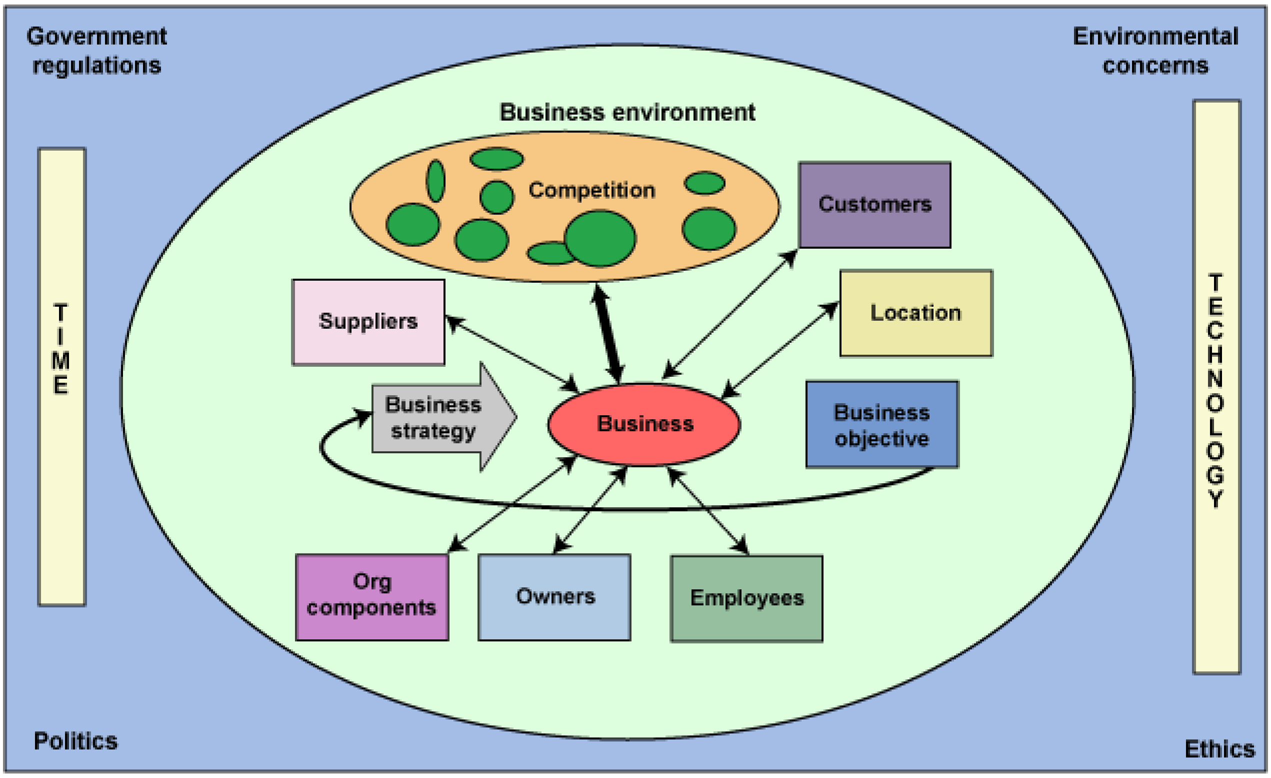
Recall that we discussed the concept of a general business model earlier in this module, as shown in figure 1.1.

We have discussed the various direct and indirect variables that make up the total environment in which a business works toward its business objectives. Now let's look at competition in some detail, because (1) it affects business strategy, and (2) many of the direct and indirect factors are crucial to determining competitiveness within the business environment. Let's recast the basic business model and examine competition in detail. Begin by taking a look at figure 1.5.

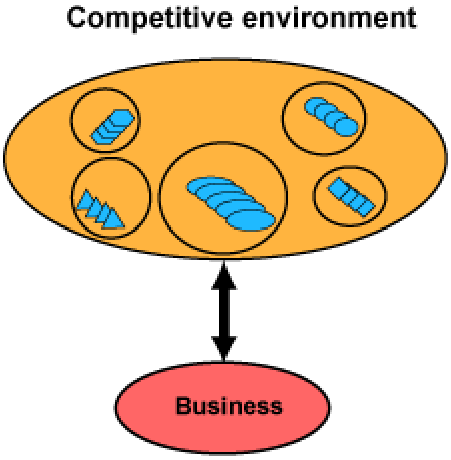
Figure 1.5
General Business Model, Showing
Expanded Competition Variable



A. The Competitive Environment

In figure 1.6(a), below, we have converted the shape and expanded the competition graphic to indicate that the competitive environment is made up of all the companies that are in the same business. The potential competitors are of all sizes and shapes, and they include both potential and traditional competitors. The different shapes represent businesses that use the same strategy, and all of the businesses in a group compete with one another. Competition between groups can occur; however, it is based on other variables in the environment. Our business is competing with the group that is connected with the arrow.

