

# MBA Essentials for Lawyers

## Module 1



# Introduction

- Harvard
- Stanford
- UCLA
- University of Chicago
- London Business School
- MSU BS (Lomonosov Moscow State University)
- Cranfield
- Oxford
- Bath
- Insead (Paris)
- IE Business School (Madrid)
- UST Business School (Hong Kong)

# Introduction

“Legal problems are business problems and require a business solution. Ideally, managers and their counsel work together as a team to identify the business and legal risks and opportunities associated with a particular transaction or activity...”

# Introduction

“...Consequently, the greater the insights that counsel can obtain into the company’s strategy, the more likely it is that they will be able to contribute in the joint problem-solving exercise. When managers and lawyers effectively tap each other’s areas of professional expertise, the available attractive options increase dramatically.” **(Achieving the Advice Advantage)**

# Introduction

## Course Objective:

To provide you with an understanding of the core strategic models, tools, skills and concepts that lie at the heart of all MBA courses

# Introduction

## Rupert Vernalls

- Harvard Business Assistant for Course Planning
- Module Advisor on the Bath MBA
- MBA
- Lectured at the US Department of Commerce on doing business in Europe
- Solicitor - most recent positions:
  - Head of technology law in Osborne Clarke's Silicon Valley office
  - In-house IP counsel at Vodafone Group Plc
- Accredited by the Legal 500 as an "Experienced" Technology, Media & Telecoms lawyer

# Objectives

- Modern Theory of Business Strategy
- The three layers of strategic analysis
- How to carry out an industry analysis
- How to define strategy based on an industry analysis

# Modern Theory of Business Strategy

- Modern Theory of Business Strategy:
  - Strategy must be tailored in accordance with the nature of internal resources of the business AND with the opportunities presented by the marketplace

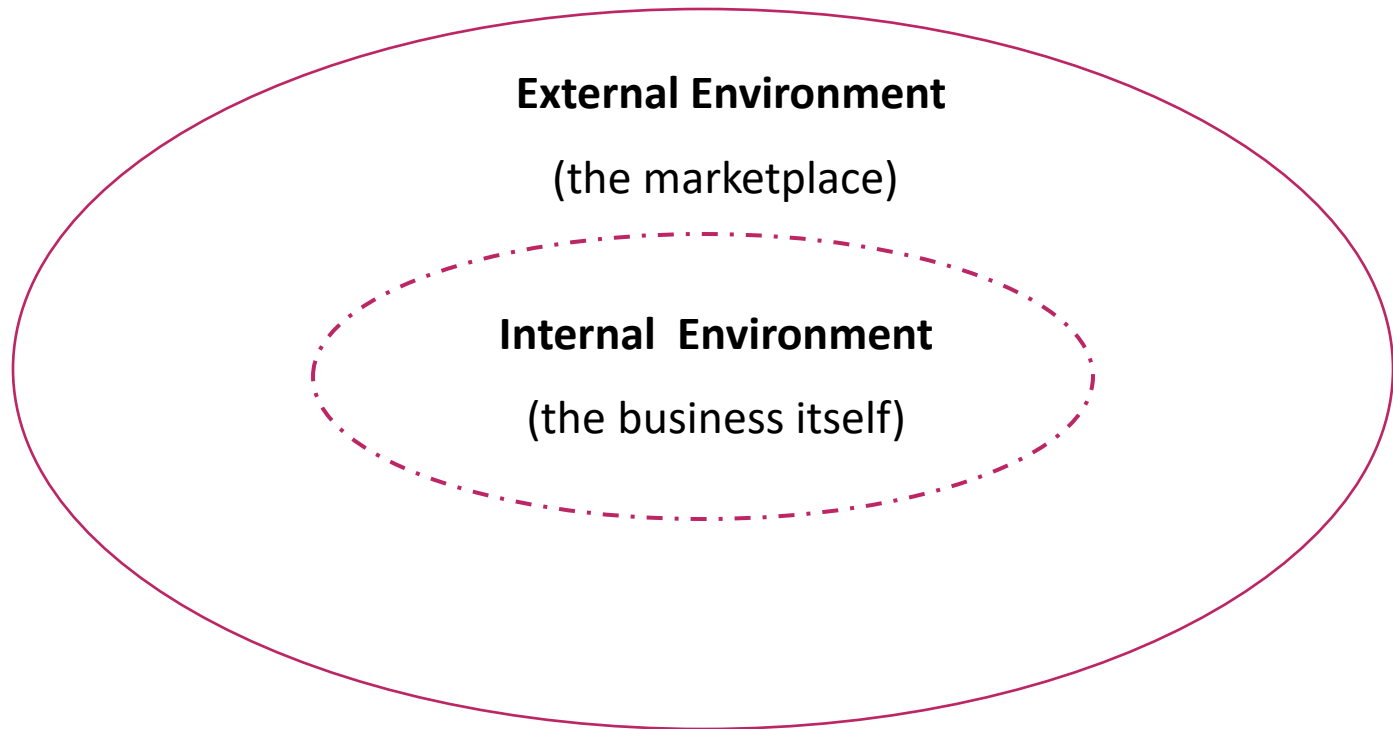


# Modern Theory of Business Strategy

- Therefore businesses need to obtain a **'strategic fit'** between **internal** and **external environments**



# Modern Theory of Business Strategy



# Modern Theory of Business Strategy

- We need a means of analysing the external and internal environments...



# Means of Analysis

- ...however with such a huge amount of data to consider where do we start?

