UNIT II

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Mission

Definition of organizational purpose and mission is an important and difficult task for the top management. This is more due to the fact that the aims of organisations are very broad and there exists certain vagueness regarding specific goals. Fundamental aims are determined implicitly and expicitly by the top management. The mission of the organization expresses its underlying thrust.

Voltas, for example, defined its mission as "Profit, Growth and Excellence".

ONGC defines its mission as: "To stimulate, continue and accelerate efforts to develop and maximise the contribution of the energy sector to the economy of the country".

MISSION STATEMENT

A mission statement incorporated three elements:

- What customer need is being satisfied.
- Who is being satisfied.
- How value is created and delivered to customers satisfying their needs.

Vision

Vision is a picture of what the firm wants to be and, in broad terms, what it wants to ultimately achieve. Thus, a vision statement articulates the ideal description of an organization and gives shape to its intended future. In other words, a vision statement points the firm in the direction of where it would eventually like to be in the years to come. Vision is "big picture" thinking with passion that helps people feel what they are supposed to be doing. People feel what they are to do when their firm's vision is simple, positive, and emotional. A vision stretches and challenges people and evokes emotions and dreams. Imagine the dreams evoked and the emotions felt when employees learn that as part of the firm's vision, the new CEO of LG Electronics says, "We must bea great company with great people."

It is also important to note that vision statements reflect a firm's values and aspirations and are intended to capture the heart and mind of each employee and, hopefully,many of its other stakeholders. A firm's vision tends to be enduring while its mission can change in light of changing environmental conditions. A vision statement tends to be relatively short and concise, making it easily remembered. Examples of vision statements include the following:

Our vision is to be the world's best quick service restaurant **(McDonald's)**

To make the automobile accessible to every American **(Ford Motor Company's vision)**

As a firm's most important and prominent strategic leader, the CEO is responsible for working with others to form the firm's vision.

Moreover, the decisions and actions of those involved with developing the vision, especially the CEO and the other top-level managers, must be consistent with that vision. In fact, there is nothing worse than for the firm's top-level strategic leaders' actions to be inconsistent with the vision. At McDonald's, for example, a failure to openly provide employees with what they need to quickly and effectively serve customers would be a recipe for disaster.

Mission

The vision is the foundation for the firm's mission. A mission specifies the business or businesses in which the firm intends to compete and the customers it intends to serve.The firm's mission is more concrete than its vision. However, like the vision, a mission should establish a firm's individuality and should be inspiring and relevant to all stakeholders. Together, vision and mission provide the foundation the firm needs to choose and implement one or more strategies. The probability of forming an effective mission increases when employees have a strong sense of the ethical standards that will guide their behaviors as they work to help the firm reach its vision. Thus, business ethics are a vital part of the firm's discussions to decide what it wants to become (its vision) as well as who it intends to serve and how it desires to serve those individuals and groups (its mission).

As with the vision, the final responsibility for forming the firm's mission rests with the CEO, though the CEO and other top-level managers tend to involve a larger number of people in forming the mission. The main reason for this is that mission deals more directly with product markets and customers. Compared with the CEO and other top-level managers, middle- and first-level managers and other employees have more direct contact with customers and the markets in which they are served.

Objectives and Goals

Objectives and goals in an organization provide the foundation for a managerial activities. They are considered as ends or aims towards which all activities are directed. According to Brown and Moberg, objectives and goas serve the following functions in an organization. They:

- Aid in legitimizing the organization.
- Assist in identifying inter-organisational relationships.
- Serve in building a public relations value.
- Help attract support from different agencies and also attract right people to the organization.
- Facilitate image building with the different players in the business environment, like suppliers, customers, policy makers and the government.
- Make coordination of the multiple tasks easier.
- Help in resolving conflicts.

Some of the areas where an organization can establish goals and objectives are :

1. Efficiency
2. Profitability
3. Growth
4. Wealth for shareholders
5. Resource utilization
6. Brand reputation
7. Contribution to employees
8. Societal contribution
9. Leadership of market
10. Leadership in technology

Environmental Scanning

An organization has to scan the externa environment to identify possible opportunities and threats and the internal environment for its strengths and weaknesses before it can start on strategy formulation. The monitoring, evaluation and dissemination of information from the externa and internal environment in key personnel within the organization constitutes environmental scanning. This is used to avoid strategic surprises and ensure long-term health of the organization. There is appositive relationship between environmental scanning and profits.

