Strategy for Emerging Industries...

Reference:

Competitive Strategy

M. Porter

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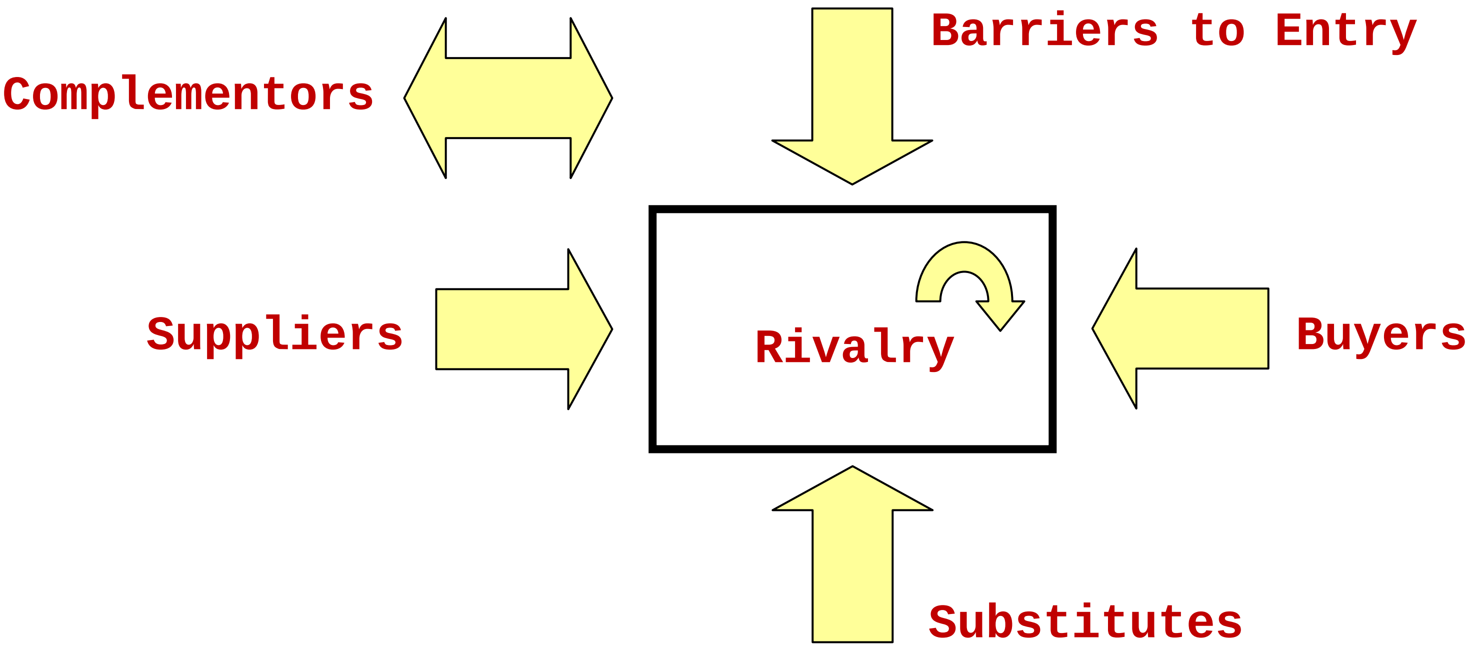
Strategy:

Offensive or defensive action to create a defendable position against the six competitive forces



Reference: Competitive Strategy. M Porter

Possible Approaches

- **Positioning**
  – Assume industry structure is a given and match company's strengths & weaknesses to it.
- **Influencing the balance**
  – Strategy aimed at altering the cause of market forces
- **Exploiting change**
  – Anticipating shifts in the factors underlying the market forces and choosing a strategy appropriate to the new competitive balance before rivals.

Reference: Competitive Strategy. M Porter

Generic Strategies

- **Overall cost leadership**
  - Industry low cost position effective against all market forces
  - Usually requires high market share
- **Differentiation**
  - Perceive industry-wide as unique (features, technology, brand)
  - Usually not a high market share position
- **Focus**
  - Serve a particular, narrow target better than rivals

Reference: Competitive Strategy. M Porter

Structural Environment of Emerging Markets

- **Technological Uncertainty**
  - What will best product configuration be? Best production technology?
- **Strategic Uncertainty**
  - No clear “right” strategy. Poor information about competitors, customers, and industry conditions.
- **High Initial Costs but Steep Cost Reduction**
  - Low volume & new processes lead to high costs. Initial high labor contents may rapidly reduce with learning. Rapid cost decline as scale & learning grow.

