

## Chapter 20

# Driving Forces Analysis



# Ch20. Driving Forces

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# Ch20. Driving Forces

## Short Description

- Driving forces analysis (DFA) is a way of understanding and accounting for change at the industry level.
- 'Drivers' are clusters of trends that create influences on changes to an industry's structure and a rival's competitive conduct.



# Ch20. Driving Forces

## Background

- DFA was developed in the 1950s as a means for helping organizations and individuals deal with changes in the business environment.
- FFA was used to analyze the conditions that support or restrain a given outcome.
- This work captured the fancy of economists and set the stage for the further development of DFA within the competitive industrial context.
- Forces that push toward change are called **driving forces**. Forces that resist change are called **restraining forces**.
- DFs are those significant, underlying 'currents' that define and drive events and trends in certain directions.
- These forces are typically broad in scope, long term in nature and associated with uncertainty.



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# Ch20. Driving Forces

## Strategic Rationale and Implications

- Industry conditions change because forces are driving industry participants to alter their actions.
- DFs originate from within a firm's industry and can create uncertainty.
- First task: look for the DFs of the macro-environment.
- DFs may seem obvious to one person but be hidden to another.
- Should be done in a team environment.
- Firms have little control over DFs — ability to deal with them comes from recognizing and understanding their effect.
- DFA plays a critical role in the larger strategy development process.



# Ch20. Driving Forces

## Strengths and Advantages

- DFA is an essential component of several other analytical techniques. (environment/ industry)
- DFs by nature imply change.
- DFA receives a higher than average degree of managerial agreement.
- DFA can be done in a less data-intensive fashion than many other techniques.
- Doesn't necessarily require the firm to gather data on a continual basis.



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## Weaknesses and Limitations

- DFA cannot drive strategy formulation alone.
- Seldom answers specific strategy questions.
- DFs tend to be outside the control of any single firm.
- DFA nearly always needs to be inclusive and participative.
- DF analysis can suffer from many of the common internal, organizational biases when they are generated using only internal personnel.



# Ch20. Driving Forces

## Process for Applying the Technique

- There are two steps involved in performing DFA. The primary analytical task in performing DFA is to:
  1. Identify the relevant DFs.
    - Separate the major causes of industry change from less important ones.
  2. Assess the impact they will have on the industry.
    - This involves identifying the small number of DFs that are likely to have greatest impact on the industry.





# Ch20. Driving Forces

## Process for Applying the Technique

- **Step 1:** Identifying an industry's DFs.
  - Some DFs are unique and specific to a particular industry's situation.
  - Most DFs cut across business environment.
  - They are usually identified by trends, or combinations of trends that combine to create a force.
  - Some of the more common DFs across various industries are shown on next slide.
  - Only look at those that are relevant to own industry. Are there any not on the list that apply to your industry?



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# Ch20. Driving Forces

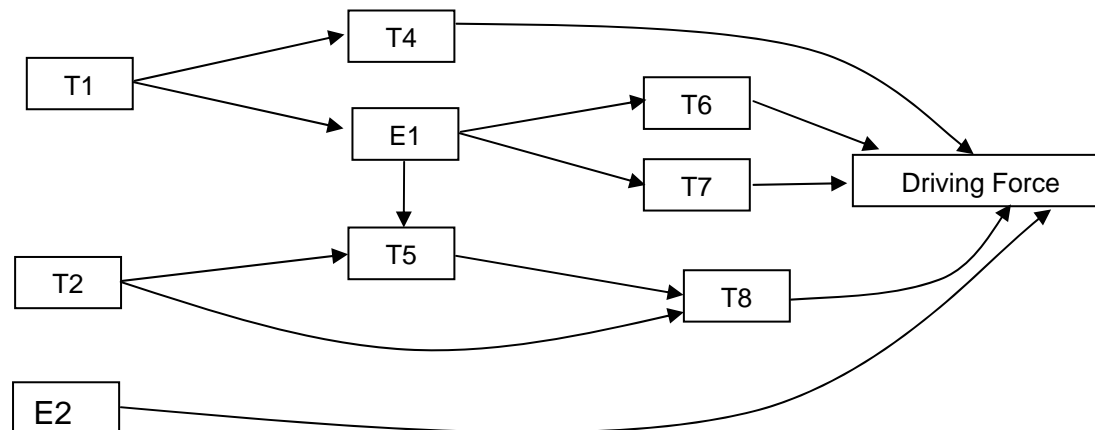
## Process for Applying the Technique

- Changes in long term industry growth rate.
  - Changes in who buys the product and how it is used.
  - Changing societal concerns, attitudes, and lifestyles.
  - Diffusion of expertise across more firms and locations.
  - Election trends, government decisions and/or shifting regulatory influences.
  - Growing use of the internet and its applications.
  - Important firms that enter or exit the industry.
  - Increasing globalization of the industry.
  - Innovation in communication and marketing.
  - Innovation in processes and products.
  - Changes in the long term industry growth rate.
  - Major changes in customer needs and preferences.
  - Major changes in production costs and efficiencies.
  - Prominent changes in uncertainty and business risk.
  - Technological change and manufacturing process innovation.
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## Process for Applying the Technique

