

**WHAT THE FUTURE HOLDS? A CASE STUDY OF THE
STRATEGIC POSSIBILITIES OF AN ELECTRICAL PRODUCT
SUPPLIER.**

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CONFIDENTIALITY CLAUSE

17 October 2003

TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not to be circulated for a period of five years.

Sincerely

A handwritten signature in black ink, appearing to read 'P. Pillay', with a long horizontal stroke extending to the right.

P Pillay.

DECLARATION

This research has not been previously accepted for any degree and is not being currently submitted in candidature for any degree.

Signed.....

Date.....12-02-2004.....

This dissertation represents the original work of the author and has not been submitted to this or any other university. Wherever use was made of work of others, it was duly acknowledged in the text.

ACKNOWLEDGEMENT

The dissertation being the final straw of the MBA program has been a long and painful journey with many hours of sacrifice. Without the support of close family and friends, this dissertation would not have been complete.

It was a painful time in my life, being young it was difficult for me to sacrifice my partying and weekend clubbing, but I have matured beyond my wildest dreams.

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I dedicate this MBA to My lovely wife Marlene. She has given me the utmost support over the period of the degree. I'm grateful to her for her understanding, being married in the second year of my studies had put an enormous strain on our relationship, due to me being away from home most of the evenings as well as weekends.

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ABSTRACT

I've worked in the electrical industry throughout my career, from accounts to the stores, serving as an artisan to sales and finally management, having experienced the dramatic changes industry has undergone in the past few years.

The topic has inspired me to investigate the future changes as South African companies are striving for international competitive trading and recognition, couple with an volatile economy.

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LIST OF ABBREVIATIONS

Circuit Distributors (Circuit)

Example (e.g.)

South Africa (SA)

After the death of Christ (A.D)

Etcetera (etc)

CHAPTER 1 - INTRODUCTION

1.1 Introduction

The focus of the study is to evaluate Circuit distributors current strategy, and pinpoint undermining elements, or to provide an adequate strategy for the future.

Circuit Distributors is an Electrical and Instrumentation supply company. The core business is to source and supply industry, whether manufacturing, service or retail with electrical components, which are critical to the efficient running of industrial plants (machinery or building). The company strived to provide an above average service to its existing customer base over the years. Strong competition developed in industry as a direct result of South Africa entering the world trade arena. Immense pressure due to global competition has strained the South African economy drastically. These factors intensified price competition.

Price wars amongst rivals and new entrants drove prices to rock bottom levels. Purchases fueled the fire by playing one against the other to capitalize on even further price cuts. These circumstances played well for most companies, as cost containment was key to a better bottom line.

The above situation spelled disaster for the well running of Circuit Distributors, as this decides on how long the company can compete utilizing its existing strategy.

1.2 Problem Statement

The management dilemma at Circuit Distributors is dwindling sales as more competitors enter the market; the following are areas of concern:

- Poor returns on sales
- Number of competitors is growing exponentially, but the industry is not expanding proportionally.

- Outsourcing the procurement dept by comp.
- Backward integrating by large competitors.
- ISO standards.

1.3 Research Objectives

The purpose of this study is to evaluate whether the existing growth strategy is sufficient to ensure Circuit Distributors long-term survival in the electrical industry.

Circuit Distributors is a medium sized organization, supplying industry with electrical components, being heavy or light current, which is critical to the efficient running of industrial plants (machinery or building). An electrical supplier as stated, form a crucial part in ensuring that the customer has an efficient, quality product and service. Circuit Distributors has formed a sound relationship with its customer base understanding their needs and preferences.

In the electrical industry, many companies open and close after a short period of operation due to the inability to cope in a volatile market, within which they operate. Small profits and high volumes are in most cases the only way of sustenance.

The study will focus on key areas that are relevant for future growth:

- Swot analysis, will show the strong and weak points of the business.
- BCG matrix is utilized to pinpoint the quadrant within which the company operates, and want to operate in.
- The Value chain highlights areas where the company can get an upper hand over rivals through efficient distribution channels.
- Strategic Supremacy utilizes a string of models showing the route forward through tactical maneuvers in business.

1.4 The Benefits of the Study

The findings and recommendations can be used to further expand or enhance the current business operations. The report will give management feedback on the current strategy evaluation; the tools of success can be implemented or polished to enhance future development and success in the current field of business.

1.5 Research Methodology

An exploratory rate of study will be followed. The exploratory research will highlight the areas of concern or modification of the current strategy, and possibly the way forward for sustainable competitive advantage.

The nature of study will follow the path of a case analysis. Information will be obtained from literature and cases on sustainable competitive advantage, more especially ones utilizing growth strategy.

1.5.1 Design Strategy

The research will be a qualitative analysis. The literature and data will be evaluated and analysed, with the results being compared with Circuit Distributors business purpose.

1.5.2 Sampling Design

Target population will consist of the 3 Directors of Circuit Distributors.

A pilot study cannot be conducted due to small sample size.

1.5.3 Measurement

Interviews byway of questionnaires (focused groups) will be conducted with Circuit Distributors management. An empirical analysis will be used to correlate and substantiate data, taken from the process and success rates of such companies.

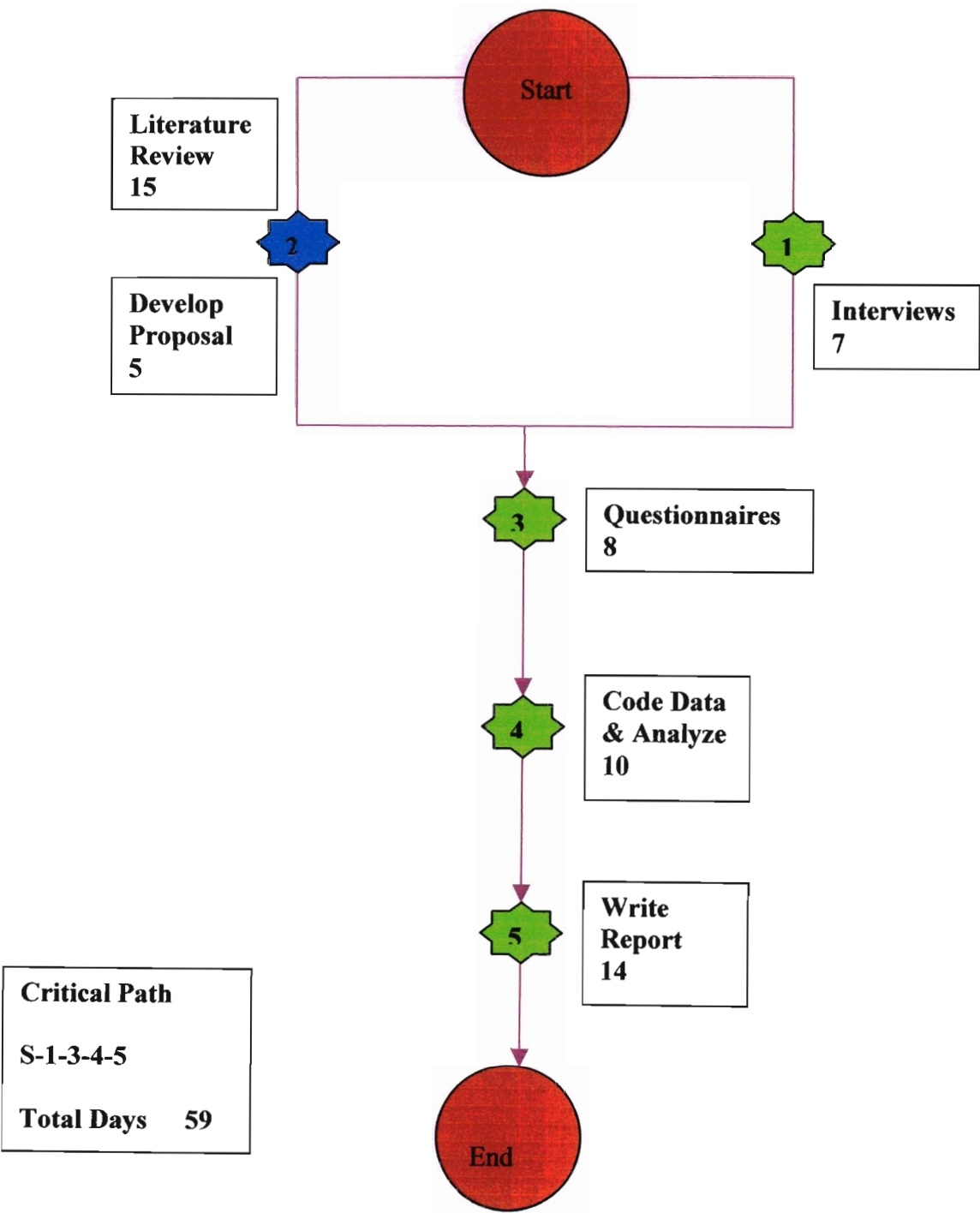
1.5.4 Measuring Instrument

The instrument used will be a questionnaire. The questions are based on the critical areas of that form part of the industry analysis, Swot analysis, Porters five forces, and the value chain.

1.6 Scheduling

A schedule has been draw up as a guideline for the duration of the study; the critical path of the study is shown in the diagram.

Figure 1.1 - SCHEDULING



1.7 Budgets

Budgets are utilised as a guideline of the cost involved in compiling a dissertation.

Figure 1.2 - Budget

EXPENSES		RATE	HOURS	COST®
		<u>A. Salaries</u>		
1.1	Research Assistant	10.00	200HRS	2000.00
1.2	Secretarial	10.00	50HRS	500.00
		<u>B. Other Costs</u>		
1.1	Travel			1500.00
1.2	Stationery			250.00
1.3	Telephone			1000.00
C. Editing & Language Expert				700.00
D. Project Supervisor				3200.00
Total Costs				9150.00

1.8 Ethical Considerations

It is the wish of Circuit Distributors management not to make public the contents of this dissertation without their consent. The researcher feels obliged to grant the confidentiality request.

1.9 Limitations

- The study is limited to the Kwa-Zulu Natal region.
- The size of the sample may not provide conclusive evidence, as biased answers cannot be eliminated due to a focused group being utilized.

1.10 Summary of Chapters

Chapter 1 - Introduction

The chapter summarises the contents of the research

Chapter 2 - Literature Review

A review of theory pertaining to growth strategy is discussed.

Chapter 3 - Case Study

A case study discussing the industry, and w the problems experienced by Circuit Distributors.

Chapter 4 – Evaluation of Questionnaire

A questionnaire on the four aspects of business namely, marketing, operations, human resources and finances have been discussed in a focused group. The responses have been analysed and evaluated.

Chapter 5 – Recommendations and Conclusion

Recommendations will be suggested on how Circuit Distributors can grow their organization into a competitive arsenal of strategic weapons of combat.

CHAPTER 2 – LITERATURE REVIEW

2.1 Literature Review

The purpose of this chapter is to analyse the factors pertaining to competitive growth strategy and sustainable competitive advantage.

The following points highlight the theory that is discussed in this chapter:

- An industry analysis-utilizing **SWOT** will be conducted to determine whether Circuit Distributors current strategy is built to last.
- Porter's five-force model will be discussed in conjunction with swot analysis to determine an appropriate grand strategy.
- The 15 grand strategies will form part of the industrial analysis to determine the most appropriate strategy for the firm.
- The importance of service and product delivery, identifying the different channels of service and delivery, and understanding what the customer values, value chain.
- Backward integration by large suppliers, purchasing manufactures.
- BCG Matrix, plot where circuit is right now.
- Constructing a strategic sphere for growth, circumventing competitive compression to grow the power of ones sphere (Strategic Supremacy), take

2.2 Swot Analysis

In Lynch (2000) Professor Kenneth Andrews first identified the importance of connecting the organizations mission and objectives with its strategic options and subsequent activities. Professor Kenneth further argued persuasively that the rationale analysis of the possibilities open to organizations was an essential part of strategy development.

A SWOT analysis of the organization- is its Strengths, Weakness, Opportunities and Threats. This is a useful way of summarizing the current status of the organization. This approach follows from the distinction drawn by Andrews between two aspects of the organization:

- Strengths and weaknesses-explored in the resource-based analysis.

- Opportunities and threats-explored in the environment-based analysis.

Figure 2.1 Swot analysis (Source: Corporate Strategy Lynch 2000)

Internal	
Strengths	Weaknesses
Market dominance Core strengths Economies of scale Low-cost position Leadership and management skills Financial and cash resource Manufacturing ability and age of equipment Innovation process and results Architecture network Reputation Differentiated products Product or service quality	Share weaknesses Few core strengths and low-key skills Old plant with high costs than competition Weak finances and poor cash flow Management skills and leadership lacking Poor record on innovation and new ideas Weak organization and poor architecture Low quality and reputation Products not differentiated and dependent on few products
External	
Opportunities	Threats
New market and segments New products Diversification opportunities Market growth Competitor weakness Strategic space Demographic and social change Change in political or economic environment New takeover or partnership opportunities Economic upturn International growth	New market entrants Increased competition Increased pressure from customers and suppliers Substitutes Low market growth Economic cycle downturn Technological threat Change in political or economic environment Demographic change New international barriers to trade

Each analysis will be unique to the organization for which it is being devised, but some general pointers and issues can be drawn up. These are indicated in Table 2.1, which provides a checklist of some possible factors.

In devising a SWOT analysis, there are several factors that will enhance the quality of the material:

Probably the biggest mistake that is commonly made in SWOT analysis is to assume that it is certain to be 'correct' because it contains every conceivable issue and is truly comprehensive. Nothing could be further from the truth. This merely demonstrates a paucity of real thought and lack of strategic judgment about what is really important for that organization.

The swot analysis goes hand in hand with Porter's five forces model, which examines the environment within which a company operates.

2.3 Porter's Five Forces Model

An industry analysis usually begins with a general examination of the forces influencing the organization. Lynch (2000) states the objective of such a study is to use this to develop the competitive advantage of the organization to enable it to defeat its rival companies. Much of this analysis was structured and presented by Professor Michael Porter of Harvard University Business School. His contribution to our understanding of the competitive environment of the firm has wide implications for many organizations in both the private and public sectors.

This type of analysis is often undertaken using the structure proposed by Porter; his basic model is illustrated in Fig 2.2. This is often called Porter's Five Forces Model because he identifies five basic forces that can act on the organization:

- The bargaining power of suppliers;
- The bargaining power of buyers;
- The threat of potential new entrants;
- The threat of substitutes;
- The extent of competitive rivalry.

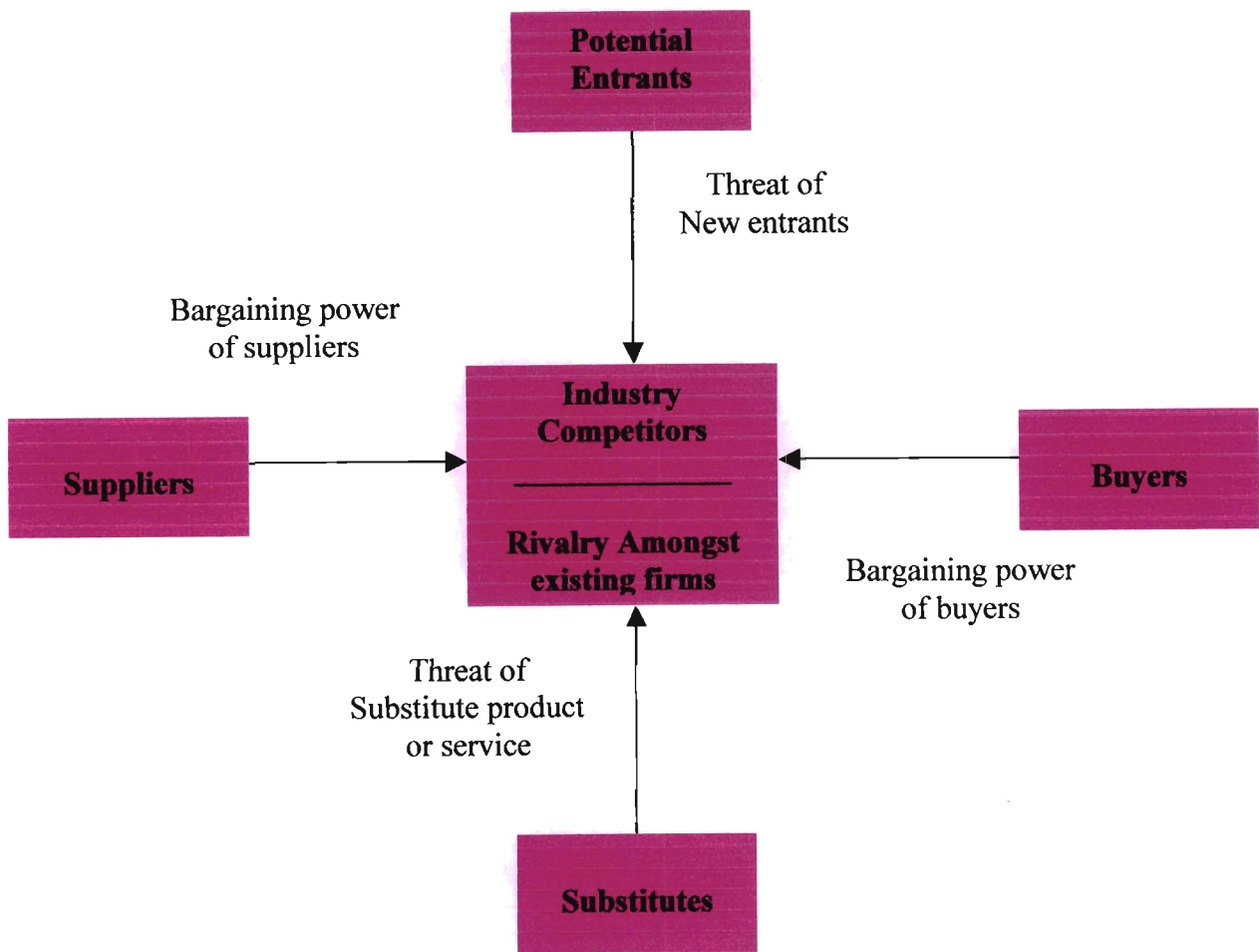


Figure 2.2 - Porter's five forces Model (source: Corporate Strategy Lynch 2000)

The objective of such an analysis is to investigate how the organization needs to form its strategy in order to develop opportunities in its environment and protect itself against competition and other threats.

The basic assumption of the model is that all organizations will wish to benefit and protect their own interest first. Certainly, commercial companies will wish to protect themselves in an essentially competitive environment. This is not necessarily true, however, of some charitable and not-for-profit service organizations, where their own interests are intimately bound up with those of customers and possibly suppliers. Porter

himself cautiously described his analysis as being concerned with the forces driving industry competition, however, the general principles can be applied to public service and not-for-profit organizations where they compete for resources, such as government funding or charitable donations.

2.3.1 The bargaining power of suppliers

Virtually every organisation has suppliers of raw materials or services, which are used to produce the final goods or services. Porter suggested that suppliers are more powerful under the following conditions:

- If there are only a few suppliers. This means that it is difficult to switch from one to another if a supplier starts to exert its power.
- If there are no substitutes for the supplies they offer. This is especially the case if the supplies are important for technical reasons-perhaps they form a crucial ingredient in a production process to the service they offer is vital to smooth production.
- If suppliers' prices form a large part of the total costs of the organization. Any increase in price would hit value added unless the organization was able to raise its own prices in compensation.
- If a supplier can potentially undertake the value-added process of the organization. Occasionally a supplier will have power if it is able to integrate forward and undertake the value-added process undertaken by the organization; this could pose a real threat to the survival of the organization.

In the case of European steel, suppliers' bargaining powers are in some respects **low**. There are many sources of supply for raw materials such as coal and iron ore. However, in terms of energy supply, suppliers may have **higher bargaining** power. For example, Usinor will rely heavily on energy to smelt the steel and this will come partially from the French national electricity provider. Electricite' de France [EdF]. If EdF were to raise its electricity prices, the steel company would have no choice but to accept such changes because EdF is a monopoly supplier. By contrast in the UK, British Steel could bargain

with several potential suppliers for the supply of electricity because there is a more open market.

2.3.2 The bargaining power of buyers

In his model, Porter used the term buyers to describe what might also be called the customers of the organization. Buyers have more bargaining power under the following conditions:

- If buyers are concentrated and there are few of them. When the organization has little option but to negotiate with a buyer because there are few alternative buyers around, the organization is clearly in a weak position: national government contracts in defense, health and education are obvious examples where the government can, in theory at least, drive a hard bargain with organizations.
- If the product from the organization is undifferentiated. If an organisation's products is much the same as that from other organizations, the buyer can easily switch from one to another without problems. The buyer is even more likely to make such a shift if the quality of the buyer's product is unaffected by such a change.
- If backward integration is possible. As with suppliers above, the buyer's bargaining power is increased if the buyer is able to backward-integrate and take over the role of the organisations.
- If the selling price from the organization is unimportant to the total costs of the buyer.

In the case of European steel, small companies or private buyers are unlikely to have much bargaining power with companies of the size of Usinor or British Steel; a letter from an individual to Usinor, threatening to switch from its products to those of British Steel or Krupp unless its prices are lowered, is unlikely to have much impact-the threat is **low**. However, if a major steel distributor or steel user, such as an engineering company, were to make such a threat, then it would clearly have to be taken more seriously because of the potential on sales. In this latter case, the threat is **high**. Steel companies

have reduced this threat by acquiring most of the leading European steel distributors. The European Commission does not seem to have realized the potential distortion of the Treaty of Rome and has been more concerned to regulate the shape of bananas!

2.3.3 The threat of potential new entrants

New entrants come into a market place when the profit margins are attractive and the barriers to entry are low. The allure of high profitability is clear and so the major strategic issue is that of barriers to entry into a market.

Porter argued that there were seven major sources of barriers to entry:

- Economies of scale. Unit costs of production may be reduced as the absolute volume per period is increased. Such costs reductions occur in many industries and present barriers because they mean that any new entrant has to come in on a large scale in order to achieve the low costs levels of those already present: such a scale is risky. We have already examined the computer and steel industries where such cost reductions are vital.
- Product differentiation. Branding, customer knowledge, special levels of service and many other aspects may create barriers by forcing new entrants to spend extra funds or simply take longer to become established in the market. Real barriers to entry can be created in strategic terms by long-established companies in a market. Retailers such as IKEA with strong branding and specialist product lines and expertise are example of companies with differentiated products.
- Capital requirements. Entry into some markets may involve major investment in technology, plant, distribution, service outlets and other areas. The ability to raise such finance and the risks associated with such outlays of capital will deter some companies. For example, the high capital cost of investing in a new papermaking machine will be covered in.
- Switching costs. When a buyer is satisfied with the existing product or service, it is naturally difficult to switch that buyer to a new entrant. The cost of making the switch would naturally fall to the new entrant and will represent a barrier to entry. Persuading buyers to switch their purchases of computer software from Microsoft Windows to Apple has an obvious cost and inconvenience to many

companies that would need to be overcome. In addition to the costs of persuading customers to switch, organisations should expect that existing companies would retaliate with further actions designed to drive out new entrants. For example, Microsoft has not hesitated to upgrade its products and reduce its prices to retain customers that might otherwise switch.

- Access to distribution channels. It is not enough to produce a quality product; it must be distributed to the customer through channels that may be controlled by companies already in the market. For many years, the leading petrol companies have owned their own retail petrol sites to ensure that they have access to retail customers.
- Cost disadvantages independent of scale. Where an established company knows the market well, has the confidence of major buyers, has invested heavily in infrastructure to service the market and has specialist expertise it becomes a daunting task for new entrants to gain a foothold in the market. Korean and Malaysian companies are attempting to enter the European car market and face these barriers against well-entrenched companies such as Ford, Volkswagen and Renault.
- Government policy. For many years, governments have enacted legislation to protect companies and industries; monopolies in telecommunications, health authorities, utilities such as gas and electricity are examples where entry has been difficult if not impossible. The European Commission has been working alongside European governments to remove some but not all barriers over the last few years.