Need for Environmental Scanning

1.Identification of strength:

Strength of the business firm means capacity of the firm to gain advantage over its competitors. Analysis of internal business environment helps to identify strength of the firm. After identifying the strength, the firm must try to consolidate or maximise its strength by further improvement in its existing plans, policies and resources.

2. Identification of weakness:

Weakness of the firm means limitations of the firm. Monitoring internal environment helps to identify not only the strength but also the weakness of the firm. A firm may be strong in certain areas but may be weak in some other areas. For further growth and expansion, the weakness should be identified so as to correct them as soon as possible.

3. Identification of opportunities:

Environmental analyses helps to identify the opportunities in the market. The firm should make every possible effort to grab the opportunities as and when they come.

4. Identification of threat:

Business is subject to threat from competitors and various factors. Environmental analyses help them to identify threat from the external environment. Early identification of threat is always beneficial as it helps to diffuse off some threat.

5. Optimum use of resources:

Proper environmental assessment helps to make optimum utilisation of scare human, natural and capital resources. Systematic analyses of business environment helps the firm to reduce wastage and make optimum use of available resources, without understanding the internal and external environment resources cannot be used in an effective manner.

6. Survival and growth:

Systematic analyses of business environment help the firm to maximise their strength, minimise the weakness, grab the opportunities and diffuse threats. This enables the firm to survive and grow in the competitive business world.

7. To plan long-term business strategy:

A business organisation has short term and long-term objectives. Proper analyses of environmental factors help the business firm to frame plans and policies that could help in easy accomplishment of those organisational objectives. Without undertaking environmental scanning, the firm cannot develop a strategy for business success.

8. Environmental scanning aids decision-making:

Decision-making is a process of selecting the best alternative from among various available alternatives. An environmental analysis is an extremely important tool in understanding and decision- making in all situation of the business. Success of the firm depends upon the precise decision- making ability. Study of environmental analyses enables the firm to select the best option for the success and growth of the firm.

SWOT Analyis

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats, and so a SWOT Analysis is a technique for assessing these four aspects of your business.

Strengths

Strengths are things that your organization does particularly well, or in a way that distinguishes a company from the competitors. Think about the advantages your organization has over other organizations. These might be the motivation of the staff, access to certain materials, or a strong set of manufacturing processes.

Strengths are an integral part of an organization, so think about what makes it "tick." What do better can be done than anyone else? What values drive the business? What unique or lowest-cost resources that can be draw upon that others can't? Identify and analyze the organization's Unique Selling Proposition (USP), and add this to the Strengths section.

Then turn the perspective around and ask what the competitors might see as strengths.

For example, if all of the competitors provide high-quality products, then a high-quality production process is not a strength in the market: it's a necessity.

Weaknesses

Now it's time to consider the organization's weaknesses. A SWOT Analysis will only be valuable if all the information is gathered. So, it's best to be realistic now, and face any unpleasant truths as soon as possible.

Weaknesses, like strengths, are inherent features of an organization, so focus on people, resources, systems, and procedures. Think about what could be improved, and the sorts of practices to be avoided.

Take time to examine how and why your competitors are doing better than you. What the company is lacking?

Opportunities

Opportunities are openings or chances for something positive to happen. They usually arise from situations outside the organization, and require an eye to what might happen in the future. They might arise as developments in the market the company serve, or in the technology used. Being able to spot and exploit opportunities can make a huge difference to the organization's ability to compete and take the lead in the market.

Think about good opportunities to be spotted immediately. These don't need to be game-changers: even small advantages can increase the organization's competitiveness. Watch out for changes in government policy related to the field. And changes in social patterns, population profiles, and lifestyles can all throw up interesting opportunities.

Threats

Threats include anything that can negatively affect the business from the outside, such as supply chain problems, shifts in market requirements, or a shortage of recruits. It's vital to anticipate threats and to take action against them before the company become a victim of them and the growth falls.

Think about the obstacles the company face in getting the product to market and selling. The quality standards or specifications for products are changing, and it is necessary to change those products to stay in the lead. Evolving technology is an ever-present threat, as well as an opportunity.

Always consider what the competitors are doing, and change the organization's emphasis to meet the challenge. Be sure to explore whether the organization is especially exposed to external challenges. Do the company have bad debt or cash-flow problems, for example, that could make it vulnerable to even small changes in the market? This is the kind of threat that can seriously damage the business, so it is necessary to be alert.