Reference: Competitive Strategy. M Porter

Structural Environment of Emerging Markets

- **Embryonic Companies & Spin-Offs**
  - High concentration of new companies and spin-offs.
- **First Time Buyers**
  - Marketing task of inducing substitution or getting buyer to purchase new product over something else
- **Short Time Horizon**
  - Expedient handling of problems. Industry conventions often born out of chance.
- **Subsidy**

Reference: Competitive Strategy. M Porter

Early Entry Barriers in Emerging Markets

- Proprietary technology
- Distribution channel access
- Access to raw materials
- Access to technical talent
- Cost advantage due to experience
- High risk

Reference: Competitive Strategy. M Porter

Problems Constraining Emerging Industry Development

- Inability to obtain raw materials and components
- Period of rapid escalation of raw material prices
- Absence of infrastructure
- Absence of product or technical standardization
- Perceived likelihood of obsolescence
- Customer confusion
- Erratic product quality

Reference: Competitive Strategy. M Porter

Problems Constraining Emerging Industry Development

- Image and credibility with financial community
- Regulatory approval
- High costs
- Response of threatened entities

Reference: Competitive Strategy. M Porter

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Early & Late Emerging Markets

- **Nature of benefit**
  - Early market is usually performance driven
  - Late market is cost driven
- **Performance advantage**
  - How large is advantage? Is it obvious?
  - Is the advantage a pressing need for the buyer?
  - Does it help the buyer’s competitive advantage?
  - How strong is competitive pressure to change?
  - How price sensitive is the buyer?

Reference: Competitive Strategy. M Porter

Early & Late Emerging Markets

- **Cost advantage**
  - How large is the advantage? Is it obvious?
  - Can lasting advantage be gained through lower cost?
  - How much competitive pressure is there to change?
  - How cost oriented is the buyer's business strategy?
- **State of the art required to yield significant benefits**
  - Rudimentary vs sophisticated product requirements

Reference: Competitive Strategy. M Porter

Early & Late Emerging Markets

- **Cost of product failure**
  - Riskier for integrators and buyers with lower resources
- **Switching costs**
  - Retraining employees
  - Ancillary equipment
  - Write-off of existing equipment
  - Capital required to changeover
  - Engineering and R&D cost to changeover
  - Modifying interelated stages of production

Reference: Competitive Strategy. M Porter

Early & Late Emerging Markets

- Support service availability
- Cost of obsolescence
- Asymmetric government, regulatory, or labor barriers
- Resources to change
- Perception of technological change
- Personal risk to decision maker

Reference: Competitive Strategy. M Porter

Strategic Choices in Emerging Markets

- **Highest degree of freedom during emergent period**
- **Shaping industry structure**
  - Opportunity to set rules of game (product, marketing, pricing)
- **Externalities in industry development**
  - Conflict between need to foster industry cooperation (standardization) and serve self interest of firm (unique products)

Reference: Competitive Strategy. M Porter

Strategic Choices in Emerging Markets

- **Changing role of suppliers and channels**
  - Suppliers and channel will become more receptive to industry's needs
- **Shifting mobility barriers**
  - Quick erosion of early mobility barriers and replacement by new ones
  - Requires new ways to defend position
  - Nature of entrants may change (large companies attracted to new industry)

Reference: Competitive Strategy. M Porter

Timing Entry in Emerging Markets

- **Early entry good when…**
  - Pioneer image is important to buyer
  - Learning curve is important & experience is hard to imitate
  - Customer loyalty will be great
  - Absolute cost advantage from early commitment of suppliers and distribution channel

Reference: Competitive Strategy. M Porter

Timing Entry in Emerging Markets

- **Early entry risky when…**
  - Early competition & market segmentation basis will change significantly later (firm develops wrong skills)
  - Costs of opening market are great and benefit is not proprietary
  - Costly competition with small, new firms that will be later replaced with formidable competition later.
  - Technology changes will make early investments obsolete and give advantage to new entrants