Figure 1.6(a)
Expanded Competitive Direct Variable
Depicting Potential and Traditional Competitors



Traditional competitors are shown in figure 1.6(a), above, as the shapes within each circle, and potential competitors are in different circles. See figure 1.6(b), below, for more details.

Figure 1.6(b)
Walmart: Competitive Direct Variable

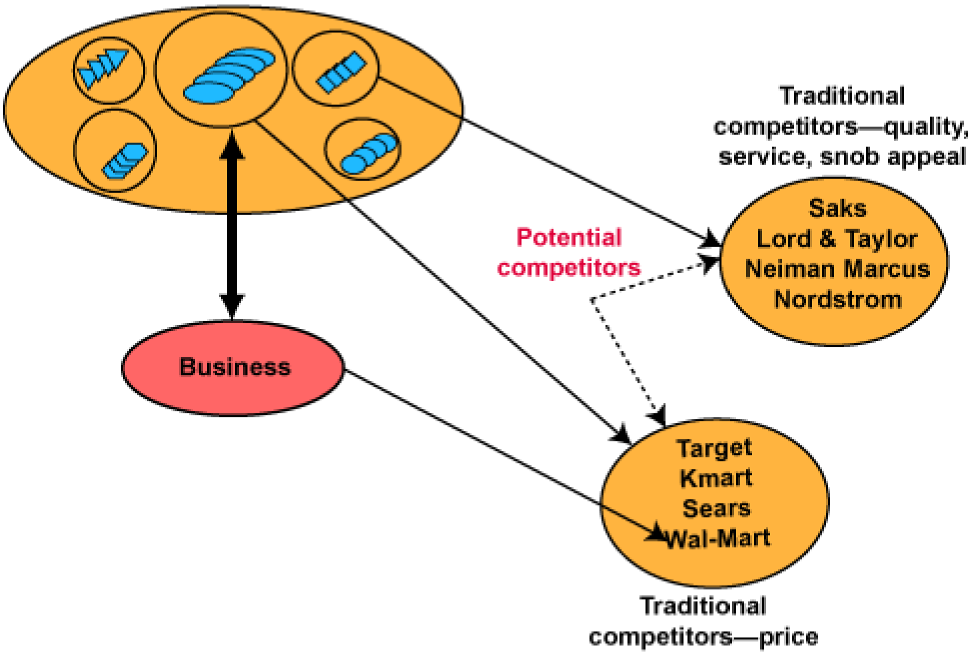


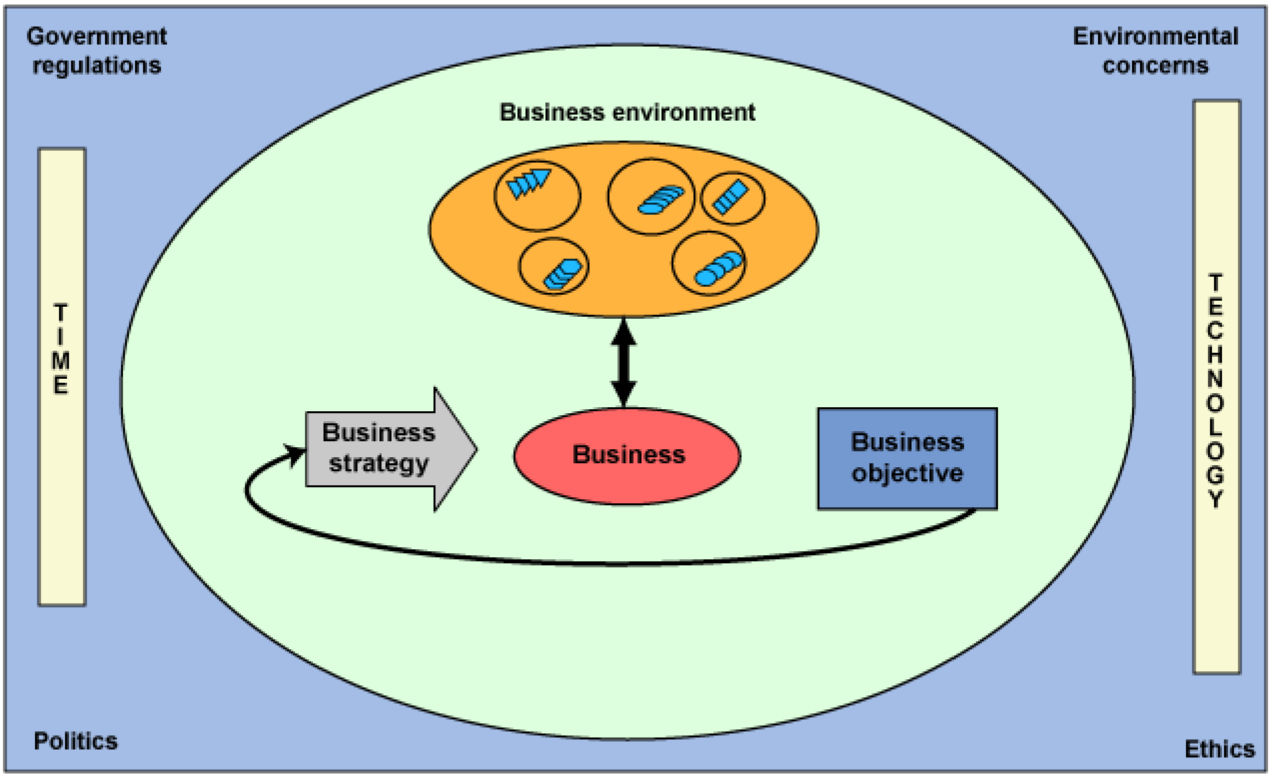
Figure 1.6(b) shows Walmart and its three traditional competitors; they compete on price. Their potential competitors are shown as the quality/service/snob appeal group. The regular, price-conscious Walmart group customer may switch to the other group when shopping for a special occasion or gift, making these two groups potential competitors.