Interest rates, House prices, Tastes and trends, General Economic Conditions, Legal regulations, Technology, Competitors, Customers, Suppliers, employees, plant and machinery, IP, premises....

# Means of Analysis

- “...the first thing to do when confronted with a load of data, impressions and confused signals is to put them into a framework, rather as the doctor learns to turn symptoms into a diagnosis. Only then can the treatment begin.”

(Charles Handy, *The Empty Raincoat*, 1994)

# SWOT Framework

- Commonly the external market and internal resources and capabilities are considered by means of a SWOT Framework - characterised as:
  - Internal 'Strengths' and 'Weaknesses'; and
  - External 'Opportunities' and 'Threats'

# SWOT Framework

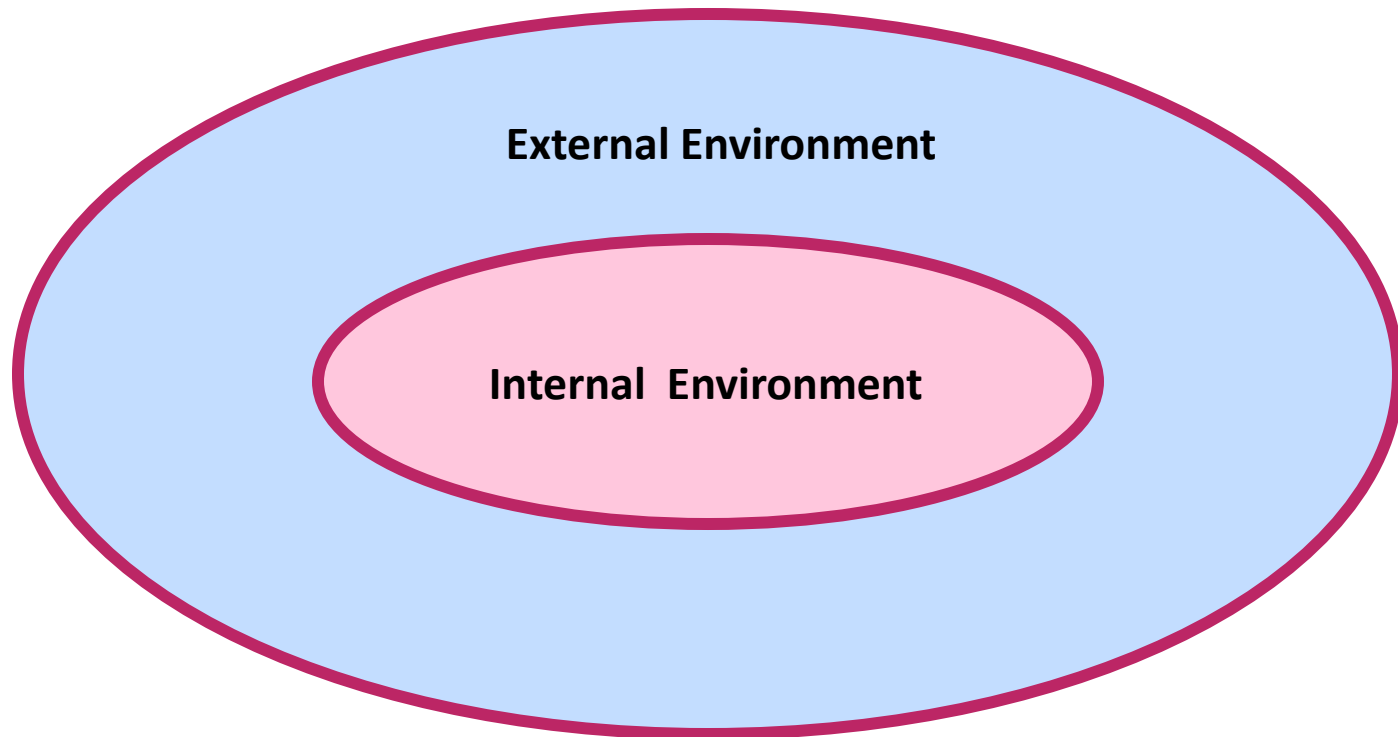
<b>External</b>	<b>Opportunities :</b> Growing market Cheap acquisition targets	<b>Threats:</b> Recession Strong competition
<b>Internal</b>	<b>Strengths:</b> Skilled workforce Strong IP base	<b>Weaknesses:</b> Poor cash flow Aging machinery

# SWOT Framework

- However, used on its own the power of a SWOT is limited:
  - provides little in the way of a market structural analysis ; and
  - provides no real understanding of the true capabilities of a business