Competitive Advantage

A competitive advantage may stem from the user experience — that is, a better, more affordable or more enjoyable product — or it may be another tangible or intangible asset, such as the intellectual property or the customer service team.

Examples of competitive advantage

Competitive advantage separates a surviving business with a thriving one, but the source of competitive advantage can change from sector to sector and company to company.

Some common examples of competitive advantage include:

- The team
- Unique access to technology or production methods
- A product that no-one else can offer (protected by IP law or patents, etc.)
- Ability to produce and sell at a lower cost (known as cost leadership)
- Brand and reputation

Porter's Five Forces Model

An industry is a group of firms producing products that are close substitutes. In the course of competition, these firms influence one another. Typically, industries include a rich mix of competitive strategies that companies use in pursuing strategic competitiveness and above-average returns. In part, these strategies are chosen because of the influence of an industry's characteristics. The Strategic Focus on the global competitive nature of the automobile industry illustrates the difficulties that firms are having with the competitive forces in an industry.

As illustrated in the Strategic Focus on the global auto industry, compared with the general environment, the industry environment often has a more direct effect on the firm's strategic competitiveness and above-average returns. The intensity of industry competition and an industry's profit potential are functions of five forces of competition: the threats posed by new entrants, the power of suppliers, the power of buyers, product substitutes, and the intensity of rivalry among competitors.

The five forces model of competition expands the arena for competitive analysis.

Historically, when studying the competitive environment, firms concentrated on companies with which they competed directly. However, firms must search more broadly to identify current and potential competitors by identifying potential customers as well as the firms serving them. Competing for the same customers and thus being influenced by how customers value location and firm capabilities in their decisions is referred to as the market microstructure. Understanding this area is particularly important, because in recent years industry boundaries have become blurred. For example, telecommunications companies now compete with cable broadcasters, software manufacturers provide personal financial services, airlines sell mutual funds, and automakers sell insurance and provide financing. In addition to the focus on customers rather than on specific industry boundaries to define markets, geographic boundaries are also relevant.

The five forces model recognizes that suppliers can become a firm's competitors (by integrating forward), as can buyers (by integrating backward). Several firms have integrated forward in the pharmaceutical industry by acquiring distributors or wholesalers. In addition, firms choosing to enter a new market and those producing products that are adequate substitutes for existing products can become a company's competitors.

1.Threat of New Entrants

Identifying new entrants is important because they can threaten the market share of existing competitors. One reason new entrants pose such a threat is that they bring additional production capacity. Unless the demand for a good or service is increasing, additional capacity holds consumers' costs down, resulting in less revenue and lower returns for competing firms. Often, new entrants have a keen interest in gaining a large market share. As a result, new competitors may force existing firms to be more effective and efficient and to learn how to compete on new dimensions (for example, using an Internet-based distribution channel).

The likelihood that firms will enter an industry is a function of two factors: barriers to entry and the retaliation expected from current industry participants. Entry barriers make it difficult for new firms to enter an industry and often place them at a competitive disadvantage even when they are able to enter. As such, high entry barriers increase the returns for existing firms in the industry and may allow some firms to dominate the industry. Interestingly, though the airline industry has high entry barriers (e.g., substantial capital costs), new firms have entered in recent years, among them AirTran Airways (ATA) and JetBlue. As the Opening Case indicates, both entrants are creating competitive challenges for the major airlines, especially with the economic problems in the early 21st century. Both firms compete in the low-cost segments, where consumer demand has increased, making the major high-cost legacy airlines less competitive and more vulnerable to these newer airlines' competitive actions.

Barriers to Entry

Existing competitors try to develop barriers to entry. For example, cable firms are entering the phone service business. Accordingly, local firm services such as SBC Communications are developing a bundling strategy to prevent customer turnover. They offer high-speed Internet services, satellite television, and wireless services in a single package that could cost $100 per month. In doing this they are creating switching costs for their customers to prevent defections to alternative substitute-product cable providers. Potential entrants such as the cable firms seek markets in which the entry barriers are relatively insignificant. An absence of entry barriers increases the probability that a new entrant can operate profitably. There are several kinds of potentially significant entry barriers.

Economies of Scale.

Economies of scale are derived from incremental efficiency improvements through experience as a firm gets larger. Therefore, as the quantity of a product produced during a given period increases, the cost of manufacturing each unit declines. Economies of scale can be developed in most business functions, such as marketing, manufacturing, research and development, and purchasing. Increasing economies of scale enhances a firm's flexibility. For example, a firm may choose to reduce its price and capture a greater share of the market. Alternatively, it may keep its price constant to increase profits. In so doing, it likely will increase its free cash flow, which is helpful in times of recession.

