

Chapter 6

The Nine Forces



Ch6. The Nine Forces

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- Strategic Rationale & Implications
- Strengths & Advantages
- Weaknesses & Limitations
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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.



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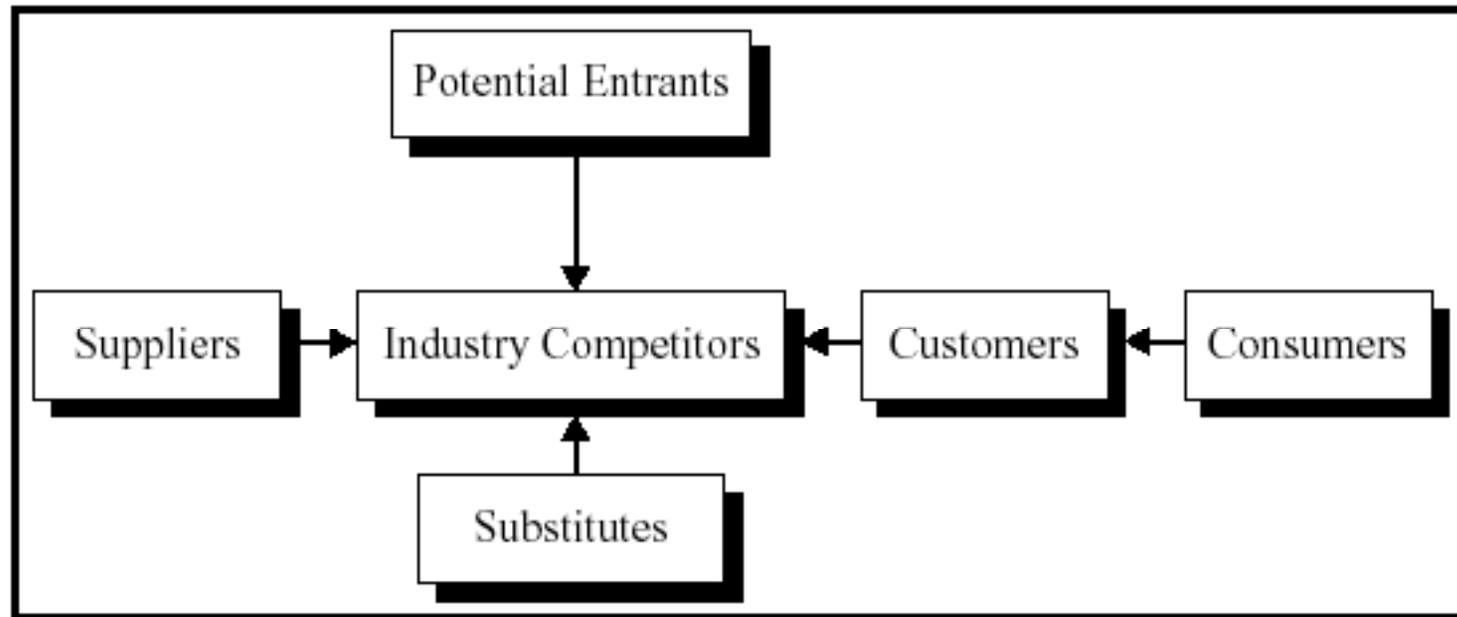
Background

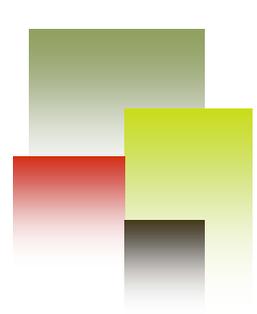
- **Environment** is defined as the broad set of forces operating from outside the firm that can affect its competitive performance.
- Environment beyond an industry's boundaries will in some way influence what actually takes place within that industry.
- On the other hand with industry analysis, the 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





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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.