In the case of the European steel market, it is not easy for small companies to enter the market because there are major economies of scale. For these companies entry barriers are high. However, technology is now beginning to develop that will allow smaller companies to make steel economically so entry barriers may be reduced. For the larger companies, such as Usinor, there have been real problems: governments, trade unions and closed ownership structures have made acquisition difficult. British Steel made several abortive attempts to enter the German steel market without success. Moreover,

the cost of building distribution channels has been such that this has proved a difficult route as soon as the major steel stockholding distributors have been acquired. Hence even for large steel companies, the entry barriers have been high.

2.3.4 The threat of substitutes

Occasionally, substitutes render a product in an industry redundant. For example, SmithKline Beecham lost sale from its product Tagamet in the treatment of ulcers due to the introduction of more effective products-first the introduction of Zantac from Glaxo in the 1980s and then, in the 1990s, Losec from the Swedish company Astra. Tagamet is still on sale as an over-the-counter remedy but its major public health sales have largely ceased. More recently, Zantac sales have also suffered, although the difference in performance between that product and Losec has been the subject of dispute between the two companies.

More often, substitutes do not entirely replace existing products but introduce new technology or reduce the costs of producing the same product, effectively; substitutes may limit the profits in an industry by keeping prices down. Substitutes may also affect products in neighboring markets that might not have originally been expected to provide competition. For example, the trend for increased snack eating has been accompanied by a move in taste towards savory and less sweet products; this has led crisps and nuts to be substituted for confectionery products in some markets.

From a strategy threats of obsolescence;

- The possible threat of obsolescence;
- The ability of customers to switch to the substitute;
- The costs of providing some extra aspect of the service that will prevent switching;
- The likely reduction in profit margin if prices come down or are held.

In the steel market, there is possibly substitution between steel and lighter metals such as aluminum, depending on the usage. The threat of substitution may therefore be high but this depends on the technology and end-use.

2.3.5 The extent of competitive rivalry

Some markets are more competitive than others. In highly competitive markets, companies engage in regular and extensive monitoring of key competitor companies.

For example:

- Examining price changes and matching any significant move immediately;
- Examining any rival product change in great detail and regularly attempting new initiatives themselves;
- Watching investment in new competing plant and having regular drives to reduce their own costs levels;
- Attempting to poach key employees; and so on.

All the factors outlined in may have an effect on the extent to which competitors compete but there are some conditions in the industry that may lead specifically to higher competitive rivalry.

- When competitors are roughly of equal size and one competitor decides to gain share over the others, then rivalry increases significantly and profits fall. In a market with a dominant company, there may be less rivalry because the larger company is often able to stop quickly any move by its smaller competitors. In the European steel industry, companies are roughly of equal size with no company dominating the market-one of the reasons why rivalry is so intense.
- If a market is growing slowly and a company wishes to gain dominance, then by definition it must take its sale from its competitors-increasing rivalry.
- Where fixed costs or the costs of storing finished products in an industry are high, then companies may attempt to gain market share in order to achieve break-even or higher levels of profitability. Paper making, steel manufacture and car

production are all example of industries where there is a real case for cutting prices to achieve basic sales volumes-thus increasing rivalry.

- If extra production capacity in an industry come in large increments, then companies may be tempted to fill that capacity by reducing prices, at least temporarily. For example, the bulk chemicals industry usually has to build major new plants and cannot simply add small increments of capacity. In the steel industry, it is not possible to half-build a new steel plant: either it is built or not.
- If it is differentiate products or services, the competition is essentially price based and it is difficult to ensure customer loyalty. Markets in basic pharmaceutical products such as aspirin have become increasingly subject to such pressures. In the steel market, flat-rolled steel from one manufacturer is much the same s that of another, so competition is price based. However, where specialist steel is made with unique performance characteristics, the products are differentiated on performance and price rivalry is lower.
- When it is difficult or expensive to exit from an industry [perhaps due to legislation on redundancy costs or of closing dirt plant], there is likely to be excess production capacity in the industry and increased rivalry. The European steel industry has suffered from problems in this area during the last few years.
- If entrants have expressed a determination to achieve a strategic stake in that market, the costs of such an entry would be relatively unimportant when related to the total costs of the company concerned and the long-term advantages of a presence in the market. Japanese car manufacturing in the EU will have advantages for Toyota and Nissan beyond the short-term costs of building plant, as EU car markets are opened to full Japanese competition around the year 2000.

In the European steel market, some sectors of the market clearly have intense rivalry- for example, basis steel products competing on price and possibly service. Overall, an analysis would probably conclude that competitive rivalry was **high** in the market place, but would certainly seek to explain the differing reasons in the different segments and draw out the implications for strategy.

The swot analysis and Porter' five force model forms the stepping-stone for the selection of one or more grand strategies.

2.4 Grand Strategies

Grand strategies as stated in Kotler (1999), are often called master or business strategies provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. A grand strategy can be defined as a comprehensive general approach that guides a firm's major actions. The 15 principal grand strategies are: concentrated growth, market development, product development, innovation, horizontal integration, vertical integration, concentric diversification, conglomerate diversification, turnaround, divestiture, liquidation, bankruptcy, joint ventures, strategic alliances and consortia. Any one of these strategies could serve as the basis for achieving the major long-term objectives of a single firm. Firms that are involved in multiple industries, businesses and product lines usually combine several grand strategies.

2.4.1 Concentrated growth

Concentrated growth is the strategy of the firm that directs its resources to the profitable growth of a single product, in a single market, with a single dominant technology. The main rationale for this approach, sometimes called a market penetration or concentration strategy, is that the firm thoroughly develops and exploits its expertise in a delimited competitive arena. This strategy is associated even more often with successful smaller firms that have steadily and doggedly improved their market position.

The limited additional resources necessary to implement concentrated growth, coupled with the limited risk involved, also makes this strategy desirable for a firm with limited funds.

2.4.2 Market development

Market development commonly ranks second only to concentration as the least costly and least risky of the 14 grand strategies. It consists of marketing present products often with

only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotions.

2.4.3 Product Development

Product development involves the substantial modification of existing products or the creation of new but related products that can be marketed to current customers through established channels. The product development strategy is often adopted either to prolong the life cycle of current products or to take advantage of a favorite reputation or brand name. The idea is to attract satisfied customers to new products as a result of their experience with the firm's initial offering.

2.4.4 Innovation

In many industries, it has become increasingly risky not to innovate. Both consumer and industrial markets have come to expect periodic changes and improvements in the product offered. As a result, some firms find it profitable to make innovation their grand strategy. They seek to reap the initial high profits associated with customer acceptance of a new or greatly improved product. Then, rather than face stiffening competition as the basis of profitability shifts from innovation to production or marketing competence, they search for other original or novel ideas. The underlying rationale of the grand strategy of innovation is to create a new product life cycle and thereby make similar existing products obsolete. Thus, this strategy differs from the product development strategy of extending an existing product life cycle.

2.4.5 Horizontal integration

When a firm's long-term strategy is based on growth through the acquisition of one or more similar firms operating at the same stage of the production-marketing chain, its grand strategy is called horizontal integration. Such acquisitions eliminate competitors and provide the acquiring firm with access of new markets.

2.4.6 Vertical integration

When a firm's grand strategy is to acquire firms that supply it with inputs (such as raw materials) or are customers for its outputs (such as warehouse for finished products), vertical integration is involved.

2.4.7 Concentric Diversification

Grand strategies involving diversification represent distinctive departures from a firm's existing base of operations, typically the acquisition or internal generation (spin-off) of a separate business with synergistic possibilities counterbalancing the strengths and weaknesses of the two business.

2.4.8 Conglomerate Diversification

Occasionally a firm, particularly a very large one, plans to acquire a business because it represents the most promising investment opportunity available. This grand strategy is commonly known as conglomerate diversification. The principal concern, and often the sole concern, of the acquiring firm is the profit pattern of the venture. Unlike concentric diversification, conglomerate diversification gives little concern to creating product-market synergy with existing business.

2.4.9 Turnaround

For any one of a large number of reasons, a firm can find it with declining profits. Among these reasons are economic recession, product inefficiencies, and innovative breakthrough by competitors. In many cases, strategic managers believe that such a firm can survive and eventually recover if a concerted effort is made over a period of a few years to fortify its distinct competences. This grand strategy is known as turnaround.

2.4.10 Divestiture

A divestiture involves the sale of a firm or a major component of a firm. For example, in March 1992, Goodyear Tire and Rubber announced its decision to sell its polyester business to Shell Chemical to cut its \$2.6 billion debt. The sale was part of Goodyear's strategy to bring its debt below \$2 billion within 18 months. When retrenchment fails to

accomplish the desired turnaround, as in Goodyear situation, or when nonintegrated business activity achieves an unusually high market value, strategic managers often decide to sell the firm. However, because the intent is to find a buyer willing to pay a premium above the value of a going concern's fixed assets, the term marketing for sale is often more appropriate. Prospective buyers must be convinced that, because of their skills and resources or because of the firm's synergy with their existing businesses, they will be able to profit from the acquisition

The reason for divestiture varies. They often arise because of partial mismatches between the acquired firm and the parent corporation. Some of the mismatched parts cannot be integrated into the corporation's mainstream activities and, thus, must be spun off. A second reason is corporate financial needs. Sometimes the cash flow or financial stability of the corporation as a whole can be greatly improved if businesses with high market value can be sacrificed.

2.4.11 Liquidation

When liquidation is the grand strategy, the firm typically is sold in parts, only occasionally as a whole- but for its tangible asset value and not as a going concern. In selecting liquidation, the owners and strategic managers of the firm are admitting failure and recognize that this action is likely to result in great hardships to themselves and their employees. For this reasons, liquidation usually is seen as the least attractive of the grand strategies. As a long –term strategy, however, it minimizes the losses of all the firm's stockholders.

2.4.12 Bankruptcy

Liquidation is what the layperson views as bankruptcy. The business cannot pay its debts, so it must close its doors. Investors lose their money, employees lose their jobs, and managers lose their credibility. Companies that refuse to surrender until one final option is exhausted, choose a strategy to recapture its viability, such a company asks the courts for a reorganization bankruptcy. The firm attempts to persuade its creditors to temporarily freeze their claims while it undertakes to recognize and rebuild the company's operations more profitably. The appeal for reorganize bankruptcy is based on

the company's ability to convince creditors that it can succeed in the marketplace by implementing a new strategic plan, and that when the plan produces profits, the firm will be able to repay its creditors, perhaps in full. In other words, the company offers its creditors a carefully designed alternative to forcing an immediate, but fractional repayment of its financial obligations. The option of reorganization bankruptcy offers maximum repayment of debt at some specific future time if a new strategic plan is successful.

2.4.13 Joint Venture

Occasionally two or more capable firms lack a necessary component for success in a particular competitive environment. For example, no single petroleum firm controlled sufficient resources to construct the Alaskan pipeline. Nor was any single firm capable of processing and marketing all of the oil that would flow through the pipeline. The solution was a set of joint ventures, which are commercial companies (children) created and operated for the benefit of the co-owners (parents). These cooperative arrangements provide both funds needed to build the pipeline and the processing and marketing capacities needed to profitably handle the oil flow.

2.4.14 Strategic Alliances

Strategic alliances are distinguished from joint ventures because the companies involved do not take equity position in one another. In many instances, strategic alliances are partnerships that exist for a defined period during which partners contribute their skills and expertise to a cooperative project. For example, one partner provides manufacturing capabilities while the second partner provides marketing expertise. Many times, such alliances are undertaken because the partners want to learn from one another with the intention to be able to develop in-house capabilities to supplant the partner when the contractual arrangement between them reaches its termination date.

2.4.15 Consortia, Keiretus, and Chaebols

Consortia are defined as large interlocking relationships between businesses of an industry. In Japan such consortia are known as Keiretus, in South Korea as Chabebols.

A Japanese keiretus is an undertaking involving up to 50 different firms that are joined around a large trading company or bank and are coordinated through interlocking directories and stock exchanges. It is designed to use industry coordination to minimize risks of competition, in part through cost sharing and increased economies of scale

With every grand strategy there has to be links holding the chain of sustainable competitive advantage, these so called links are the value chain, with its primary and support activities adds value to an organization.

2.5 The value Chain

The value chain links the value of the activities of an organization with its main functional parts in Lynch (2000). It then attempts to make an assessment of the contribution that each part makes to the overall added value of the business. The concept was used in accounting analysis for some years before Professor Michael Porter suggested that it could be applied to strategic analysis. Essentially, he linked two areas together.

- The added value that each part of the organization contributes to the whole organization; and
- The contribution to the competitive advantage of the whole organization that each of these parts might then makes.

In a company with more than one product area, he said that the analysis should be conducted at the level of product groups, not at corporate strategy level. The company is then split into the primary activities of production, such as the production process itself, and the support activities, such as human resources management, that give the necessary background to the running of the company but cannot be identified with any individual part. The analysis examines how each part might be considered to contribute towards the generation of value in the company and how this differs from competitors. Porter's outline process is shown in Fig 2.3. He used the word 'margin' in the diagram to indicate

what we defined as added value ‘margin’ is the difference between the total value and the collected cost of performing the value activities’.

2.5.1 According to Porter, the primary activities of the company are:

- Inbound logistics. These are the areas concerned with receiving the goods from suppliers, storing them until required by operation, handling and transporting them within the company.
- Operations. This is the production area of the company. In some companies, this might be split into further departments-for example, paint spraying, engine assembly, etc, in a company; reception, room service, restaurant, etc, in a hotel.
- Outbound logistics. These distribute the final product to the customer. They would clearly include transport and warehousing but might also include selecting and wrapping combinations of products in a multiproduct company. For a hotel or other service company, this activity would be reconfigured to cover the means of bringing customers to the hotel or service.
- Marketing and sales. This function analyses customers’ want and needs and brings to the attention of customers what products or services the company has for sale. Advertising and promotions fall within this area.
- Services. Before or after product or service has been sold, there is often a need for installation or after-sales service. There may also be a requirement for training, answering customer’s queries, etc.

Each of the above categories will add value to the organization in its own way. They may undertake this task better or worse than competitors: for example a higher standard of service, lower production costs, faster and cheaper outbound delivery and so on. By this means, they provide the areas of competitive advantage of the organization.

2.5.2 The support activities are:

- Procurement. In many companies, there will be a separate department (or group of managers) responsible for purchasing goods and materials that are then used in the operations of the company. Their function is to obtain the lowest prices and highest

quality of goods for the activities of the company, but they are only responsible for purchasing, not for the subsequent production of the goods.

- Technology development. This may be an important area for new products in the company. Even in a more mature industry, it will cover the existing technology, training and knowledge that will allow a company to remain efficient.
- Human resource management. Recruitment, training, management development and the reward structures are vital elements in all companies.
- Firm infrastructure. This includes the background planning and control systems-for example, accounting etc. That allows companies to administer and direct their development. It includes corporate strategy.

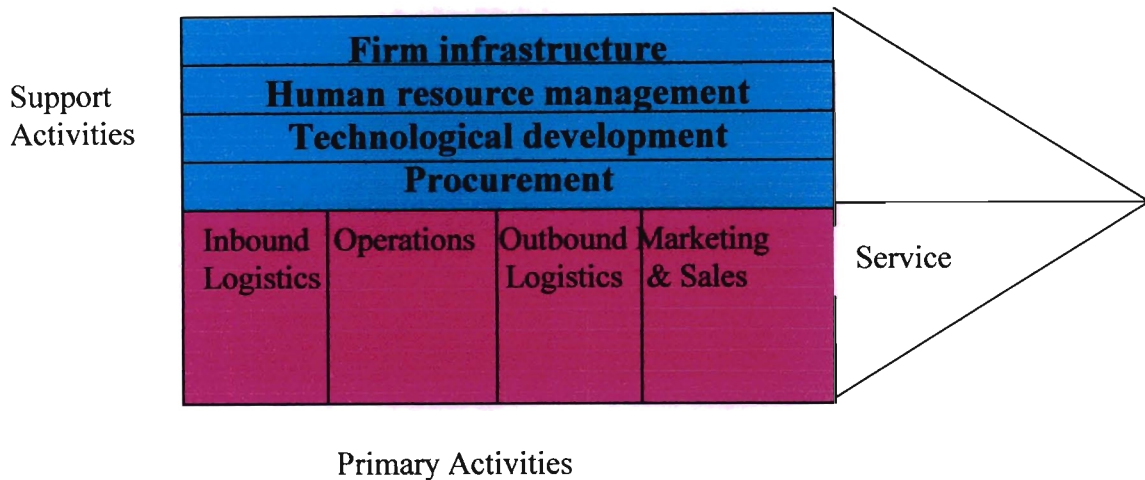
These support activities add value, just as the primary activities do, but in a way that is more difficult to link with one particular part of the organisation. The value added was quantified precisely at Glaxo, Bouygues and Nederlandse Spoorwegen. However, this value related to the overall inputs and outputs of the companies.

To develop sustainable competitive advantage, it is necessary to undertake more detailed analyses of where value is added. This is normally undertaken without any quantification for three reasons:

- Such assessments are difficult to quantify with accuracy. For example, how do you calculate accurately the precise added value of procurement? Salary costs? Lower prices gained? Higher quality obtained and quantified?
- Even if known for the company itself, the same data would be needed for competitors, since a competitive assessment is then made.
- Such detailed quantification is unnecessary in the broad general discussion of strategy.

Value chain analysis is therefore usually undertaken without detailed quantification of the Value added. It concentrates on the main areas and makes broad comparisons with competitors on the basis.

Figure 2.3 - The Value Chain model (Source: Corporate Strategy Lynch 2000)



2.5.3 Problems with the Value Chain

The problem with the value chain in strategic development is that it is designed to explore the existing linkages and value-added areas of the business. By definition, it works within the existing structure. Real competitive strategy may require a revolution that moves outside the existing structure. Value chains may not be the means to achieve this. The global industrial trend calls for companies to be ISO approved, which is stated below, this forms part of the value added process as companies are guaranteed, quality and service of the highest standards.

2.5.4 ISO Standards

The ISO Standard was formulated in Europe, namely the European Quality Award, which was established in 1993 by the European Foundation for Quality Management and the European Organisation for Quality. It is awarded to companies that have achieved high grades on certain criteria:

- Leadership
- People management
- Policy and strategy
- Resources
- Processes

- People satisfaction
- Customer satisfaction
- Impact on society
- Business results

Europe is the initiator of an exacting set of international quality standards called ISO, which has become a set of generally accepted principles for documenting quality. ISO provides a framework for showing customers how quality-oriented businesses around the world test products, train employees, keep records, and fix defects. Earning the ISO certification whether 9000, 9001, 9002 etc, involves a quality audit every six months from a registered ISO (International standards Organization) assessor.

The industry analysis provides us with the background on the company and environment within which it operates. The BCG matrix positions the company on the matrix in relation to the market and its competitors.

2.6 The BCG Growth-share Matrix

2.6.1 Introduction

The majority of companies offer more than one product or service and many serve more than one customer says Lynch (2000). There are good strategic reasons for this: to be reliant on one product or customer clearly carries immense risks if, for any reason, that product or service should fail or the customer should go elsewhere. Decisions on strategy usually involve a range of products in a range of markets. This is the subject of portfolio analysis and strategy. It was originally suggested by the Boston Consulting Group (BCG) in the 1970s, and as a result one version of the approach is sometimes called the BCG matrix-the matrix described below.

When an organization has a number of products in its portfolio, the matrix is one means of analyzing the balance of an organisation's product portfolio. According to this matrix two basic factors define a product's strategic stance in the market place:

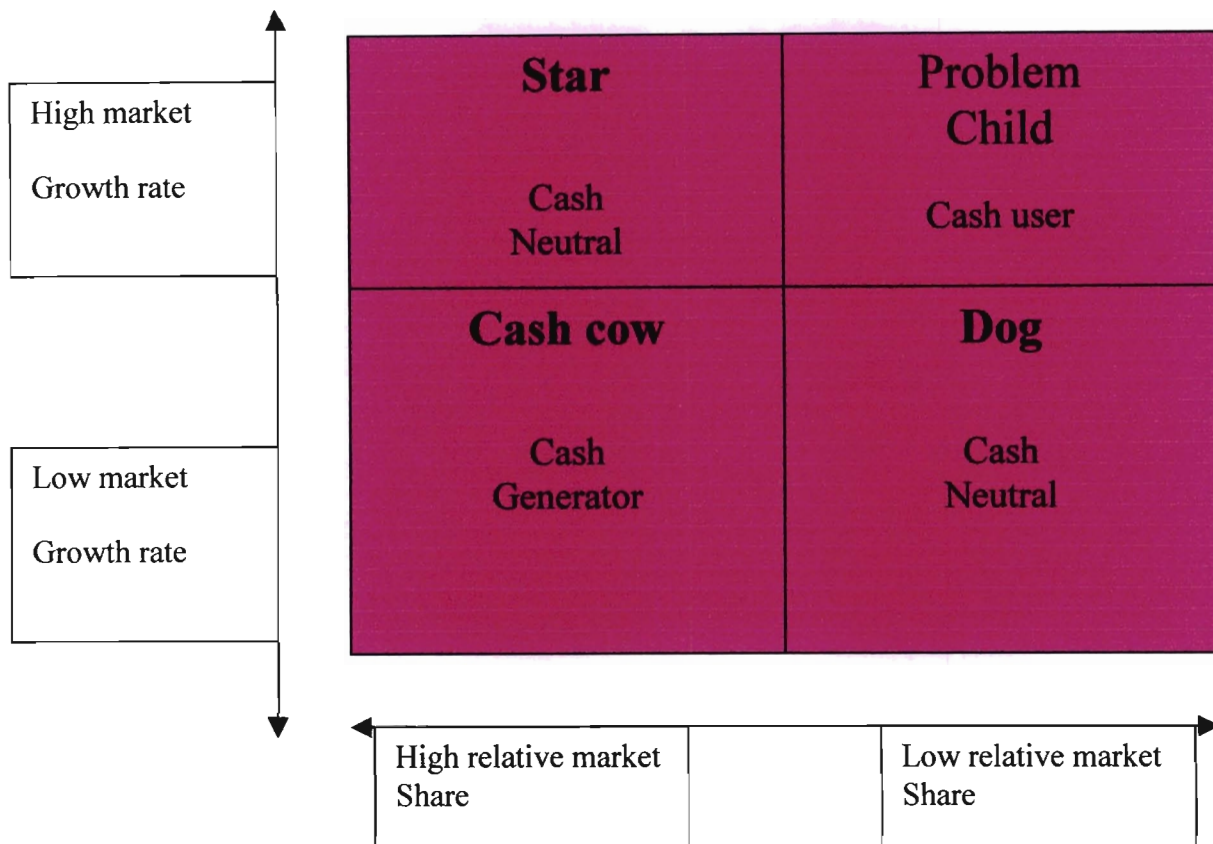
- Relative market share-for each product, the ratio of the share of the organisation's product divided by the share of the market leader.

- Market growth rate-for each product, the market growth rate of the product category.

Relative market share is important because in the competitive battle of the marketplace, it is an advantage to be larger than rivals: this gives room for maneuver, the scale to undertake investment and the ability to command distribution.