New entrants face a dilemma when confronting current competitors' scale economies. Small-scale entry places them at a cost disadvantage. Alternatively, large-scale entry, in which the new entrant manufactures large volumes of a product to gain economies of scale, risks strong competitive retaliation. This is the situation faced by potential new entrants from China. Although Chinese firms have significant capacity to produce cars and parts, as suggested in the Strategic Focus on the global auto industry, they do not have the brand recognition necessary to challenge larger global auto firms.

Some competitive conditions reduce the ability of economies of scale to create an entry barrier. Many companies now customize their products for large numbers of small customer groups. Customized products are not manufactured in the volumes necessary to achieve economies of scale. Customization is made possible by new flexible manufacturing systems (this point is discussed further in Chapter 4). In fact, the new manufacturing technology facilitated by advanced information systems has allowed the development of mass customization in an increasing number of industries. While customization is not appropriate for all products, mass customization is becoming increasingly common in manufacturing products. In fact, online ordering has enhanced the ability of customers to obtain customized products.

Companies manufacturing customized products learn how to respond quickly to customers' desires rather than develop scale economies.

Product Differentiation. Over time, customers may come to believe that a firm's product is unique. This belief can result from the firm's service to the customer, effective advertising campaigns, or being the first to market a good or service. Companies such as Coca-Cola, PepsiCo, and the world's automobile manufacturers spend a great deal of money on advertising to convince potential customers of their products' distinctiveness. Customers valuing a product's uniqueness tend to become loyal to both the product and the company producing it. Typically, new entrants must allocate many resources over time to overcome existing customer loyalties. To combat the perception of uniqueness, new entrants frequently offer products at lower prices. This decision, however, may result in lower profits or even losses.

Capital Requirements. Competing in a new industry requires a firm to have resources to invest. In addition to physical facilities, capital is needed for inventories, marketing activities, and other critical business functions. Even when competing in a new industry is attractive, the capital required for successful market entry may not be available to pursue an apparent market opportunity. For example, defense industries would be very difficult to enter because of the substantial resource investments required to be competitive. In addition, because of the high knowledge requirements of the defense industry, a firm might enter the defense industry through the acquisition of an existing firm. For example, through a series of acquisitions and joint ventures with local players, the French defense contractor Thales SA entered the markets of Britain, the Netherlands, Australia, South Africa, South Korea, and Singapore. But it had access to the capital necessary to do it.

Switching Costs. Switching costs are the one-time costs customers incur when they buy from a different supplier. The costs of buying new ancillary equipment and of retraining employees, and

even the psychic costs of ending a relationship, may be incurred in switching to a new supplier. In some cases, switching costs are low, such as when the consumer switches to a different soft drink. Switching costs can vary as a function of time. For example, in terms of credit hours toward graduation, the cost to a student to transfer from one university to another as a freshman is much lower than it is when the student is entering the senior year. Occasionally, a decision made by manufacturers to produce a new, innovative product creates high switching costs for the final consumer. Customer loyalty programs, such as airlines' frequent flier miles, are intended to increase the customer's switching costs. If switching costs are high, a new entrant must offer either a substantially lower price or a much better product to attract buyers. Usually, the more established the relationship between parties, the greater is the cost incurred to switch to an alternative offering.

Access to Distribution Channels. Over time, industry participants typically develop effective means of distributing products. Once a relationship with its distributors has been developed, a firm will nurture it to create switching costs for the distributors.

Access to distribution channels can be a strong entry barrier for new entrants, particularly in consumer nondurable goods industries (for example, in grocery stores where shelf space is limited) and in international markets. New entrants have to persuade distributors to carry their products, either in addition to or in place of those currently distributed. Price breaks and cooperative advertising allowances may be used for this purpose; however, those practices reduce the new entrant's profit potential.

Cost Disadvantages Independent of Scale. Sometimes, established competitors have cost advantages that new entrants cannot duplicate. Proprietary product technology, favorable access to raw materials, desirable locations, and government subsidies are examples. Successful competition requires new entrants to reduce the strategic relevance of these factors. Delivering purchases directly to the buyer can counter the advantage of a desirable location; new food establishments in an undesirable location often follow this practice. Similarly, automobile dealerships located in unattractive areas (perhaps in a city's downtown area) can provide superior service (such as picking up the car to be serviced and then delivering it to the customer) to overcome a competitor's location advantage.

