Strategic Management - The Competitive Edge
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Lecture 16
Key factors of Success, Porter's Industry Competition Model

Welcome to this session. So, we will continue from where we stopped in the last session, we looked the key factors for success, we looked at the generic strategies, then the types of marketing warfare and the Porter's model of value chain.

Now, one of the important points coming out of this, is the risks connected with the generic competitive strategies; how quality dimensions affect these strategies; then we look at key factors for success given by Kenichi Ohmae.

A key success factor is a competitive skill or asset that is particularly relevant to the industry. To "PLAY IN THE GAME", a competitor will usually need to have some minimum level of skill or asset with respect to each of the industry's key success factors. If a firm has a strategic weakness in a key success factor, and it is not neutralized by a well conceived strategy, the firm's ability to compete will be weak.

Conversely, sustainable competitive advantages usually will be based on key success factors. In general, the successful firm will have strengths in the key success areas and unsuccessful competitor will lack one or more of them. So, this is the way you look at KFS with respect to an industry or an organization and it is very important to remain in the business.

So, you should have the KFS to remain in contention in business otherwise you will be marginalized, you will become a marginalized player. So, such things are happening on a very routine basis in the LPG era. Today, you may be seeing some new companies coming up and all of a sudden within a few months those companies disappear from the marketplace.

That means,they are not able to withstand the pressures of competition even for the short period. If you look at the COVID-19, the industries which got hit terribly were the medium and small scale industries, what we refer to as MSMEs.

So, if you take the city of Bangalore itself, nearly 50 percent of the MSMEs were closed during the COVID-19 outbreak period. The situation was really very grave for them. Not able to really keep their head afloat in the market, terrific working capital problems and terrific market/ sales problems with respect to their product.

And if sales had been done by an MSME, then the sales realization by the MSME itself was proving to be a problem; you had so many people who were owing payment to these MSMEs but they had lifted their product. So, this is a type of scenario, which you will find yourself in when some of the environmental variables are not under your control.

So, key success factors is explained by this table. Look at this table, the first column here is key success factor. The second is to increase profits. The third is to gain market share.

Now, I will go through this table. I will give you some examples for this. To increase profits in a gold mining or a wine making industry, the key success factor is raw material procurement no better example than that of the KGF in Karnataka, Kolar Gold Fields. Some decades back, the Kolar Gold Fields was really a gold mine, but then the gold reserves started depleting.

So, in fact, the story goes that many of the workers in KGF every day used to walk away with a few grams of gold almost getting unchecked; if you talk to the local people, they say these laborers have become so rich that they do not need to work. So, that also happened with respect to KGF.

But the main point that was coming in was the reserves of gold started depleting; when you find that the gold reserves is main raw material, it starts depleting, then you are weak in that key success area. To gain market share for a sugar industry or a petroleum industry also, you should have good raw material procurement.

So, that is where you see most of these oil producing countries are dictating terms to other countries. Now, if you see the present situation, the war between Russia and Ukraine, it has made the fuel prices to skyrocket in most of the countries.

So, as many of the countries are really reeling under the impact of this raising fuel prices and their economy affected- example is that of our neighbors be it Nepal or Sri Lanka, all these countries are having problems. Our country is also having problem but still we are able to maintain a steady petroleum flow to the consumer. That is because of the present strong leadership the country has.

So, you do not find the stock out boards in front of petrol bunks. Then come to raw material processing. This becomes very important for steel and paper industry both to increase profits and to gain market share. So, this reminds me of the story of Bhadravathi Iron and Steel in Karnataka and when Sir MV went to visit this, he suggested to them to go in for a different grade of steel making at that point of time.

So, it was Bhadravathi Iron and Steel Company then and at that point of time even a company like Tata Steel was interested in taking over this. So also was the Steel Authority of India. Because this company did not pay enough attention to Sir MV's wise words at that point of time, they had to literally cringe before SAIL to take them over. So, now, it is known as Visvesvaraya Iron and Steel company.

This is what happens when you make some wrong strategic decisions or when you do not make good strategic decisions.

