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Academy of Professional Finance 专业金融学院



CFA Level II

Equity Investment

**The Five Competitive Forces that Shape
Strategy**

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Content

- ❖ Five competitive forces and their impact on industry profitability
- ❖ Industry growth rate, technology and innovation, government and complementary products and services
- ❖ Changes in industry structure and their possible effects on industry's profit potential
- ❖ How to gain competitive advantages by positioning a company, exploiting industry change, and shaping industry structure





Learning Outcome Statement 32

LOS 32 .a: Distinguish among the five competitive forces and explain how they drive industry profitability in the medium and long run.

- ☐ The long-run profitability of any industry is determined by:
1. Threat of new entrants in the industry.
 2. Threat of substitutes.
 3. Bargaining power of buyers.
 4. Bargaining power of suppliers
 5. Rivalry among existing competitors





Learning Outcome Statement 32

LOS 32 .a: Distinguish among the five competitive forces and explain how they drive industry profitability in the medium and long run.

❑ Force 1. Threat of new entrants – the higher the barriers to entry, the weaker the threat:

- Economies of scale
- Product differences and brand identity
- Switching costs
- Capital requirements
- Access to distribution channels
- Government policy
- Cost and/ or quality advantages





Learning Outcome Statement 32

LOS 32 .a: Distinguish among the five competitive forces and explain how they drive industry profitability in the medium and long run.

- ❑ Force 2. Threat of Substitutes – currently-available and prospective alternative products:
 - Relative performance of substitutes.
 - Buyer propensity to substitute
 - Switching cost





Learning Outcome Statement 32

LOS 32 .a: Distinguish among the five competitive forces and explain how they drive industry profitability in the medium and long run.

- ❑ Force 3. Bargaining power of buyers:
 - Bargaining leverage. Low switching costs and readily available substitutes increase buyers' bargaining power.
 - Price sensitivity: such as brand identity, product differences, quality, and performances, etc.





Learning Outcome Statement 32

LOS 32 .a: Distinguish among the five competitive forces and explain how they drive industry profitability in the medium and long run.

- ❑ Force 4. Bargaining power of suppliers – the stronger the bargaining power, the higher of their share of the valued-addition:
 - Different inputs that are acceptable.
 - Presence of substitute inputs.
 - Supplier concentration.
 - Importance of volume to the supplier.
 - Threat of forward integration
 - Switching cost.





Learning Outcome Statement 32

LOS 32 .a: Distinguish among the five competitive forces and explain how they drive industry profitability in the medium and long run.

☐ Force 5. Rivalry among existing competitors:

- Number of competitors
- Industry growth
- Degree of operating or financial leverage
- Commitment to business
- Product differences
- Product shelf life
- Exit barriers
- Informational complexity.





Learning Outcome Statement 32

LOS 32 .b: Describe why industry growth rate, technology and innovation, government, and complementary products and services are fleeing factors rather than forces shaping industry structure.

- ❑ Factors that affect an industry temporarily but do not determine industry profitability and structure in the long run:
 - Industry growth rate.
 - Innovation and technology.
 - Government policies.
 - Complementary products.





Learning Outcome Statement 32

LOS 32 .c: Identify changes in industry structure, and forecast their effects on the industry's profit potential

- ☐ Changes in Threat of New Entrants
- ☐ Changes in Power of Suppliers and Buyers
- ☐ Changes in Threat from Substitutes
- ☐ Changes in Rivalry
- ☐ Strategic Alternatives





Learning Outcome Statement 32

LOS 32 .d: explain how positioning a company, exploiting industry change, and shaping industry structure may be used to achieve a competitive advantage.

- ☐ Altering the Firm's Existing Position – reducing customer power, supplier power, substitutes, threat of entry, and rivalry.
- ☐ Capitalizing on Changes in the Industry.
- ☐ Creating Changes in the Industry Structure – a firm should move the industry in directions that play to competitive advantage.



Learning Outcome Statement 32

LOS 32 .d: explain how positioning a company, exploiting industry change, and shaping industry structure may be used to achieve a competitive advantage.

☐ Steps in using the forces in an industry analysis:

1. Define the industry.
2. Identify the participants
3. Determine strength or weakness of each force, what drives it and why.
4. Determine industry structure.
5. Assess current and potential shifts in each force
6. Decide which forces can be altered in ways that will affect the value of the industry or firm.





Thank You!