Market growth rate is important because markets that are growing rapidly offer more opportunities for scale than lower growth markets. Rapid growth is less likely to involve stealing market share from competition and more likely to come from new buyers entering the market. This gives many new opportunities for the right product. There are also difficulties, however, perhaps the chief being that growing markets are often not as profitable as those with low growth. Investment is usually needed to promote rapid growth and this has to be funded out of profits.

Figure 2.4 - BCG Growth-share Matrix model (Source: Corporate Strategy Lynch 2000)



2.6.2 Stars. The upper-left quadrant contains those products with high market shares operating in high-growth markets. The growth rate will mean that they will need heavy investment and will therefore be cash users. However, because they have high market shares, it is assumed that they will have economies of scale and be able to generate large amounts of cash. Overall, it is therefore asserted that they will be cash neutral-an assumption not necessarily supported in practice and not yet fully tested.

2.6.3 Cash cows. The lower-left quadrant shows those product areas that have high market share but exist in low-growth markets. The business is mature and it is assumed that lower levels of investment will be required. On this basis, it is therefore likely that they will be able to generate both cash and profits. Such profits could then be transferred to support the stars. However, there is a real

strategic danger here that cash cows become under supported and begin to lose their market share.

2.6.4 Problem child - The upper-right quadrant contains products with low market shares in high-growth markets. Such products have not yet obtained dominant positions in rapidly growing markets or. Possibly, their market shares have become less dominant, as competition has become more aggressive. The market growth means that it is likely that considerable investment will still be required and the low market share will mean that such products will have difficulty generating substantial cash. Hence, on this basis, these products are likely to be cash users.

2.6.5 Dogs. The lower-right quadrant contains those products that have low relative market shares in low-growth businesses. It is assumed that the products will need low investment but that they are unlikely to be major profit earners. Hence, these two elements should balance each other and they should be cash neutral overall. In practice, they may actually absorb cash because of the investment required to hold their position. They are often regarded as unattractive for the long term and recommended for disposal.

The models that have been discussed thus far have been designed by the gurus of competitive strategy, Professor Kenneth Andrews the brains behind the swot analysis, Professor Michael Porter (Porter's five force model), Professor Michael Porter (Value chain) and Boston Consulting Group (BCG Matrix). These tools are utilized to analyse the industry, discuss opportunities, and groom the organization for competitive strategy. Richard D'Aveni has taken ideas from all these models and combined them to form his own called the sphere of Influence. The sphere of influence is discussed below as a model of choice to place the company on a launch pad for the future.

2.7 Strategic Supremacy

The Heart of Strategic Supremacy: The Sphere of Influence

A sphere of influence as stated by Richard D'Aveni (2001) is your company's geo-product portfolio on steroids. Your sphere is centered on a core market that you 'own'.

This is the market where you have established value leadership. This means you set the expectations of customers and rivals when it comes to quality, price, and performance, and you also set standards that everyone else benchmarks. The sphere of influence is not a portfolio of 'Core competencies'. It is based on a core market, but that is only the beginning. Your sphere's core market is surrounded by your presence in other geo-product markets, each of which serves a specific strategic intent. Some markets are vital interests that increase the power of your core using traditional shared competencies and economies of scale and scope. Your sphere also includes markets that serve as buffer zones that protect your power by helping you defend against rivals that surround your core and vital interests. Pivotal zones in your sphere capture power vacuums, allowing you to improve your sphere's power through indirect, rather than head-on, competition. Pivotal zones can also serve as bets on the future, positioning you in markets that may become so important they could shift the balance of power. Your sphere of influence also includes forward positions in rival sphere. These positions allow you to counterattack competitors, signal your strategic intentions, and even establish tacit alliances with rivals. A gestalt of power proportions, a sphere is greater than the sum of its parts, creating a competitive arsenal that can be used to influence rivals and customers in a way that defines the playing field. Because each zone plays an important strategic role, a cohesive sphere protects your present. It also positions you for the future-even in the event of a seismic shift in your industry. And it allows you to utilize your entire company as a platform for building competitive advantage.

In essence, the sphere of influence provides a new logic for your portfolio, one that recognizes that your firm's power can derive from much more than core competencies. One example: Many successful sphere's create positions in markets where they have no strengths and no chance of winning, all in the service of the larger strategic purpose of increasing their power relative to rivals, in order to define the playing field. To the unenlightened eye, a sphere with strategic supremacy may look illogical.

A cohesive sphere of influence achieves strategic supremacy by helping your firm:

- Circumvent the competitive compression on your sphere. When rival try to contain, strip, or domino their way into your sphere, you can use your sphere to buffer your core against the power of other spheres. You can restructure your sphere to create a platform for growth around the compression. And you can use your sphere to turn the tables by applying competitive compression on a rival's sphere.
- Create a vision for routing resources around your portfolio. Rather than being subject to momentary market fluctuations and internal conflicts over funding, adhering to one of four proven paradigms for resource allocation within your sphere gives you a long-term vision for your sphere's accumulation of wealth and power.
- Cope with a multitude of rebellions. You can't ignore the hundreds of ambitious smaller challengers in your numerous geo-product markets. And you can't respond to every disruption everywhere. Using the power of a cohesive sphere, you can absorb some blows, counter the revolutions that rise to the top, and work with others to proactively keep the lid on chaos and stabilize your industry structure.
- Cooperate and compete to tip the balance of power in you favor. Powerful spheres configure the other big players in their competitive space into 'triangles' great power relationships consisting of two allies and one target sphere. The alliances in these triangles achieve alignment using several strategies. By focusing multiple triangles on the same goal, your firm can gradually influence your industry's structure and gain preeminence for you company's 'world view' of he competitive playing field.
- Guide your industry to a more profitable future. A sphere with supremacy can use competitive pressure to intervene in its industry's power systems, stabilize the power hierarchy, or redistribute power. Stabilizing mechanisms allow you to create a 'dynamic stability,' or you can apply 'pressure cascades' to guide the transformation of an industry in transition and mold order amidst the chaos.

If you want strategic supremacy for your firm, you must create a powerful sphere and use it to structure the geo-product space in a way that tips the distribution of power in your favor. Therefore, the tussle over turf translates into a struggle that ultimately affects your position in the 'power hierarchy' of your industry. Consequently, firms can't choose their portfolio of business without thinking about how their positions in the geo-product space influence the power systems within their industry. They must beware that they do not create important portfolios by occupying only niche markets and maneuvering in ways that provide no power to influence the behavior of the rivals. While profitable, such portfolios cannot redistribute or direct the flow and balance of power within an industry.

Most large corporations think of their power in terms of massive size, global reach, and authority or trust assigned to firms that have longevity. But these don't equate to strategic supremacy. For example, a large, widely diversified conglomerate with global reach has power and resources. It survives by spreading its risks over a large number of businesses. But a conglomerate cannot influence the borders of others because it faces too many rivals. It doesn't own a core that is strong enough to build a cohesive sphere around because it is too diffuse. And it competes not so much by shaping the playing field but rather by reshaping itself.

Strategic supremacy is a special kind of power that transcends size, reach, and longevity. It's not what you have, so much as how you use it. The attributes I just listed give firms the potential for strategic supremacy, but firms with massive size, reach, and longevity cannot achieve strategic supremacy without first understanding that they only have power over others if others believe they do. Throughout history, there are striking examples of this truth. George Washington and Mahatma Gandhi faced an empire with overwhelming size, longevity, and global reach. Yet they refused to buckle under the pressure and used guerrilla tactics, passive resistance, and leadership skills to render what appeared to be formidable force useless. They simply recognized that British military power was not enough to create strategic supremacy over America and India.

Because of this reality, the unique nature of strategic supremacy is defined by three principles; the power of perception; the power to capture the hearts and minds of core customers; and the power to fashion a favorable world by using different combinations and patterns of competition and cooperation. These three principles are the tools for constructing a social reality' without using the force of deep pockets, monopoly power, or illegal collusion.

For firms in dynamic industries, traditional portfolio models that focus primarily on core competencies and synergies can be dangerously shortsighted. Great powers throughout political and business history have demonstrated that a far more effective means of achieving growth, wealth and power is to frame your organization as a cohesive sphere of influence. The sphere is your competitive arsenal, serving as your offensive, defensive, and reserve artillery. It not only consists of your core geo-product markets and vital interest, but also buffer zones, pivotal zones, and forward positions, each serving a specific strategic intent. From its center to its far-flung border, a cohesive sphere of influence gives your organization the power and the critical ammunition to achieve and sustain strategic supremacy.

The Roman Empire rose to power out of the chaos of the declining Etruscan Empire. This power vacuum allowed Rome to establish its own supremacy within the Italian peninsula, using other Italian city-state as buffers against rival powerful empires centered in Carthage and Greece. With Italy as a secure base, Rome gradually expanded its sphere of influence far beyond the aspirations of the Etruscans. During its early growth period from approximately the sixth to the second century B.C., Rome captured Spain and created forward positions in Sicily, where it faced both Carthage and Greece. It skillfully defeated Carthage completely before turning to the domination of Greece, avoiding overstretching its resources by fighting on only one front at a time.

As Rome continued to expand to the height of its empire [from approximately the first century B.C. to the end of the second century B.C. to the end of the second century A.D.] It established extensive buffer zones, vital interests, and forward positions reaching to

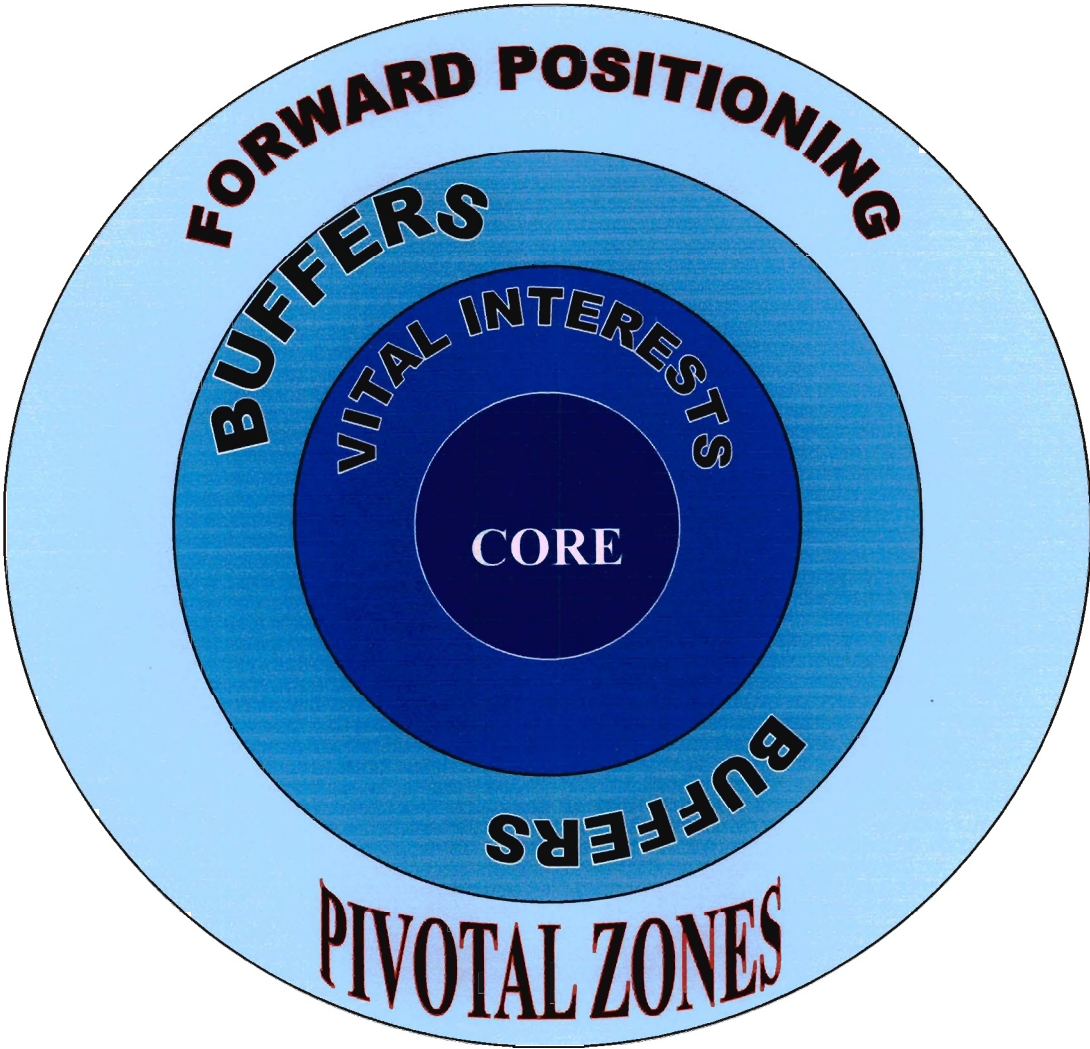
Northern France and Southern England. Each conquest satisfied a particular strategic need of the empire. Some territories were acquired because they were targets of opportunity, resulting from power vacuums. Others satisfied Roman's need for buffer against competing empires in the Middle East or powerful Germanic tribes to the north. Still others provided vital supplies, such as food, soldiers, metals, or trade goods. Much of Roman's growth was obtained by force [after all, Roman was a warrior nation]. But as the empire grew in scope, the Roman ideology embodied in its citizenship and system of governance played a role just as important as its legionnaires in controlling its vast empire.

At the death of Augustus in A.D. 14, Rome was the largest political, economic, and monetary entity to exist in the western world until it was overtaken by the mid nineteenth century. Moreover, Rome spread its wealth fairly well for its time, with the Roman distribution of income in A.D. 14 looking approximately the same as in England in the early nineteenth century.

2.8 The Sphere of influence

The sphere of competitive arsenal as written by D'Aveni 2001, serves as an offensive, defensive, and reserve artillery. It not only consists of the core geo-product markets and *vital interests, but also buffer zones, and forward positions, each serving as a specific* strategic intent. From its center to its far-flung borders, a cohesive sphere of influence gives the organization the power and the critical ammunition to achieve and sustain strategic supremacy.

Figure 2.5 -The Sphere of Influence (Source: Strategic Supremacy D’Aveni 2001)



2.8.1 Core or Center of Interest

This zone is the capital of a core product market of a great power in business. This is the part of the sphere of influence the company must “own” to survive because it is the significant source of the company’s REVENUE AND PROFITS. It is the most important product and geographic market where the firm sets the rules of the game. While leadership of the core market typically requires a set of core advantages and a specific organizational subunit to serve that market, the core market (like the other zones in the sphere) is not the core competencies used in that market or the subunit responsible for

serving that core market. The sphere of influence concept is focused on geo-product markets (or zones) within a competitive space. It is about using leadership over a core market and maneuvering for better positioning in and around that core to gain influence over rivals within the larger competitive space. For Microsoft, the core or center of interest began as operating systems for PCs and expanded to include Windows, and Office. For Disney, the core zone was originally animated children's entertainment, but it has spread over time to include theme parks. For Toyota, the core is small cars in Japan.

2.8.2 Vital Interests

These are geographic or product zones that provide the core with economic strengths. Vital interests include markets that are highly interconnected with success in the core. They also include compliments (Complementary products are those that make your core product more useful or valuable, for example, sugar is a complement that improves the value of coffee; software makes increasingly powerful computer chips more valuable.). In addition, vital interests can include key markets that strengthen the home base by providing critical resources, such as key components, unique know-how, raw materials in short supply, or low-cost skilled labor. For Microsoft, its network (NT) and portable device (CE) operating systems are vital interest that support or compliment its core desktop operating system and graphical user interface. Disney's vital interest in Touchstone Pictures gives its empire access to leading stars whose voices are used in its popular animated movies for children.

2.8.3 Buffer Zone

These defensive zones provide insulation against attack by another great power, much the way Poland offered a buffer against NATO power for the former Soviet Union. Buffer zones are expendable (if battles must be fought and territory lost, better to bloody the buffer than the core.). Buffer zones also protects against expansion by known and unforeseen rivals who could leverage their position in a nearby market to enter your core markets. For example by moving into PC applications, Microsoft is prepared to cope with potential incursions by "killer" applications companies that could bundle operating

systems with their applications and knock off Microsoft's operating systems or Windows graphical user interface the core of the companies business. Another example of the buffer defense is Disney's foothold in children's book publishing. The foothold keeps the fight over a future Mickey Mouse in the book world and out of Disney's core turf of children's movies and theme parks (because movies and theme parks typically build on the success of book characters and stories).

2.8.4 Pivotal Zones

These are markets that could shift the balance of power over the long run to an opposing great power. These are a bet on the future, although not necessarily with a specific rival in mind. In both politics and business, the People's Republic of China serves as a pivotal zone because of its enormous economic potential. Microsoft maintains position in a wide range of pivotal zones that it does not "own" yet. These include Internet-connectivity software as well as gaming and hand-held devices. Disney's sphere includes positions in potentially pivotal markets such as movies for adults, toy manufacture, sports teams, and video game manufacturers.

2.8.5 Forward Positions

These are offensive, front –line positions, typically located near the vital interests or core of an opposing great power. For Microsoft, a forward position against AT&T {which owns the largest cable TV company in the United States, TCI} might include access to cable TV signal distribution through a set-top box using Microsoft software. This move gives Microsoft the capability of introducing Internet telephony if AT&T starts providing set-top boxes that access the Internet without Microsoft software or if it includes voice-activated interfaces that replace graphic user interface (like Windows). (Note that, if AT&T ever actually pulls off the proposed breakup, which would separate cable and telephony into different companies, Microsoft would lose the ongoing capability to use forward position in cable access against AT&T. But Microsoft still gains an advantage by bundling complimentary services that AT&T can't.) Disney's forward position in digital and other distribution channels counter powerful competitors such as Toys "R"

Us, which might use its influence over distribution channels to expand further into children's programming and characters.

2.8.6 Piecing The Sphere Together

In contrast to creating a nicely synergistic portfolio, the goal of a sphere is to use the pieces of your portfolio to create power over your rivals and the larger competitive space. To have a sphere of influence that will make you a "great power" in your competitive space, you must have a preeminence in some parts of the competitive space so that you can extend your influence into other parts of that space. Consequently, a sphere of influence is a particular type of portfolio, requiring your firm to have substantial market power in your core and vital interest. In other zones-beyond your core and vital interest-you may enjoy only a partial degree of influence, or you may have very little influence. Nevertheless, these zones are important to your sphere because you may become interested in influencing them in the future, or you may want to use them to change the interest of rivals, create respect for the boundaries of your sphere, and fashion a favorable world around your sphere.

If you can define your interest and consequential strategic intentions for each zone in your sphere, you'll recognize the truth in what Britain's former prime minister Lord Palmerston once said about his country's empire: "We have no eternal allies and we have no perpetual enemies. Our interests are eternal and perpetual, and those interest it is our duty to follow."

2.9 Assigning Strategic Intent To Every Zone In Your Sphere

D'Aveni (2001) that the first critical step in creating a strong and cohesive sphere of influence is to understand how each zone of your sphere fits into one of the five general categories (core, vital interests, buffer zones, pivotal zones, and forward positions). But there are many types of vital interests, buffer and pivotal zones, and forward positions, and it is important to know what your intention is for each zone with even greater specificity. Do the strategic intents assigned to each zone fit together with the strategic intents of all the other zones? To determine this, you can analyze the role of

each zone in your sphere of influence based on answers to the following important questions:

- What is the attractiveness of the zone (growth potential, profitability, and size)?
- What is your company's relative strength in this zone?
- What is the strategic relationship between the zone and your core?
- What is the strategic relationship between the zone and a rival sphere's core?

The questions provide a set of criteria for determining your key interests in each of the zones being considered for your sphere (D'Aveni 2001,see figure 2.6)

Relative Market Strength within the Zones Being Considered			
Market Attractiveness			
	Weak	Strong	
	High	Forward Position	Center of Interest (Core)
	Low	Expandable Zones Or Buffer Zones Or Forward Positions	Vital Interest
Potentially High	Power Vacuum (If no other rival is strong)	Pivotal Position	

Figure 2.6 - Method for Determining Your Key Interests (Source: Strategic Supremacy D'Aveni 2001)

Many variations of these criteria are also possible, especially depending on how you wish to use your sphere to influence rivals.

For example, the strongest core possible is a zone that is very attractive, is located where your company has a very strong position, and is devoid of any major rivals. The markets

in which the company has a strong position, but are not as attractive can be used as vital interests. Vital interests are markets of high strategic importance because they are used to build the core's power. The role of buffer zones in your sphere of influence depends on your rival's position, especially if the rival has a strong position in a zone near your sphere's core. Zones that are good candidates for buffer zones include:

- Any nearby geographic locations that offer your rival the ability to extend distribution into your core or vital interests.
- Any zone where major rival produces or sells products that are similar to, and that are substitutes for or complementary to, your products in your core or vital interests
- Any zone where a major rival produces or sells products or services relying on the same core competency (skills, brand name, technology, etc.) that you rely on
- Other zones where players have some advantage that can be used to attack your core or vital interests.

Why are buffer zones so important? One reason is that they often will pin down rivals and avert attack of your core market. While you hold powder in a core market a rival may feel too threatened to make a go of attacking there. However, over time, a rival can build up its competencies or infrastructure by occupying geo-product zones that have similarities to your core. Eventually, however, that rival can recombine its competencies from the various markets and extend its infrastructure until it reaches a critical mass that does enable it to make a credible attack in your core. Buffer zones enable your firm to fight it out with this rival before that scenario can play out.

Buffer zones also serve another strategic purpose. They allow you a way to bundle products or services with your core products. This can serve as a defensive move against others that may someday grow their own core product markets at your expense by bundling their core product with a free version of your core product or service.

Successful great powers also designate some zones as pivotal positions. These are zones that will be attractive in the near or long term for various reasons, but in which the

company is currently weak. These zones are used for growth or long-run competitive purposes and include:

- High potential strategic target markets. These are markets where the firm is capable of building great strength, or where the firm intends to migrate its core in the long term.
- A market that is in untapped or undiscovered space and provides a great growth opportunity.

Last, but hardly least, companies can take forward positions near a competitor's sphere to achieve several different intents. A forward position can interfere with another great power's access to key resources—for example, threatening the United State by tying up oil resources in the Middle East. Forward positions can also pin down a competitor in a prolonged and fruitless use of resources to defend the zone (drawing the United State into war in Vietnam), or to enhance a great power's influence in a relatively neutral part of the world (the Soviets in Angola). Forward positions can be used as “flanking positions” around an opposing firm, thorns” to irritate an opponent, or “diversions” used to distract an opposing great power. They also may be used to block a specific opponent's moves with the potential of balance of power in an important region in the World. Forward positions also can be used test and improve strategies or the latest weapons (new products) before entering a broader market. Finally, forward positions can serve as beachheads, where companies can land and then mount a larger offensive against a competing sphere. Like Britain's use of Hong Kong for access to China, a company might take, for example, territory near a competitor's sphere in preparation for a larger offensive in an adjacent market. In summary, forward positions serve a company's sphere by providing:

- A foothold position in a rival's core or vital interests, to keep them occupied at home
- A signal to a competitor to back off of your core markets
- A first step in a full-scale invasion of an opposing sphere
- A way to “soften up” an opponent before you attempt to acquire it

In addition, to create a cohesive sphere with enough power to create strategic supremacy, you need to structure it to signal a clear competitive direction. This direction must indicate where your priorities lie (core), how far you will go to support those priorities (vital interest), what your biggest potential threats are (buffers), whom you specifically wish to engage proactively (forward positions), and your alternative positions for the future (pivotal zones). When done properly, a clear sphere provides purpose to your portfolio, direction for your merger strategy, and guidance for your internal allocation of resources. It also gives you power over the world in and around the sphere. Taken in conjunction, a well-rounded sphere of influence is made up of the strategic intents for several zones with a single clear overhang purpose-to fashion a favorable world by influencing specific competitor behaviors and positioning.