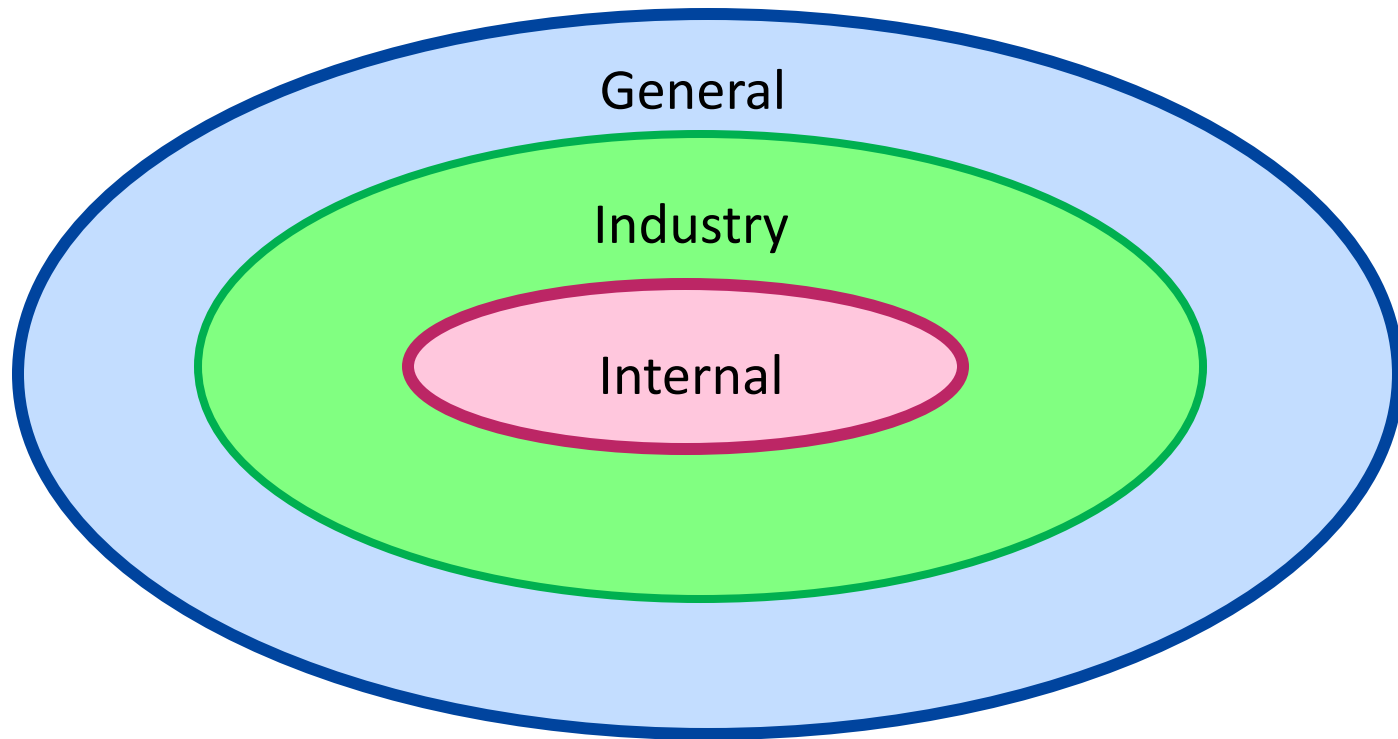
# Means of Analysis



# Means of Analysis

- We need to break the external environment into 2 further layers:
  - Industry Environment – includes competitors, customers, suppliers; and
  - General Environment – made up of factors such as general economic circumstances, politics, tastes and trends that transcend any particular industry

