

Chapter III

Developing Strategies for Competitive Advantage

Tamio Shimizu

University of Sao Paulo, Brazil

Marly Monteiro

University of Sao Paulo, Brazil

Fernando Jose Barbin Laurindo

University of Sao Paulo, Brazil

UNDERSTANDING THE COMPETITIVE ENVIRONMENT

As in any game, the success of competitive strategies depends on knowing the rules as well as the other players. Nevertheless, in the real competitive environment, the rules are not always clear and can change very quickly, demanding quick responses and making it increasingly difficult to map the moves of the main players.

Strong monitoring channels must be maintained to follow changes in the competitive environment and to discern new trends. Changes

in the environment can result from emerging technologies or changes in society's behavior, and thus in clients' demands. They can also be the result of competitors' moves in the market.

Thus developing a good competitive strategy depends on mapping the environment and constantly monitoring it to be able to capitalize quickly on opportunities or neutralize threats.

The focus of this chapter is on mapping the environment. It will show the main aspects of the model for industry analysis and explain the process of forming strategic groups and pressure maps.

INDUSTRY ANALYSIS

Porter (1979) developed a model to analyze the environment based on mapping five competitive forces in order to better understand the rules of the competitive game and to help companies to find a position in the industry with greater clarity. During the 1990s, it was often remarked that environmental analysis had little to contribute given the turbulent state of the new economy, but Porter (2001) was able to demonstrate how important environmental analysis is, especially when there are a large number of uncertainties.

A good map is most useful during a storm!

To develop a map of an industry, one needs to know how the main players behave and how the battle for greater profitability works. According to Porter (1979), there are five competitive forces that run through an industry: customers, suppliers, current competitors, new entrants and substitute products or services.

Understanding these five forces is vital to formulating a company's competitive strategy. The model for Industry Analysis is shown in Figure 1.

The pressures exercised by these forces are structural determinants both of competition and

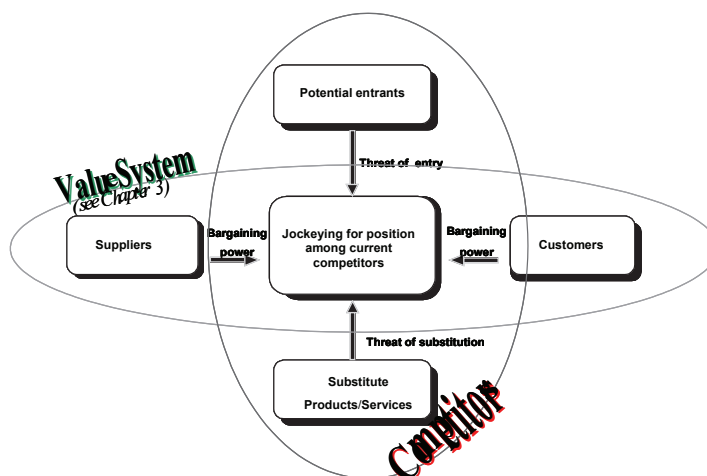
for an industry's profitability (Porter, 1979). In Figure 1, the battle for profitability in the supply chain, i.e., the bargaining power of customers and suppliers is laid out along the horizontal axis. The relationship among competitors, whether those already established, potential entrants or substitute products is shown along the vertical axis.

It is important to emphasize that industry, in this context, means an industrial sector and not a single company.

The structure of an industrial sector depends on how the competitive forces are configured. When they are stronger, there is less potential for profitability. It is easy to imagine that within an industry with fierce competition, the rate of return tends to be less. On the outside limit, an industrial structure with all five forces intensified, approaches the economic model of "perfect competition."

On the other hand, there are industries where the five competitive forces are weak, i.e. the rivalry among existing competitors is not intense, the entry barriers for new competitors are difficult to overcome and there are no substitute products. Allied to this favorable scenario, the sector is the driver of the supply chain, with high bargaining power with the others tiers in the chains, whether

Figure 1. The five competitive forces (Adapted from Porter, 1979)



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