




A development of the strategic group theory
- A proposal on the three strategic group categories and
introducing the concept of distance into the analysis-

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Waseda University
Manami MIYAMOTO


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Objective of the paper

A critical development of the strategic group theory
by M.E.Porter(1980) from the practical point of view.


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 Contents	
1.	Review of Study
2.	A development of the strategic group theory <ul style="list-style-type: none">- From the case of a Japanese Internet Service Provider.
3.	Findings and Future discussion

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 Introduction 1.	
1.	For firms which face fierce competition within the industry, identifying how to conduct their competitive strategy effectively and how to reflect their strategies into competitive circumstances are the most important issues.
2.	It is very common that a firm formulates its strategy based on its own resources.
3.	With tightening competition, it is risky to decide the firm's activities only by the current resource base.
4.	To formulate effective strategy, a firm should take into account the rivals' strategies which they execute and the customer's selection viewpoints as well.

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Introduction 2.

Porter. M. E.
“Competitive Strategy: Techniques for Analyzing Industries”
(The Free Press, 1980)


[Strategic Group definition]
The group of firms in an industry following the same or a similar strategy along the strategic dimensions.

[His questions]

- Why are some firms are persistently more profitable than others?
- How does this relate to their strategic postures?

He tried to explain them mainly through **the concept of mobility barriers.**

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Introduction 3.

A firm needs a competitive strategy, not only when determining entry, but also when coping with the competitors after the entry.

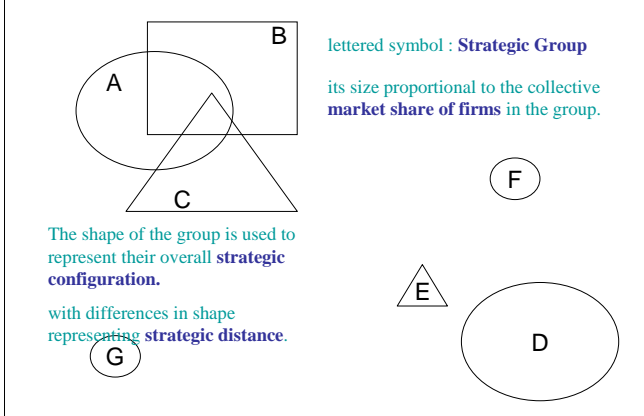
As long as a competition exists within an industry, competitive analysis and strategy formulation are the continuous issues.

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Review of Study

Strategic Group Mapping and Intergroup Rivalry

Key Strategic Dimension



The diagram shows seven strategic groups labeled A through G. Group A is a circle, B is a rectangle, C is a triangle, D is a large circle, E is a small triangle, F is a small circle, and G is a small circle. Groups A, B, and C overlap significantly. Group D is large and overlaps with A and B. Group E is small and overlaps with C. Group F is small and overlaps with D. Group G is small and overlaps with A. The x-axis is labeled 'Target Customer Segment'.

lettered symbol : **Strategic Group**
its size proportional to the collective market share of firms in the group.

The shape of the group is used to represent their overall **strategic configuration**.
with differences in shape representing **strategic distance**.

This display shows the Market interdependence or the extent to which their customer targets overlap; The most important influence on rivalry among strategic groups is their market interdependence.

("Competitive Strategy: Techniques for Analyzing Industries") 7


The three categories

When a firm in a competitive circumstance formulates its strategy, it refers similarities and differences with its competitors.

1. What resources do we have? (resource)
2. What strategy are competitors conducting? (executed strategy)
3. When the customer make a decision, which firm's product do they choose? (comparison and choice by the market)

Strategy analysis should be conducted respectively by the three categories.

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Premises in this paper

Point of view


- from the strategy planner in the firm
- “How to create effective strategy for the firm’s own interest.”
- The term “strategy” in this presentation refers to a substantial level of planning by the managers.
- Strategy is going to be executed in the actual competitive market.

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Issues of the Porter’s Strategic group theory

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Issues of Porter's Strategic Group Mapping and the Strategic Dimension 4/4

It is difficult to identify a firm's shift in the group

- The expression of the mobility barrier treats the relationships between the groups as if they are static.
- It is unapplicable in an industry where rivalry relationship changes frequently.

In fact, it is important to know about the shift of the firm and the changing patterns of the strategic group.

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2. A development of the strategic group theory

Proposal 1 : Proposal on the analysis by 3 strategic group categories

Proposal 2 : Introduce the concept of distance into the analysis

Finding : The gaps in the distance among the groups

In this presentation, Japan's ISP (Internet Service Provider) industry during the five year period 1998-2003 provides the setting for this study.