That said the sphere must not be conceived as a monolithic set of strategic intents cast in stone. Your interests and strategic intentions for each zone may shift over time, rendering some zones more or less important. In addition, a single zone may be core to your firm, a buffer to a rival, and a forward position to still another rival. As rivals push or change their interests in each zone, your desired intent in those zones may change as well. Moreover, you may find one zone playing dual roles for your sphere. The zone may buffer against one set of rivals and be a forward position against a specific competitor. For example, Microsoft's interests in speech recognition software may buffer against IBM's and other software companies' potential entry of the user interface market. At the same time it may be a forward position against AOL that provides a voice-activated interface with the web. One caution, however, use of a single zone for dual intents may cause confusion about the goal for that market. In Microsoft's voice recognition case, it must be sure to resolve the conflicting goals of a buffer zone and a forward position regarding growth, resource needs, and competitive aggressiveness.

2.9.1 Positioning Your Sphere for the Future: Ugly Ducklings, Power Vacuums, and Outcasts

A cohesive sphere is not only constructed to achieve preeminence in its chosen zones today, but also to position the company for preeminence in the future (D'Aveni 2001). Therefore, when considering the strategic intents of the zones in your sphere, you also need to take into account factors such as potential shifts in a zone's attractiveness, or a change in the competitive positioning of your organization.

While you can hardly be expected to read the future, you do need to keep an eye on zones that may not be attractive now, but may have the potential to turn from an ugly duckling to a swan. Even in these ugly duckling zones, you may want to open a position as a means of creating an "option" in case it takes off.

Power vacuums are another type of market that can help your company bet on the future. Power vacuums are untapped growth opportunities where no one player has established a stronghold yet. Great powers often seek to bolster their competitive position in a power vacuum (if they have the resources) so as to preempt entry by a rival who seeks to use it as a launching point for an attack in the future. What's more, racing into power vacuums represents one of the best ways to use your pivotal positions to absorb new territory and wealth into your sphere, while expending minimal resources. But, as with any race, timing is of the essence when you move into unoccupied or newly created territory. Like nature, business abhors a vacuum. This means your window of opportunity to absorb that new wealth without forking out big bucks in a fight is only as big as the time it takes for the first racer to cross the finish line incorporate the power vacuum solidly into its sphere.

In addition to ugly duckling and power vacuums, a cohesive sphere of influence might even include positions in zones located in the low attractiveness - weak positions box shown earlier in Exhibit 1-4. In portfolios created from traditional strategic theories, these outcast zones are dismissed wholesale. Yet a strong sphere of influence doesn't overlook the potential of these zones, perhaps as future buffers for the sphere's core, even as forward positions or options if the marketplace shifts. So, despite the advice of the traditional BCG matrix-which would say divest businesses in these zones-firms with

strategic supremacy carefully consider outcasts in this inauspicious corner of the matrix, and classify them based on their larger role in the firms' sphere of influence.

Moreover, some traditional portfolio models suggest a different relationship between the core and the periphery of the portfolio. For example, the BCG matrix, a commonly used method for portfolio planning, depicts cash cows (low-growth, profitable zones) as the means to fund a company's future stars (high-growth, low-profit zones)-in other words, the core market funds pivotal zones. But successful great powers rarely operate so unidirectional. In fact, some successful growth-oriented spheres may be based on a growing core that is fed by the peripheral vital interests, and protected by the outer ring of buffers and forward positions. In other cases, a zone may switch from being the supplier of resources to a forward position. Thus the vision for the sphere future must drive relationship between the zones.

2.9.2 The Big Picture: Mapping your Sphere to evaluate your Strength, Cohesiveness, and Future.

To achieve strategic supremacy, your company needs both a unique position relative to your competition, and a sufficiently large and central position within the competitive space. Mapping your company in terms of its products and geographies can reveal whether your firm is indeed a sphere, to achieve or sustain strategic supremacy (D'Aveni 2001).

Thus far, I have used business examples of the sphere of influence primarily based on positing in product space. But product space is only one part of the picture, or map of the competitive space. More realistically, the map consists of longitude and latitude lines that represent both the products and geographic markets that are of interest to an industry leader. On this map are located the positions of the great powers within the space, and the strategic intent of each great power for the zones that interest them within the geo-products space.

Using this kind of mapping to reveal the coherence (or not) of your sphere of influence demands that you assign your intentions properly and arrange them in a logical way on the map. Creating a map that offers this kind of insight will likely require more than one attempt, and you may need to shuffle and reshuffle the columns and rows on your map, as illustrated in Exhibits 2.7 and 2.8. The first test of whether you have any reasonable semblance of a sphere is whether you can reshuffle the rows and columns to construct a map with a core at the center, and vital interests, buffer zones, forward positions, and pivotal zones radiating outward from this core.

The second test of the strength of your sphere is whether you have organized the competitive space in some logical manner. For example, when looking at adjacent geographic columns on your map, are they physically near each other or do they share a practical commonality? Do the adjacent geographic columns share traits such as having *geographic proximity and the same distribution system? Or are the customer needs and tastes similar in the two geographic regions?* When looking at adjacent products rows on your map, the products-like the geographies-should share some defining characteristics, such as similar customer needs, technologies, or customer types.

Without some logic that fits products and geographies closely together, the sphere you have created may be spread too thin or it can contain too much “white space”- opportunities for others to enter-between the columns or between the rows. These tests will determine whether your sphere is focused and solid versus diffuse and full of holes. As Exhibit 2.7 illustrates, a good map can also reveal strengths and weaknesses of your sphere. *The hypothetical sphere in Fig 2.8 reveals several important insights:*

- A serious vulnerability in the sphere’s southeastern quadrant
- A significant move (forwards positions) against competitors in its western quadrant

Geographic Markets

Product Markets	1	2	3	4	5	6
	A	Vital Interest		Buffer Zone		Forward Position
	B	Forward Position				
	C	Core	Pivotal Position	Vital Interest	Vital Interest	Forward Position
	D	Forward Position			Pivotal Position	
	E	Buffer Zone	Pivotal Position	Buffer Zone	Vital Interest	Forward Position
	F					

Figure 2.7 - Assigning Intensions to Geo-Product Zones (Source: Strategic Supremacy D'Aveni 2001)

- A major bet on the future (pivotal positions) in the northeastern quadrant
- A Midwestern core well supported and protected by vital interests and buffer zones, respectively

Exhibits 2.7 and 2.8 also illustrate that sphere are not built in a unidimensional competitive space based only on selected positioning among the products. Building a sphere involves staking out strongholds in geo-product space. Geography can be further divided into channels reaching into that geography. Products can be replaced with customer type or need. Thus, you can build a sphere in channel-products space, geo-customer space, etc. Geo-product space, however, best represents the competitive playing fields most firms play on in today's global environment. Cyberspace represents a particularly interesting challenge because geography isn't really a factor once the language issues are overcome by translating the site. In such cases, a reasonable representation of cyber-space may be based on services provided (e-tailing, securities

trading, auctions, etc.) and distribution channels (prominent positions on MSN, AOL, Yahoo! or other Web pages, and priority on their search engines). Because of the different ways to map your space, you may need to try several methods before you discover a coherent sphere that reveals how your competitors see the world, or before you clarify how all the components of your sphere fit together.

Geographic Markets

Product Markets		5	3	1	4	2	6
	D	Power Vacuum	Power Vacuum	Forward Position	Pivotal Position	Pivotal Position	
	E	Forward Position	Buffer Zone	Buffer Zone	Vital Interest	Pivotal Position	
	C	Forward Position	Vital Interest	Core	Vital Interest	Pivotal Position	
	A	Forward Position	Buffer Zone	Vital Interest	Power Vacuum	Power Vacuum	
	B	Power Vacuum	Power Vacuum	Forward Position	Power Vacuum	Power Vacuum	
	F						

2.8 Reshuffling the Grid to Find a Coherent Sphere of Influence (Source, Strategic Supremacy D'Aveni 2001).

By mapping your firm's sphere of influence and the sphere of influence of your competitors, it becomes very clear where (and how many) key points of conflict exist. It also becomes clear where your company should focus its resources and attention in building its strength, and where it should direct its defensive maneuvers in the face of a potential attack by another strategic intentions of each of the zones to achieve a more cohesive and powerful sphere.

This process of building a coherent sphere of influence adds tremendous value to the enterprise, often improving profitability through the use of forward positions and buffer zones to create barriers to entry, less aggressive competitor behavior (such as mutual forbearance), and more indirect competition (such as focusing on growth in non-overlapping directions). Rigorous research has found strong evidence of such improved profitability and/or favorable influences on rival behaviors in highly competitive industries as diverse as banking, cement, mobile telephone service, knitwear manufacturing, petroleum, and hotels on both the global or local levels. In addition, a ten year study of over 2000 technology, products, and service firms by the prestigious strategy consulting firm, Bain & Company, found that having a strong and well protected core provides a solid growth platform and engine to fuel the growth. Going well-beyond these studies, this chapter provides a deeper and more practical understanding of how to use structure a sphere strategically, and it relates sphere of influence to diversification strategies more explicitly. The 1st Emperor, Augustus Caesar, understood how the diverse territories of Rome's sphere, along with the Roman ideology- contributed to a cohesive whole. This sphere of influence, and the offensive and defensive firepower inherent in such a strong and cohesive sphere, allowed Augustus to lay the foundation of history's greatest and most enduring empire and to create tremendous wealth in the process. Trade flourished. Infrastructure was built. Stability prevailed. In Augustus own words, "I found Rome a city of bricks and left it a city of marble".

2.10 FIVE NATURAL GROWTH PATTERNS:

"THE DESPERATE DESIRE TO GROW"

A great power as stated by D'Aveni (2001) has an evolutionary imperative-to grow its sphere in a way that increases power and absorbs new wealth. As Milton Friedman, a winner of the Noble Prize in economics, once said. *"We don't have a desperate need to grow. We have a desperate desire to grow"*. Whether that "desire" is fulfilled or not depends in large part on your growth strategy-your guidelines for how and where you seek out new patterns of evolutionary growth-developers, pioneers, nomads, discoverers, and opportunists (see Exhibit 2-5 D'Aveni 2001).

2.10.1 Developers

These homebodies do not seek to extend their markets outside their borders. Instead, they find new space within their borders, either by “mining their current markets, or serving as complements to other markets. The Japanese shoguns during the 1700s the mid-1800s maintained dominance over all of Japan and sought little expansion beyond their shores.

	Exploitation of the Sphere’s Current Markets	Exploration of Markets Nearby The Sphere	Exploration of Markets Distant From the Sphere
Keep the Sphere’s Existing Core	Developers	Pioneers	Discoverers
Shift the Sphere’s Core		Nomads	Opportunists

Figure 2.9 – Natural Growth Patterns (Source: Strategic Supremacy D’Aveni 2001)

Similarly companies with preeminent brands or other strong barriers to entry may choose to stake out a territory and mine it extensively. Two examples are Mattel’s preeminent position in dolls or Wm. Wrigley Jr. Company’s preeminent position in chewing gum. Mattel’s Barbie has undergone nearly constant evolution since her creation in 1959-from glamour model to high-tech “Talk with Me Barbie,” that plugs into the owner’s computer and can be programmed to speak customized dialogue with lips that move. (By year 2000, Barbie was faltering a bit. While Barbie is only part of Mattel’s business, it is a very significant part-so Mattel as a whole may not be pursuing a pure “developer” strategy. Nevertheless, Barbie illustrates that the developer approach can be sustained for forty years.) Wrigley has also moved to mine its approximately one-hundred-year-old bubble gum sphere of influence with Hubba Bubba and deeper penetration of its global markets.

2.10.2 Pioneers

These Daniel Boone type moves into adjacent markets the way U.S. pioneers settled the West, or Rome extended the territory of its empire. Sporting-goods manufacturer Eston leveraged its competency in aluminum sporting goods by moving from arrows into baseball bats, ski poles, and hockey sticks. Another example is Hewlett-Packard, which moved from calculators to adjacent markets for personal computers and printers. Hologic represents a company that started as a developer and become a pioneer. Founded in 1986, Hologic was a leader in diagnostic equipment for osteoporosis. The company created the first X-ray bone densitometer and continued to extend its clinical diagnostics equipment with advances such as a whole-body scanner and densitometers that incorporated new technologies. A decade later, Hologic initiated a more pioneering strategy of moving into other types of imaging beginning with its merger with FluoroScan, an imaging company for minimally invasive surgery. The move began to shift the company from developing only diagnostic equipment to meeting broader medical needs for imaging.

2.10.3 Nomads

These wanderers move from core market to core market, abandoning the old as they enter the new, in the way that Mongols swept through Asia into Europe. Rather than consolidate their sphere, nomads live off one temporary opportunity after another. Facing declining fortunes in its core industry, M.A. Hanna abandoned its mineral mining business to move into a new core business of specialty chemicals in just a few years. By 1986, it shed all but a few vestiges of its mining business, and engaged in a rapid spurt of acquisitions in specialty plastics and rubber, as well as global expansions that built the company sales from \$97 million in 1986 to \$1.1 billion in 1991. This revenue came almost entirely from its new businesses, as the company divested its last natural resource firm in 1991. Hanna has continued on a growth path ever since Nokia (moving into cellular phones) and Morton Salt (moving into rocketry) have experienced similar successful shifts in their core and have achieved rapid growth as a result.

2.10.4 Discoverers

These fearless folk go farther a field without abandoning their cores, discovering new lands like the explorers of colonial Spain and Britain. Discoverers take dramatic leaps into exotic places: undeveloped space in which there is no great power; undiscovered space created by a breakthrough in technology; or unprotected space vulnerable to attack by ill-prepared inhabitants. Discoverers find these spaces and then build colonies in them. They have a long-term base (core market) from which to operate and explore for new discoveries. During its early years, Sony built its position as a discoverer. It moved from transistor radios to the major new inventions such as Trinitron color television to the VCR to the Walkman.

2.10.5 Opportunists

These adventurers take bold leaps, but without holding onto their past business. They are like the Vikings who sailed from base ports to raid known territories as opportunities for plunder emerged. They then moved on to new targets. Thermo Electron has achieved rapid growth as a complete opportunist, building diverse technological capabilities in diverse areas, including X ray, radar, laser hair removal, and low-orbit communications satellites. Thermo Electron doesn't rely on a single core technology. Instead, the company explores these new technologies opportunistically and then spins off the successful companies. Its subsidiaries, such as Thermo Trex, then spin out their own subsidiaries in narrower areas.

2.10.6 Summary

Developers, pioneers, nomads, discoverers and opportunists. Which growth pattern describes your firm's growth strategy? Most companies have a natural growth strategy that they follow instinctively. Consider your company's evolution thus far. Do you tend to search near or far for growth opportunities? Is every addition to your sphere directly related to the core or do you have a tendency to abandon your existing core as soon as something bigger and better comes along?

The choice of growth strategy is often engrained in the culture of the company, often based on the personality or skills of the founder. The growth process may also result from the expeditionary and invasionary capabilities of the firm, its capabilities for change, the marketing group's prowess at entering new markets, or the leapfrog research skill of R&D departments. That said, it's important to remember a company's growth strategy isn't set in stone. Say your company is suddenly faced with a major threat to its core market (such as potential obsolescence or significant decline). Or a new territory suddenly blows open the competitive space, the way the discovery of the New World set off a frenzy of exploration in the Americas. Or the way the introduction of consumer-packaged goods into mass merchandisers and e-commerce dramatically changed P&G's competitive space, as described in Chapter 1. When one sphere's natural growth pattern causes a significant shift in the playing field, such as these events did, it may compel other spheres to shift their growth strategy, stop the growth of the sphere that's causing the playing field to shift, or risk being left behind in the dust.

2.11 ADJUSTING YOUR NATURAL GROWTH STRATEGY:

THERE'S NO PLACE LIKE HOME...OR IS THERE?

According to D'Aveni (2001) all of the strategies he just described are proven methods for uncovering opportunities for growth and for forging even widely diversified zones into a strong and cohesive sphere. But some of these strategies focus the growth process close to home-revealing opportunities for you to mine your core. Other illuminate possibilities for moving away from your core, or possibly replacing it altogether. With such a broad spectrum of alternatives, firms can likely relate to the warning by catcher-cum-philosopher Yogi Berra, "You've got to be very careful if you don't know where you're going, because you might not get there."

How do you determine which growth strategy is right for your firm? That answer greatly depends on four factors discussed below:

- How strong is your position in the core and how strong is your commitment to it?
- What is the pace of growth in your industry?

- Is your organization capable of moving to a new core or to distant places and markets?
- And how will the relationship between the new and old territory help or hinder the power of your sphere influence?

2.11.1 Your Strength and Commitment to the Core

Take a long, hard look at your core business. Because more than one skilled management team has miss-assessed or undervalued a profitable core, and the results have been disastrous. Consider Bausch & Lomb, the seemingly immutable leader in the eye care industry through the mid-1980s. Then the company began diverting its resources and attention from its core lens and solutions business, investing in new markets related to dentists, dermatologists, and hearing specialists. But rather than adding value to the company, the move proved to be drain and a distraction.

Sales in the core flattened out. Worse yet, the diversification opened the door for a powerful new player in the contact lens business, Johnson & Johnson. While J&J was enjoying success with its new disposable lenses, B&L's market share was declining, eventually drifting below J&J's despite a history of 120 years in the eye care business, Bausch & Lomb didn't see the writing on the wall until it was too late. Eventually, a new management team came in the return the company's focus to its core, but not before critical ground, time, and capital had been lost.

To avoid falling into the same trap as B&L, you need a clear assessment of the value of your core. If your core is rock solid, logic dictates you should grow with it.

Coca-Cola has enjoyed decades of strong performance and market share leadership in its core business. So has USAA, which practically owns a customer niche among former military employees by earning their total loyalty and devotion.

But what if your core isn't secure, or suddenly faces a serious threat? Sigma-Aldrich provides as example of the latter. The company, which had remained preeminent in the market for specialized esoteric research chemicals for decades, now faces a new and successful Web-enabled challenger, Chemdex. If the rival has more power in cases like this, logic dictates you must evolve the sphere by adopting a search strategy that explores

for more opportunities farther away from the besieged core, and that you create stronger forward and pivotal positions.

2.11.2 The Pace of Growth in Your Core

Beverages. Clothing. Tires. Supermarkets. The world is full of slow-growth industries. Companies that are experts at mining their core somehow manage to supersede the sluggish growth within their own industries. Nike's 27 percent growth over ten years was in sharp contrast to the 6 percent growth of the shoe market, its core business. Coke has managed to grow at more than twice the rate of its industry. For long periods, Matco, Harley-Davidson, and Gap Inc. have also managed to transcend their industry growth rates. But these players are the exception, not the rule. And even more recently Nike, Mattel, and the Gap have experienced downturns or strong fluctuations in their cores.

Mining the core in a slow-growth market can often be the equivalent of trying to get blood out of a turnip. You may be better off switching your growth strategy to the broader world of opportunities, where you can build your forward positions and pivotal zones, and prepare for the future. This is especially critical if you're in a declining market, where the need to migrate your core is a foregone conclusion.

2.11.3 The Capabilities of Your Organization

Does your organization have the skills to move into a new growth market? The Flexibility? Can you acquire the skills? When is the right time to make the switch-while the going is still good or when the jig is up? Or would it be better to stay put and serve as a cash cow? These are all value judgments without easy answers. This dilemma is faced by many of many of today's large insurance companies that have traditionally been stable cash generators. These companies tend to stick close to home. But in today's rapidly globalizing financial world, one insurance company AIG has built the capability to globalize and has become successfully focused on growth overseas. While those who have stayed at home have been successful today, what will their future look like if AIG becomes the global leader and they lack the power to counter AIG?

2.11.4 The Negative Synergies Created

When AT&T built Network Systems (now Lucent Technologies) it thought it was in synergy heaven. Network Systems manufactured equipment for AT&T, and all its local subunits at first. After the 1983 breakup of AT&T, Network Systems manufactured equipment for the independent regional Bell operating companies as well as AT&T itself. AT&T anticipated having the latest networks and technologies at its disposal. AT&T also probably anticipated that control over Network Systems would mean control over the standards for all baby Bells. But AT&T didn't anticipate the negative side of its synergy with Network Systems. In reality, the baby Bell were afraid to buy Network System's equipment for two reasons: They feared they'd be strengthening their rival's coffers; and they suspected that only AT&T would get access to Network Systems' cutting-edge technology. In the end, Network Systems, languishing in a bad marketing position and bad technological position, spun off from AT&T, renamed itself Lucent, and up until recently, became a better value creator than its former parent.

2.12 COMPETITIVE COMPRESSION: FOR EVERY ACTION, THERE IS AN OPPOSITE AND EQUAL REACTION

You have a desperate desire to grow. Your rivals have an equally desperate desire to compress your growth. Newton's third law of motion- for every action, there is an equal and opposite reaction- has direct application to firms trying to lead the evolution of their spheres.

D'Aveni says that as you attempt to grow your sphere, your rivals react, resulting in a constant pressure on your perimeter. The external pressure on a sphere is called competitive compression. The concept of competitive compression can be illustrated through the analogy of a balloon as it inflates. Press the balloon more firmly on one side, and its expansion at that point is compressed, but the other side pops out more prominently. But of course no balloon can expand indefinitely. Since outside air pressure is always around its perimeter, trying to inflate the balloon too much in any direction can only result in it bursting. Sometimes the competitive compression on a sphere is felt more acutely in one of its zones; other times it's more of a uniform squeeze. *And sometimes the competitive felt by a sphere comes primarily from one rival, while*

other times it's the result of a gang of competitors intentionally or inadvertently working together. Regardless, the compression-as much as the sphere's own natural strategy – drives the sphere's evolution.

2.12.1 Four Patterns of Competitive Compression

Whether a sphere is on the receiving or giving end of competitive compression, the pressure typical manifests in one of four general patterns. Specifically, compression is put on a sphere to contain its growth, gradually constrict its boundaries, and strip it of its vital interests or other critical zones, or domino through its buffer zones. The domino strategy involves toppling buffers one by one, and thus gaining the momentum and the capabilities necessary to make a strike at the core and the sphere's value leadership. I have termed these four patterns of competitive compression "managed containment." "Gradual constriction," "sequential stripping," and "topping dominoes." While competitive compression is hardly the only challenge to growth that firms must confront, one or more of these four patterns of external pressure almost always plays a role when the growth and supremacy of sphere decline.

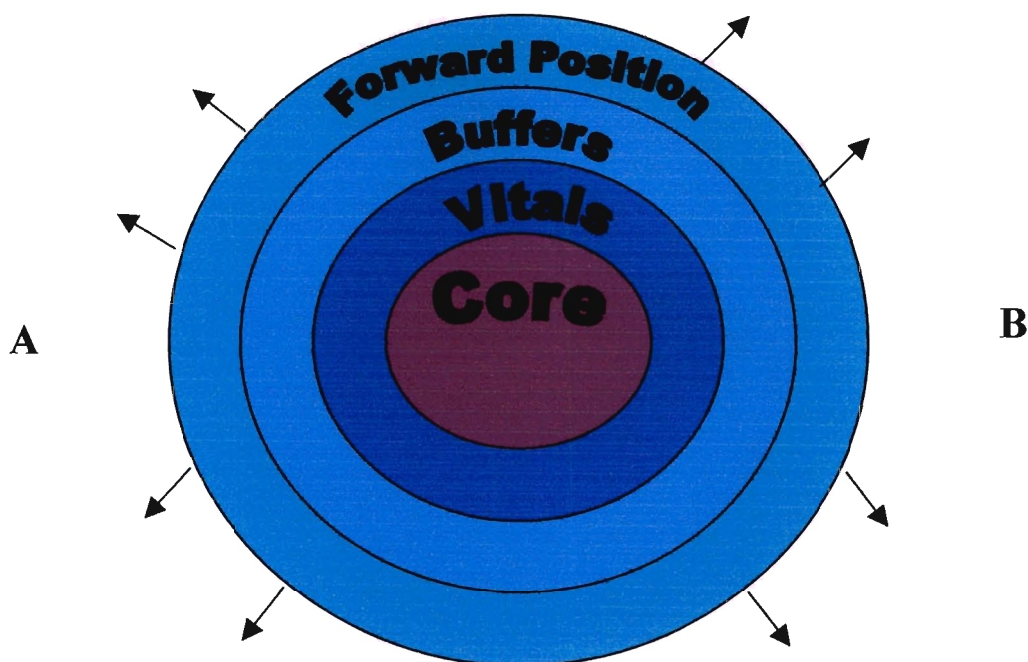
When one of these patterns of competitive compression is used, it is usually determined by two factors: first the attacker's resources (relative to the target's sphere, of course); and second, the attacker's time horizon (bigger threats require faster action).