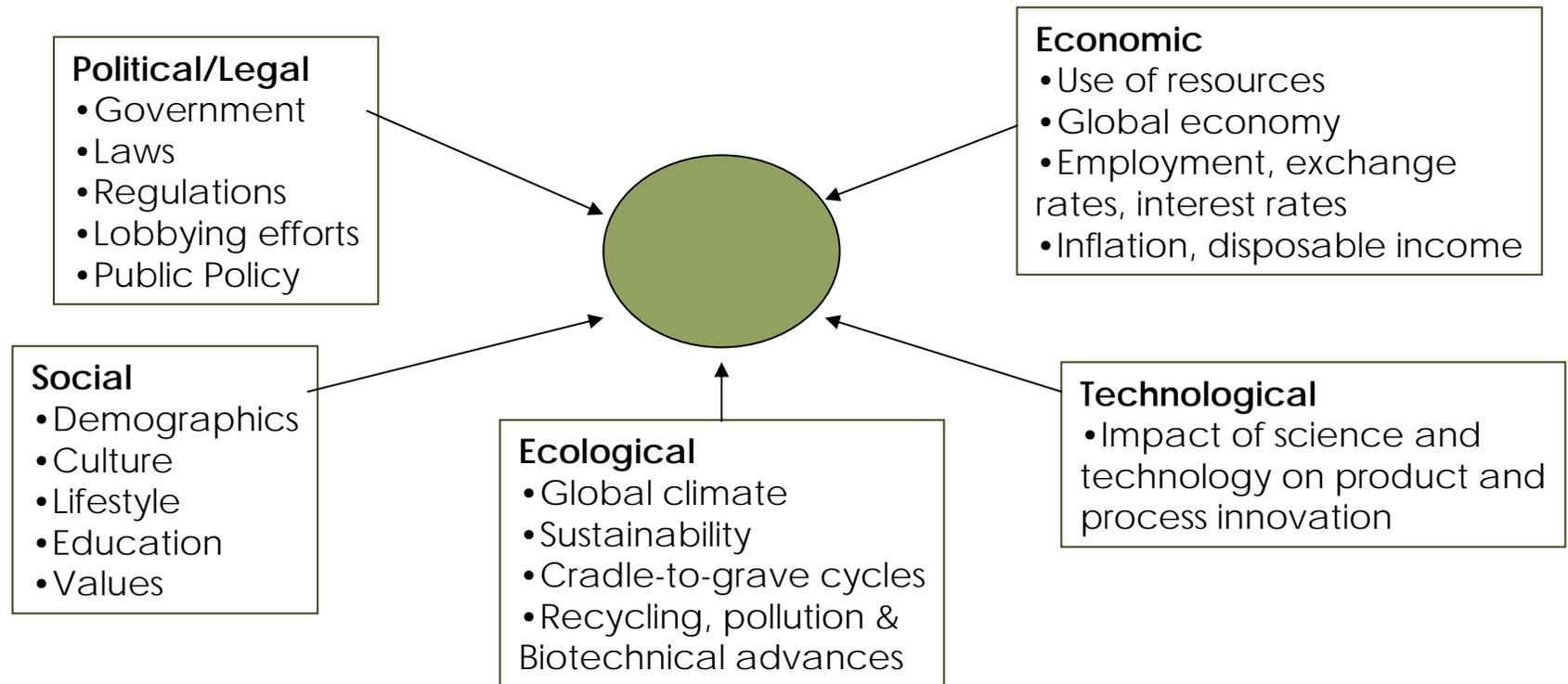
Attractive competitive environments may exist when: entry barriers are high, no good substitutes exist, and both suppliers and customers have weak bargaining positions.

In general, weak competitive forces mean greater firm profits.

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Background

- STEEP / PEST Factors:



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Background

- Analyst must address 3 levels of environments:

