensions should not be highly correlated; otherwise, the circles on the map will simply lie along the diagonal, providing very little new information other than the obvious.

## Strategic Types

In analyzing the level of competitive intensity within a particular industry or strategic group, it is useful to characterize the various competitors for predictive purposes. A strategic type is a category of firms based on a common strategic orientation and a combination of structure, culture, and processes consistent with that strategy. According to Miles and Snow, competing firms within a single industry can be categorized into one of four basic types on the basis of their general strategic orientation. This distinction helps explain why companies facing similar situations behave differently and why they continue to do so over long periods of time. These general types have the following characteristics:

1. Defenders are companies with a limited product line that focus on improving the efficiency of their existing operations. This cost orientation makes them unlikely to innovate in new areas. With its emphasis on efficiency, Lincoln Electric is an example of a defender.
2. Prospectors are companies with fairly broad product lines that focus on product innovation and market opportunities. This sales orientation makes them somewhat inefficient. They tend to emphasize creativity over efficiency. Rubbermaid's emphasis on new product development makes it an example of a prospector.
3. Analyzers are corporations that operate in at least two different product-market areas, one stable and one variable. In the stable areas, efficiency is emphasized. In the variable areas, innovation is emphasized. Multidivisional firms, such as IBM and Procter & Gamble, which operate in multiple industries, tend to be analyzers.
4. Reactors are corporations that lack a consistent strategy-structure-culture relationship. Their (often ineffective) responses to environmental pressures tend to be piecemeal strategic changes. Most major U.S. airlines have recently tended to be reactors—given the way they have been forced to respond to new entrants such as Southwest and JetBlue.

Dividing the competition into these four categories enables the strategic manager not only to monitor the effectiveness of certain strategic orientations, but also to develop scenarios of future industry developments (discussed later in this chapter).

**Hypercompetition**

Most industries today are facing an ever-increasing level of environmental uncertainty. They are becoming more complex and more dynamic. Industries that used to be multidomestic are becoming global. New flexible, aggressive, innovative competitors are moving into established markets to rapidly erode the advantages of large previously dominant firms. Distribution channels vary from country to country and are being altered daily through the use of sophisticated information systems. Closer relationships with suppliers are being forged to reduce costs, increase quality, and gain access to new technology. Companies learn to quickly imitate the successful strategies of market leaders, and it becomes harder to sustain any competitive advantage for very long. Consequently, the level of competitive intensity is increasing in most industries.

Richard D'Aveni contends that as this type of environmental turbulence reaches more industries, competition becomes hypercompetition. According to D'Aveni:
hypercompetition the frequency, boldness, and aggressiveness of dynamic movement by the players accelerates to create a condition of constant disequilibrium and change. Market stability is threatened by short product life cycles, short product design cycles, new technologies, frequent entry by unexpected outsiders, repositioning by incumbents, and tactical redefinitions of market boundaries as diverse industries merge. In other words, environments escalate toward higher and higher levels of uncertainty, dynamism, heterogeneity of the players and hostility.

In hypercompetitive industries such as computers, competitive advantage comes from an upto-date knowledge of environmental trends and competitive activity coupled with a willingness to risk a current advantage for a possible new advantage. Companies must be willing to cannibalize their own products (that is, replace popular products before competitors do so) in order to sustain their competitive advantage.

**Using Key Success Factors to Create an Industry Matrix**

Within any industry there are usually certain variables—key success factors—that a company's management must understand in order to be successful. Key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry. They typically vary from industry to industry and are crucial to determining a company's ability to succeed within that industry. They are usually determined by the economic and technological characteristics of the industry and by the competitive weapons on which the firms in the industry

have built their strategies. For example, in the major home appliance industry, a firm must achieve low costs, typically by building large manufacturing facilities dedicated to making multiple versions of one type of appliance, such as washing machines. Because 60% of major home appliances in the United States are sold through "power retailers" such as Sears and Best Buy, a firm must have a strong presence in the mass merchandiser distribution channel. It must offer a full line of appliances and provide a just-in-time delivery system to keep store inventory and ordering costs to a minimum. Because the consumer expects reliability and durability in an appliance, a firm must have excellent process R&D. Any appliance manufacturer that is unable to deal successfully with these key success factors will not survive long in the U.S. market.

**TABLE 4–4** Industry Matrix

| Key Success Factors | Weight | Company A Rating | Company A Weighted Score | Company B Rating | Company B Weighted Score |
|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 |
| **Total** | 1.00 | | | | |

SOURCE: T. L. Wheelen and J. D. Hunger, *Industry Matrix*. Copyright © 1997, 2001, and 2005 by Wheelen & Hunger Associates. Reprinted with permission.

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An industry matrix summarizes the key success factors within a particular industry. As shown in Table above, the matrix gives a weight for each factor based on how important that factor is for success within the industry. The matrix also specifies how well various competitors in the industry are responding to each factor. To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

1. In Column 1 (Key Success Factors), list the 8 to 10 factors that appear to determine success in the industry.

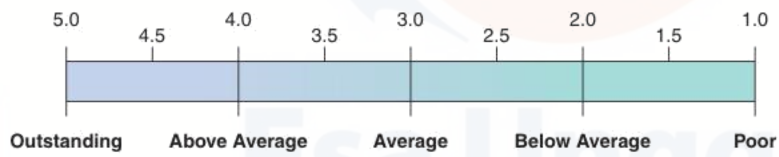
2. In Column 2 (Weight), assign a weight to each factor, from 1.0 (Most Important) to 0.0 (Not Important) based on that factor's probable impact on the overall industry's current and future success. (All weights must sum to 1.0 regardless of the number of strategic factors.)
3. In Column 3 (Company A Rating), examine a particular company within the industry—for example, Company A. Assign a rating to each factor from 5 (Outstanding) to 1 (Poor) based on Company A's current response to that particular factor. Each rating is a judgment regarding how well that company is specifically dealing with each key success factor.

4. In Column 4 (Company A Weighted Score), multiply the weight in Column 2 for each factor by its rating in Column 3 to obtain that factor's weighted score for Company A.

5. In Column 5 (Company B Rating), examine a second company within the industry - in this case, Company B. Assign a rating to each key success factor from 5.0 (Outstanding) to 1.0 (Poor), based on Company B's current response to each particular factor.

6. In Column 6 (Company B Weighted Score), multiply the weight in Column 2 for each factor times its rating in Column 5 to obtain that factor's weighted score for Company B.

7. Finally, add the weighted scores for all the factors in Columns 4 and 6 to determine the total weighted scores for companies A and B. The total weighted score indicates how well each company is responding to current and expected key success factors in the industry's environment. Check to ensure that the total weighted score truly reflects the company's current performance in terms of profitability and market share. (An average company should have a total weighted score of 3.)




The industry matrix can be expanded to include all the major competitors within an industry through the addition of two additional columns for each additional competitor.

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