Now, take the third point on production/ fabrication. So, this is for the integrated circuits and the tyre industry this can help increase profits and gain market share. Again an example coming from the Mysore belt with respect to Karnataka. The semiconductor factory production was to start several years back in fact, near Mysore; if it had really started then the electronics industry and the computer industry would have greatly benefited by all these chips manufactured from here only.

So, an Israel company investment of more than 22,000 crores was being talked of to manufacture semiconductors near Mysore. So, they expected more than 10,000 jobs to be created in that sector there. Assembly, is very important for an instrumentation industry; and also to increase profits, for an apparel industry.

When you think of design, it is very important for a heavy engineering industry. When you look at distribution as a key success factor, it is very important for bottled water or metal cans, then to gain market share for home appliances, cement industry. Marketing becomes a key success factor for branded products- cosmetics and liquor.

So, branding is very important for both these industries; cosmetics and liquor. So, many times you find some of the perfumes by well known brands are very costly and at the time of launching this brand they give you an offer at half the rate that is 50 percent of the original rate for one day. So, in fact on that day there will be a huge rush.

Now, suppose you look at the service of Honda City in a city like Bangalore, it is found wanting you find after service so many hiccups and when you have so many hiccups, in a city like Bangalore,in the present day, when you have traffic jams galore, it is a very serious problem. So, the service becomes very important in an automobile industry to increase profits, similarly, to gain market share in a hotel industry

Now, let us look at some of the formats given for internal analysis. That is the strengths and weaknesses profile. One of the formats was given by Bates and Eldredge they looked at three areas: management, operations and finance. Then there was a Grid approach suggested by Ansoff -they looked at the 7-S matrix and took all the functional areas marketing, finance, human resources and production.

Now, why do you want to do all this; it is nothing but looking at the corporate audit of a company; taking stock of a company internally. So, when you do a corporate audit, you should ask questions both within and outside; should not be a mere spectator but you should ask sensible questions not like the debating which goes on in TV channels- many times, waste of time.

So, this is what the audit team expects. Ask questions within and outside and then they do the observation and examine records. So, they keep on asking you why did you do this? Why did you do that? Could it not have been done this way? And you should also ask them questions where it is wrong, tell us, so you should not allow the audit team to have a verdict call, simply walk over with all his questions only; from your side also you should have questions.

Now, why do you do all this, you do all this to match the strengths and weaknesses for competitive advantage. So, the concept of synergy could be helpful, what is concept of synergy, we tend to think that 1 plus 1 should always be equal to 2 only, but the concept of synergy says 1 plus 1 need not be just 2, it can be more than 2, it can be 3 also. So, this is what is required in the management field with respect to an industry.

So, this brings you to one important model this is called the Porter's model of industry competition. So, this model is again taken from his book on competitive strategy by Michael Porter wherein he gives this model for industry competition under 5 blocks.

The first block is the industry competitors degree of rivalry - the number of competitors, the industry growth, asset intensity, product differentiation, exit barrier.

So, if you go back to some of our previous sessions it is the industry and the market structure which really defines all these. Suppose you are having perfect competition, the number of competitors will be large all producing/selling the same product. I gave the example of rice item. So, the industry growth when you have perfect competition, it is very possible that all these players are growing.

So, the same example, if you see the sellers of rice are too many, the buyers of rice are also more than adequate. So, all the sellers are also profiting the buyers are also perhaps pleased with the type of product they are getting. Asset intensity can be with reference to anything in the end; it can be with reference to your reserve asset creation/product etc. So, a company like Infosys, the reserves created are such that it does not have to look for additional resources or financial sub props, when they take up decisions on M & A, both within the country and abroad. Infosys has bought so many companies abroad also. Similarly, the Tatas; so, the creation of this asset intensity is the characteristic of some of these firms; the reserve position has been so good.

Then the second block for this -the last two points, which I have have already discussed, is the product differentiation coming under the generic categories, and the exit barriers which we have discussed in detail with respect to competition, whether it is a perfect competition or an oligopoly or monopoly.

Suppose you look at the second block that looks at potential entrance, this potential entrance looks at economies of scale; what is economies of scale? Suppose you get an order and that order is very small let us say so many units only then should you accept that order or not, that order that becomes a question mark.