Government Policy. Through licensing and permit requirements, governments can also control entry into an industry. Liquor retailing, radio and TV broadcasting, banking, and trucking are examples of industries in which government decisions and actions affect entry possibilities. Also, governments often restrict entry into some industries because of the need to provide quality service or the need to protect jobs. Alternatively, deregulation of industries, exemplified by the airline industry (see the Opening Case) and utilities in the United States, allows more firms to enter. Some of the most publicized government actions are those involving antitrust. For example, the U.S. and European Union governments pursued an antitrust case against Microsoft. The final settlement in the United States involved a relatively small penalty for the company. However, the EU judgments were more severe.

Expected Retaliation. Firms seeking to enter an industry also anticipate the reactions of firms in the industry. An expectation of swift and vigorous competitive responses reduces the likelihood of

entry. Vigorous retaliation can be expected when the existing firm has a major stake in the industry (for example, it has fixed assets with few, if any, alternative uses), when it has substantial resources, and when industry growth is slow or constrained. For example, any firm attempting to enter the auto industry at the current time can expect significant retaliation from existing competitors due to the overcapacity.

Locating market niches not being served by incumbents allows the new entrant to avoid entry barriers. Small entrepreneurial firms are generally best suited for identifying and serving neglected market segments. When Honda first entered the U.S. market, it concentrated on small-engine motorcycles, a market that firms such as Harley-Davidson ignored. By targeting this neglected niche, Honda avoided competition. After consolidating its position, Honda used its strength to attack rivals by introducing larger motorcycles and competing in the broader market. Competitive actions and competitive responses between firms such as Honda and Harley-Davidson.

2.Bargaining Power of Suppliers

Increasing prices and reducing the quality of their products are potential means used by suppliers to exert power over firms competing within an industry. If a firm is unable to recover cost increases by its suppliers through its own pricing structure, its profitability is reduced by its suppliers' actions. A supplier group is powerful when

• It is dominated by a few large companies and is more concentrated than the industry to which it sells.

• Satisfactory substitute products are not available to industry firms.

• Industry firms are not a significant customer for the supplier group.

• Suppliers' goods are critical to buyers' marketplace success.

• The effectiveness of suppliers' products has created high switching costs for industry firms.

• It poses a credible threat to integrate forward into the buyers' industry.

Credibility is enhanced when suppliers have substantial resources and provide a highly differentiated product. The airline industry is an example of an industry in which suppliers' bargaining power is changing. Though the number of suppliers is low, the demand for the major aircraft is also relatively low. Boeing and Airbus strongly compete for most orders of major aircraft. However, the shift in airline strategy to short-haul flights and low costs has enhanced the fortunes of other aircraft manufacturers who make smaller and more efficient aircraft.

3.Bargaining Power of Buyers

Firms seek to maximize the return on their invested capital. Alternatively, buyers (customers of an industry or a firm) want to buy products at the lowest possible price—the point at which the industry earns the lowest acceptable rate of return on its invested capital. To reduce their costs, buyers bargain for higher quality, greater levels of service, and lower prices. These outcomes are achieved by encouraging competitive battles among the industry's firms. Customers (buyer groups) are powerful when

• They purchase a large portion of an industry's total output.

• The sales of the product being purchased account for a significant portion of the seller's annual revenues.

• They could switch to another product at little, if any, cost.

• The industry's products are undifferentiated or standardized, and the buyers pose a credible threat if they were to integrate backward into the sellers' industry.

4.Threat of Substitute Products

Substitute products are goods or services from outside a given industry that perform similar or the same functions as a product that the industry produces. For example, as a sugar substitute, NutraSweet places an upper limit on sugar manufacturers' prices— NutraSweet and sugar perform the same function, though with different characteristics.

In general, product substitutes present a strong threat to a firm when customers face few, if any, switching costs and when the substitute product's price is lower or its quality and performance capabilities are equal to or greater than those of the competing product. Differentiating a product along dimensions that customers value (such as price, quality, service after the sale, and location) reduces a substitute's attractiveness.

5.Intensity of Rivalry among Competitors

Because an industry's firms are mutually dependent, actions taken by one company usually invite competitive responses. In many industries, firms actively compete against one another. Competitive rivalry intensifies when a firm is challenged by a competitor's actions or when a company recognizes an opportunity to improve its market position.