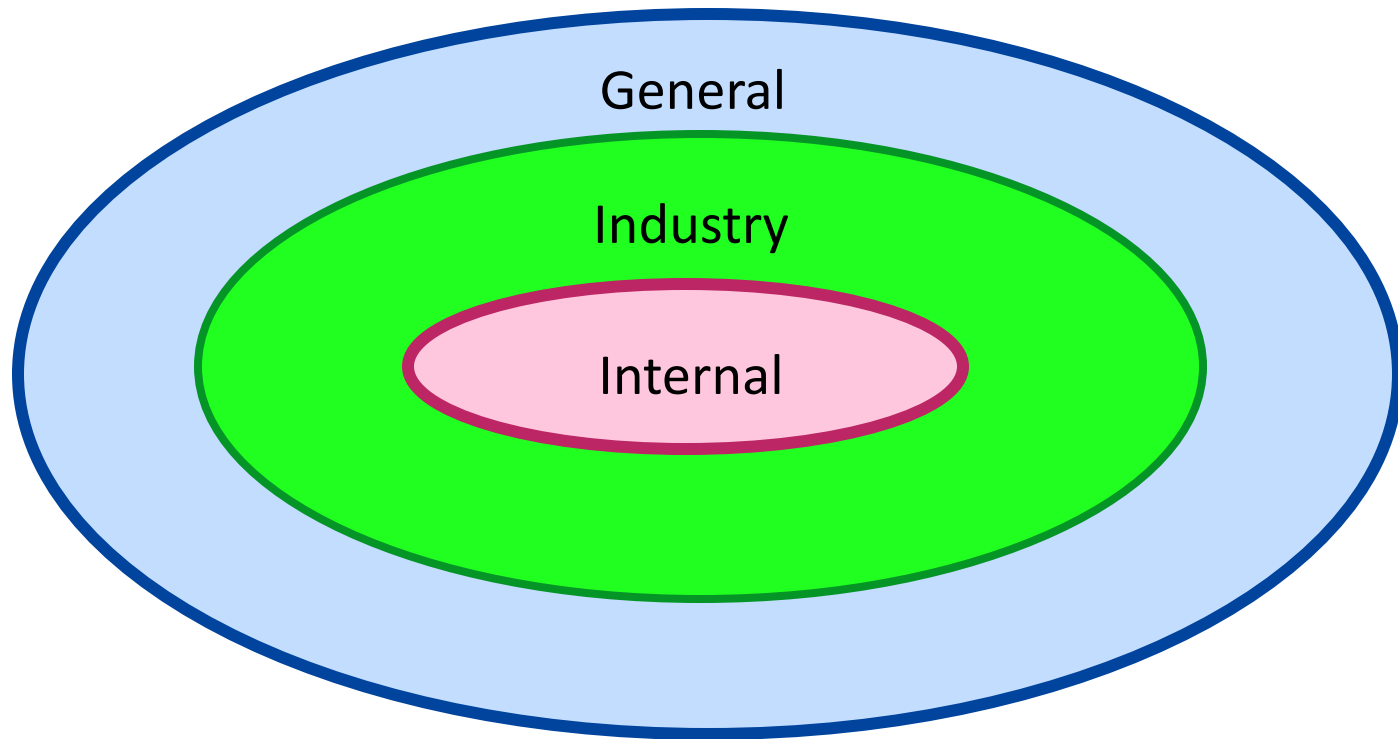
# Means of Analysis



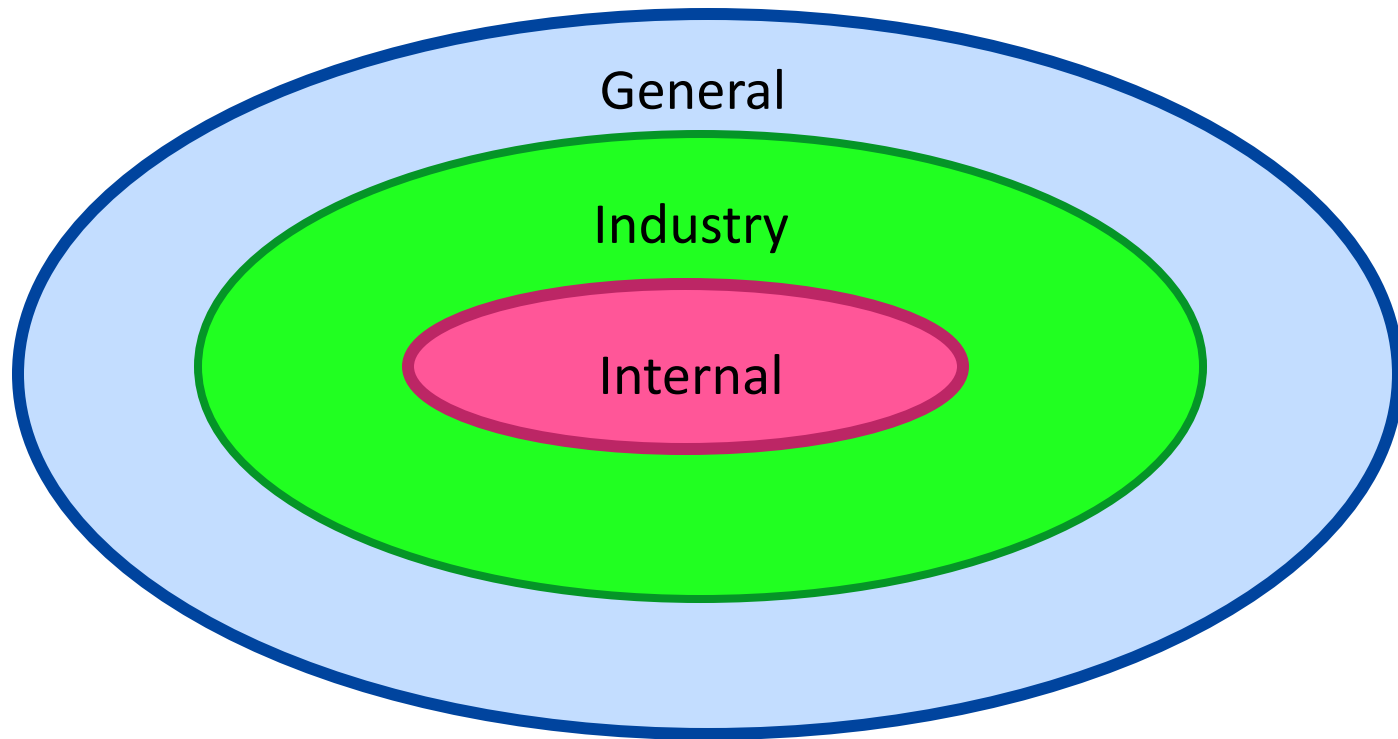
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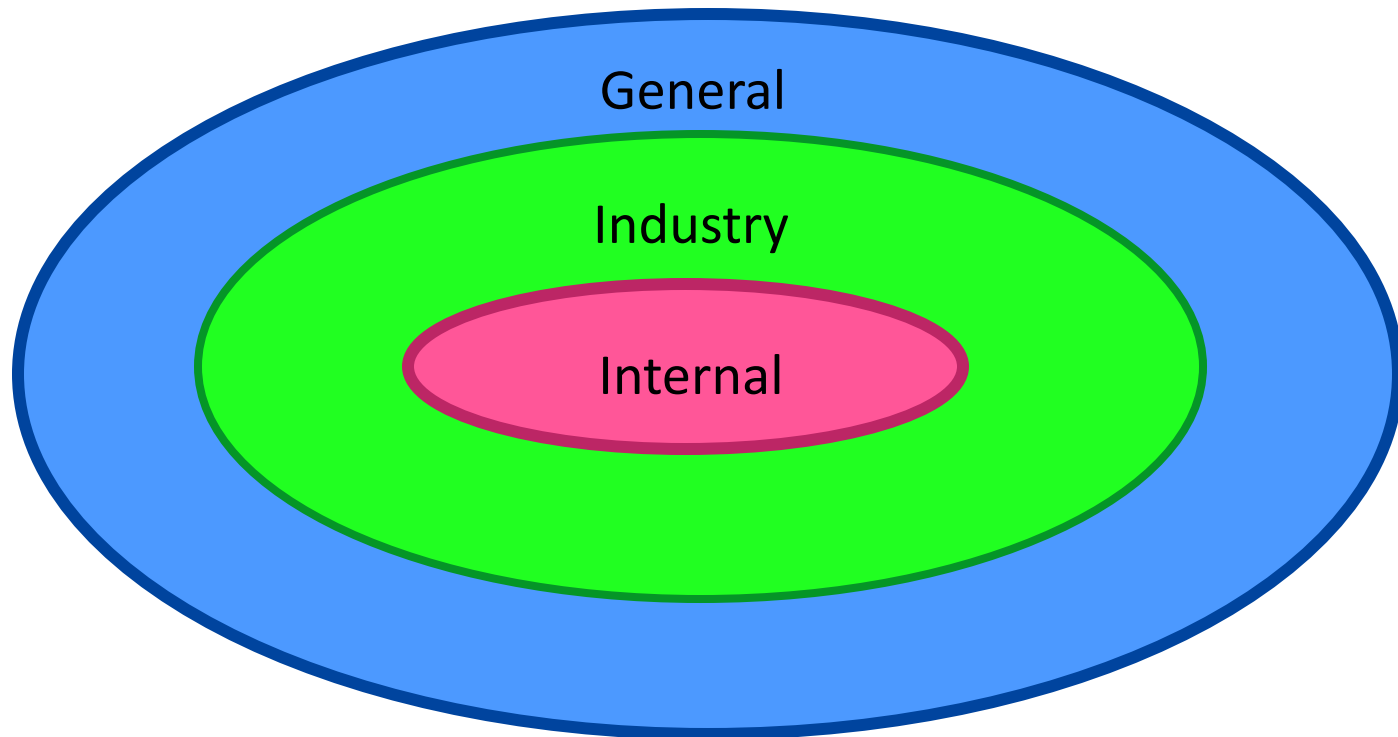
# Module 1 – The Industry Environment