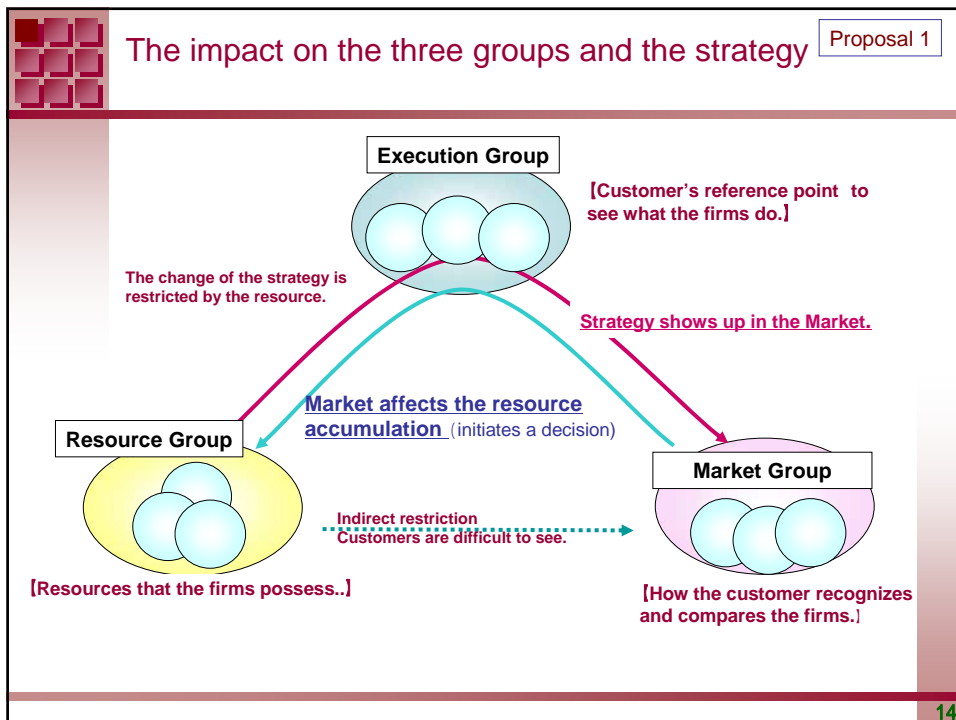
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Proposal 1

Competitive analysis
- 3 proposed strategic group categories -

1. The group by the mobility barrier. **“Resource Group”**
2. The group by the executed strategy. **“Execution Group”**
3. The market group by customers’ comparison. **“Market Group”**

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Proposal 2

Introduce the concept of distance into the analysis

Distance = The extent of difference between the firms

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Review of Study
Strategic Group Mapping and Intergroup Rivalry

Key Strategic Dimension

lettered symbol : **Strategic Group**
its size proportional to the collective market share of firms in the group.

The shape of the group is used to represent their overall strategic configuration.
with differences in shape representing strategic distance.

Target Customer Segment

This display shows the Market interdependence or the extent to which their customer targets overlap. The most important influence on rivalry among strategic groups is their market interdependence.

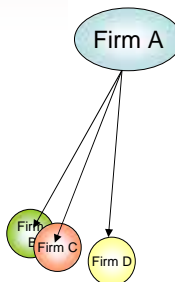
("Competitive Strategy: Techniques for Analyzing Industries") 16

Proposal 2

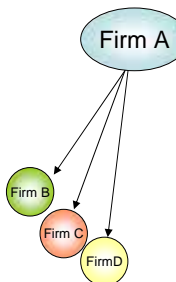
Needs for the Concept of the Distance

The more customer targets overlap in the market, the more difficult to draw group boundaries as Porter does.

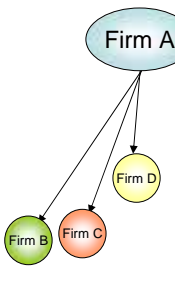
- A firm which takes a different strategic activity on a certain occasion might take the same Strategic activity on other occasion.
- A firm might take and execute plural strategies at the same time.



Difference at Time n



Difference at Time n+1



Difference at Time n+2

Distance is the amount of space between two points. It can be measured from the starting point.

When a firm formulates its strategy, the point of reference is always itself.


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Proposal 2

Distance measurement

As a case of study, it conducts actual distance measurement in Japanese ISP.

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From the case study : Japanese Internet Service Provider

Proposal 2


An industry which can apply the Concept of Distance effectively is

1. Firms compete fiercely through the reference of the rival's strategic activity.
2. As a result,
 - Precedence and following imitation occurs so often.
 - relative relationships among the firms changes frequently.
3. They can buy resources (industrial modules) which they don't possess from outside.
 - Low mobility barrier,
 - Difficult to differentiate from others.
4. The data that makes it possible to observe facts are available.

–It looks at seven major Japanese ISPs.
OCN, DION, ODN, @Nifty, BIGLOBE, Yahoo!BB, Plala.

–In the course of examination, OCN, the largest ISP in Japan provided by NTT Communications Corporation, is the starting point of the distance measurement.

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Measurement and Analysis of the Strategic Distance

Proposal 2

[Analysis Objective]

- Identifying patterns of the strategic actions with rival precedence and following.


[Items for quantification]

1. The differences between the firms within each group.
 - The distance from OCN.
2. The state of change in relation to the distance over time.