2.12.2 Managed Containment

This pattern of competitive compression is based on surrounding a rival sphere and restricting it to a narrow part of the competitive space (see Exhibit 2-10). It does not obliterate the integrity of the targeted sphere, but merely stunts its growth into new markets and limits its scope. This strategy or inadvertent pattern of pressure may even be conducted by several firms targeting the same sphere. Containment can take a long time because it does not provide a decisive victory. However, it can be less costly than the other more aggressive compression patterns, especially if the early containment policies work and the rival settle down into its own sphere and adopts a developer growth strategy.

In 1970, ABC invented one of the most successful formats for prime-time programming. Its Monday Night Football program dominated U.S. television sets at the start of the week through the 1970s and early 1980s. Monday became the core of ABC's profit-marketing machine. Its prime competitors, NBC and CBS, were unable to develop a lineup of shows to compete. Realizing they didn't stand much of a chance of competing for the Monday night sports-oriented male audience, CBS and NBC conceded that audience to ABC. CBS focused instead on a highly effective strategy of putting together a package of sitcoms (the move was initially scoffed at by the other networks) that targeted women and non-sports viewers. The sitcoms were centered on women – Designing Women and Murphy Brown – and a non-domineering male, Newhart. The shows were well directed and produced, and Designing Women and Murphy Brown were considered among the best sitcoms on television. During the 1991-92 season, CBS replaced Newhart with Northern Exposure, a light-hearted drama series that explored the meaning of life. Again, this new show was targeted at the non-football viewer.

Figure 2.10 – Managed Containment (Source: Strategic Supremacy D'Aveni 2001)



Key

A Company A's compression against the sphere's buffer zones and forward position

B Company B's compression against the sphere's buffer zones and forward position

Meanwhile, NBC worked to contain ABC on a different front: Tuesday and Thursday night. It's "Must See TV" on Tuesdays and Thursday included to-notch sitcoms like Taxi, Cheers, and Wings, as well, as award winning dramas like Hill Street Blues.

By targeting a completely different audience, CBS took advantage of the declining interest in Monday night sports, the increase in the number of television in the home, and the larger female viewing audience to expand viewer-ship and obtain market share on Monday night. CBS captured a significant portion of the market that did not view Monday Night Football. Additionally, the sitcoms it aired on Mondays were strong enough to attract Monday Night Football viewers during the non-football season. NBC, meanwhile, targeted audiences on other nights and, audience's seeking higher quality programming.

CBS moved past ABC to become the dominant network on Monday nights. On the first day of the 1991 television season, Designing Women beat Monday Night Football by five rating points. ABC was placing its beat sitcoms- Growing Pains, Who's The Boss, and Moonlighting-on Tuesday night, because it couldn't compete directly with CBS on Monday nights. But these shows were countered by NBC's outstanding lineup (including Cheers), so ABC was caught in a vise and lost its leadership of the market. By the mid-1990s NBC high-quality Thursday night lineup, including Frasier and Friends, helped it become the leading network at the time. Even though containment seems difficult, it can work for a period of decades.

2.12.3 Gradual Constriction

A second pattern of competitive compression begins by surrounding a competitor's sphere and then gradually encroaching on its current position. This can either mean physically surrounding a geographic territory or surrounding a specific product or customer market. The aggressor or group of aggressors then slowly tightens the grip on

the sphere through a series of thrusts. For this pattern of competitive compression to succeed, the challenger has to have deep pockets or strong allies, since gradual constriction requires simultaneous aggressive moves in many markets. The challenger also has to expect counterattacks, since it's pushing against the targeted sphere's crown jewel, its core. Whether intended or not, the response by Chiyoda Co. to the entry of Toys "R" Us into Japan resembles an example of geographic constriction. When Toys "R" Us built its first store in Tokyo in December 1991, it created its Japanese core and a base for its expansion in Japan. Its largest local competitor surrounded the new store with smaller stores. Chiyoda, a discount chain for toys, announced plans to build a cluster of 3,500-square-foot stores surrounding the 33,00-square-foot Toys "R" Us store. Before the opening of Toys "R" Us, Chiyoda built five stores in the surrounding area. Chiyoda then opened a sixth store across the street from Toys "R" Us. By this strategy of surrounding the large store with smaller stores, Chiyoda hoped to cut off Toys "R" Us from its customers by luring them into Chiyoda's stores before they reached its larger competitor. This strategy appears to be designed to constrict the competitor geographically and absorb Chiyoda's rival's customer base in its core market.

Of course this strategy can be used with larger spheres that span multiple products and multiple geographies. It can even happen inadvertently from the uncoordinated actions of several rivals. So gradual constriction can be the equivalent of greater and greater water pressure on the hull of a submarine as it goes deeper in the ocean.

Another method of gradual constriction was alleged by Scott McNeally, CEO of Sun Microsystems. He complained That Microsoft was "buying pieces of all my customers!" Microsoft paid \$5 billion for a chunk of AT&T, \$600 million for part of the Roadrunner cable modem service. Microsoft also paid \$200 million for a piece of Qwest, \$1 billion for a portion of Comcast, and \$400 million for a stake in Canada's Rogers Cable. Microsoft also made investments in several dozen other telecom and cable companies during 1998 and 1999. According to Fortune, McNeally sees this as a strategy to squeeze and perhaps kill his company because his biggest business is selling servers with Sun's

Solaris UNIX operating systems to his biggest customer category, communications companies.

2.12.4 Sequential Stripping

This pattern of competitive compression is the sequential dismantling of a competitor's sphere, zone by zone (see Exhibit 2-11). Unlike gradual constriction, which chokes the competitor's core markets directly, stripping focuses on the competitor's vital peripheral (buffer and pivotal zones, and forward positions) geo-product zones? It takes out each of these zones one at a time, ultimately leading to the destruction of the competitor's hold on its sphere.

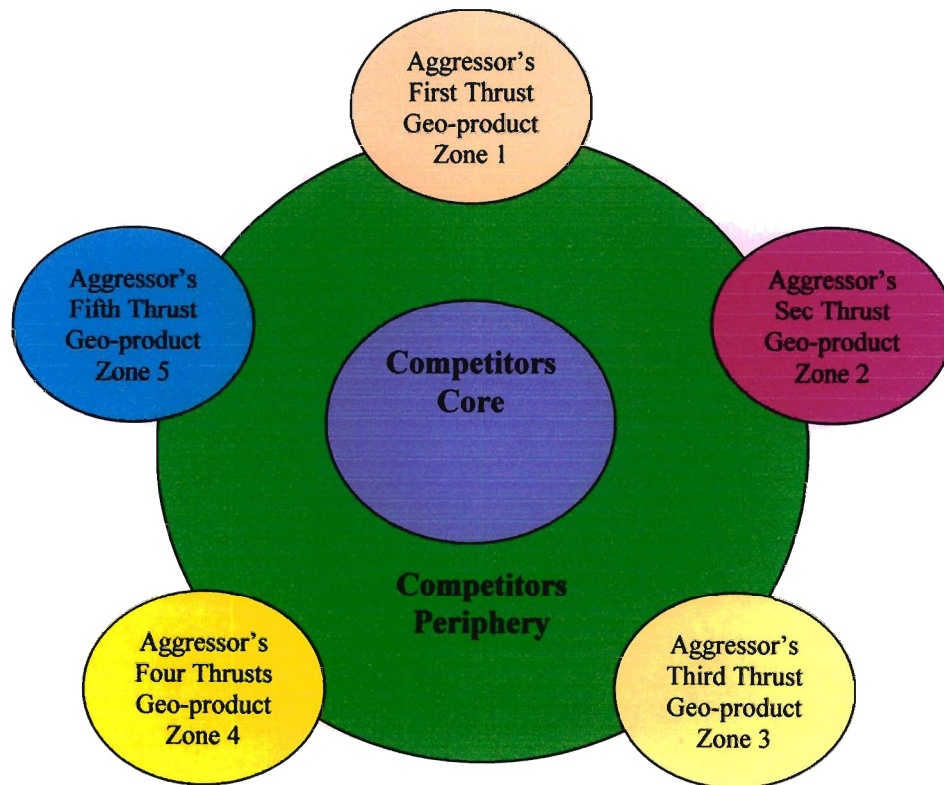


Figure 2.11 – Sequential Stripping of Peripheral Geo-Product Zones (source strategic Supremacy D'Aveni 2001)

If the competitor survives, it usually manages to hold onto only its core and precariously at that. Stripping can be done alone or, more frequently, in concert with a number of other firms seeking to reduce the supremacy of a market leader. This form of competitive

compression requires a lengthier time frame than some of the other types, but the flip side is it may also draw the least response. In addition, if the stripping efforts are focused, it may eat up fewer resources.

Whether international, the unintentional, the dismantling of Computer-vision offers as example of how sequential stripping takes place. Computervision began as the undisputed leader and industry pioneer in the CAD/CAM software industry. Its CADDSS software package spanned the entire process of product development, including conceptual design, products design, drafting, analysis, and manufacturing. By 1990, the company had installed base of more than 150,00 machines. But by the end of the 1990s, its competitive position had significantly eroded. The broad coverage of its products, which had been an asset, now became a liability. It found itself picked apart bit by bit by a variety of other competitors. McDonnell Douglas introduced a Unigraphics package that was considered superior for manufacturing applications. SDRC's IDEAS was narrowly focused on product analysis. Intergraph developed a product to meet the needs of the architecture, engineering, and construction segment. Cadence, valid, and Mentor went after the electronics market. Autodesk specialized in PC-based design and drafting offering functionality that satisfied well over half of CAD/CAM users at a fraction of the cost of a CADDSS seat.

Computervision reacted to this competitive threat by introducing a new version of its software. But because of its large installed base, any changes had to be incremental to avoid alienating existing customers. This position, once considered strength, seriously limited its flexibility. In the words of Parametric Technology Corporation's head of research, Computervision was "like an aircraft carrier; Parametric is like torpedo boat." These "torpedo boats" caused Computervision to retreat. By 1991, Computervision's had slipped to third place in the industry, with only 13.3 percent of the market, compared with more than 30 percent for IBM and more than 16 percent for Intergraph.

Computervision's sphere has apparently been dismantled one piece at a time by numerous competitors who were probably acting independently. This stripping left Computervision, with a technically superior program in only one small area, drafting. But even this section of the industry is increasingly under assault by competitors. Thus

Computervision has little room to compete even in the last zone of the sphere it once held. Competitive compression through stripping can have a potentially devastating effect on a dominant player in the industry. The leader is figuratively killed by a thousand bee stings. By concentrating on a small segment of the sphere, each rival can more fully satisfy that part of the market. Meanwhile the target is spread too thin because it is trying to satisfy a wider range of customer needs. Although in this example a group of firms appeared to strip zones from the dominant player-apparently without collusion-sequential stripping can be just as effective if one large rival goes against individual zones of a company's sphere one at a time.

2.12.5 Toppling dominoes

This pattern of competitive uses toppling dominoes to move into the core of a competitor's sphere [see exhibit 2-12]. One domino at a time, the attacker takes a position, builds a stronghold, accumulates the skills needed to enter another more vital zone, and leverages its position to enter that more vital zone. Attackers use their forward positions to enter a buffer zone, move to a vital interest, and hence attack the core of a rival's sphere as their strengths and capabilities build with each move. Like gradual constriction, toppling dominoes required deep pockets, because this form of competitive compression eventually requires the aggressor to fight it out in the core of the targeted sphere. In addition, the targeted sphere is bound to come back strong with a counterattack in the aggressor's core.

Lomas and Nettleton seemingly used a toppling dominoes strategy to become the leading independent mortgage-banking firm [before its later fall from grace due to a sudden decline in the Texas real estate market].

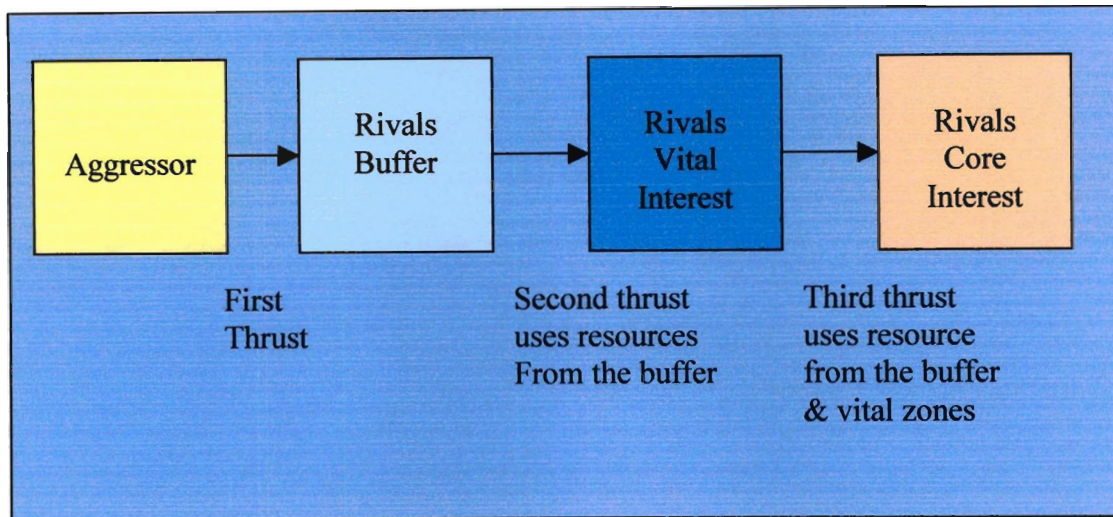


Figure 2.12 - The Toppling Dominoes Strategy (Source: Strategic Supremacy D'Aveni 2001)

Lomas initially competed in loan origination and gained critical economies of scale growing during a period of intense competitions. I then focused its resources on a nearby target market, the servicing of loans. By 1989, Lomas dropped out of the market for originating loans and concentrated only on servicing loans.

It had built a loan portfolio of over 24 billion, placing it squarely in the core of the largest traditional banking rival in the region. This step-by-step process brought Lomas to a place it never could have attempted at the beginning of its journey. It's too bad the core it went after collapsed a few years later. Unfortunately Lamas and Nettleton failed to build its own sphere of influence and capture some pivotal and vital interest that could have supported the core during troubled times and reduced the risks of relying on the Texas real estate market.

The toppling domino strategy can also be done by groups of firms, typically in alliances that exchange competencies. Each exchange adds another domino in the lineup towards the core of the targeted sphere.

2.13 Circumventing And Countering Competitive Compression

D'Aveni (2001) has described the strategic intents for each zone of a sphere of influence; the issues are revisited in the light of competitive compression.

- Your core and vital interest are your crown jewels. These zones serve your critical customer and geographic segments. In these markets you 'own' the customer's relationship or loyalty. Your core and vital interest are the zones where you don't want to feel and competitive compression.
- The buffer zones in your sphere block competitive entry of your core and vital interests. Buffer are the zones that respond to a competitive attack, and deal with the competitive compression put on your sphere.
- Pivotal zones are a bet on the future- for example, a potentially high-growth market. Pivotal zones are also used to pursue power vacuums, those untapped markets where no player has established a stronghold... yet. Pivotal zones are the facilitators that allow you to sidestep the stranglehold of competitive compression. If a rival or gang of rivals is squeezing you tight, your pivotal zones give you the means to extract yourself from the vise you're in.
- Forward positions are your footholds in a rival's sphere. These zones serve to deter or dampen the intensity of competitive compression. They can also be used to launch counterattacks. You use your forward positions aggressively [rather than defensively like buffers] to invade a rival's sphere of influence with the intent of capturing it, or applying a dose of competitive compression of your own.

In combination, when the five zones of the sphere of influence are individually achieving their unique strategic purpose, the collection result is a cohesive sphere of power proportions. And this power is multifaceted:

- Competitiveness. For starters, a cohesive sphere gives you the power of competitiveness. The source of your competitiveness comes from the combined force strength of your core and vital interest. Vital interests allows you to capture [1] economies of scale, scope, and integration with the core; [2] supremacy in these key marketplaces; and [3] the ability to bundle products and services to add more value. In combination, your core and vital interest allow you to achieve

lower costs, better service, increased quality, greater innovation, and more choices, all for the benefit of your customers.

- Reputation. A cohesive sphere also gives you the power of reputation. This use of your forward positions, buffers, and pivotal zones creates a reputation for fierceness, risk propensity, boldness, and aggressiveness that can keep rivals away from your sphere.
- Barriers to entry. The sphere also creates power through barriers to entry. This is a byproduct of the first two facets of power your ability to be more competitive and your reputation for fierceness. In combination, your competitiveness and your fierce reputation make you a lean, mean contender.
- Resources. In addition, a cohesive sphere creates power through its resources deep pockets, political clout, and a deep bench of talented managers. The sphere works as a launch pad for growth efforts that can increase the power and scope of the sphere while also increasing the amount of resources available for the firms [so you don't get spread too thin].

2.14 Choosing your Allies

As Oscar Wilde once said, *'A man cannot be too careful in the choice of his enemies'*.

D'Aveni states, it is also wise to remember that your future will be judged not only by your enemies but also by the friends you keep. Just as every zone in your sphere must serve a specific strategic intent, so too must your allies [see exhibit 2.13]. Alliance partners can supplement and enhance your sphere by playing one of the following roles:

- Surrogate attackers. These allies act as forward positions on your behalf. They do part or all of the 'heavy lifting' for you so you can add to or reserve your strength.
- Critical supporters. These allies play the role of a vital interest, supporting your invasion of a rival's sphere by providing arms and materials
- Flank protectors. These buffers slow the forward advance of a rival into your sphere.

- Strategic umbrella. These allies serve as facilitators for your pivotal zones. If a rival interferes with your freedom of movement into new areas, your strategic umbrellas threaten retaliation.
- Passive aggressors. These allies serve as facilitators for your forward positions. Through tacit agreement, they don't interfere with your use of forward positions against the target sphere, and they don't attack your sphere.

An alliance partner may be created by formal means-joint venture, long-term contract, or even an agreement to merge with you. An alliance partner may also be a tacit ally-a player who has no formal agreement with you but who serves one of your purposes for its own reasons. Tacit alliances may occur naturally, accidentally, or proactively.

In considering allies, either formal or informal, the key to success tests with something Thucydides, the Greek historian, wrote almost twenty five hundred years ago, "Identity of interests is the surest of bonds." In politics, bonds are forged through common enemies, and, in business, through common targets. In either case, the enemy of my enemy is my friend is an apt sentiment. As a great business power, selecting an alliance partner who is already the "enemy of your enemy" allows you to feel more confident that your chosen ally will remain a loyal friend, at least as long as your interests remain identically.

Typically, the common approach to tacit alliances in business often manifests in "swarming". Like giant killer bees, the great powers swarm around target, each focusing on a different part of the target's sphere. For example, Sears lost its strategic supremacy to swarming when: Wal-Mart and Kmart went after the low end of sears sphere; Federated department stores and others consolidated a number of high-end retailers to go after Sears mall stores; Circuit City went after Sears interest in the home appliance and consumer electronics business; and Home Depot attacked Sears strong position in the hardware and home improvement markets. Unable to swat so many killer bees simultaneously, Sears experienced the business equivalent of anaphylactic shock, paralyzed, Sears gradually lost its position in its core and vital interests (hard goods) and many of its pivotal positions, such as high margin soft goods.

Another approach to the “common enemy” model of alliances is to use formal alliances to galvanize the great power into one massive effort against a single targeted great power. Sun Microsystems attempted to create an “Everyone-but-Microsoft” alliance to support Java.

Type of Alliance Partner	Strategic Impact (How each helps shift the balance of power)	Supplements Your Sphere by Acting as a:
Surrogate attacker	Attacks/weakens the sphere of a rival, especially its core or vital interests	Forward position
Critical supporter	Provides arms and materials to fight longer/harder against a rival	Vital interest
Flank protector	Slows the forward advance of a rival into your sphere	Buffer Zone
Strategic umbrella	Threatens retaliation against a rival if it interferes with your freedom of movement into new areas	Facilitator for your pivotal zones
Passive aggressor	Tacitly consents to the weakening of a rival by failing to come to its rescue when needed or by avoiding attacking your sphere	Facilitator for your forward position

Figure 2.13 - Supplementing Your Sphere (Source: Strategic Supremacy D’Aveni 2001)

2.15 Summary

Competitive strategy has evolved into a necessity in the 21st century; businesses cannot survive without properly structured strategies in place. There are currently a number of different models being utilized for the same end result. We have discussed the more

popular models and added the sphere of influence as a model of choice, to accredit it with comparative results to the commonly utilized ones.

The next chapter will describe the electrical industry in detail highlighting the challenges and prospects the industry has to offer. The history pertaining to Circuit Distributors as well as its rivals are discussed as well.

CHAPTER 3 - METHODOLOGY

3.1 Introduction

Bruce Henderson, founder of the Boston Consulting group said, “Induce your competitors not to invest in those products, markets and services where you expect to invest the most...that is the fundamental rule of strategy.”

The purpose of the survey is to explore the possibilities of a new strategy for Circuit distributors, and the way forward to a prosperous future.

3.2 Methodology

The study followed a descriptive route, Cooper, Schindler 2001 states that the questions on who, what, when, where, and sometimes how. Through research, attempts are made to describe or define a subject, often by creating a profile of a group of problems, people, or events. A descriptive study involves the collection of data and the distribution of the number of times; a single event or characteristic has been observed (research variables).

3.2.1 Research Design

Cooper, Schindler 2001 states, the research design constitutes the blueprint for the collection, measurement, and analysis of data. It aids the scientists in the allocation of his limited resources by posing crucial choices: is the blueprint to include experiments, interviews, observations, the analysis of records, simulation, or some combination of these? Are the methods of data collection and the research situation to be highly structured? Is an intense study of a small sample more effective than a less intensive study of a large sample? Should the analysis be primarily qualitative or quantitative?

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. The plan is the overall scheme or program of the research. It includes an outline of what the investigation will do from writing hypotheses and their operational implications to the final analysis of data. A structure is the framework, organization, or configuration of the relations among variables of a

study. A research design expresses both the structure of the research problem and the plan of investigation used to obtain empirical evidence on relations of the problem,

These definitions differ in detail, but together they give the essentials of research design:

- The design is an activity-and time-based plan.
- The design is always based on the research question.
- The design guides the selection of sources and types of information.
- The design is a framework for specifying the relationship among the study's variables.
- The design outlines procedures for every research activity.

Thus, the design provides answers for questions such as these: what techniques will be used to gather data? What kind of sampling will be used? How will time and costs constraints be dealt with?