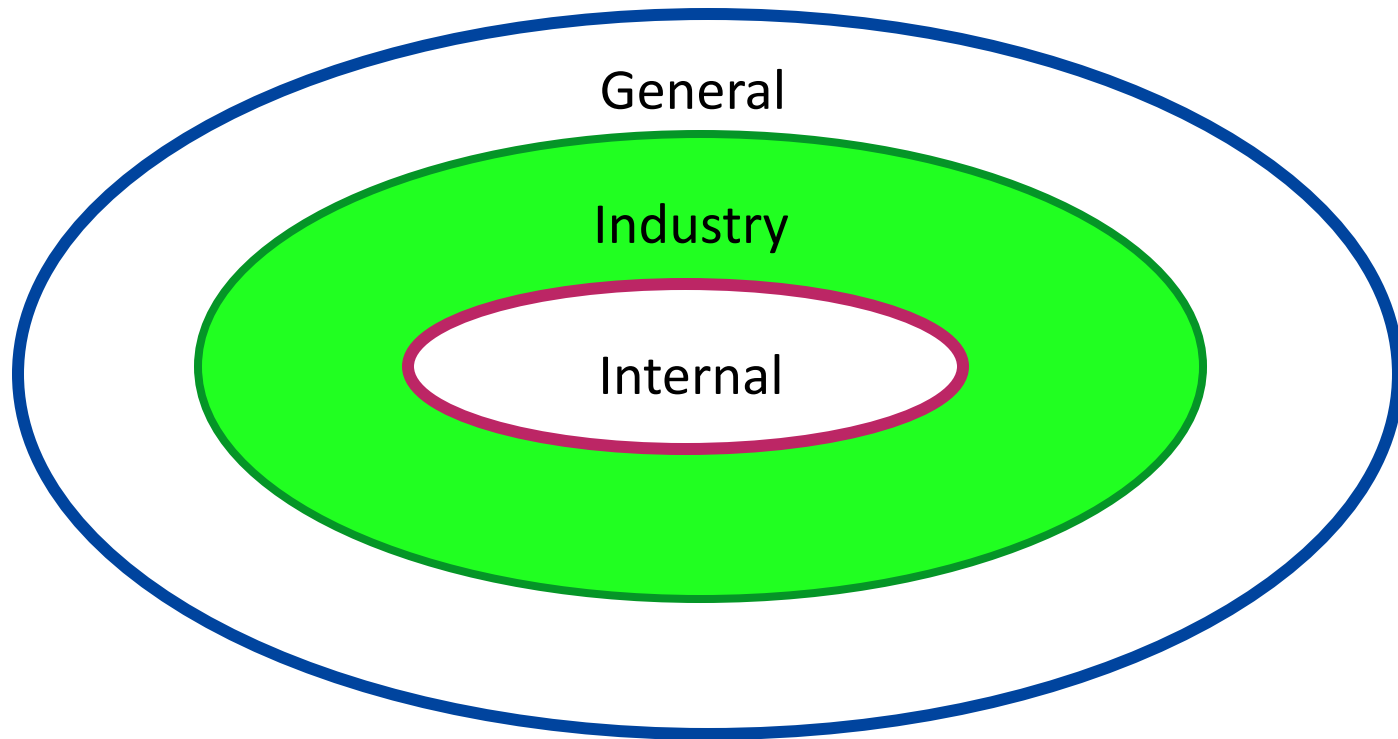
# Module 2 – The Internal Environment



# Module 3 – The General Environment



# The Industry Environment





# Means of Analysis

- In order to understand the Industry layer we need to carry out an industry analysis
- The most popular and powerful means of industry analysis is called a **Porter's 5 Forces Analysis**

