Template for Company Positioning

Prepared by Stefano Messori, this document is intended as an accompaniment to the *Company Positioning MS Excel spreadsheet*. The spreadsheet, which is available as a free download (now also unlocked), was developed on the basis of Michael E. Porter's framework for structural analysis within industries. Outlined in this document are the instructions for the use of the spreadsheet and the basic materials needed to perform a structural analysis of your industry, thereby providing a foundation to help you better position your company.

In my first two templates we analysed the competition present in your industry at two different levels of detail:

- in the **Industry Analysis** template we examined competition considering your industry as a whole,
- in the case of the **Competitor Analysis** template we analysed competition by focusing on each of your competitors separately.

In this new template, **Company Positioning**, we will study the level of competition within your industry using specific strategic groups as an intermediate frame of reference. This time the unit of analysis is groups of companies with similar characteristics.

This template is based on six basic steps:

1) the characterisation of your competitors according to a few dimensions of competition;
2) the grouping and mapping of your industry competitors according to different strategic groups;
3) an assessment of the mobility barriers that characterise each group;
4) an assessment of the relative bargaining power of each group relative to its suppliers and buyers;
5) an assessment of the relative position of each strategic group with regard to substitute products;
6) an assessment of the patterns of interdependence between strategic groups and their vulnerability to warfare initiated by other groups.

Please fill in the corresponding page for each of these points in the accompanying Excel spreadsheet.

Using the model correctly

1) How to divide competitors into different strategic groups?

It can be very difficult to decide how to divide your industry competitors into different groups. The central question here is '**what degree of strategic difference is sufficient to justify the allocation of a competitor to this particular group or to another group**'?

The most likely answer is that differences in the strategies adopted by firms are important enough to allocate competitors to different strategic groups if these significantly affect the structural position of the firms with regard to the five competitive forces (refer to the Five Forces template). This evaluation requires that you be familiar with the concepts involved in performing an industry analysis.

2) Determine the market power and the profit potential of your firm

The following list highlights the most relevant factors in terms of measuring the profit potential of your company:

a) Common industry characteristics (analysed in the industry analysis template)
b) Characteristics of the strategic group (analysed in the Excel spreadsheet accompanying this template)
c) The firm's positioning within its strategic group

The first factor was analysed previously. You analysed the 'common industry characteristics' in your industry using my first template (industry analysis), and using the six steps in this template you will analyse the various 'categories of strategic groups' present within your industry.
The third factor has not been touched on up to now. There are four main factors that influence a 'firm's positioning within its strategic group'. These are:

c.1) The degree of competition within the group: if there are many firms within a strategic group they may compete away potential profits.
c.2) Structural positioning of each company relative to the group's traits: if economies of scale play an important role in the strategic group, then the firms with smaller shares will have a lower profit potential.
c.3) Cost of entering the group: based on its past history and experience, each company in an industry will incur different costs when seeking to enter or switch to a new strategic group. A firm's timing of its entry/switch to a new group can also affect the cost.
c.4) Implementation ability: firms belonging to the same strategic group may experience different levels of profitability; this may be the result of differing abilities to implement similar strategies.

The profit potential of your company is positively influenced by your ability to hold a strong position in a well protected strategic group, located within a profitable industry.
At this stage you should be able to visualise your company on these three different levels of analysis and to understand where the major obstacles lie. Immersed in the day to day routine, many managers confuse these various levels, and are unable to discern which strategic level they must concentrate on if they want to succeed in their industry.

3) Measure your firm's strengths and weakness, opportunities and risks

Knowing the different strategic groups present in your industry, and their contrasting characteristics, you are now able to define more clearly your strengths and weakness relative to your present positioning within the industry.

To assess your current level of strength/weakness, you must weigh your position against the following factors:

- mobility barriers protecting your strategic group;
- bargaining power of your group vis-à-vis buyers and suppliers;
- insulation of your group against rivalry from other firms;
- your scale relative to your strategic group;
- the costs of entry into your strategic group;

- your capacity for strategy implementation relative to that of your competitors;
- the resources and skills allowing your firm to overcome mobility barriers and to move into even more desirable strategic groups.

When you have measured your strategy against these factors you will know where you need to reinforce your position, and you will know where your strengths are relative to your competitors.

Reinforcing or modifying your positioning requires that you evaluate the **strategic opportunities and risks** facing your firm. Your **opportunities** hinge on the possibilities to:

- create a new strategic group;
- shift to a more favourably situated strategic group;
- strengthen the structural position of your group, or your position within the group;
- shift to a new group and strengthen that group's structural position.

The decisions open to you must be weighed against the following **risks**:

- the risk of other firms entering your strategic group;
- the risk of factors reducing the mobility barriers associated with your firm's strategic group, weakening your position relative to your customers or suppliers, worsening your position relative to substitute products, or exposing you to greater rivalry;
- the risks that accompany investments designed to improve your firm's position by increasing mobility barriers;
- the risks associated with attempting to overcome mobility barriers restricting entrance into more desirable strategic groups or entirely new groups.

