Chapter 6

The Nine Forces
Ch6. The Nine Forces

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- Background
- Strategic Rationale & Implications
- Strengths & Advantages
- Weaknesses & Limitations
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  - FAROUT
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Short Description

• The nine forces combine macro environmental analysis and industry analysis to provide a holistic perspective on a firm’s competitiveness.
• Combines STEEP/PEST analysis (environmental) and Porter’s five forces (industry) to provide a broad approach to competitive analysis.
Background

- **Environment** is defined as the broad set of forces operating from outside the firm that can affect its competitive performance.

- Environment beyond an industry’s boundaries will in some way influence what actually takes place within that industry.

- On the other hand, with industry analysis, the dominant aspects of a firm's environment are assumed to exist in and around the industry in which the firm completes.

- An industry environment would consist of competitive forces that create both threats and opportunities.
  - **Review:** Porter’s Five Forces Model.
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Background
• The Porter’s Five Forces Model
Background

The Porter’s Five Forces Model Review

**Unattractive competitive environments may exist when:**
- government plays a strong role,
- rivalry is intense,
- entry barriers are low,
- competition from substitutes is strong,
- and suppliers and customers have stronger bargaining power.

**Attractive competitive environments may exist when:**
- entry barriers are high,
- no good substitutes exist,
- and both suppliers and customers have weak bargaining positions.

**In general,** weak competitive forces mean greater firm profits.
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Background

- **STEEP / PEST Factors:**

  - **Political/Legal**
    - Government
    - Laws
    - Regulations
    - Lobbying efforts
    - Public Policy

  - **Social**
    - Demographics
    - Culture
    - Lifestyle
    - Education
    - Values

  - **Ecological**
    - Global climate
    - Sustainability
    - Cradle-to-grave cycles
    - Recycling, pollution & Biotechnical advances

  - **Economic**
    - Use of resources
    - Global economy
    - Employment, exchange rates, interest rates
    - Inflation, disposable income

  - **Technological**
    - Impact of science and technology on product and process innovation
Background

- Analyst must address 3 levels of environments:

  **General**
  - Broad and long term
  - Beyond direct influence
  - Use STEEP/PEST

  **Operating**
  - Level of external environment that has immediate impact on management
  - Can be influenced by firms
  - Use Porter’s 5 Forces

  **Internal**
  - Derive from firm
  - Includes:
    - Core competencies
    - Trouble spots
    - Use Porter’s Value
    - Chain Analysis
Strategic Rationale and Implications

- Key purpose of the Nine Forces model is to provide an accurate, objective insight into the significant issues and forces that surround and impact upon a firm.
- Leads thinking beyond current activities and short time horizons, and gives a holistic picture.
- Analysis of the broader business environment, plus leveraging the Five Forces, this technique enables the analyst to identify major forces that will influence an industry’s profit potential.
- Should be able to determine:
  - How attractive is the industry?
  - How can our firm best compete?
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Strategic Rationale and Implications

- The Nine Forces:

  - Government (Political/Legal)
  - Potential Entrants (Porter’s)
  - Technological Shifts
  - Suppliers (Porter’s)
  - Industry Competitors (Porter’s)
  - Buyers (Porter’s)
  - Substitutes (Porter’s)
  - International/Economic Shifts
  - Social/Consumer Attitudes
  - Consumers (Porter’s)
**Strengths and Advantages**

- Implies that managers should focus on broader environmental characteristics and it encourages investment in understanding influencing industry factors and structure.
- Identify existing and potential strengths, weaknesses, opportunities, and threats suggested by components of the firm’s environment.
- Throughout the firm, people can contribute to this analytical process.
- The Nine Forces analysis can assist in developing a firm’s positioning strategy by matching a firm's strength and weaknesses within the current environment.
Weaknesses and Limitations

- Decision makers may have trouble defining limits of their environment.
- Analytical output can be inaccurate if results are misinterpreted.
- Many firms also cut back their resources for in-depth analysis when the it is most needed.
- Many firms fail to link the Nine Forces analysis to competitive implications.
- Some decision makers hold narrow, limited, or invalid perceptions about the world in which they operate.
- The Nine Forces can be very complex when applied to diversified businesses.
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Process for Applying the Technique