# Means of Analysis

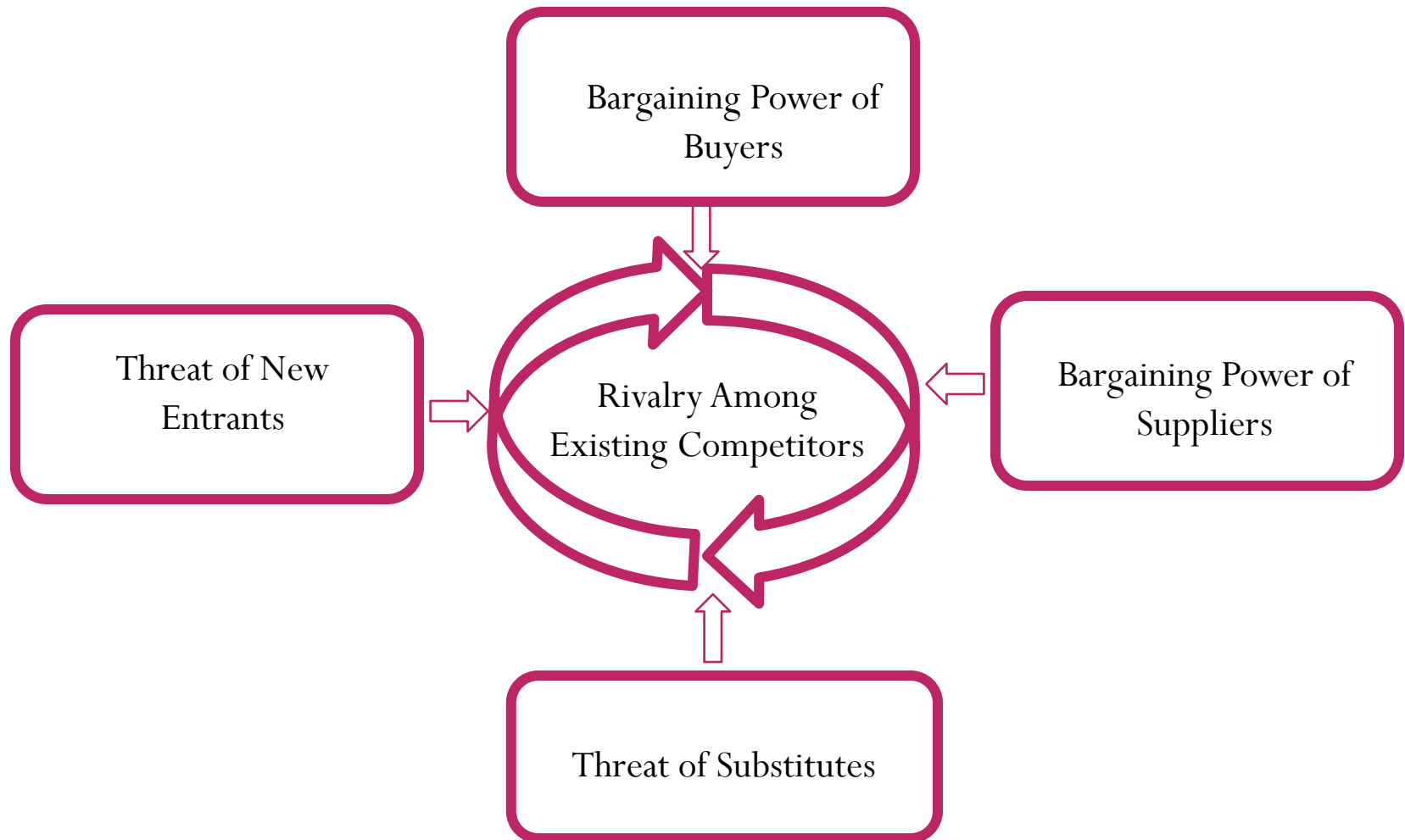
- **Porter's 5 Forces Analysis** - Initial paper written in 1979
- Updated in January 2008
- Handout 1: The Five Competitive Forces That Shape Strategy (Harvard Business Review - January 2008) by Michael E. Porter

# Porter's 5 Forces

- Traditionally strategy had been formulated purely on the basis of competitive rivalry and market growth potential