Reference: Competitive Strategy. M Porter

Timing Entry in Emerging Markets

- **Tactical moves:**
  - Get early commitments of suppliers to give favorable priority in times of shortage.
  - Financing can be timed to take advantage financial market excitement

Reference: Competitive Strategy. M Porter

Coping with Competitors in Emerging Markets

- Pioneers may expend large resources defending high market share against competitors who don't become market forces in long run
- Best efforts are spent building own strengths and developing the industry.
- Rarely feasible or profitable to defend a near monopoly in a rapidly growing industry

Reference: Competitive Strategy. M Porter

Entry Through Internal Development

- **Can analyze joint ventures similar to internal development.**
- **Firm must directly confront two entry barriers:**
  - Structural entry barriers (brand, technology,etc)
  - Expected reaction of incumbent firms
- **Entry decision balances costs & benefits:**
  - Investment cost to be in new business
  - Additional investment to overcome barriers like tech.
  - Expected cost from incumbents retaliation
  - Benefit of cash flow from being in industry

Reference: Competitive Strategy. M Porter

Entry Through Internal Development

- **Effect of new entrant on industry supply-demand**
- **Retaliation likely from competitors with:**
  - Slow growth industries
  - Commodity products
  - High fixed costs
  - High industry concentration (low fragmentation)
  - High strategic importance to business position
  - Long established incumbents

Reference: Competitive Strategy. M Porter

Identifying Targets Industries for Internal Entry

- **Rarely pays to enter an industry in equilibrium (higher costs from structural barriers & retaliation)**
- **Industry in disequilibrium**
  - New industries with above-average profits long enough to justify investment
  - Quickly rising entry barriers (move first & facilitate rising barrier costs- common in new industries)
  - Poor/wrong information about entry cost and expected profits

Reference: Competitive Strategy. M Porter

Identifying Targets Industries for Internal Entry

- **Slow or ineffectual retaliation**
  - Incumbents' cost of effective retaliation outweigh benefits
  - Paternal dominant firm
  - Response cost great compared to need to protect existing business
  - Entrant can exploit conventional wisdom

Reference: Competitive Strategy. M Porter

Identifying Targets Industries for Internal Entry

- **Lower entry costs**
  - Overcome structural entry barriers more cheaply than competitors
  - Expect less retaliation costs

Reference: Competitive Strategy. M Porter

Identifying Targets Industries for Internal Entry

- **Distinctive ability to influence industry structure**
- **Positive effect on existing business**
- **Generic entry concepts**
  - Reduce product costs (process,scale, technology, sharing costs with other businesses)
  - Buy in (use low price to gain share)
  - Broad superior product
  - New niche
  - Marketing innovation
  - Piggybacked distribution

Reference: Competitive Strategy. M Porter

Entry Through Acquisition

- **Profitable if…**
  - Low floor price from seller's alternative of keeping
  - Imperfect market doesn't eliminate above average return
  - Buyer has a unique ability to operate the acquired business
- **Height of the floor price low for**
  - Estate problems
  - Capital constraints
  - Weak management

Reference: Competitive Strategy. M Porter

Entry Through Acquisition

- **Imperfections in the market for companies**
  - Buyer has superior information
  - Low number of bidders
  - Bad economic conditions
  - Sick selling company
  - Seller has objectives besides maximizing the price

Reference: Competitive Strategy. M Porter

Entry Through Acquisition

- **Unique ability to operate the acquisition**
  - Buyer has distinctive ability to improve operations
  - Buy into an industry that meets criteria for internal development
  - Acquisition will help in buyer's position in other businesses
- **Irrational bidders**
  - Bidder sees unique way to improve acquisition
  - Acquisition will help existing business
  - Goal other than maximizing profit

Reference: Competitive Strategy. M Porter

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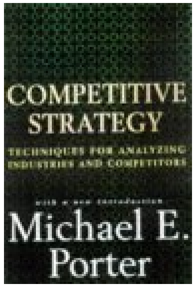

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Reference: Competitive Strategy. M Porter