General

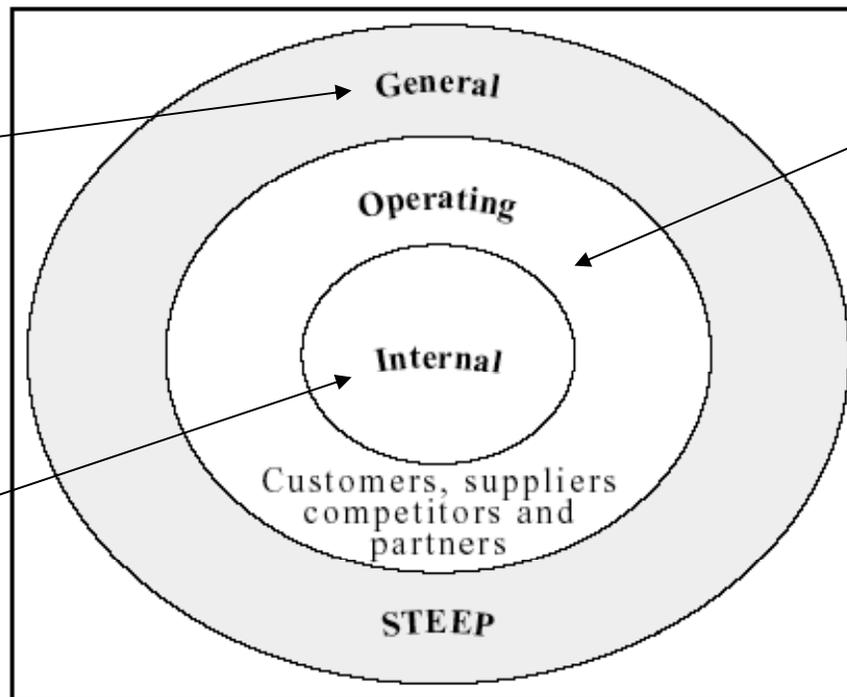
- Broad and long term
- Beyond direct influence
- Use STEEP/PEST

Internal

Derive from firm

Includes:

- Core competencies
- Trouble spots
- Use Porter's Value
- Chain Analysis



Operating

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



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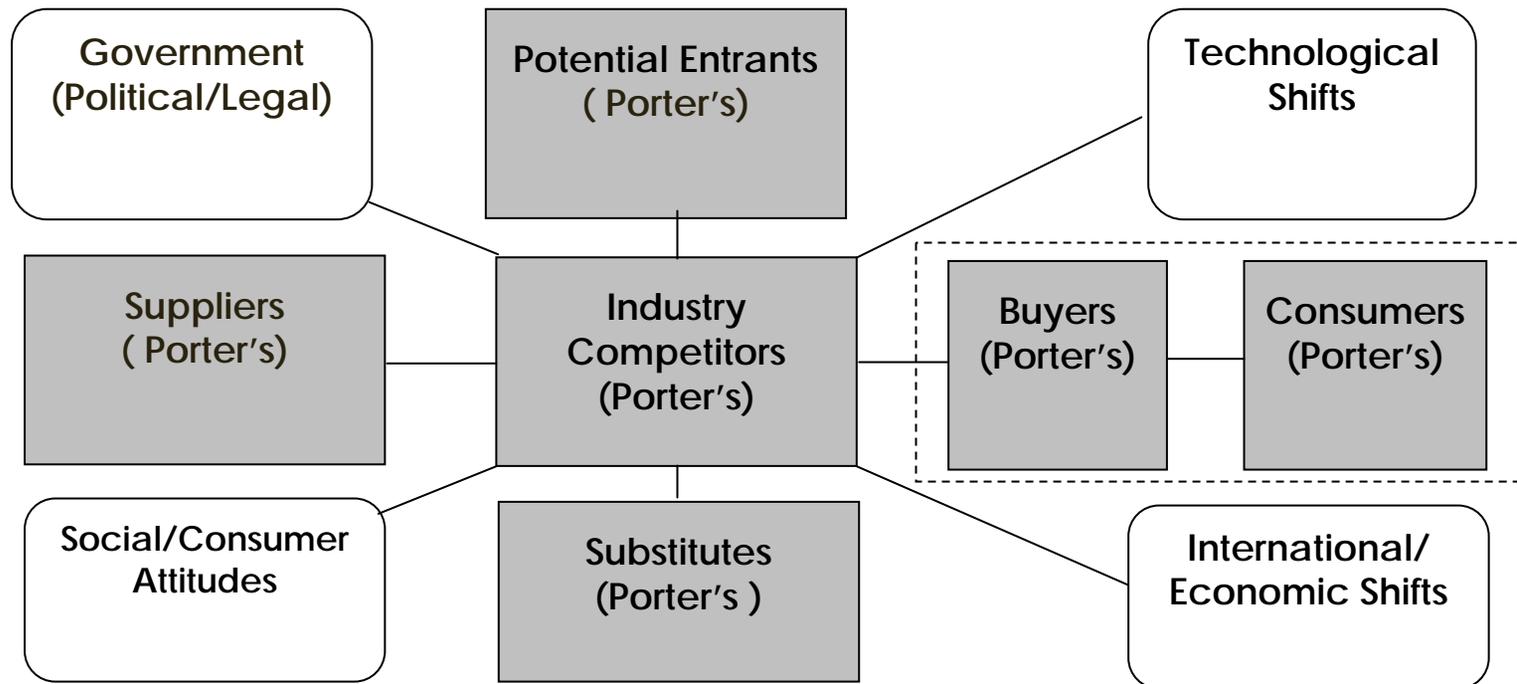
Strategic Rationale and Implications