Firms within industries are rarely homogeneous; they differ in resources and capabilities and seek to differentiate themselves from competitors. Typically, firms seek to differentiate their products from competitors' offerings in ways that customers value and in which the firms have a competitive advantage. Visible dimensions on which rivalry is based include price, quality, and innovation.

Slow Industry Growth

When a market is growing, firms try to effectively use resources to serve an expanding customer base. Growing markets reduce the pressure to take customers from competitors.

High Fixed Costs or High Storage Costs

When fixed costs account for a large part of total costs, companies try to maximize the

use of their productive capacity. Doing so allows the firm to spread costs across a larger volume of output. However, when many firms attempt to maximize their productive capacity, excess capacity is created on an industry-wide basis. To then reduce inventories, individual companies

typically cut the price of their product and offer rebates and other special discounts to customers. However, these practices, common in the automobile manufacturing industry, often intensify competition. The pattern of excess capacity at the industry level followed by intense rivalry at the firm level is observed frequently in industries with high storage costs. Perishable products, for example, lose their value rapidly with the passage of time. As their inventories grow, producers of perishable goods often use pricing strategies to sell products quickly.

Lack of Differentiation or Low Switching Costs

When buyers find a differentiated product that satisfies their needs, they frequently purchase the product loyally over time. Industries with many companies that have successfully differentiated their products have less rivalry, resulting in lower competition for individual firms. Firms that develop and sustain a differentiated product that cannot be easily imitated by competitors often earn higher returns.109 However, when buyers view products as commodities (that is, as products with few differentiated features or capabilities), rivalry intensifies. In these instances, buyers' purchasing decisions are based primarily on price and, to a lesser degree, service. Personal computers are becoming a commodity. Thus, the competition among Dell, HP, and other computer manufacturers is expected to be strong.

The effect of switching costs is identical to the effect of differentiated products. The lower the buyers' switching costs, the easier it is for competitors to attract buyers through pricing and service offerings. High switching costs at least partially insulate the firm from rivals' efforts to attract customers. Interestingly, the switching costs—such as pilot and mechanic training—are high in aircraft purchases, yet the rivalry between Boeing and Airbus remains intense because the stakes for both are extremely high.

High Strategic Stakes

Competitive rivalry is likely to be high when it is important for several of the competitors to perform well in the market. For example, although it is diversified and is a market leader in other businesses, Samsung has targeted market leadership in the consumer electronics market and is doing quite well. This market is quite important to Sony and other major competitors, such as Hitachi, Matsushita, NEC, and Mitsubishi. There is substantial rivalry in this market, and it is likely to continue over the next few years.

High Exit Barriers

Sometimes companies continue competing in an industry even though the returns on their invested capital are low or negative. Firms making this choice likely face high exit barriers, which include economic, strategic, and emotional factors causing companies to remain in an industry when the profitability of doing so is questionable. Exit barriers are especially high in the airline industry. Common exit barriers are

• Specialized assets (assets with values linked to a particular business or location).

• Fixed costs of exit (such as labor agreements).

• Strategic interrelationships (relationships of mutual dependence, such as those

between one business and other parts of a company’s operations, including shared

facilities and access to financial markets).

• Emotional barriers (aversion to economically justified business decisions because

of fear for one’s own career, loyalty to employees, and so forth).

• Government and social restrictions (more common outside the United States, these

restrictions often are based on government concerns for job losses and regional

economic effects).

Strategic Groups

A strategic group is a set of firms emphasizing similar strategic dimensions to use a

similar strategy. Strategic groups have several implications. First, because firms within a group offer similar products to the same customers, the competitive rivalry among them can be intense. The more intense the rivalry, the greater the threat to each firm’s profitability. Second, the strengths of the five industry forces (the threats posed by new entrants, the power of suppliers, the power of buyers, product substitutes, and the intensity of rivalry among competitors) differ across strategic groups. Third, the closer the strategic groups are in terms of their strategies, the greater is the likelihood of rivalry between the groups.

Having a thorough understanding of primary competitors helps a firm formulate and implement an appropriate strategy. Clearly XM and Sirius are in a strategic group and compete directly against each other. XM has been successful in its focus on new technology, while Sirius has focused on signing innovative and exclusive content. Volkswagen tried to break out of its strategic group of companies selling mid-priced autos. But it was unsuccessful in entering the strategic group of firms with similar strategies selling premium autos (e.g., Mercedes-Benz, BMW). Because of these efforts, VW has lost market share in its primary markets.

The Contents in this E-Material is taken from the text and reference book as given in the syllabus.