3.1 Descriptors of research design (Source, Business Research Methods Cooper, Shindler 2001)

Category	Options
The degree to which the research questions has been crystallized.	Exploratory study Formal study
The method of data collection.	Monitoring Interrogation/communication
The power of the researcher to produce effects in the variables under study.	Experimental Ex post facto
The purpose of the study	Descriptive Causal
The time dimensions	Cross-sectional Longitudinal
The topical scope-breath and dept-of the study.	Case Statistical study
The research environment	Field setting Laboratory research Simulation
The subjects' perception of research activity	Actual routine Modified routine

I have followed the path of an exploratory study, case study, 1.5.4 Measuring Instrument

The instrument used will be a questionnaire. The questions are based on the critical areas of that form part of the industry analysis, Swot analysis, Porters five forces, and the value chain.

Because exploration is particularly useful when researchers lack a clear idea of the problem they will meet during the study. Through exploration researchers develop concepts more clearly, establish priorities, develop operation definitions, and improve the final research design. Exploration may also save time and money. If the problem is not as important as first thought; research projects could be cancelled.

Exploration serves other purpose as well. The area of investigation may be so new or so vague that a researcher needs to do an exploration just to learn something about the dilemma facing the manager. Important variables may not be known or thoroughly defined. Hypotheses for research may be needed. Also, the researcher may explore to be sure it is practical to do a study in the area.

The objectives of exploration may be accompanied with different techniques. Both qualitative and quantitative techniques are applicable, although exploration relies more heavily on qualitative techniques.

*The first step of an exploratory study is a search of the secondary literature, which we have discussed in chapter two. The next step is one of primary data collection; the route I have chosen is a *Focused group*.*

3.2.2 Focused Group

The reasons for a focus group are, that many corporations are using focus group results for diverse exploratory applications. The topical objective of a focused group is often a new product or product concept. The output of the session is a list of ideas and behavioral observations, with recommendations by the moderator. As a group interview tool, focused groups have applied-research potential for other functional areas of business, particularly where the generation and evaluation of ideas or the assessment of needs is indispensable. A focused group is a panel of people, led by a trained moderator, who meet for 90 minutes to 2 hours. The facilitator or moderator uses group dynamics principles to focus or guide the group in an exchange of ideas, feelings, and experiences on a specific topic. The facilitator introduces the topic and encourages the group to discuss it among themselves, steering the discussion to ensure that all the relevant information desired is considered by the group.

The primary advantage of the focus group as an exploratory tool is the ability to quickly and inexpensively grasps the core issues of a topic.

3.3 Sampling

The basic idea of sampling is that by selecting some of the elements in a population, we may draw conclusions about the entire population. A population element is the subject on which the measurement is being taken. It is the unit of study. There are

several compelling reasons for sampling, including: lower costs, greater accuracy of results, greater speed of data collection, and availability of population elements. The target population of Circuit Distributors will consist of the 3 directors that are representative of the company.

3.4 Measurement

Interviews by way of questionnaires (focus group) will be conducted with Circuit Distributors management.

3.5 Measuring Instrument

The instrument used will be a questionnaire. The questions are based on the critical areas of that form part of the industry analysis, Swot analysis, Porters five forces, and the value chain.

3.6 Ethics

Ethics as per Cooper, Schindler 2001, are norms or standards of behaviour that guide moral choices about our behaviour and our relationship with others. The goal of ethics in research is to ensure that no one is harmed or suffers adverse consequences from the research activities. The research carried out adhered to the ethical standards of research.

3.7 Summary

The methodology gives us an insight into the research process. The next step forward would be to discuss the case study.

CHAPTER 4 – CIRCUIT DISTRIBUTORS ELECTRICAL AND INSTRUMENTATION: CONTEXTUAL DESCRIPTION OF THE CASE STUDY

4.1 Introduction

The case study is based on Circuit Distributors a small to medium size business that is experiencing difficulty in formalizing competitive growth strategies. The case below highlights the problem areas within the organization and its environment.

4.2. The History of Circuit Distributors

Circuit Distributors was founded in 1988, through the vision of its founder Richard Govender, seeing a gap in the Electrical supply industry.

The company employed just two staff, with a customer base of five blue chip conglomerates. The company have since evolved into a business consisting of ten staff, with a customer base of forty, mainly blue chip. The company prides itself on service delivery. Circuit Distributors was at one time a very profitable company enjoying high profits with low turnover, due to the overwhelming service delivery to its customers. This was the start to a firm and dependable relationship. Over the years the founder was comfortable with the current business, and did not want to expand in the fast becoming volatile market.

The company operated from a modest building, in Isipingo Rail, on the doorstep of the industrial paradise, Prospecton. A large number of Circuit Distributors customers operated from the Jacobs, Prospecton and Amanzimtoti districts. Circuit Distributors have developed a customer hub in close proximity to its home base.

The company has an excellent track record with its suppliers and banking fraternities.

4.2.1 The History of the Electrical Industry

The industry within which Circuit Distributors operate has evolved dramatically in the last two decades. Some businesses flourished, others failed, but the ones that made it through the recession, transition (new government), economic turmoil, are the ones that were successful.

Circuit Distributors started their operation at a time where entrepreneurs were few. Competition was minimal because the market was emerging and suppliers were few. The competitors were average sized organizations e.g. ARB electrical, Natal Cables And Lighting, Concord Electrical, Electric Centre, Electrical Suppliers Corporation, Natal Industrial Power Supplies, Magnet Group, Trade Electrical and Ashton and Pitt. Over the years Circuit Distributors had the opportunity to expand in the light of the past booming economy. Companies that took advantage of that period of business boom, and developed their growth strategically were very successful.

As the markets were emerging, a number of opportunities were present, being sole distributors and exclusive agencies; those that took advantage of these were profitable. Circuit distributors had the opportunity of acquiring the Cutler Hammer, Klockner Moeller, Telemechanique, ACDC Dynamics and Electromechanica agencies or distributorships, which I personally perused through.

The Magnet Group acquired the Telemechanique agency for Durban; ARB acquired the Telemechanique agency and Cutler Hammer for Prospecton/Durban South. Electric Centre acquired the Klockner Moeller agency for Durban, Litecore acquired the Electromechanica distributorship for Durban and Natal Industrial Power Supplies had the ACDC Dynamic distributorship for Durban.

These companies grew further on the strength of the agencies and distributorships they acquired in the past. The Durban and surrounding areas became very lucrative for other Provinces to expand their boundaries. A Johannesburg conglomerate known then as the Hillman group started to expand their interest into Kwazulu-Natal. With strong financial backing (being a listed company), they acquired a number of electrical companies nationwide to become one of the largest role players in the country, with a basket of 72 branches countrywide. The company's acquisitions were as follows

- Concord electrical
- Electric Centre which had four branches in Kwazulu-natal
- Litecore group which had six branches
- Natal Cables and Lighting which operated four branches

The Hillman group now owned four companies in one area, Umbilo. Monopolising the industry was their strategic goal, they controlled between two and four companies in the Pietermaritzburg, Pinetown and Richards Bay regions.

The next big player in the electrical industry was ARB electrical that was a Richards Bay based company, servicing mainly the paper mills, they saw a gap in the market and established themselves in Prospecton, south of Durban. This move brought the company in close proximity to Mondi and Sappi paper mills.

Third in line was the Magnet group who were well established in Durban, moved into new territory namely Pietermaritzburg and Richards Bay. Over the years most of these companies blossomed into market leaders. Unfortunately as the economy took a downturn, so did most of the companies. The first was Ashton and Pitt, a well-established supplier who closed both Durban and Richards Bay operations due to financial constraints. Electrical Suppliers Corporation have downsized by offloading their Pietermaritzburg branch to ARB electrical. Soon to follow was the Magnet group, who closed its panel building operations, and downsized by massive staff reductions. Surprisingly the Voltex group closed Natal Cables and Lighting in Durban and Pinetown, Concord in Durban, and Electric Centre in Pinetown.

Next to follow was Natal Industrial Power Supplies who were one of the biggest independent cable suppliers; they could not compete with ARB electrical and the Voltex (formerly Hillman) group. ARB electrical through competitive strategy buy off Abbedare cables and SA PVC cable manufacturing runs and stockpile them, similar to OPEC the oil Producing Giants, when prices are low they limit production so as drive prices up due to increased demand.

4.2.2 Backward Integration

Voltex on the other hand through backward integration purchased both Abbedare cables and SA PVC. Voltex being a multimillion rand organization adopted the backward integration strategy as part of their competitive strategy, making them the largest

electrical wholesalers in South Africa. They now control the cable/wire market in South Africa. Although there are cheaper imported cable, and locally manufactured cable, the quality and the backing of a well established name assists in warding off competition.

4.2.3 South African Economy

South African businesses have evolved due to the openness of the country to the rest of the world, cross border trading, increased foreign direct investments mainly portfolio and South African businesses investing abroad made competition locally intensive due to global competitiveness. Many of the South African global competitors strived for perfection, in fitting with the global trends, adopting ISO standards outsourcing (concentrating on core functions and diversifying non core interests). Due to these changes in current business cost containment became the number one priority in order to be profitable global competitors.

These situations started to spell disaster for companies like Circuit Distributors, where competition existed without the intensity. Financial Managers took real control over corporations and squeezed management into cost awareness and the implementation of cost saving schemes. This meant sourcing a supplier with the cheapest price. Most of Circuit's customers were not concerned with loyalty or service delivery, but the bottom line.

During these transitions with the industry, markets experience a lot of turmoil due to trade barriers being taken down. Imported goods and services were cheaper than their locally manufactured counterparts. This situation affected the local markets considerably as most companies could not adapt to the rapid market forces that was working against them. We can deliberate and put this down to lack of focus, awareness, ears to the ground but unfortunately South Africans were used to the comfort zone of closed market enterprise.

Many companies have closed down due to the volatility of market pressure and at the same time trying to satisfy the requirements of global competitiveness and acceptability. This meant rapid changes in working conditions, physical environment and of course ISO standardization.

Companies that could not adapt and or compete shut their doors. Unemployment spiraled, in spite of government's policies (RDP and GEAR) to increase jobs. The flip side of unemployment meant that almost everybody wanted to be entrepreneurs or businessmen. The electrical supplier trade grew by +/- 40% in 3 years. A reason for this e.g. individuals that work in either electrical departments, stores, purchasing departments that have now been retrenched want to open their own electrical supply business. This scenario means a loss of revenue or even a customer due to the mushrooming of new operations.

Price competition begins where suppliers are willing to sell items at cost just to retain the business. The circumstance Circuit Distributors was faced with was the task of increasing its customer base, to counteract the dwindling sales.

4.2.4 ISO Standards

Most South African companies are vying for ISO standards to better compete in the global arena. The criteria for such standards are vast and expensive, but unfortunately if a local company does not have these standards, global traders shy away due to the intricate web of first world technology. It is now necessary to ensure that South African companies competing abroad and locally conform to these standards. The problem in obtaining these standards is the restructuring of ones organization to the criteria set aside By ISO.

4.3 Summary

Circuit Distributors has a number of market forces working against them in the electrical industry. Again dwindling sales, low profitability means increasing staff hence overheads. The question is how to go forward, will the current strategy, which does not seem to be working well, give Circuit Distributors sustainable competitive advantage or is a new growth strategy required to expand the business?

CHAPTER 5 – FINDINGS

5.1 Introduction

The following questions have been formulated through the analyses of the case study. The responses have been analysed in conjunction with the data to provide us with the findings.

5.2 Questionnaire and responses

Q.1 Do you think that customers are better empowered now that in the past 5-10 years.

- A.1 Yes, they are, customers demand better discounts, favorable payment terms.
- A.2 Customers are exercising their powers of bargaining.
- A.3 Yes, customers demand a discount structure on their purchases, more often they play one supplier against the other.

Q. 2 What differentiates Circuit Distributors from its competitors?

- A.1 Nothing, we have tried over the years to find a product or process to gain an advantage over our competitors.
- A.2 Most of the electrical companies sell similar or the same products, therefore there is not much of a difference between us.
- A.3 We want to be different, but unfortunately there isn't anything to differentiate us from our competitors.
- A. 2 The response was negative, Circuit has nothing different to offer from its rivals.

Q. 3 What would you consider as ways of differentiating Circuit from its competitors?

- A.1 We, discussed in length about a distributorship years ago, but it was not feasible at the time. We should look at any opportunities that are available now.
- A.2 A distributorship/agency is the only way forward, if we want to differentiate ourselves from competitors.

A.3 Another opportunity that is available is consignment stocking at customers, it is widely used abroad.

Q. 4 What percentage of Circuit's turnover is spent on advertising, and through which medium do you achieve the best results?

A.1 Almost zero, except for the few sponsorship brochures. We have not had food response from advertising.

A.2 Advertising did not generate the responses, we anticipated, we tried print media in the form of newsprint and electrical magazines.

A.3 I am aware that we need to spend on advertising to generate income, but the expenses far outweighed the responses.

Q. 5 Is the current political environment favorable to Circuit Distributors in the light of black empowerment?

A.1 We are considered a black empowerment company, and yes it does help, with regard to contracts etc.

A.2 We are 100% black owned, which means we are regarded as preferable supplier to our customers.

A.3 Being black owned has helped us considerable.

Q.6 Is diversification an alternative in your business, and if so, how will this enhance future growth.

A.1 Yes it is; many large companies have utilized this with excellent results.

A.2 Other electrical companies have purchased similar or different operations in a drive to diversify their interest.

A.3 The one business can compliment the other, in pursuit of diversification.

Q. 7 What are your views in forming alliances with other electrical companies to counter attack the measures used by competitors, and if so who would you consider?

- A.1 We can form an alliance with a competitor we can trust, the only name in my mind is Electomech Distributors.
- A.2 This can provide us with an opportunity to expand our operations in a nutshell, without the actual costs incurred. Electomech Distributors is the one I would go with.
- A.3 Alliances make good foundations for battle; we could use alliances to our benefit. I would consider Electomech Distributors as a potential alliance.

Q. 8 How would this alliance assist your current business?

- A.1 We could increase our purchasing power, through higher discounts received on bulk purchases.
- A.2 By increasing our purchasing power, we can offer existing and new customers competitive pricing structures, thereby making Circuit more competitive.
- A.3 The alliance would assist Circuit with an increased combined market share, and shared competencies.

Q.9 Outsourcing is a common trend in industry, how does it affect Circuit?

- A.1 Procurement companies are our competitors, when it comes to outsourcing. The *general trend for procurement companies is to purchase from wholesalers like ourselves, because we offer the service to the end user.* Procurement companies are securing deals direct with the manufactures due to their increased purchasing power.
- A.2 Outsourcing can soon become a problem for us, as procurement companies are offering attractive contracts to large companies, so as to win over their procurement business.
- A.3 Outsourcing generally means that a company sheds of its non-core functions, thereby concentrating on its core functions. Circuit has been faced with a

problem where one of their customers had outsourced their procurement department to a specialized procurement company.

Q. 10 Would circuit consider utilizing Technology to improve its business, e.g. e-commerce?

- A.1 Yes we would, technology is fast becoming the number one priority in most companies.
- A.2 Yes, I do agree that we should embrace technology and utilize the Internet as a tool for future business.
- A.3 Technology is the future; the business trend should follow the path of on-line Internet websites that offer the sellers and buyers a meeting place to do business. Amazon.com have perfected this way of business with their Internet book sales.

Q. 11 Do Circuit Distributors possess ISO certification? If not, give reasons.

- A.1 No we don't possess ISO certification, the cost of acquiring ISO certification outweighs the benefits.
- A.2 No we don't possess an ISO certificate, the requirements for the certification is lengthy.
- A.3 We don't possess an ISO certificate, as the criteria are stringent. We operate a medium sized operation that depends entirely on the workforce and not written procedures, with regards to logistics.

Q. 12 Circuit is a medium size operation, does the company have effective logistics in place e.g. dedicated procurement officer, stores control, dispatch and receiving clerks?

- A.1 We have run the operation, for the last 15 years without having any formal procedures in place, but recently we have been experiencing problems with stock control.
- A.2 There are problems with our current logistics. We have experienced problems with stock discrepancies, stock purchases have been duplicated, stock that was incorrectly purchased were not returned.

- A.3 We need to put in place a system, to ensure the smooth running of our operation. Currently the sales staff double up as buyers, which compounds the problem of stock discrepancies. We have a dedicated store man, who controls the receiving and dispatching of goods. His job function becomes difficult when the sales staff have Carte blanche over the stores.

Q. 13 How difficult are it for an individual to open an electrical business?

- A.1 Sky is the limit; I would always encourage individuals to be their own boss. There are lots of opportunities, but survival is difficult.
- A.2 There are no barriers to entry in the electrical industry, therefore companies or individuals can enter this industry with ease.
- A.3 The industry is absolutely difficult to trade, due to the relaxed barriers to entry, there are a large number of companies that open and close frequently.

Q. 14 What training programs do the company offer with regards to skills development, technical training in keeping abreast with technological advancements?

- A.1 Our staff are encouraged to better their quality of life by educating themselves, the company offers student loans to staff to further their education.
- A.2 We offer compulsory training workshops for our sales staff, as they can keep abreast of the latest development in product offering.
- A.3 Our Company strives to be an employer of choice in comparison to our competitors, we try to groom or mould our staff into leaders/achievers.

Q. 15 What incentive schemes do Circuit utilize to ensure staff loyalty, and to prevent poaching from their competitors?

- A.1 Our key staff members are paid an above industry average salary.
- A.2 The staff have the advantage of flexible working hours, they alternate days of starting early and finishing an hour early.

- A.3 Besides the good working environment the staff enjoy, we make every endeavor to ensure that our staff receive a yearly 13th cheque; over and above this our sales staff have the privilege of taking home the company delivery vehicles.

Q. 16 Would Circuit consider poaching key staff from their competitors?

- A.1 Yes we would, our competitors would not think twice before approaching our staff members.
- A.2 We all play by the same set of rules, our competitors try to poach our staff members, and we do the same.
- A.3 The industry we operate is a vicious circle of payback. If we poach a key staff member of our opponent, not long after, one of our staff is taken away.

Q. 17 How good is the company's financial position, in light of new business ventures?

- A.1 We do have adequate cash resources for new ventures.
- A.2 I think we are very cautious with regards to engaging in new ventures.
- A.3 We have to take chances, we are in a position to invest in new venture.

5.3 Summary of Responses

- A.1 The response was positive, due intense competition customers are now fully exercising their powers of bargaining. Customers are demanding more lucrative payment and settlement terms.
- A. 2 The response was negative, Circuit has nothing different to offer from its rivals.
- A. 3 Two ideas were discussed, a distributorship, which they could have taken advantage of in the past, consignment stocking at their customers premises.
- A. 4 The Company does not advertise due to past failed responses, which were through print media.

- A. 5 The response was favorable, Circuit is considered a black empowerment company, being 100% black owned. The company is favored in terms of supplying major blue chip and government firms, due to their status.
- A. 6 The responses were positive, they have agreed that diversification could enhance their business.
- A. 7 The responses were positive, all were in agreement to form alliances. Electomech Distributors was the company of choice, for Circuit to form an alliance.
- A. 8 Better positioning, to increase buying power, combined increased market share, and shared competencies.
- A.9 Company's are outsourcing their purchasing departments to specialized procurement companies. These companies are negotiating deals direct with the manufactures and agents, thereby cutting out the middle-man (Circuit Distributors).
- A. 10 The responses were positive, as the directors are looking for new ways to improve the business. It was discussed that an on-line purchasing website be designed similar to Amazon .com the leaders in Internet book sales.
- A. 11 The response was negative, the cost to acquire certification is high, the criteria are stringent for a medium size company, with regards to inventory, distribution etc.
- A. 12 The response was negative, the sales staff double up as buyers, which is a problem due to stock being purchased and not returned, duplicating stock purchases, high stock losses. One person, handling the dispatching, receiving, and stock control, controls the stores.

- A. 13 The response was positive, there are no barriers in the electrical industry, and individuals or companies can trade freely.
- A. 14 The responses were positive, student loans are offered to staff that want to further their education provided that it is company related. The sales staffs are frequently sent on product training workshops, to equip them with the knowledge to better assist Circuit's customers.
- A. 15 The Company offers an above average wage, annual bonus, and the advantage of working in a flexible environment.
- A. 16 The response was positive, their competitors would not think twice before approaching Circuit's staff.
- A. 17 The response was positive, the company has cash resources for new ventures.

5.4 Presentation of analysed data

The following models have been discussed, in terms of the current data analysed. Swot analysis is utilized to ascertain the company's position, within the organization and its physical environment. Porter's five-force model analyses the industry forces working for and against an organization. The BCG growth share matrix positions a company in the relevant quadrant of the matrix, using industry and competitors as a measuring tool. The value chain analysis is made up of primary and support activities. A company can cross reference it's current standing to the recommended procedures for sustainable competitive advantage.

5.5 Swot Analysis

We have discussed the theory of SWOT analysis, which describes the company's strengths, weakness, opportunities and threats.

Circuit Distributors SWOT analysis are as follows.

5.5.1 Strengths

- Circuit Distributors is competitive with lower costs but do not have a dominant low cost position, the company can only piggyback on the product and service delivery. The company has an advantage over its rivals with their technically qualified staffing. External sales representatives and internal sales staff have been employed from the industry within which it operates.
- Circuit Distributors has adequate cash resources for new ventures.
- The company has an excellent relationship with financial fraternities and customers alike.

5.5.2 Weakness

- Circuit's core business is straining the company cash flow due to excessive competition, with low profit margins.
- The company has few core strengths

5.5.3 Opportunities

- Using Porter's five force model, the bargaining power of suppliers, we could form an alliance with other small to medium electrical companies and increase our purchasing which could mean, better pricing structures and of course make us more competitive.
- Circuit Distributors can increase its market growth through diversifying its operations into related markets by utilizing the same customer base. Setting up a new company to supply mechanical / tool to the same customer base fields both fields are related in industry.
- The political environment is to an advantage to the company as Circuit Distributors enjoys HDI status being 100% black owned, which are criteria in most corporations.
- Circuit Distributors could acquire a distributorship to secure a more stable and competitive positioning

5.5.4 Threats

- No barriers to entry the threat new companies are exasperating as the cost of setting up this kind of business is minimal.
- Competition is intensive as most suppliers are under cutting each other prices.
- Due to this phenomenon the customer have empowered themselves to bargain with supplies for better deals. In most cases customers are playing one supplier against the other to capitalize on the already existing price war.
- The other phenomenon in industry, which could spell disaster for a lot of small to medium companies, is suppliers are purchases by the major role players in industry through backward integration strategies.
- Unemployment is spiraling due to the world economic development
- Absorbent fuel prices hampers operational costs as very rarely are prices increase to combat our frequent fuel hikes.
- South Africa's openness in the global market although good, has intensifies local competition, by bring in cheaper imports.

The evaluation of the swot analysis of Circuit speaks for itself; the company has a number of strengths and opportunities to build on. Professor Michael Poter, the brainchild of the well-known and used model in industry, his model analyses the industry to gain leverage over its competitors.

5.6 Porter's Five Forces

- The bargaining power of suppliers- Circuit distributors suppliers believes, that the company is dependent on them and cannot do without. Circuit is unable to better negotiate favorable terms and pricing.
- The bargaining power of buyers- Customers are empowering themselves, they are demanding better settlement discounts than the normal 2.5% for 30 days settlement. Companies are being coaxed into outsourcing their procurement departments to dedicated purchasing houses. These procurement houses are securing deals direct with the manufacture, thereby eliminating the wholesaler.

- The threat of potential new entrants- there are no barriers to entry, a number of companies are trying their hand at electrical sales, which erodes the market share that Circuit is aiming for.
- The threat of substitutes- E-commerce, it is not going to be long before customers will visit a virtual office, to place orders or check prices, and even stock levels of products.
- The extent of competitive rivalry- Prices changes are easily replicated, so there is no dominant price position.