Businesses use many different strategies to compete, and these depend on the industry or product. The first competitive factor that comes to most people's minds is price. Other commonly recognized strategies are customer service, quality and service, delivery speed, payment terms, and location. Some others, which may not be as obvious, are status, snob appeal, reputation, and patents (or special certifications or qualifications). A technology company's competitiveness can be measured by its ability to produce innovative products. For example, think about cell phones and how dramatically they are changing, and realize that about 130 million cell phones are retired each year (Carroll, 2007).

In a December 2, 2006, interview on a WMAL radio (Washington, D.C.) program, Taking Care of Business, Carly Fiorina, the former chief executive officer of Hewlett-Packard (HP), talked about HP's competitiveness and innovation (Roberts, 2006). You can listen to Fiorina's discussion of competition and innovation now (the interview is approximately three minutes long) or read a transcript of the interview.

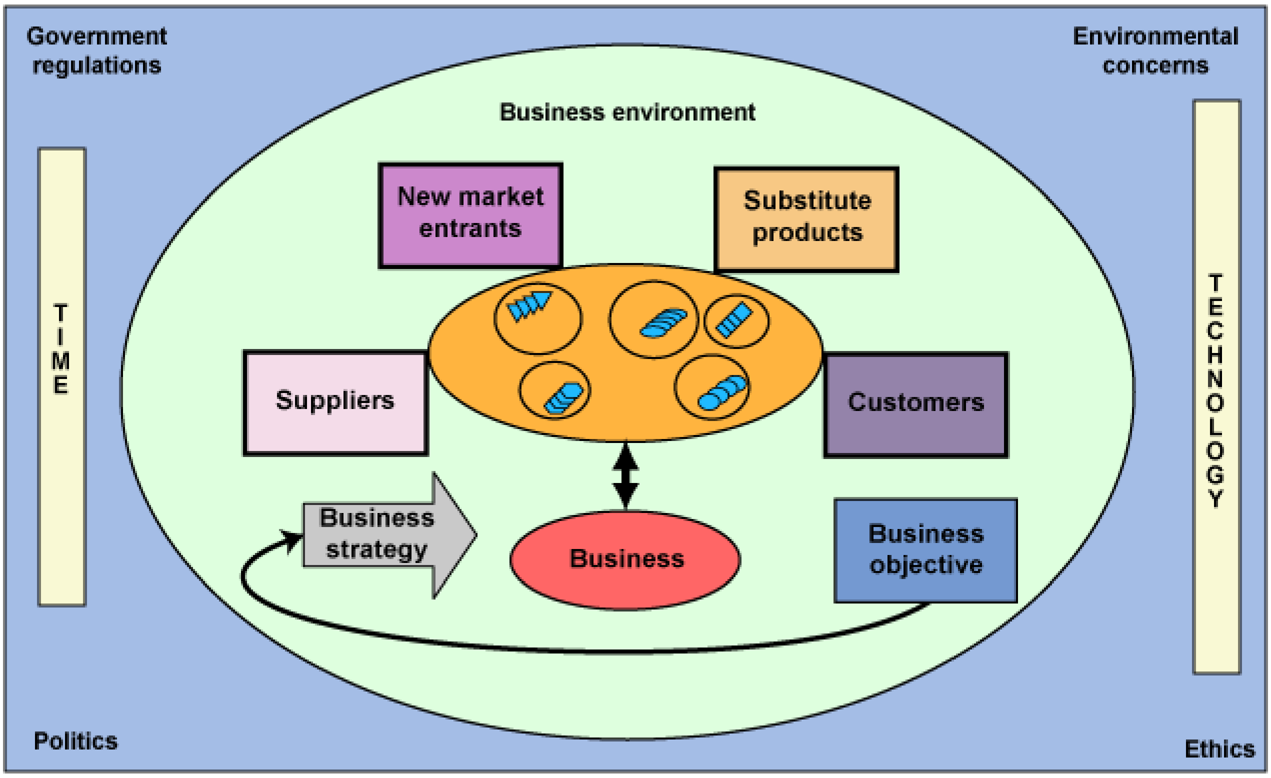
In figure 1.7, we have made the competitive environment the centerpiece of our business model because it must be the central consideration when developing and adjusting a business strategy. The business strategy serves to guide a business toward its objectives and helps define the importance of all of the other variables in the business model.