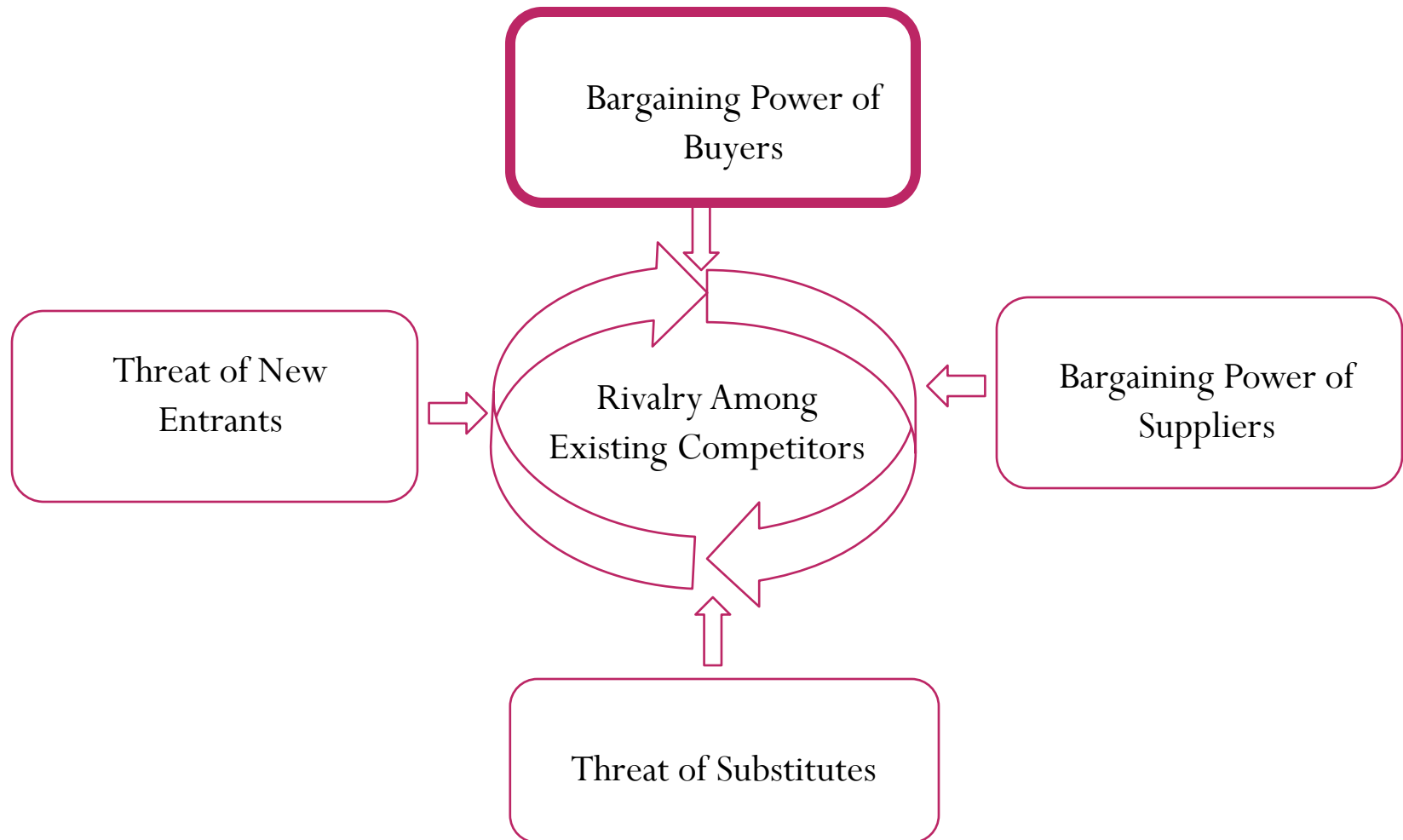
# Porter's 5 Forces



# Porter's 5 Forces

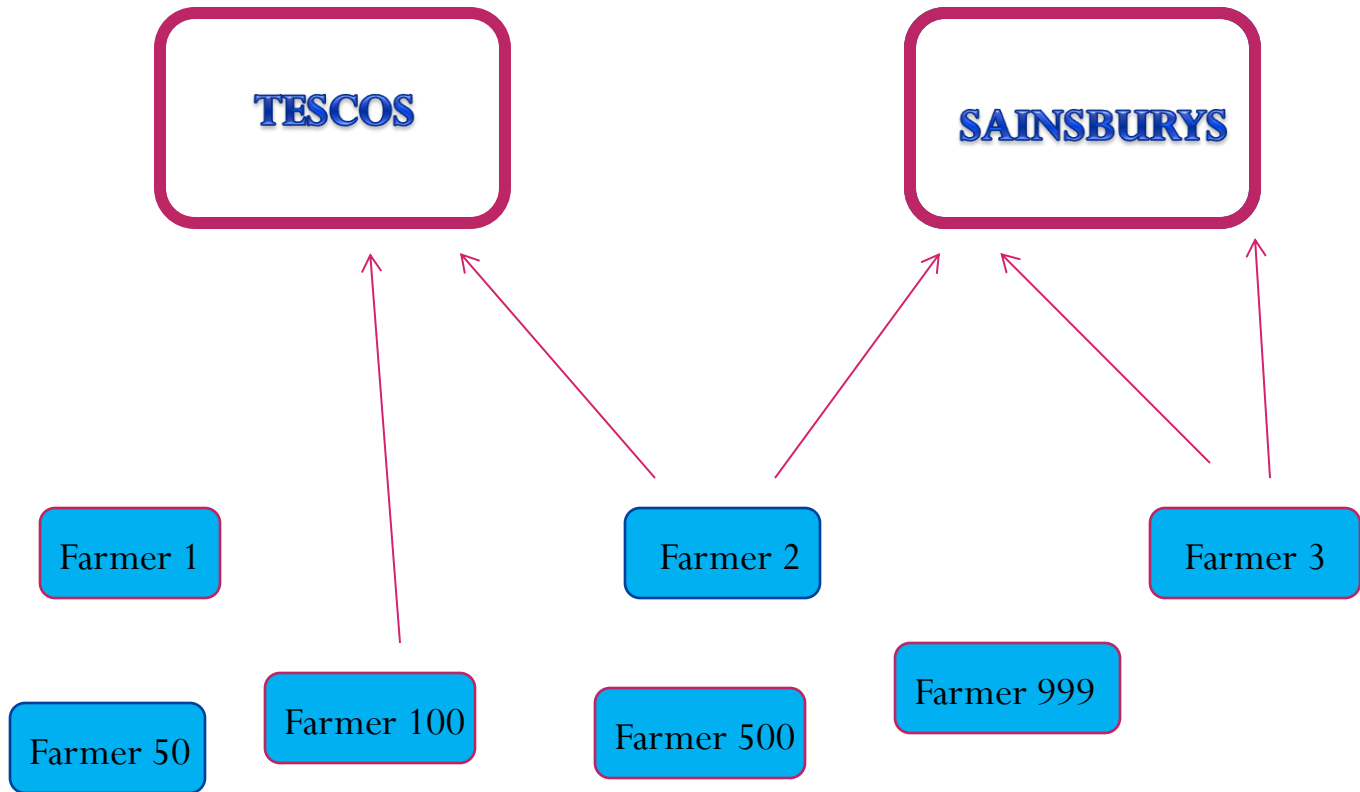
5 Forces:	US Short haul Airline Industry	Soft Drink Industry
Bargaining Power of Buyers		
Bargaining Power of Suppliers		
Competitive Rivalry		
Threat of New Entrants		
Threat of Substitutes		