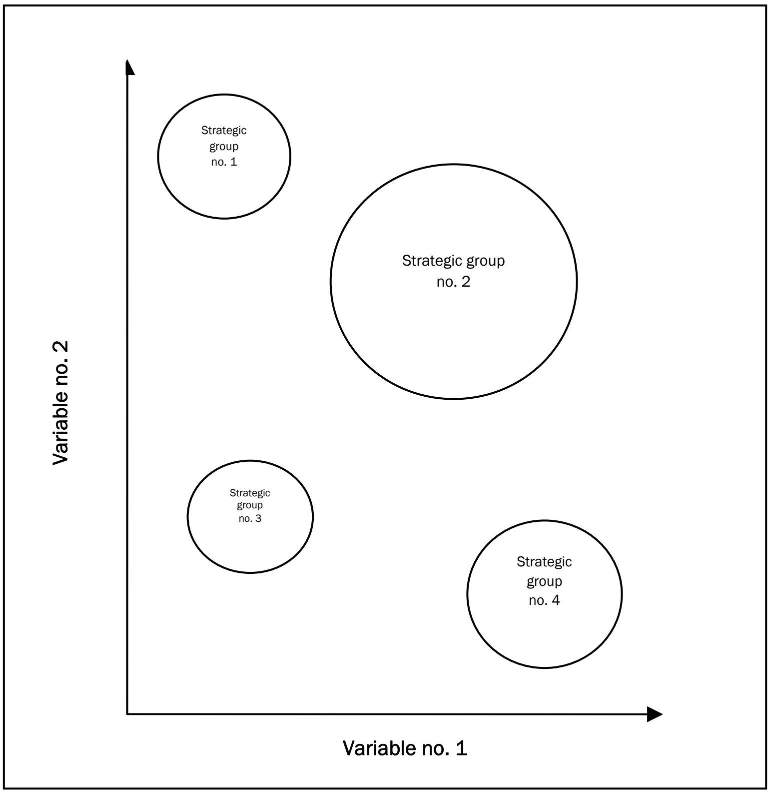
A good examination of your company's strengths/weaknesses and opportunities/risks is necessary when evaluating a direction for change. Even in times of stability your company should constantly monitor these intrinsic characteristics of your industry and your group. In fact, only by doing so will you be able to anticipate the right timing for a change. Timing is a crucial component in the success of a strategic change.

4) The strategic group map: an essential tool in company positioning

As was explained previously, it is beneficial for your company to monitor the situation in its strategic group frequently (as a continuum). The best instrument to use to do this is a strategic group map. This map displays graphically the strategic groups in the industry and how trends might affect their disposition along a strategy space. It is a map of 'strategy space', rather than of price and volume.

4.1) What strategic variables should you use as axes of the map?

1. The best strategic variables that you can use as axes are those that **determine the key mobility barriers** in your industry.
2. For the axes you should select two variables that **do not move together**. These variables should reflect the diversity of strategic combinations within your industry.
3. The variables need **not be continuous.**



Strategic group map

4.2) In addition to regularly mapping your industry on the basis of these two key variables, another good exercise is to map the industry using different combinations of strategic dimensions. This will allow you to monitor the different groups in your industry along multiple dimensions of competition.

4.3) In this last point in relation to mapping your industry, a few consecutive steps representing a good mapping routine are highlighted:

1. Identify the mobility barriers that characterise the different strategic groups in your industry;
2. Identify the marginal strategic groups within your industry. These groups are characterised by a weak or flimsy position. These groups are the most likely to leave the industry.
3. Chart the movements of the strategic groups along the different variables that you have selected for the analysis;
4. Analyse the trends and tendencies characterising the strategic groups within your industry;
5. Predict the reactions of different strategic groups to possible external events or actions, or an action taken by your strategic group or by your company in particular.

Conclusions

A sound positioning is based on a structural analysis of your industry. Positioning is the process whereby your company situates itself in that part of the industry from which it is best insulated against the forces of competition.
Positioning ultimately rests on the creation of mobility barriers; generating a favourable position relative to ones buyers, suppliers, and substitutes; and insulating oneself against rivalry.
When used in conjunction with the other templates, an analysis of your company positioning will reveal how your current strategic position, coupled with the structure of your industry, will determine the feasible level of profitability of your firm.

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Stefano's mission is to restore the connection between local communities and the enterprises working in them by...

- ...enhancing strategic thinking within companies, organisations and institutions.
- ...reinforcing the idea of a 'win-win game' between businesses and local communities.
- ...expanding the value proposition of businesses, introducing social and environmental factors as a central part of their agenda.

Stefano constantly develops free resources – available from this website – to purpose of which is to challenge the status quo within organisations, and to foster their capacity for innovation.

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