Figure 1.7
Competitive Environment:
The Centerpiece of our Business Model



Porter's competitive forces model looks much like figure 1.8, below. We recognize the addition of two of our direct variables—customers and suppliers—and we can also see two new factors—new market entrants and substitute products.

Figure 1.8
Porter's Competitive Forces Model in our Business Model



These four factors (customers, suppliers, new market entrants, and substitute products) affect the competitive environment and, to some degree, all of the competitive groups. The impact on each group will vary, however, because of differences in strategy. Companies must be aware of their surroundings. Systems can help in this area by giving management valuable information about some of the competitive model's most important factors. Some of these factors are called leading indicators. Let's listen to the Fiorina interview and see what she has to say on the subject (this portion of the interview is approximately two minutes long), or you can read a transcript of this part of the interview.

1. Substitute Products

Substitute products are new products or services that can make a business's product or service less desirable or even obsolete. This may include existing products or services used in a different way. As mentioned in the Fiorina interview, innovation is the source of substitute products, and substitute products can replace either our own products or a competitor's products. Looking at our integrated model, we can see that both time and technology can be the primary sources of new or obsolete products. For example, cell phones are increasingly replacing traditional landline phones. Other indirect variables can also result in the entry of substitute products. Government regulations, politics, and environmental concerns have brought about a series of substitute products—for example, the increase in alternative, eco-friendly fuel products versus traditional fossil fuels, and hybrid cars versus standard combustion-engine cars.

The use of systems can help a business avoid surprises from its competition by monitoring the indirect factors, government publications, technical journals, supporting research, and other informational sources to identify the potential for new or substitute products.

2. New Market Entrants

Introducing new entrants into a given market affects the total competitive landscape. Because there is only so much money to be spent on a particular good or service, more competition potentially dilutes the profitability of all of the players. To understand the risk presented by new entrants, it is important to understand the barriers that a business must overcome to enter a new market and begin to compete. The higher the barrier is, the less likely it is that new entrants will affect a particular competitive environment.

Barriers can vary, from government regulations to the size of investment required. For example, a company may not be able to compete for government business unless it meets certification requirements; also, competitors holding "talented technology" may prevent another company's entry. For example, entering the automotive industry and producing cars requires a tremendous investment and start-up time. On the other hand, someone opening an ice cream shop on a street corner would not be challenged by large start-up costs. If you wanted to open your own consulting business, little more is needed than a business card.

3. Suppliers

Suppliers affect the competitive environment by setting different prices, quality, service levels, or payment terms for the same item for different customers. The simplest example of this is the retail business, in which supplier factors are related to order size or commitment to the supplier. Walmart can underprice almost everyone because of the size of its demand. This is a good place to point out the idea of competitive groupings. Walmart, Kmart, Target, Sears, and Dollar General are in one competitive group and compete with one another because of size and pricing. They all have systems that support their supplier connections and use them to minimize delivery, inventory, and payment expenses; therefore, one would expect significant system usage for competitive advantage in a retail business of any size.

4. Customers

Customers are the fourth major contributor to the competitive forces model, because it is their money for which everyone is competing. To compete effectively, businesses must select a customer segment that they will focus on attracting—**target customers**. Once that decision is made, all of the business's efforts must focus on knowing who their customers are, understanding their requirements, meeting their needs, and determining whether they are satisfied. To accomplish this efficiently, systems that develop information about customers, their changing desires and expectations, and their level of satisfaction are critical. Systems that support the processes needed to provide the goods or services must be dynamic and must enable the business to meet the changing expectations of its customers.