- 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:





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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.



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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





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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.

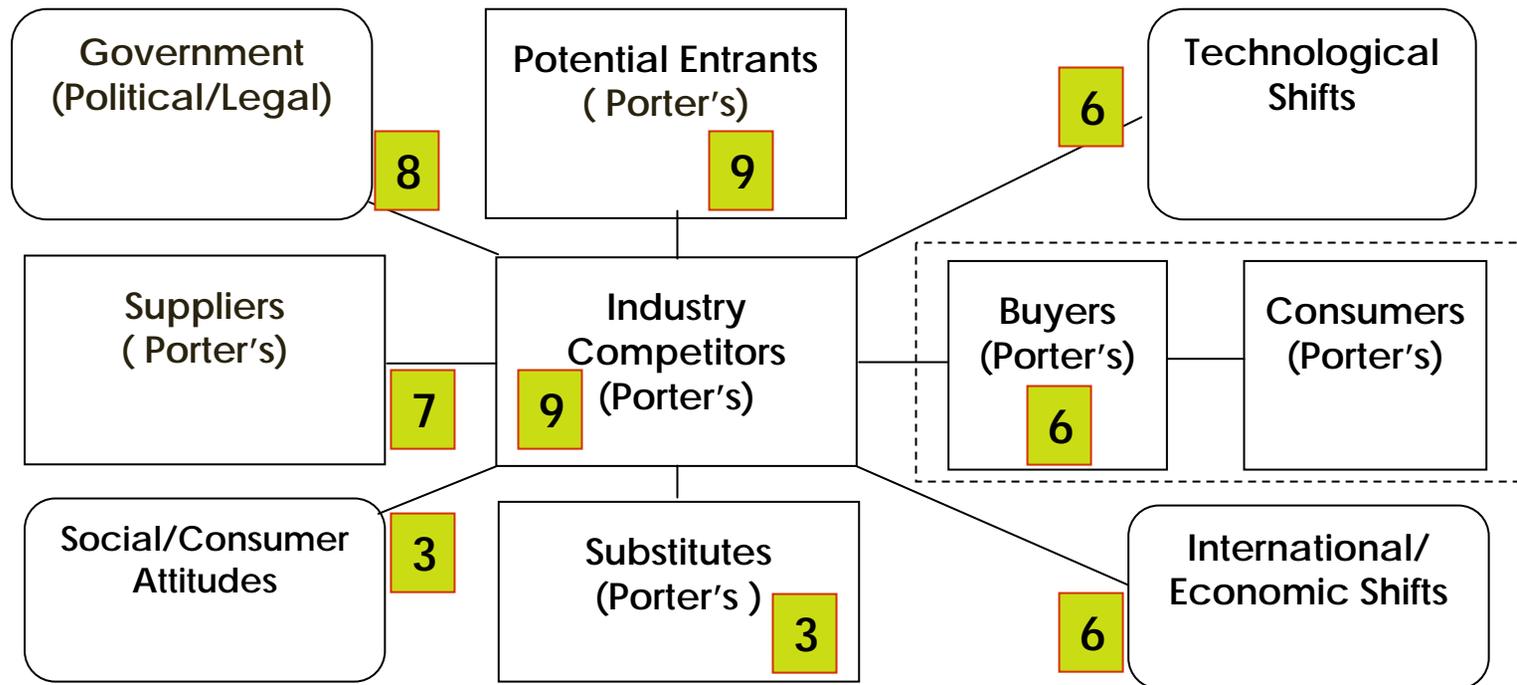
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Case Study: The Australian Airline Industry