The analysis of swot and the five-force model has placed Circuit in the aggressive strategy quadrant of the swot model (refer Graph 4.1).

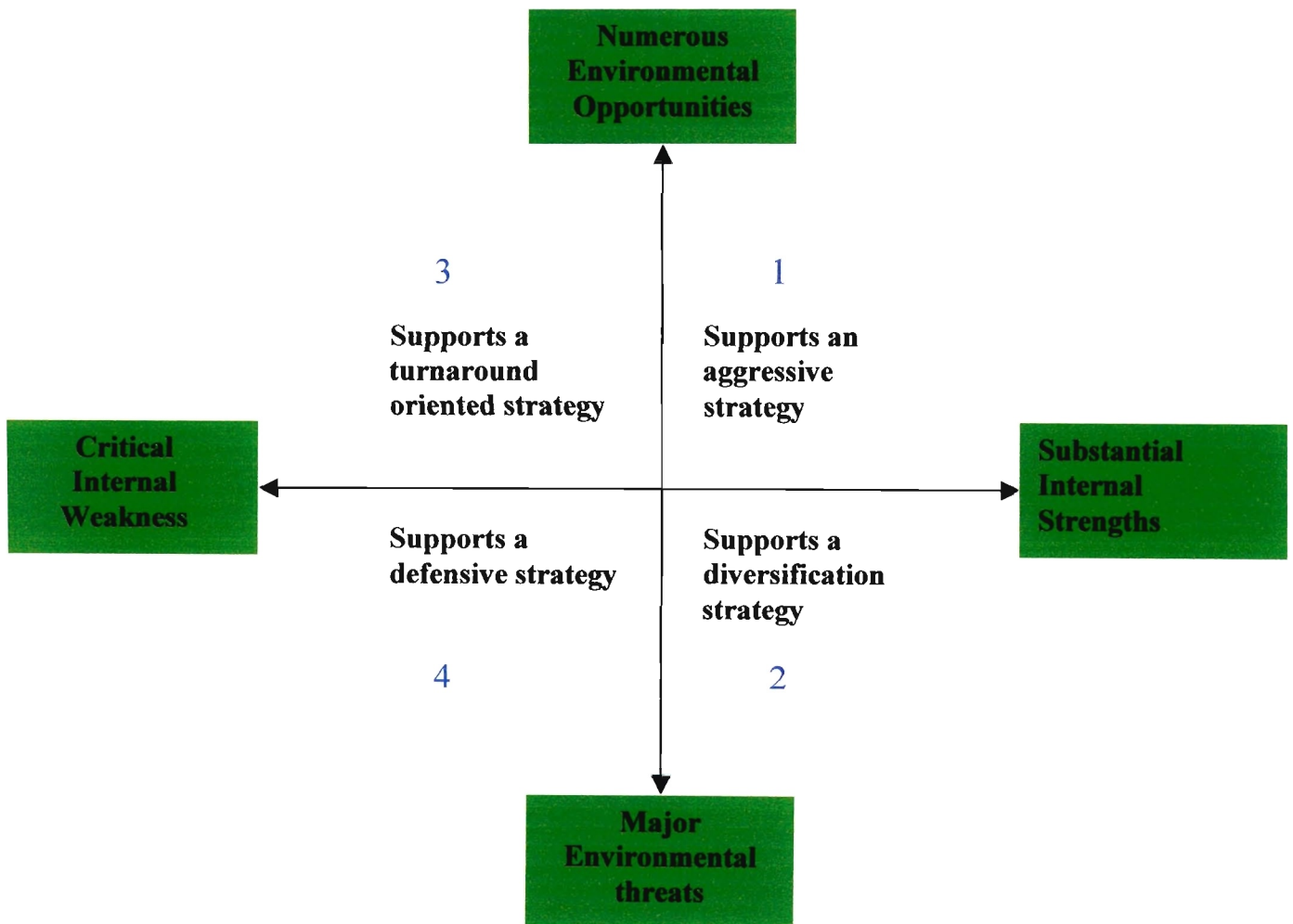


Figure 4.1 Swot Analysis Diagram (Adapted for Circuit Distributors)

The analysis of the swot and five force models has presented a number of opportunities and problems within Circuit's business. The value chain is used to examine the internal aspects of an organization, day-to-day operations.

5.7 Value Chain

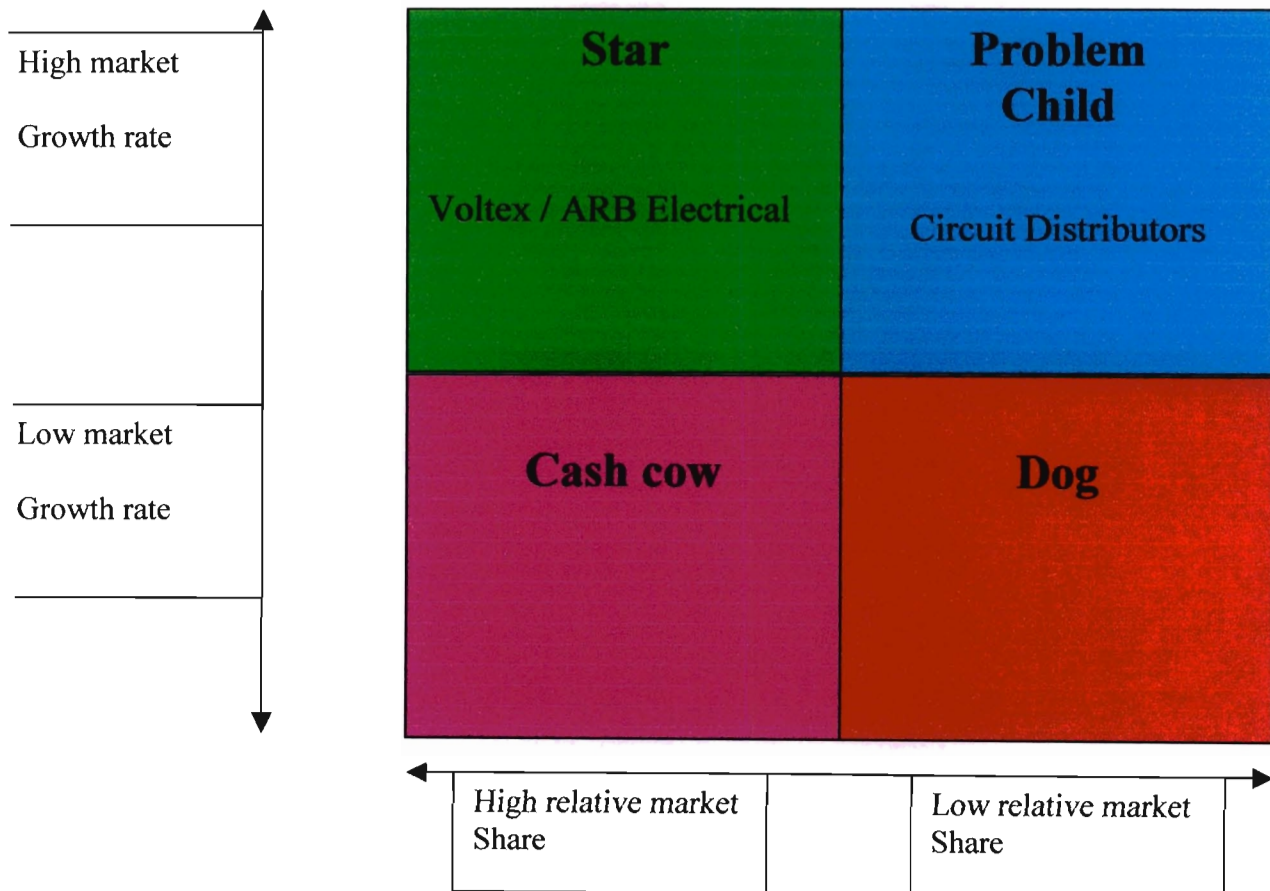
The value chain is the bases or foundation of a well-tuned business. From the value chain a business can develop or adopt skills from within or outside to further enhance its product deliverance. We have stated what primary and support activities are in theory but in practice. It is not as simple as states but in theory to master and develop. A true value chain takes a lot of negotiations with staff; suppliers and customers to have a final well tuned product deliverance. Circuit Distributors operations is not as complicated as major industries where the value chain stated is more suitable.

- Circuit Distributors sales staff double as buyers due to the size of operation. They secure goods at the best possible prices and most importantly a speedily collection or delivery of all goods to our premises.
- The sales/marketing staff is technically qualified to provide an above average service. The external sales representatives assists customers with on site machinery problems as a free service to further enhance its product delivery.
- Circuit Distributors is ideally situated in the heart of a flourishing industrial area. The company is surrounded by major blue chip companies, which are easily accessible.
- Circuit offers a 1-hour turnaround time from the time of receiving an order to the time of delivering the goods.
- ISO standards are required by Circuit as most suppliers and customers only wish to deal with companies that conform to ISO. The reason being that the paper trails, distribution channels (manufacturing through sales have to follow through without loopholes. This enables a traceable process. ISO assists in streamlining ones business to ensure a faultless process from inbound to outbound logistics, including sales and marketing

There are problems associated with the sales staff doubling up as buyers, stock losses have occurred, due to improper inventory control. Accumulated dead stock with high value has been detected through stock takes. These have been purchased for customers, which were returned. These units were subsequently added into stock and not returned back to the suppliers.

5.8 BCG GROWTH SHARE MATRIX

Figure 4.2 BCG Matrix (Adapted for Circuit Distributors)



- Circuit Distributors would fall into the Problem Child category with Low market share operation in a high growth industry,

- Although the competition exists in a high growth market there is a great possibility to expand our business provided one has a high capital investment like the Voltex group and ARB electrical.
- Circuit competitors operate in the stars market due to their multimillion rand operations example voltex group or ARB electrical are able to compete on the basis of price as they are major role players (huge purchasing power stand, to earn the benefits of lower prices paid for goods as compared with Circuit Distributors.
- These companies have also backwards and vertically integrated by purchasing manufactures, example, VOLTEX purchased S.A PVC, which are the largest manufactures of electrical cable, PVC wire, which are consumable in the electrical industry. ARB electrical have vertical integrated by buying of rival suppliers to strategically advance themselves. VOLTEX have also vertical integrated by purchasing the Natal Cables and Litecore group to become the mega giants in the industry.

5.9 Summary

The evaluation of the data has highlighted a number of opportunities available to Circuit Distributors; this time around Circuit should grasp these with open hands. The recommendations in the next chapter will pave the way for the future of Circuit Distributors.

CHAPTER 6 – RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

Circuit Distributors is a company operating in a highly competitive market. The company is experiencing problems with its current strategy, and are not very optimistic about the future. *Circuit* has been experiencing low market share, while their competitors are monopolizing the industry, through many tactful competitive strategies. *Circuit* has a number of opportunities available to them, but there are a number of underlying problems with *Circuit Distributors* operations and, the placement of strategies and guidelines for a successful business. In this chapter solutions would be allocated to managements predicaments.

6.2 Swot Analysis

The evaluation of the swot analysis has presented the following recommendations,

6.2.1 *Circuit's* Strengths

- *Circuit Distributors* is competitive with lower costs but do not have a dominant low cost position, the company cans only piggyback on the product and service delivery. The company has as advantage over its rivals with their technically qualified staffing. External sales representatives and internal sales staff have been employed from the industry within which it operates.
- *Circuit Distributors* has adequate cash resources for new ventures.
- The company has an excellent relationship with financial fraternities and customers alike.

6.2.2 *Circuit's* Opportunities

- Using Porters five force model, the bargaining power of suppliers, we could form alliances with other small to medium electrical companies and increase our purchasing which could mean, better pricing structures and of course make us more competitive.
- *Circuit Distributors* can increase its market growth through diversifying its operations into related markets by utilizing the same customer base. Setting up a

new company to supply mechanical / tool to the same customer base fields both fields are related in industry.

- The political environment is to an advantage to the company as Circuit Distributors enjoys HDI status being 100% black owned, which are criteria in most corporations.
- Circuit Distributors could acquire a distributorship to secure a more stable and competitive positioning

The Swot analysis combined with Porter's model forms part of the industry analysis, the next step from here is the selection of a grand strategy.

6.3 Porters five forces model

- The bargaining power of suppliers – Circuit Distributors could form alliances with other electrical suppliers that have a common goal or vision. Electomech distributors have been identified as one of the strategic alliance partners. Through this arrangement the company can gain bargaining power over its suppliers through increased purchasing power. Circuit can negotiate favorable discount structures and payment terms.
- The bargaining power of buyers – the company can offer a consignment stocking initiative, whereby both parties can gain from this relationship. Circuit Distributors will set up the customer's stores with critical spares, for their day-to-day operation. This relationship guarantees the company business during the contractual period.
- The threat of potential new entrants – the electrical industry is an open arena with no barriers to entry, this should not pose a threat to Circuit if they secure the available bases, snap up the available distributorship, secure customers through their consignment stock initiative.
- The threat of substitutes – Circuit Distributors can set up a website to advertise its product rangers, and offer the customer an online virtual purchasing center, where customers can view the products on offer, as well as check stock levels and place orders. This system is not available in the industry within which Circuit operates.

- The extent of competitive rivalry – if Circuit acquires a distributorship, they would have a price dominant position due to the exclusivity offered. They can become the price setters through their new venture and reap higher profits.

Through the evaluation of the swot analysis and Porter's five-force mode, the grand strategy that is most suited to Circuit is concentrated growth.

6.4 Concentrated Growth Strategy

Firm's that utilize the concentrated growth strategy grow by building on their core competencies. This will allow Circuit a competitive edge over its rivals by concentrating its efforts in the market segment it knows best. The result of this is increased sales, better market coverage, and more efficient technology. Circuit Distributors can also grow while concentrating, if it achieves its competitive advantage based on the efficient sales, sales from distributorship, and efficient distribution channels. These advantages could assist in formulating competitive pricing policies.

The figure 5.1 positions Circuit Distributors in the concentrated Growth quadrant, where a firm maximizes its strengths with redirected internal resources within the company.

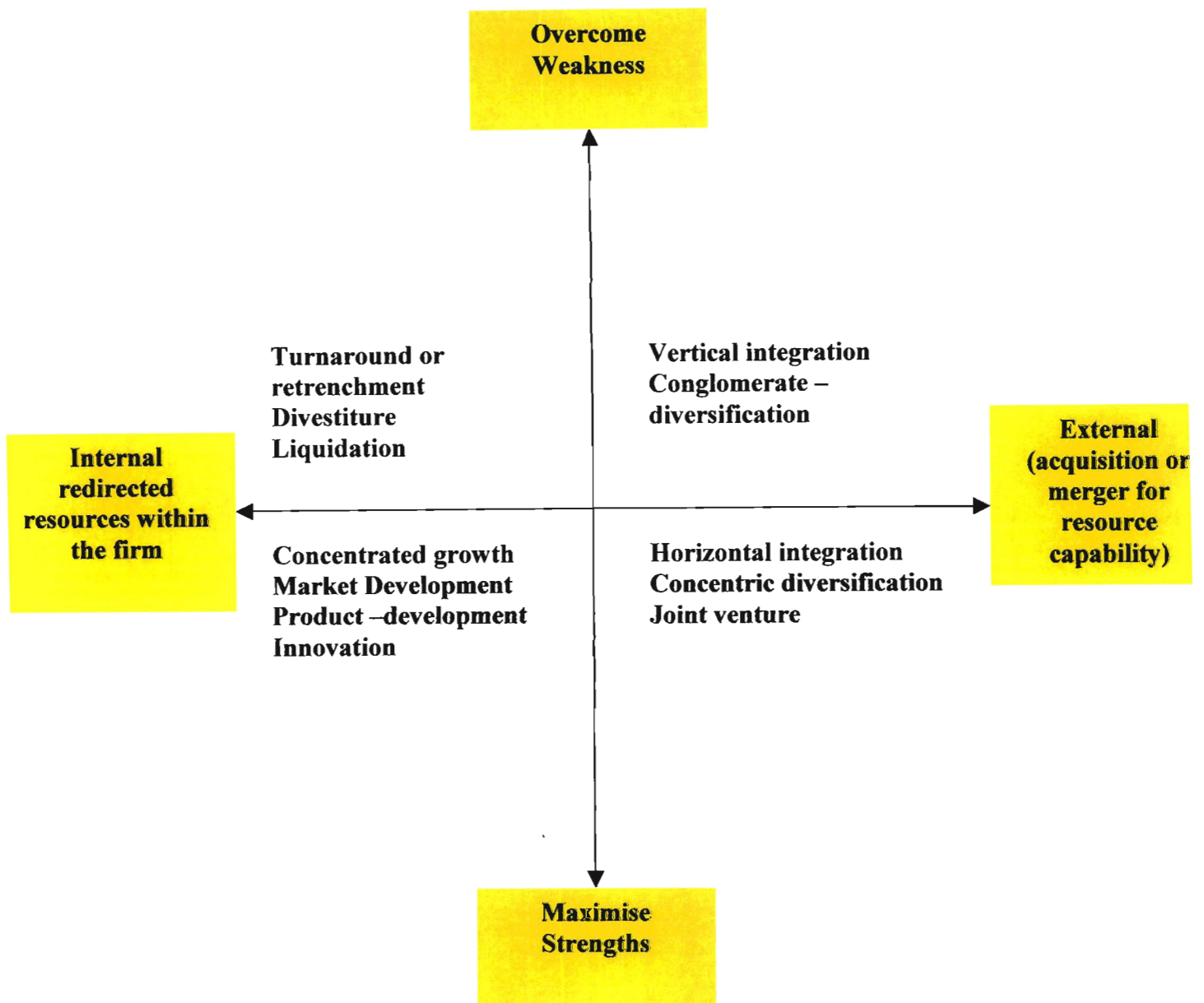


Figure 5.1 Grand Strategy Selection Matrix (Kotler 1999)

There are risks involved in adopting a concentrated growth strategy, they are slowed growth market (the company puts all its eggs in one basket), high opportunity costs that could result from operating in a specific market and ignoring other options that could utilize the firm's resources more profitably, but this strategy poses lower risk than any other grand strategy. A number of firm's have enjoyed exceptional returns on the

concentrated growth strategy. Firm's as McDonald's, Goodyear, and Appel computers are proof of the success of this strategy.

Another example is John Deere & Company a medium-sized firm; through a carefully devised concentrated growth strategy was able to become a major force in the agricultural machinery business, even when competing with such firms as Ford Motor Company.

While other players were trying to exit or diversify from the farm machinery business. Deere spent & 2 billion in upgrading its machinery, boosting its efficiency, and engaging in a program to strengthen its dealership systems. This strategy assisted Deere in becoming the leader in the farm machinery business; despite the fact that Ford was over 10 fold its size.

The concentrated growth strategy can allow Circuit to attempt to capture a larger share of the market, by increasing the usage rates of present customers, by attracting competitor's customers, or by attracting nonusers to purchase.

The strategy is not complete if all the company functions do not prescribe to it; one good example is the value chain, which details the primary and support activities, which enables the firm to achieve the efficient sales and distribution channels.

6.5 Value chain

The value chain analysis has highlighted some problem areas within the primary activities of the company.

- Circuit Distributors should devote a lot of attention towards marketing, namely advertising. The directors had a pessimistic approach to advertising because of failed responses in the past. We now live in the 21st century where technology has the better of us, Circuit could develop an informative website where customers can browse through the company's product ranges.
- Circuit could adopt a virtual office where customers can log on to the website and check stock levels as well as place orders for products. This helps the customer as it limits a phone call to the company and they can have a visual image of the product offering.
- Another means of advertising would be trade shows. The Hellenic trade show is a monthly event that moves to venues throughout Kwazulu Natal. Their motto is

“We bring the products to your doorstep”. These shows are informative as new products are launched regularly, and customers can shop and compare products under one roof. Patrons are added onto a database when the visit, this is to ensure that invites are sent to the appropriate personnel when the exhibit is next in town.

The next point of discussion is the support activities, Circuit Distributors sales staff double up as buyers as to expedite the customers request timorously. This application goes with problems, stock losses through lack of control and high value dead stock, which were not returned to suppliers. Although the company has a store man, his report lines are too many. The company should employ a specialist procurement officer that can double up as a salesperson, but focus mainly on his/her task at hand. This would eliminate stock problems associated with vague procedures in place.

6.6 BCG Growth share matrix

There are three possibilities that are plotted on the virtual BCG Matrix of Circuit Distributors.

Possibility 1

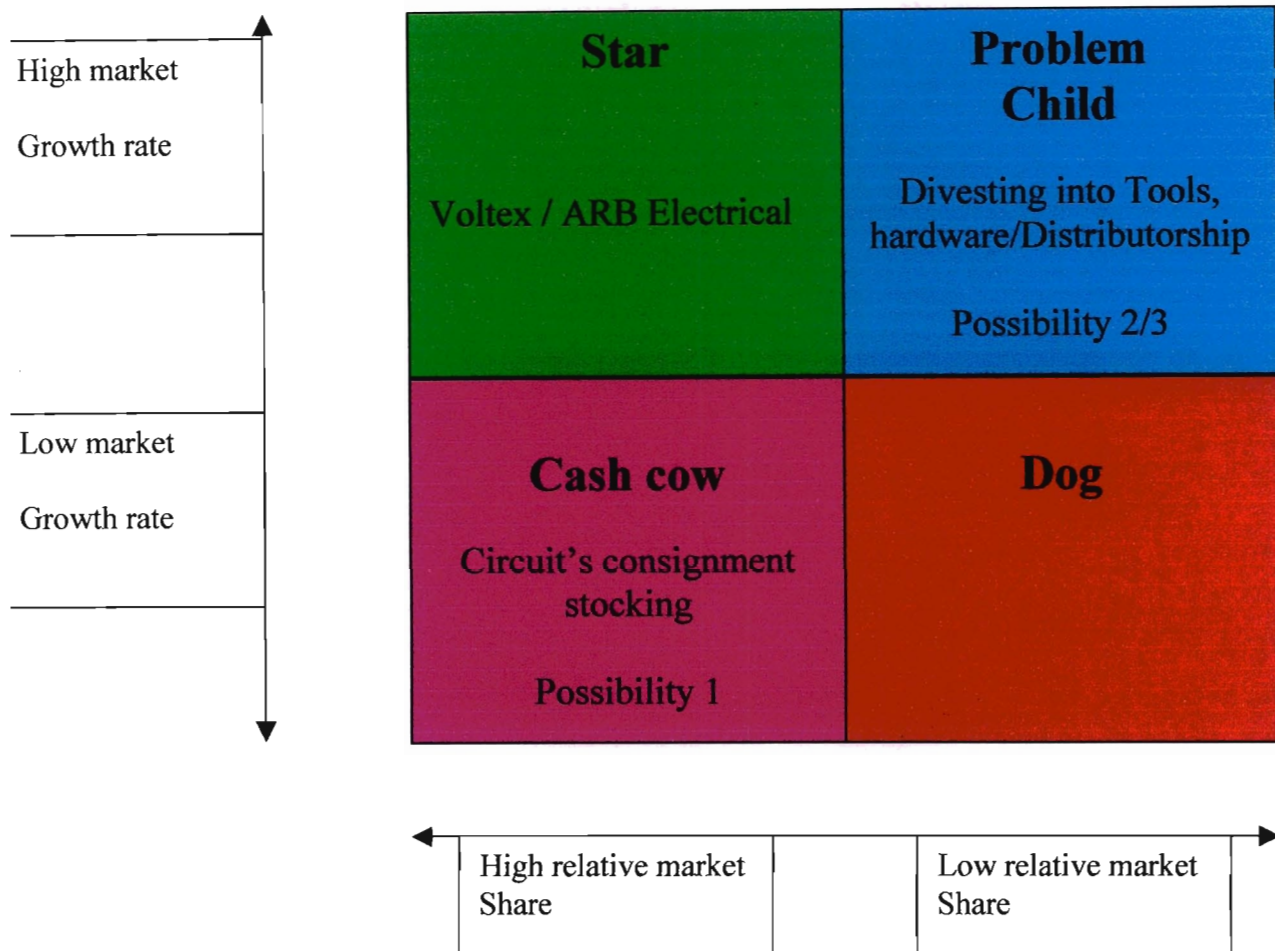
- Circuit Distributors would want to position itself in firing range of it's rivals, with their consignment stocking acting as a cash generators for the company to invest in other quadrants of the matrix to achieve sustainable competitive advantage. The company can reap profits due to a contract being negotiated for a period, not less than twelve months.