Suppose, it is a very high value order then instead of looking at the economies of scale, you will look at what is called the economies of scope which come into the picture where the order quantity level can be less, but still the economies of scope will help you to make profits. Then the absolute cost advantage is what we just discussed with respect to the generic strategies also.

Then the third one is brand identity. So, this is what helps in the marketplace -this is what is called the value of a brand. So, for a simple item like salt, the brand of Tatas is making a big difference, the Tata salt.

Then access to distribution. So, this is where you have an edge over your competitors. So, how can your product reach the different corners of the country so, you may be a good two wheeler manufacturer it was happening to a well known company from the south- some years back there was difficulty in accessing this product especially in the northeast regions.

Then the switching costs - you are with one manufacturer you want to switch to another manufacturer- then there is a cost that is involved.

Then coming into this whole spectrum is the government policy, how does the government policy affect or support all these things, this is the second block. Now, the first block and the second block are connected and what is mentioned there is the threat of new entrants.

So, suppose a new entrant comes into the market and the new entrant is very strong, let us say and if it is an oligopolistic market then it is very probable that he will tilt the market scale very fast. So, these things are to be expected in a market. So, there is no point in running away. In the earlier sessions I said with respect to warfare there can be a flanking warfare also in marketing.When you find that the leader is very strong, do not take on the leader. So, you flank him. So, he is very strong in a particular product segment or something like that, you create your own niche segment where he is not so strong.

Then the third block is what is called the substitutes -this can be with respect to functional similarity, price and performance trend or the product identity. Functional similarity can be with respect to attributes, price and performance trends can be with respect to what the market is dictating at that point of time and the product identity is with respect to the product put out in the market.

Then the fourth and the fifth blocks - is connected to the first block by one more link-this is called the threat of substitute products or services- suppose you are in a market you should always keep your eyes and ears open to the substitute products which may come in.

So, the fourth block is on the suppliers - you have supplier concentration, number of buyers, switching cost, substitute raw materials and threat of forward integration, threat of forward integration meaning your delivery line.

So, this link between the suppliers and the first block is the bargaining power of the supplier suppose, you are the person, you are the industry and the suppliers are supplying so many things for you can be from raw materials to so many of the other. So, they naturally have some weight over the industry functioning itself. So, they have a power-so sometimes they can dictate industries functioning also. So, this is also happening in so many industry/power sectors.

So, most of the state governments, give lot of money to Coal India and they also clamour coal is in shortage. So, this is also being touted as many of the economists who are discussing this say this is the aftermath of giving freebies. So, you give so many units free power. So, all these is likely to result in these types of consequences. So, this one is getting reported.

Now, the fifth block is with respect to buyers, the same elements with respect to suppliers are coming in that it is a buyer instead of the supplier you are having buyer concentration, number of suppliers switching costs, substitute products and the threat of backward integration. So, instead of the forward integration here you have the backward integration with respect to the buyers.

So, what is really dictating to the industry, it is the bargaining power of the consumer; suppose, you have a very powerful consumer block, he can dictate to you because he may be lifting a very strong portion, a considerable portion of your finished product, naturally he has to be looked at from a different yardstick.This is Pareto's law.

So, you have the A category, the A category though they may be small, they may be contributing to the lifting of the product of the company as a whole. So, they may be lifting nearly 100 percent of your product. So, when they are they are lifting 100 percent of your product, you better concentrate on their needs -try to satisfy them to the maximum extent that is possible.

So, this fifth block is linked to the first block through bargaining power of the consumers. The fourth block of the suppliers is linked to the first block through the bargaining power of the suppliers- all this is forming what is called the Porter's model of industry competition.

In my book on strategic management, Chapter 6- we looked at Microsoft in the hyper competition industry, then we looked EFAS. When you come to chapter 7, you are looking at the IFAS . So, in the IFAS, page number 100 and 101 gives the strength and weaknesses profile, then the grid for corporate audit, then the 7-S framework. This also gives you the value chain analysis on page number 105 that is the Porter's model. Page number 108 gives you an exhibit taking the example of ABB, that is Asea Brown Boveri, how corporate culture could be used as competitive advantage. So, this is happening right now in the middle. So, ABB's corporate culture is used as a strategic advantage in a whole setup.

We will stop here and we will continue in the next session. Thank you.