| | | |
|---|--|--|
| <p>Barriers to entry - 9</p> <ul style="list-style-type: none"> • Deregulation but small market • Ability to lease aircraft • Contract ground crews • Limited terminal slots | <p>Government -8</p> <ul style="list-style-type: none"> • Protection policies impact new entrants • ACCC • Privatization of airport services | <p>Competitors - 9</p> <ul style="list-style-type: none"> • Duopoly • Costs are fixed • Overcapacity and lower margins • Qantas as major airline |
| <p>Power of buyers - 6</p> <ul style="list-style-type: none"> • Emergence of internet • Price sensitivity not been offset by loyalty programs • Market share warfare | <p>Power of suppliers - 7</p> <ul style="list-style-type: none"> • Unions have eroded economic rent • Construction companies compete for new sales | <p>Social — weighting 3</p> <ul style="list-style-type: none"> • Growth is limited to the size of market / tourism • Growth is price-sensitive • Impact of terrorism |
| <p>Technology - 6</p> <ul style="list-style-type: none"> • Business travel slowing • Technology allows greater loads, better fuel usage | <p>Substitutes - 3</p> <ul style="list-style-type: none"> • Ships, trains, buses and cars inadequate across great distances. | <p>International - 6</p> <ul style="list-style-type: none"> • Impact of terrorism • Safe holiday destination • Cost of airline fuel |

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Case Study: The Australian Airline Industry



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•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

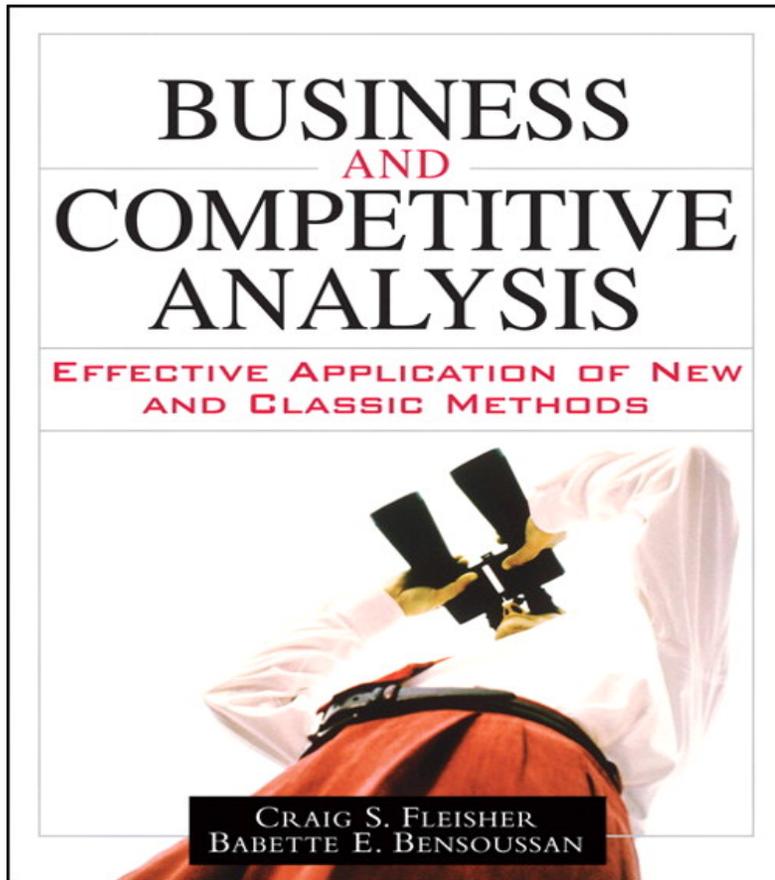


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Related Tools and Techniques Cont'd

- 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*

FT Press
FINANCIAL TIMES

Upper Saddle River, NJ
2007