Possibility 2/3

- The distributorship requires investment, through stocking, advertising and promotions (trade shows, demonstrations at the customer or company venues.) Circuit needs to develop a name for itself as the new distributor and finally enter the stars quadrant of milk and honey.
- The tools and hardware business also requires cash for stocking and promoting the business. Although the new venture is piggy backing of Circuit's current customer base, investment is still required to set the operation and run it.

- Circuit Distributors should finally aim for its core market to enter the stars quadrant. The distributorship will most definitely allow Circuit to achieve this.

Figure 5.2 BCG Growth Share Matrix (adapted for Circuit Distributors)



6.7 Recommendations Based on the Sphere of Influence

In the existing sphere of influence Circuit distributors does not have much leverage over its competitors. Traditional methods of battle seem fruitless in the competitive environment within which it operates.

The way forward would be one of adopting a new sphere of influence as competitive arsenal against its rivals, and also shaping the company for future growth using the newly formed sphere.

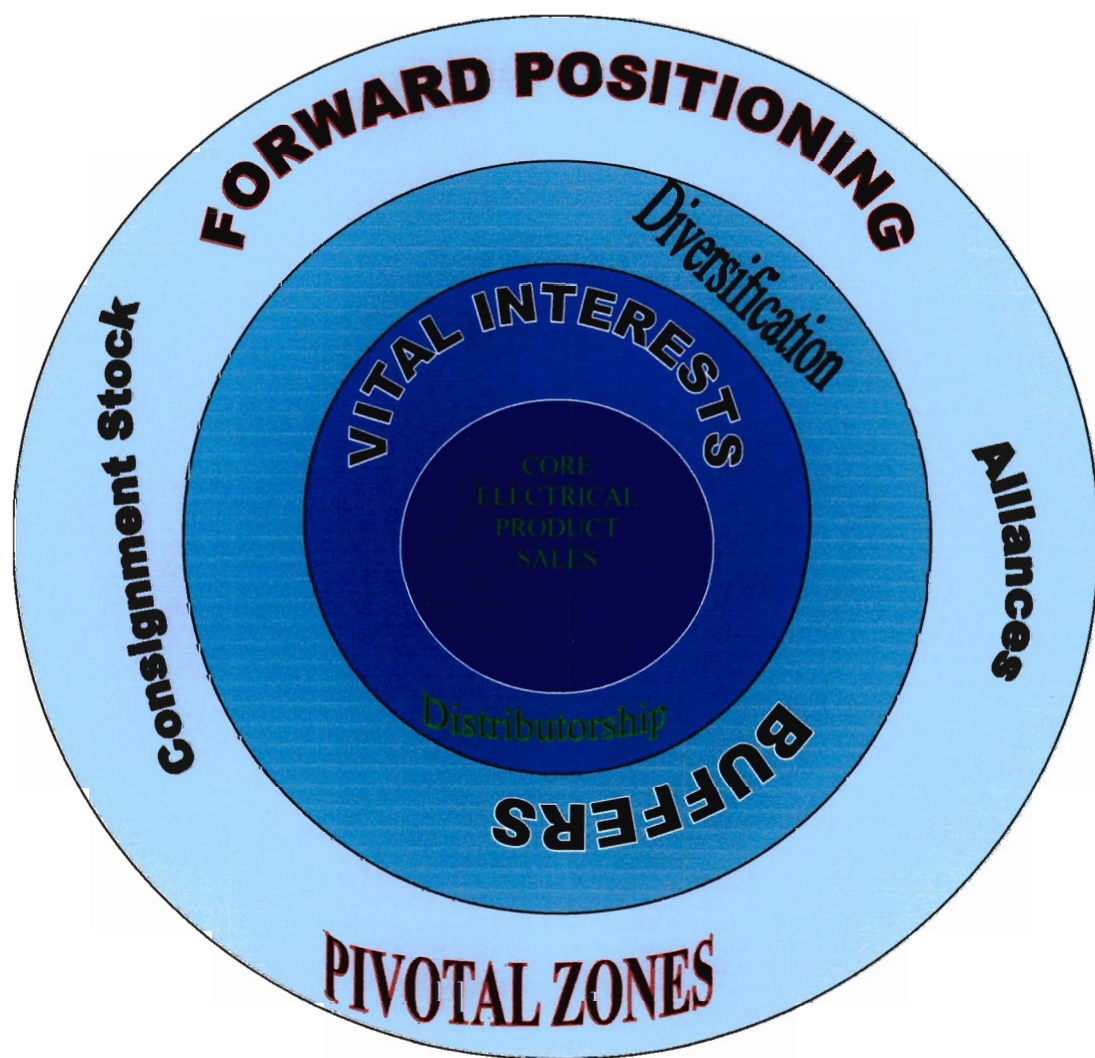


Figure 5.3 – Circuit Distributors new Sphere of Influence (Adapted for Circuit Distributors)

6.7.1 Core

Circuit's core market is surrounded by its presence in other geo-product markets, each of which serves a specific strategic intent. Circuit Distributors core business is the source and sale of electrical and instrumentation products that are utilized in industry, industry being GUD filters, Huntsman Tioxide, Beacon Sweets and Chocolates to name a few.

6.7.2 Vital Interests

Some markets are vital interests that increase the power of your core using traditional shared competencies and economies of scale and scope. The Vital interests help to strengthen the home base by providing critical resources to the core of the sphere, a distributorship, to gain competitive advantage over rivals, and to adequately protect the core from direct attack by rivals.

6.7.3 Buffer Zones

Circuit's sphere also includes markets that serve as buffer zones that protect your power by helping you defend against rivals that surround your core and vital interests. The buffer zones are expendable turfs that watch for any unforeseen advances by rivals into Circuit Distributors territory; the buffer zones offer Circuit the ability to toy with competitors with head on clashes. One way of expanding the buffer zones is for Circuit distributors to diversify some of its interest into related markets, for example Circuit Distributors can utilize its existing customer base, to supply tools and hardware that are sold on a small scale right now to existing customers. The electrical departments utilize tools that are similar to the mechanical and building workshops, the distributors for these tools are the same for electrical, mechanical or building, hence the easy of acquiring theme.

This could act as a cash cow for the future and perhaps develop its own sphere of influence as the venture matures.

6.7.4 Pivotal Position

Pivotal zones can also serve as bets on the future, positioning the company in markets that may become so important they could shift the balance of power. After an

examination of the value chain of Circuit Distributors, the following idea is present, consignment stock at customer's premises. This is a partner agreement between the supplier and customer, where the supplier puts up the consignment stock of critical spares at the customers premises, Circuit Distributors staff manage these stores to ensure proper distribution channels are adhered to. The customer bears the cost of the staff and the set up of the stores; the supplier bears the cost of the initial stocking, which is approximately R 10 000.00 to R 15 000.00. The customer only pays for the goods that are drawn from the stores. The benefit of this is it limits excessive competition as business is guaranteed on a monthly or yearly contractual agreement. This form of strategy requires capital if Circuit wishes to extent this service to new customers, financial houses are more than willing to assists small to medium businesses, providing that hey have a formalize strategy for the future couple with cash flow projections. Having HDI status, being 100% black owned Circuit Distributors could obtain assistance from other black consortiums that are looking to invest in prospective ventures.

6.7.5 Forward Position

Circuit's sphere of influence also includes forward positions in rival sphere. These positions allow the company to counterattack competitors, signal their strategic intentions, and even establish tacit alliances with rivals. Circuit Distributors has a good standing relationship with Electomech distributors as discussed in the questionnaires, Circuit distributors and Electomech distributors could form an alliance to better position both the companies against rivals. Both the companies can consolidate their purchases to optimize on the economies of scale. Companies like ARB Electrical and the Voltex group utilize these tactics to gain better deals on products, and obviously be more competitive through lower cost of sales. Circuit Distributors can become a company of choice offering value for money, with quick delivery times, availability of stock, after hours service, and cheaper prices through economies of scale. Circuit can utilize price competition, although in the short term pricing does not usually form the basis of sustainable competitive advantage because competitors can imitate any price very quickly. In the long term, pricing strategy can be a major factor in competitive

advantage, because it will significantly alter the basis on which companies can compete. Electomech can act as Circuit Distributors forward position or surrogate attacker.

Figure 5.4 - Choosing your Allies (Adapted for Circuit Distributors)

Type of Alliance Partner	Strategic Impact (How each helps shift the balance of power)	Supplements Your Sphere by Acting as a:
Surrogate attacker Electomech/Circuit Dist	Attacks/weakens the sphere of a rival, especially its core or vital interests	Forward position Electomech
Critical supporter	Provides arms and materials to fight longer/harder against a rival	Vital interest
Flank protector	Slows the forward advance of a rival into your sphere	Buffer Zone
Strategic umbrella	Threatens retaliation against a rival if it interferes with your freedom of movement into new areas	Facilitator for your pivotal zones
Passive aggressor	Tacitly consents to the weakening of a rival by failing to come to its rescue when needed or by avoiding attacking your sphere	Facilitator for your forward position

6.8 Utilising the Natural Growth Patterns with A Desperate Desire to Grow.

We have just discussed the fundamentals of a new sphere for Circuit distributors, and the way the sphere can assists Circuit Distributors in the future. Circuit Distributors requires not only a new sphere of influence, but also a growth strategy for the new sphere to ensure sustainable competitive advantage. Great powers have built and sustained their sphere of influence through a constant process of evolution and growth. Growth

generally increases the power of the sphere unless growing into a new market uses up more power than it gains. The key is to balance the company's strategy for growth against the forces of competitive compression applied by your rivals. Circuit first need to establish their natural growth pattern- a strategy for growing their sphere of influence- based on its competitive environment, capabilities and aspirations. Is Circuit better at being a developer, pioneer, discoverer, nomad, or opportunist? At the same time, competitors will try to hold or beat back the company's progress through four primary compression strategies: managed containment, gradual constriction, sequential stripping, or toppling dominoes. How would Circuit recognise, and thwart these strategies? How do the company circumvent these forces of competitive compression so that its growth adds to the power of their sphere, rather than wasting energy? As both the Roman Empire and Microsoft found, the evolution of their spheres was a process of accumulating power, selectively shifting their spherical growth strategies to circumvent the obstacles placed in their way by rival great powers (D'Aveni 2001).

6.8.1 ACDC Dynamics distributorship (Circuit Distributors as a Developer)

Circuit Distributors could acquire a sole distributorship or agency of a product that is utilized widely in industry to secure *its vital position* in the sphere of influence. Through my research of the industry, with regards to customers and manufactures, or agents for the manufactures, two distributorships are up for the taking namely ACDC Dynamics and Electromechanica, ACDC Dynamics is a Johannesburg based company that offer a catalogue based product sales. ACDC Dynamics are the South African agents for a number of products that are widely used in industry. Their catalogue compromises of almost eighty percent of electrical and instrumentation products, either original or generics, used in the electrical industry. The criteria for such a distributorship is location and of course the reputation of the applicant. ACDC has already earmarked the Durban area for a distributor. They will provide the company with all the relevant assistance with regard to product knowledge and training, pay for new signage on the building premises and vehicles, print catalogues with the distributors details on the main cover, and offer technical assistance to their distributors customers when required. ACDC also advertises widely on most of the monthly produced electrical journals, they produce a monthly

specials list that can be circulated throughout industry. The company has a yearly trade show throughout the country in conjunction with other manufactures call the Ellenix Trade show. The company exhibits at the Industrial Trade Show that occurs once in two years.

	Exploitation of the Sphere's Current Markets	Exploration of Markets Nearby The Sphere	Exploration of Markets Distant From the Sphere
Keep the Sphere's Existing Core	"Developers" ACDC Dynamics, Electromechanica Distributorship	Pioneers Shift interest into tools and Hardware	Discoverers
Shift the Sphere's Core		Nomads	Opportunists

Figure 5.5 – Circuit Distributors Natural growth Pattern (Adapted for Circuit Distributors)

6.8.1.1 Benefits

The benefit to the new distributor is bigger discount structure that is higher than the general wholesale discount. This offers the distributor a competitive advantage over its rivals. The distributor can now sell to other electrical wholesalers, thereby automatically increasing their customer base. Profit margins are now higher due to the higher discount a distributor receives over its rivals.

6.8.1.2 Terms and conditions

The cost involved is minimal, the distributors is required to have a stock holding of an initial amount of R 50 000.00 payable over sixty days, maintain an average purchase of

R 15 000.00 per month. These terms are more than acceptable because the company is well established in the country, the initial investment can be recouped in the first thirty days of business.

6.8.2 Electromechanica Distributorship (Circuit Distributor as a Developer)

Another company that also offers a lucrative deal is Electromechanica, a Johannesburg based company that offers a similar catalogue product sales. The terms of Electromechanica are similar to ACDC, they offer excellent service with regard to product training, technical assistance provided to the distributor or their customers. The company pays for the relevant advertising in the form of print, trade shows, but do not pay for vehicle and building signage. They offer a slightly smaller discount structure to distributors in comparison to ACDC

6.8.2.1 Benefits

The benefits are similar to ACDC, where a distributor receives bigger discount structure that is higher than the general wholesale discount. This offers the distributor a competitive advantage over its rivals. The distributor can now sell to other electrical wholesalers, thereby automatically increasing their customer base. Profit margins are now higher due to the higher discount a distributor receives over its rivals.

6.8.2.2 Terms and conditions

The cost involved is minimal, the distributor is required to have a stock holding of an initial amount of R 30 000.00 payable over thirty days, maintain an average purchase of R 15 000.00 per month. These terms are more than acceptable because the company is well established in the country, the initial investment can be recouped in the first thirty days of business.

Both of these companies offer excellent distributorships, but the ACDC Dynamic Distributorship seems more lucrative to Circuit Distributors.

6.9 Circuit Distributor as a Pioneer

Circuit Distributors has the opportunity to shift some of its interests into related markets, thus expanding its customer base and turnover. This venture would not require additional staff, as the target market is the existing customer base. The company's suppliers for tools and hardware are the same suppliers to Hardware Companies like Mica Hardware, FEDS Diy, Wardkiss Hardware, and Makro etc. Circuit Distributors can register another company to keep its interests apart. The new company can be very competitive, due to low overheads.

6.10 Competitive Compression

"When a sphere is on the receiving or giving end of competitive compression, the pressure typically manifests in one of four general patterns. Specifically, compression is put on a sphere to *contain* its growth, *gradually constrict* its boundaries, *strip* it of its vital interests or other critical zones, or *domino* through its buffer zones" D'Aveni (2001). We will focus on the sequential stripping pattern of the competitive compression.

6.10.1 Sequential Stripping

Utilize the forward and pivotal positions to encroach and destroy competitors sphere, whilst ensuring that the buffer and vital interest protect the home sphere.

There are four patterns for competitive compression, but Circuit Distributors need to utilize the Sequential Stripping to attack its competitors. Sequential stripping is the least capital intensive growth and competitive strategy than the other three, managed containment is most likely utilized by Circuit Distributors main competitors ARB electrical, Magnet, their main aim is to limit movement or expansion within a target area through price competition. The Voltex group is likely to adopt a Gradual Constriction strategy whereby they tighten the grip on competitors sphere and thrust forward with strategies like backward integration (purchasing the manufactures of wire and cable, which are general consumables in industry) and price competition.

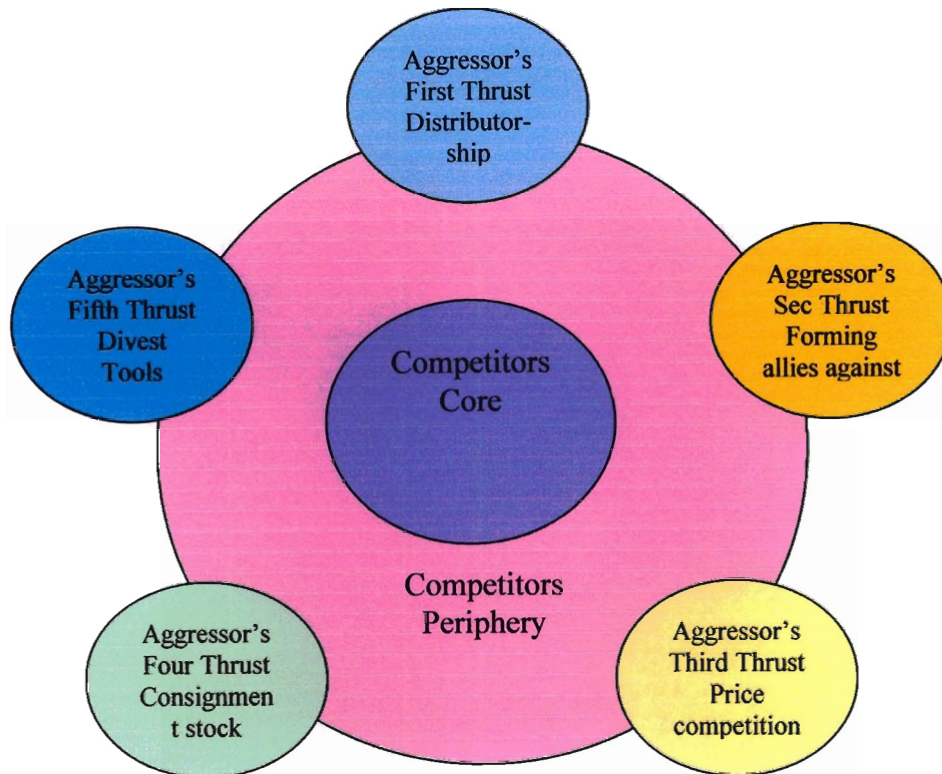


Figure 5.6 Sequential Stripping of Peripheral Geo-Product Zones (Adapted for Circuit Distributors)

First thrust	Circuit Distributors can utilize the distributorship as a marketing tool to encroach on their competitors market, while the rival is finding ways to counterattack, Circuit Distributors can bombard them with their second thrust.
Second Thrust	Forming allies with Electomech, using Electomech as Circuit Distributors Forward Position to launch attacks. Circuit Distributors can offer Electomech preferential discounts through their distributorship to further promote the products and partnership.
Third Thrust	Price competition, with the alliance in place, Circuit Distributors and Electomech can consolidated their buying to increase their power of negotiating better deals. This will intern be passed over to the customer through price competition.

- Fourth thrust with three thrusts in place, the company can utilize their consignment stocking strategy, whereby Circuit Distributors will set up the store at their customer's premises. Circuit will manage this store to ensure that proper distribution channels are adhered to. In this way the customer has focus on their core business.
- Fifth thrusts The fifth and final thrust sees Circuit distributors shifting its interest into related markets, like the supply of tools and hardware to their existing customer base. This strategy can supplement the company's income whilst it pursues competitive compression.

From competitive compression we have seen that by adopting a new sphere of influence, we can grow it into a formidable force. The evaluation of the following models has given rise to a number of recommendations as well, and to give the sphere of influence credibility.

6.11 Conclusion

Circuit distributors are a company that is faced with many obstacles in its path for sustainable competitive advantage. Porter's and Kotlers models have provided the essential tools for the sphere of influence to provide Circuit distributors with the essential growth strategy. The sphere of influence was chosen as it encompasses a number of author's models to shape its own.

The sphere of influence has provided a number of possible growth strategies designed for competitive advantage. Through our discussion we have seen that Circuit Distributors did not thrust forward into opportunities, but acted with a subtle approach. In business most companies are driven by opportunities and do not hesitate to act on them. Market leaders are in their position due to strategic thinking, focus, and the pure thrill of chances. Circuit Distributors adopted the wait and see approach, while their rivals grew exponentially through opportunities that were available to all in the past. The company should try to adopt the recommendations presented, to stay in the game.

The sphere of influence has provided a number of prospects within its new developed sphere. The core remains intact for Circuit as an electrical supplier, the vital zones should be exploited using a distributorship as discussed, and the two companies that have been chosen for discussion have the best product capabilities on offer. This opportunity should not be overlooked as in the past. The buffer zones highlight possibilities of diversification into related markets, here again these are opportunities for Circuit Distributors to piggy-back on their existing customer base, Magnet Group has an abrasive division specializing in industry abrasives, this does not strain their core function due to piggy backing on their existing customer base. The forward position discusses the likelihood of alliances with close competitors, this alliance can give the company bargaining power of its suppliers as Porters model discusses. The Hirsch group, Kay Makhan electronics, Game and Makro have colluded to form ISER, a purchasing group that guarantees these companies the lowest possible prices through Bargaining power over their main competitors Hi-Fi corporation, Govan Mani and a number pf smaller importers of electronic goods. The pivotal position highlights a consignment stocking at customers premises, although this is a costly venture, the fruits of this is guaranteed business. There were a number of points that form part of the recommendations, but do not hold vital or key positions, advertising should be made a priority, whether designing a website or forming part of a trade show. The next point is e-commerce, which was taken lightly a few years ago, and today it forms part of our routine.

The other models utilized provided backup for the sphere of influence, to render its Recommendations to Circuit Distributors. The first steps forward would be to adopt the new model, streamline the business using the value chain and finally acquire the ISO standards, which not only assist in gaining business, but also well tunes the business with proper guidelines.

All the opportunities and possibilities have been discussed thus far; it is now up to Circuit Distributors to act on them.

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APPENDIX 1 – QUESTIONNAIRE ON CIRCUIT DISTRIBUTORS

- Q.1 Do you think that customers are better empowered now that in the past 5-10 years.
- Q. 2 What differentiates Circuit Distributors from its competitors?
- Q. 3 What would you consider as ways of differentiating Circuit from its competitors?
- Q. 4 What percentage of Circuit's turnover is spent on advertising, and through which medium do you achieve the best results?
- Q. 5 Is the current political environment favorable to Circuit Distributors in the light of black empowerment?
- Q.6 Is diversification an alternative in your business, and if so, how will this enhance future growth.
- Q. 7 What are your views in forming alliances with other electrical companies to counter attack the measures used by competitors, and if so who would you consider?
- Q. 8 How would this alliance assist your current business?

- Q.9 Outsourcing is a common trend in industry, how does it affect Circuit?
- Q. 10 Would circuit consider utilizing Technology to improve its business, e.g. e-commerce?
- Q. 11 Do Circuit Distributors possess ISO certification? if not, give reasons.
- Q. 12 Circuit is a medium size operation, does the company have effective logistics in place e.g. dedicated procurement officer, stores control, dispatch and receiving clerks?
- Q. 13 How difficult are it for an individual to open an electrical business?
- Q. 14 What training programs do the company offer with regards to skills development, technical training in keeping abreast with technological advancements?
- Q. 15 What incentive schemes do Circuit utilize to ensure staff loyalty, and to prevent poaching from their competitors?
- Q. 16 Would Circuit consider poaching key staff from their competitors?
- Q. 17 How good is the company's financial position, in light of new business ventures?