- Another way of trying to understand DFs is to understand how trends, (that is, T1...Tn) or events (E1...En) relate to one another and a potential driving force:





# Ch20. Driving Forces

## Process for Applying Technique

- Completion of the first stage by a management group of a large, publicly funded University in Canada:
  - **Societal and demographic**
    - Increased diversity of students seeking university education.
    - Question over the value of some credentials.
    - Increasing desire by individuals for lifelong learning.
    - Concerns over social inequities and fragmentation.
    - Increasing complexity of social problems.
    - Continuing aging of population in primary catchment regions.
    - Changing views regarding the appropriate role of universities.



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## Process for Applying Technique

### – Economic

- Continued globalization.
- Growth increasingly powered by entrepreneurship.
- Huge increases in participation rate of university students in some regions of the globe.
- Down turn of the economic cycle.
- Rising interest rates and impact on student loans.

### – Political

- Uncertainties in public support for universities.
- Declining public funding.
- Increasing governmental demand for accountability.
- Increased student activism due to raised tuition fees.



# Ch20. Driving Forces

## Process for Applying Technique

### – Technological

- Increasing demand for distance learning.
- Origination of new pedagogical platforms.
- Expanded use of IT.
- Escalating rates of innovation.
- Increasing value placed on knowledge.
- At the end of this step, the analyst should have a manageable list of DFs to consider.
- List should be in the range of five to 10 forces to facilitate the next step of this analysis process.



# Ch20. Driving Forces

## Process for Applying the Technique

- **Step 2:** Assessing the impact of the DFs
  - The analyst's objective in this second step is to understand the external factors that will shape change in the industry.
  - Once the DFs have been identified from Step 1, ask the following questions:
    - Are they valid?
    - How do we know?
    - How significant are each of them?
    - What is their strength?
    - Which ones can be altered?



# Ch20. Driving Forces

## Process for Applying the Technique

- Questions Cont'd:
  - Which ones cannot be altered?
  - Which ones can be altered quickly?
  - Which ones can only be altered slowly?
  - Which ones, if altered, would produce rapid change?
  - Which ones would only produce slow change?
  - What skills / information are needed and are available to change the forces?
  - Can you get the resources/capabilities needed to change them?
- There are three common approaches applied at this point.





# Ch20. Driving Forces

## Process for Applying the Technique

- Approach 1: Structured ranking approach.
  - Considers all the DFs listed from Step 1 in pair-wise progression.
  - Number of pair-wise comparisons grows rapidly with the number of DFs.
- Approach 2: Assign a score to each force, from 1 (weak) to 7 (strong).
  - Calculate a total score for each force by adding across the two columns.
  - Example on next slide.

# Ch20. Driving Forces

Force	Strength	Ability to Influence	Total (rank)
<b>a.</b> Consumers seeking more specialized after-sale services	3	6	9 (5 <sup>th</sup> )
<b>b.</b> Buyers want higher fuel economy	6	5	11 (2 <sup>nd</sup> tie)
<b>c.</b> Better, safer, roads and highways allow for higher speeds	2	3	5 (7 <sup>th</sup> )
<b>d.</b> Increased demands for passenger safety	4	4	8 (6 <sup>th</sup> )
<b>e.</b> New technologies allow more engine and fuel options	5	6	11 (2 <sup>nd</sup> tie)
<b>f.</b> Demand for product is increasing most in China and India for the product	7	5	12 (1 <sup>st</sup> )
<b>g.</b> Outsourcing options growing fast	4	6	10 (4 <sup>th</sup> )

# Ch20. Driving Forces

## Process for Applying the Technique

- Approach 3: Use a matrix which separates the forces on pre-selected dimensions.

Importance		Uncertainty
Low Importance High Uncertainty <i>= Lesser priority DFs that should be tracked for unfolding development</i>	High Importance High Uncertainty <i>= Critical priority DFs for decision making, planning and strategy</i>	
Low Importance Low Uncertainty <i>= DFs that require little to no subsequent inclusion in strategy development</i>	High Importance Low Uncertainty <i>= Inevitable or predetermined DFs. They are easier to plan for and need to be included in planning and strategy</i>	



# Ch20. Driving Forces

## Process for Applying the Technique

- Key facet of this stage is to determine whether these DFs make the industry environment more or less attractive.
- Should be combined with an industry analysis. (Porter's 5 forces or 9 forces).
- Four questions related to the DF's impact on the industry environment which must be answered are:
  - Are the DFs causing demand for the industry's product to increase or decrease?
  - Are the DFs making the bargaining power of other industry participants higher or lower?
  - Are the DFs acting to make competition more or less intense?
  - Will the DFs lead to higher or lower industry profitability?