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Proposal 2

Constructing Resource Group (an attempt to numerical conversion)



The resources which are necessary for the strategy execution to lead the competitive advantage in the Japanese ISP industry.

- Resource for the telephone service.
- IP facilities to provide its own original service,
- Skills and work force for the on-sight work,

etc..

If you look at plural resources, you can measure it in detail.

	1998	1999	2000	2001	2002	2003
Nearest Rank 1	DION	DION	DION	DION	DION	DION
Nearest Rank 1	ODN	ODN	ODN	ODN	ODN	ODN
Nearest Rank 4	Plala	Plala	Plala	Plala	Plala	Plala
Nearest Rank 5	BIGLOBE	BIGLOBE	BIGLOBE	BIGLOBE	BIGLOBE	BIGLOBE
Nearest Rank 5	Nifty	Nifty	Nifty	Nifty	Nifty	Nifty
Nearest Rank 5				Yahoo!BB	Yahoo!BB	Yahoo!BB

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Proposal 2

Distance of the Executed strategy from OCN

Result of the measurement

	Dial up	Phone charge inclusive	Fixed price dial up	Package with phone	ADSL	Optical fiber
DION	21.0	67.0	1.0	34.3	38.6	50.7
ODN	41.6	67.0	2.0	51.0	44.7	67.2
BIGLOBE	60.8	67.3	3.0	67.0	45.1	67.5
Nifty	61.2	67.7	4.0	67.5	57.1	83.7
Plala	100.0	68.0	5.0	100.0	63.2	100.0
Yahoo!BB				100.0	100.0	

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Proposal 2

Result of the measurement of the Market Distance from OCN

The comparison ratio of the ISP with OCN at the time of customer's decision can be considered as the Market Distance from OCN.

Market Group	1998	1999	2000	2001	2002	2003
Nearest Rank 1	no comparison	no comparison	no comparison	no comparison	no comparison	no comparison
Nearest Rank 2	nifty	nifty	ODN	ODN	other	DION
Nearest Rank 3	other	ODN	DION	other	YahooBB	YahooBB
Nearest Rank 4	BIGLOBE	DION	other	DION	ODN	ODN
Nearest Rank 5	ODN	BIGLOBE	nifty	nifty	DION	nifty
Nearest Rank 6	DION	other	BIGLOBE	BIGLOBE	nifty	other
Nearest Rank 7	Plala	YahooBB	Plala	YahooBB	BIGLOBE	BIGLOBE
Nearest Rank 8	YahooBB	Plala	YahooBB	Plala	Plala	Plala

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Summary and Findings

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Summary

1. A rival analysis about the competitive industry with the precedence and the following
 - should be measured by the distances from the starting point in accordance with the competitive dimensions, which show the extent of difference between itself and its rivals.
2. An industry that this paper considers applicable is
 - An industry which has a low mobility barrier or a low imitation barrier.
 - the one whose technology improvement is quite dynamic.
e.g. Japan's ISP industry

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Summary

3. Through this measurement, it is possible to analyze the changed relationship between the firms over time. (Fig)
4. If a competitive dimension changes, each distance between the firms and the effective resources for the competition also changes.

Distance from OCN by Competitive Dimension

The graph plots the relative distance of several ISPs from OCN across six competitive dimensions. The y-axis represents 'Relative Distance' from 0.0 (near) to 100.0 (far). The x-axis represents 'The competitive dimension' with categories: Dial Up, Phone char, Fixed price, ADSL, Optical fiber, and Package with. A legend identifies the firms: DION (blue diamonds), ODN (magenta squares), BIGLOBE (yellow triangles), Nifty (cyan crosses), Plala (green asterisks), and Yahoo!BB (red circles). Annotations include a pink box 'competing in service but little relation' pointing to ODN at the 'Fixed price' dimension, and a red dashed circle 'Execution Group' encompassing ODN, BIGLOBE, and Yahoo!BB at the 'Fixed price' dimension. A 'no entry' label is at the bottom left.

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Summary

5. A firm will be able to formulate strategy not only by the resource barrier (the **“Resource Group”**) but
 - by the **“Execution Group”**, which shows differences of the executed strategy.
 - by the **“Market Group”**, which shows customer's comparison at the time of the decision.
6. Through these three categories of analysis and cross-reference, a firm can exploit the Strategic Group concept in a practical way.

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
Proposal 3

Summary

7. Each distance between firms in Resource, Executed strategy and market are not always consistent.
8. Recognizing the existence of the distance gap among the group, it is important to enhance the strength, decide investment and initiative which lead to most effective results.

Pattern diagram of the distance gap among the group

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Further Studies

1. Examination about the effectiveness of this proposal in the industry which rivalry relation is not always change.
2. Refinement of the metric variable quantification.
3. Clarification regarding the distances, the distance gaps and the performance.
4. Examination about where these discussion points and conclusions fit amongst other competitive strategy studies.

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Thank you for your kind attention.



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