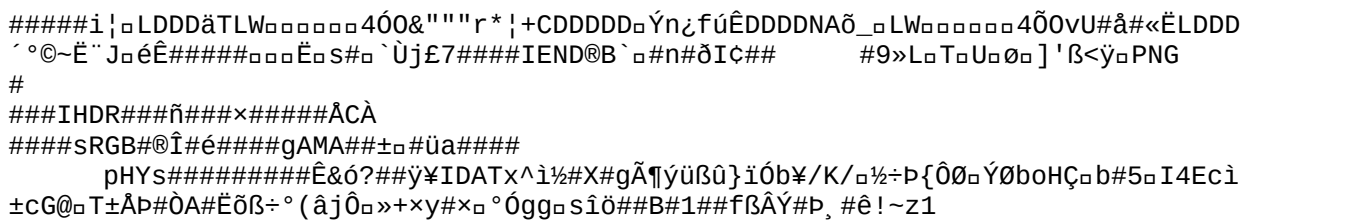

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##################################▫#ÿÿ############################
ðÙ#####▫###########¨#;###The intensity with which companies in the same industry
jockey for market share and profitabilityOther 4 forces put pressure on this
rivalryThe stronger the forces, the higher the intensity.Intensity determined by
(covered next):Competitive industry structureIndustry growthStrategic commitments
Exit barriers##¡#p###▫######@
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ð□#####□###########¨#####3    Explain how competitive industry structure shapes
rivalry among competitors.The competitive structure of an industry is largely
captured by the number and size of competitors in an industry, whether the firms
possess some degree of pricing power, the type of product or service the industry
offers (commodity or differentiated product), and the height of entry barriers.A
perfectly competitive industry is characterized by many small firms, a commodity
product, low entry barriers, and no pricing power for individual firms.A
monopolistic industry is characterized by many firms, a differentiated product,
medium entry barriers, and some pricing power.An oligopolistic industry is
characterized by few (large) firms, a differentiated product, high entry barriers,
and some degree of pricing power.A monopoly exists when there is only one (large)
firm supplying the market. In such instances, the firm may offer a unique product,
the barriers to entry may be high, and the monopolist usually has considerable
pricing power.##¡#:###O######H
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Describe the strategic role of complements in creating positive-sum co-opetition.Co-opetition (co-operation among competitors) can create a positive-sum game, resulting in a larger pie for everyone involved.Complements increase demand for the primary product, enhancing the profit potential for the industry and the firm.Attractive industries for co-opetition are characterized by high entry barriers, low exit barriers, low buyer and supplier power, a low threat of substitutes, and the availability of complements.##¡#V###T######H

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#####ð?#####▫###########¨#½###Instructors: The digital companion to this book McGraw-Hill Connect has an brief case exercise on this section of the textbook. It builds student confidence on the PESTEL tool (LO 3-1). ##¡#<############®######
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#####ðø#####¤###########¨#z###Example: growing health consciousnessBoom for Chipotle, Subway, and Whole FoodsMcDonalds and Burger King had to adjust.
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#####ðL#####▫###########¨#Ê###Instructors: The digital companion to this book
McGraw-Hill Connect has an interactive video exercise on this section of the
textbook. It builds student confidence on the five forces model (LO 3-2).
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#####ðw#####▫###########¨#9###Network effects: For example, Facebook, with over 1.2 billion active users worldwide, enjoys tremendous network effects, making it difficult for more recent entrants such as Google Plus to compete effectively. We will discuss network effects in more detail in Chapter 7.Capital requirements: Tesla Motors made a sizable capital investment of roughly $150 million when it purchased the Fremont, California, manufacturing plant from Toyota and upgraded it with a highly automated production process, using robots to produce cars of the highest quality at large scale.##ª#####:#########   #   ###¦#

#####ðä#####▫###########¨#¦###The movie rental company Redbox, which uses 44,000 kiosks in the United States to make movie rentals available for just $1.50, is a substitute for buying movie DVDs. ##ª#####§######### #   ###¦#

#####ð.#####▫###########¨#▫###Many Internet entrepreneurs learned the hard way that it is difficult to beat the forces of perfect competition. Fueled by eager venture capitalists, about 100 online pet supply stores such as pets.com, petopia.com, and pet-store.com had sprung up by 1999, at the height of the Internet bubble. Cut-throat competition ensued, with online retailers selling products below cost. When there are many small firms offering a commodity product in an industry that is easy to enter, no one is able to increase prices and generate profits. Besanko, D., E. Dranove, M. Hanley, and S. Schaefer (2010), The Economics of Strategy, 5th ed. (Hoboken, NJ: John Wiley).

