

STRATEGY AND ORGANIATIONAL STRUCTURE

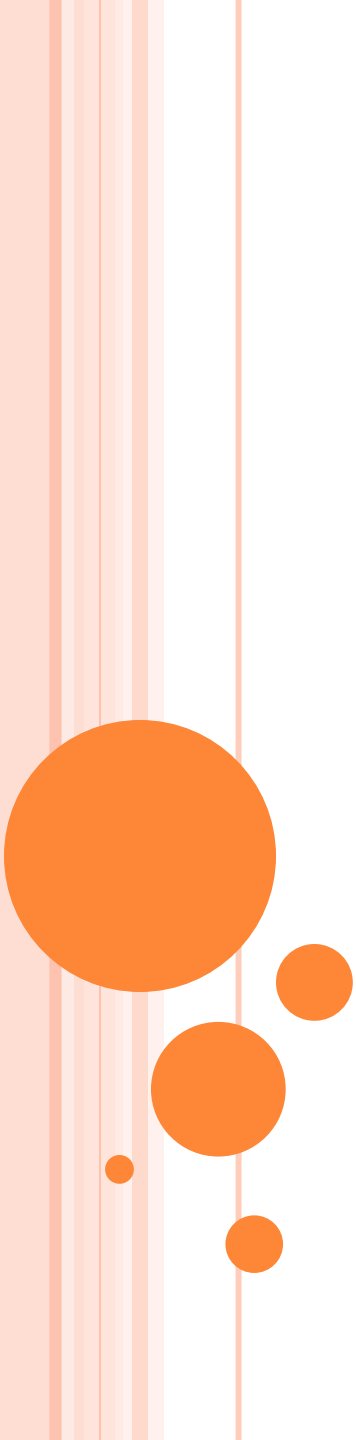
Lecture 6: Analysis of competition in the segments

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Target audience: MASTER II students- Strategic Management

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After analyzing the attractiveness of the segment through the demand analysis, an analysis of the competition in the segment must be done.

Porter suggests that the intensity of competition within any industry is determined by the interaction of 5 key forces:

- ❑ The extent of competitive rivalry;
- ❑ The threat of new entrants;
- ❑ The power of buyers;
- ❑ The power of substitutes;
- ❑ The power of suppliers. These Five Forces are brought together in figure 1.

Figure 1 – Porter's Five Forces





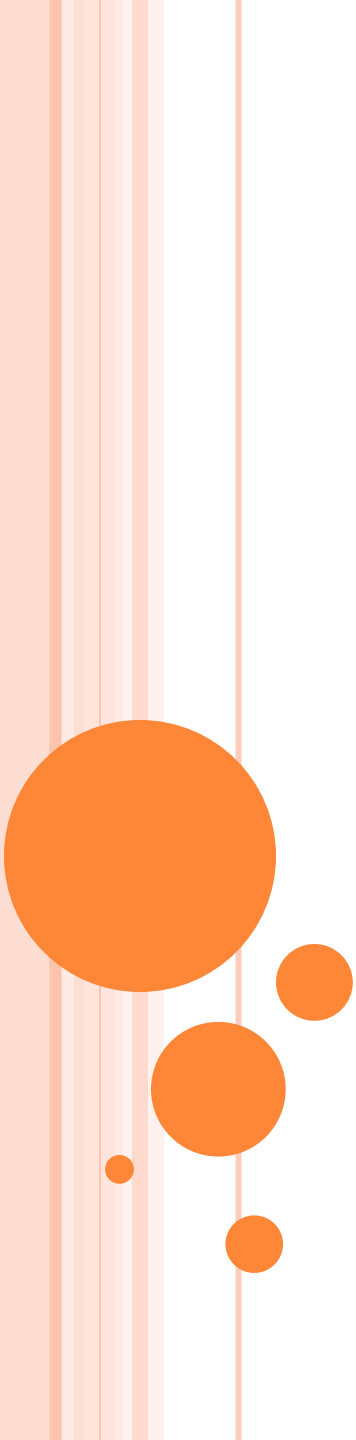
❑ **Intensity of competitive rivalry**

- ❖ **It addresses the level of competition among existing firms in the segment.**
- ❖ **Here, they must identify present and potential competitors whose marketing patterns behavior are largely predictable and to consider those who pose either direct or an indirect threat.**
- ❖ **The more companies operating in the segment, the higher the level of competition.**
- ❖ **A segment is attractive when there is a low level of competition**



□ **The threat of new entrants:**

- ❖ **The company needs to identify potential new entrants to the market and develop plans to neutralize their competitive effect which are called entry barriers.**
- ❖ **Barriers for entry may be for example:**
 - **Economies of scale which force the entrant to start on a large scale at the risk of being disadvantaged in terms of costs;**
 - **Or the capital requirements which can be considerable to finance inventory, customer credit, advertising expenses,.., etc.**



- ❖ A segment is attractive when it requires a high entry cost and a lot of barriers to entry.

- ❑ **The bargaining power of buyers:**

- ❖ If the buyers have or possess a strong or increasing bargaining power relative to the sellers, they will try to:

- ❖ Force prices down;

- ❖ Demand more quality or services;

- ❖ Set competitors against one another.

- ❖ All these actions will reduce the sellers' profitability.



□ **The threat of substitutes:**

- ❖ It considers the availability of alternative products or services that could replace those offered by existing firms in the industry
- ❖ Identifying substitute products is one of the most important factors in the selection of segments, because the existence of many substitute products reduces prices and thus reduces the profits of companies operating in the segment and this reduces the attractiveness of the segment.
- ❖ So, the higher the number of substitute products, the greater the threat.



□ **The bargaining power of suppliers:**

- ❖ **The power of suppliers towards customers gives them the ability to increase the price of their deliveries, reduce the quality of products or limit the quantities sold to a particular customer.**
- ❖ **So, they can threaten the profitability if customers are unable to pass on imposed costs increases in their own prices.**