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## Process for Applying the Technique

- Next task is to decide whether to change the firm's strategy to address the driving forces.
- If so, their goal is to devise a course of action which:
  - Strengthens DFs with positive impacts on the industry and firm;
  - Weakens DFs with adverse impacts on the industry and firm; and
  - Creates new positive DFs.
- At this point, it is helpful to develop another set of tables, one for each of the DFs that has been identified as a priority.

# Ch20. Driving Forces

## Process for Applying the Technique

Force 1: Increasing environmental concerns	
<b>Impact on industry</b>	<b>Proposed solutions</b>
Increasing demand for cars that can run on bio-fuels	<ul style="list-style-type: none"><li>• Fund and support further research into alternative bio-fuels</li><li>• Develop new fuel delivery systems for automobiles</li><li>• Continue development on bio-fuel burning engine materials</li><li>• Work with existing gasoline suppliers and retailers to develop delivery infrastructure</li></ul>

- **Next step:** Work through each of the proposed solutions.
- Compare these options in terms of costs/benefits, risks/benefits, or via a pre-determined set of criteria.
- Or compare against the current strategy.



# Ch20. Driving Forces

## Summary

- Sound analysis of an industry's DFs is a pre-requisite to good strategic decision making.
- DFs and competitive pressures do not affect all competitors in an industry in the same manner.
- Profit prospects vary from rival to rival based on the relative attractiveness of their market positions and their strategies in addressing the DFs .



# Ch20. Driving Forces

## Case Study: Digital Music Industry

- What are the major DFs affecting the digital music player industry?
- Are the forces indicating a more or less attractive industry environment from a profitability standpoint?
  - Growth levels of demand.
  - Product innovation.
  - Format war and rights management.
  - Convergence.
  - Growing use of the internet.
  - Changes in who uses the product and how it is used.





# Ch20. Driving Forces

## Case Study: Digital Music Industry

- The effect of DFs in this market can also be further analyzed by answering the four questions:
  1. What is the effect of the DFs on demand?
  2. Are the DFs making the bargaining power of other industry participants higher or lower?
  3. Are the DFs increasing competition?
  4. Will the DFs lead to higher profitability?

# Ch20. Driving Forces

- **FAROUT Summary**

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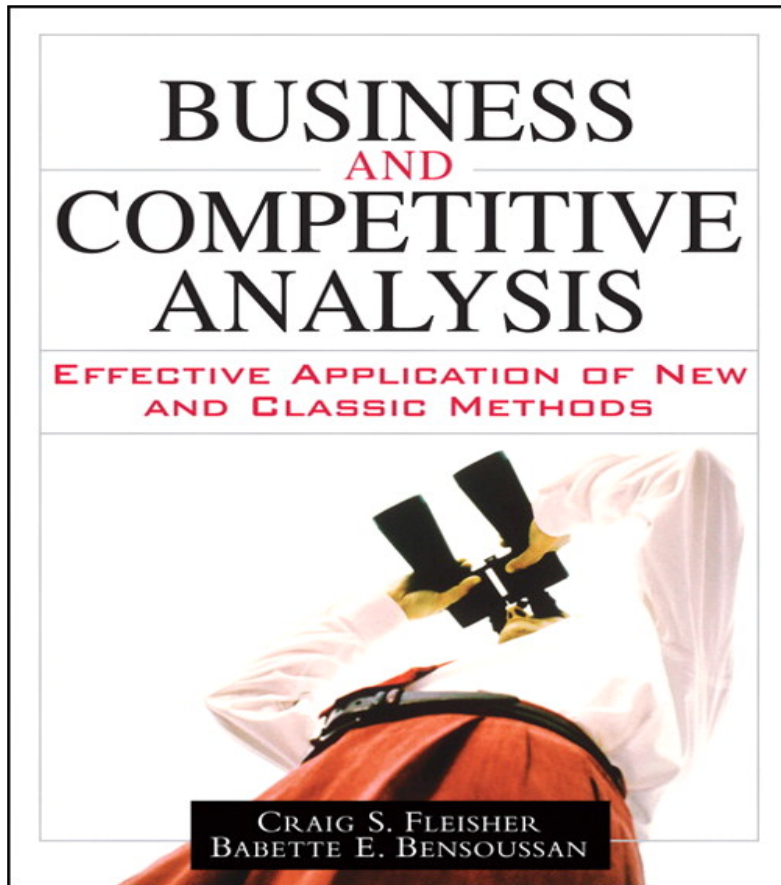


# Ch20. Driving Forces

## Related Tools and Techniques

- Competitive Positioning
- Critical Success Factor Analysis
- Event and Timeline Analysis
- Industry Analysis
- Issue Management
- Linchpin Analysis
- STEEP/PEST Analysis
- Scenario Analysis
- Strategic Group Analysis
- War Gaming

# Ch20. Driving Forces Analysis



For More About **Driving Forces Analysis** 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