##¡#Z###▫#########Á###
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#####ð□#####□###########¨#H###Example: The computer hardware industry provides one example of monopolistic competition. Many firms compete in this industry, and even the largest of them (Apple, ASUS, Dell, HP, or Lenovo) have less than 20 percent market share. Moreover, while products between competitors tend to be similar, they are by no means identical. ##ª#####I######### # ###¦#

#####ðB#####▫###########¨#####Examples: Georgia Power is the only supplier of electricity for some 2.5 million customers in the southeastern United States. Philadelphia Gas Works is the only supplier of natural gas in the city of Philadelphia, Pennsylvania, serving some 500,000 customers. ##ª##############

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#####ða#####¤###########¨#####Significant strategic commitments are required to compete in the airline industry when using a hub-and-spoke system to provide not only domestic but also international coverage. U.S. airlines Delta, United, and American have large fixed costs to maintain their network of routes that affords global coverage, frequently in conjunction with foreign partner airlines. These fixed costs in terms of aircraft, gate leases, hangars, maintenance facilities, baggage facilities, and ground transportation all accrue before the airlines sell any tickets. ##ª#####$######### # ###¦#

#####ðÖ#####▫###########¨#▫### In Michigan, entire communities still depend on GM, Ford, and Chrysler. If any of those carmakers were to exit the industry, communities would suffer. ##ª#####▫#########   #   ###¦#

#####ðY#####▫###########¨#####The merger activity in the airline industry provides one example of how firms can proactively reshape industry structure in their favor. A more consolidated airline industry is likely to lead to higher ticket prices and fewer choices for customers, but also more profitable airlines.##ª###############
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#####ði#####¤###########¨#ç###Instructors: The digital companion to this book McGraw-Hill Connect has a case exercise on this section of the textbook. It builds student confidence on strategic groups using the pharmaceutical industry as an example (LO 3-6). ##¡#<############Ø######

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#####ð######▫###########¨#Ö###Examples of strategic dimensions: expenditures on research and development, technology, product differentiation, product and service offerings, pricing, market segments, distribution channels, and customer service.##ª#####×#########   #   ###¦#

###T######`#######l######ä########\###Chapter 3 External Analysis: Industry Structure, Competitive Forces, and Strategic Groups#######

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Section Divider, Quotes, Callouts#[###Chapter 3 External Analysis: Industry
Structure, Competitive Forces,  and Strategic Groups#####The AFI Strategy
Framework#####Chapter 3 Outline (1 of 2)#####Chapter 3 Outline (2 of
2)#####Learning Objectives#####The PESTEL Framework#2###Importance of Analyzing the
External Environment#####The PESTEL Model#p###Exhibit 3.1 The Firm within Its
External Environment, Industry, and  Strategic Group, Subject to PESTEL
Factors#####Political Factors#####Economic Factors#$###In Periods of Economic
Expansionâ□¦#&###In Periods of Economic Contractionâ□¦#####Sociocultural
Factors#####Technological Factors#####Ecological Factors#####Legal Factors#
###Strategy Highlight 3.1 (1 of 2)# ###Strategy Highlight 3.1 (2 of 2)#=###Industry
Structure and Firm Strategy:  The Five Forces Model#####Industry & Industry
Analysis#####Strategic Positioning#"###Exhibit 3.2 The Five Forces Model#
###Strategy Highlight 3.2 (1 of 2)# ###Strategy Highlight 3.2 (2 of 2)#####Threat
of Entry#####Types of Entry Barriers#####Power of Suppliers#,###Bargaining Power of
Suppliers Is High When:#)###Bargaining Power of Buyers Is High When:#####Power of
Buyers (Customers)#####Threat of Substitutes#$###Threat of Substitutes is High
When:#####Rivalry Among Competitors#####Competitive Industry Structure#'###4 Main
Competitive Industry Structures#,###Exhibit 3.3 Industry Competitive
Structures#####Perfect Competition#####Monopolistic Competition#
###Oligopoly#     ###Monopoly#####Industry Growth#####Strategic
Commitments#####Exit Barriers#####A Sixth Force: Complements#%###Changes over Time:
Industry Dynamics#####Industry Dynamics#####Industry Consolidation#####Industry
Convergence#C###Performance Differences within the Same Industry: Strategic
Groups#####Strategic Groups#D###Strategic Groups Differ From Other  Strategic
Groups In Terms Ofâ□¦#$###How to Create a Strategic Group Map#@###Exhibit 3.5
Example of a Strategic Group:  The Airline Industry#&###Insights from Strategic
Group Mapping#####What Is a Mobility Barrier?# ###Implications for the
Strategist#E###Analysis of the External Environment Is  Key to Strategic
Management#####How to Apply the Five Forces Model#!###Shortcomings of Models
Discussed#####Chapter 3 Summary#####Take Away Concepts (1 of 6)#####Take Away
Concepts (2 of 6)#####Take Away Concepts (3 of 6)#####Take Away Concepts (4 of
6)#####Take Away Concepts (5 of 6)#####Take Away Concepts (6 of 6)#####End of
Chapter 3#
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