- Define breadth and depth of data to be collected.
- Establish boundaries of the firm. (geographic reach, market scope, resources, etc.)
- Process involves three steps:
  - Firstly, collect information to identify the characteristics of each of the nine forces.
  - The objective is to understand each force being analyzed and its relationship to the other forces.
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Process for Applying the Technique

- **Step 1: Questions that may be addressed:**
  - What are the interrelationships between trends?
  - What are the conflicts between trends?
    - Not all trends are of equal importance to a firm or an industry.
    - Critical trends are “issues” for the organization.
    - Distinguish between symptoms and trends.
  - Assess the impact of all Nine Forces on the industry and/or firm.
    - Use primary and secondary sources to improve objectivity.
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Process for Applying the Technique

• **Step 2: Assess relative strength of each of the Nine Forces.** Is each one strong, moderate, or weak?
  - One way is to rank each force on a scale of 1-10, 10 being the strongest.
  - Determine a logical explanation of how each competitive force works.
  - Understand its role in the overall competitive picture.
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Process for Applying the Technique

- **Step 3: Evaluate the Nine Forces in light of your firm’s competitive ability.**
  - Goal is to identify the ability of your firm to successfully compete within this industry and environment, given the collective strength of these forces.
  - Integrate the entire analysis within the broader context of corporate strategy.
  - Find the tightest fit between the firm’s resources and capabilities, and the broad external environment.
  - Identify long-term environmental and industry trends and determine whether industry profitability is sustainable.
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Process for Applying the Technique

• Step 3 Cont’d

**Best fit may include:**
- Reactive strategy against competitors
- Proactive manipulating forces in motion
- Proactive forcing change in one or more forces

Industry Trends Analysis

Corporate Strategy

Find Best Strategic Fit
Ch6. The Nine Forces

Summary

• All forces should be constantly monitored for its impact on the current strategy and the opportunities it represents for extending sustainable competitive advantage.

• Not all industries are alike.

• Companies with product portfolios across numerous industries, this model must be repeated for each unique industry served.
## Case Study: The Australian Airline Industry

<table>
<thead>
<tr>
<th>Barriers to entry - 9</th>
<th>Government -8</th>
<th>Competitors - 9</th>
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<tr>
<td>• Deregulation but small market</td>
<td>• Protection policies impact new entrants</td>
<td>• Duopoly</td>
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<td>• Ability to lease aircraft</td>
<td>• ACCC</td>
<td>• Costs are fixed</td>
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<td>• Contract ground crews</td>
<td>• Privatization of airport services</td>
<td>• Overcapacity and lower margins</td>
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<td>• Limited terminal slots</td>
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<td>• Qantas as major airline</td>
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<tr>
<th>Power of buyers - 6</th>
<th>Power of suppliers - 7</th>
<th>Social — weighting 3</th>
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<td>• Emergence of internet</td>
<td>• Unions have eroded economic rent</td>
<td>• Growth is limited to the size of market / tourism</td>
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<td>• Price sensitivity not been offset by loyalty programs</td>
<td>• Construction companies compete for new sales</td>
<td>• Growth is price-sensitive</td>
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<td>• Market share warfare</td>
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<td>• Impact of terrorism</td>
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<tr>
<th>Technology - 6</th>
<th>Substitutes - 3</th>
<th>International - 6</th>
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<td>• Business travel slowing</td>
<td>• Ships, trains, buses and cars inadequate across great distances.</td>
<td>• Impact of terrorism</td>
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<td>• Technology allows greater loads, better fuel usage</td>
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<td>• Safe holiday destination</td>
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### International - 6
- Impact of terrorism
- Safe holiday destination
- Cost of airline fuel
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Case Study: The Australian Airline Industry

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## Ch6. The Nine Forces

### FAROUT Summary

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Related Tools and Techniques

• Experience Curve Analysis
• Product life Cycle Analysis
• Strategic Group Analysis
• Competitor Analysis
• Financial Analysis
• SWOT Analysis
• Value Chain Analysis
• Issue Analysis
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Related Tools and Techniques Cont’d

• S-Curve Analysis
• Scenario Analysis
• Stakeholder Analysis
• Technology Forecasting
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For More About The Nine Forces and 23 Other Useful Analysis Methods, see:
Fleisher, Craig S. and Babette E. Bensoussan
Business and Competitive Analysis: Effective Application of New and Classic Methods

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