# Porter's 5 Forces



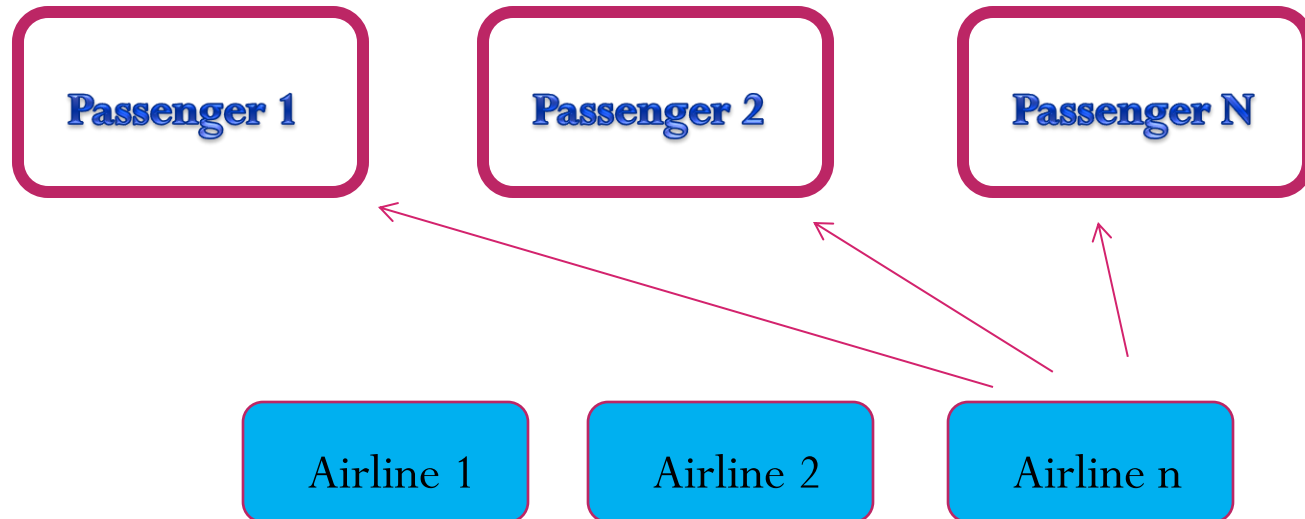
# Buyer Power

- Dairy Industry



# Buyer Power

- Airline Industry



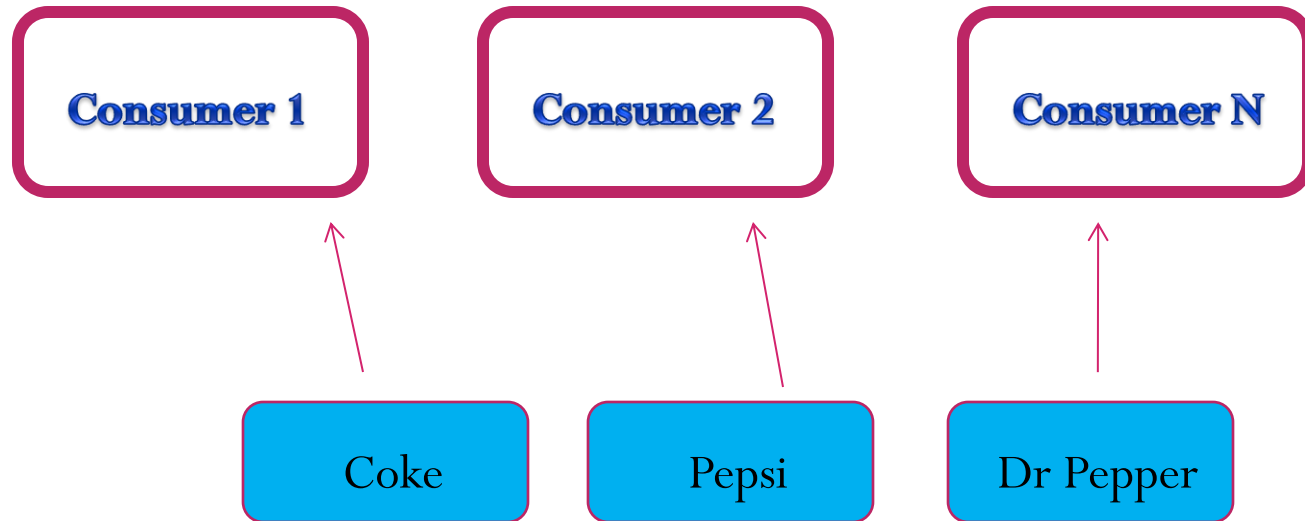


# Porter's 5 Forces

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Bargaining Power of Suppliers		
Competitive Rivalry		
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# Buyer Power

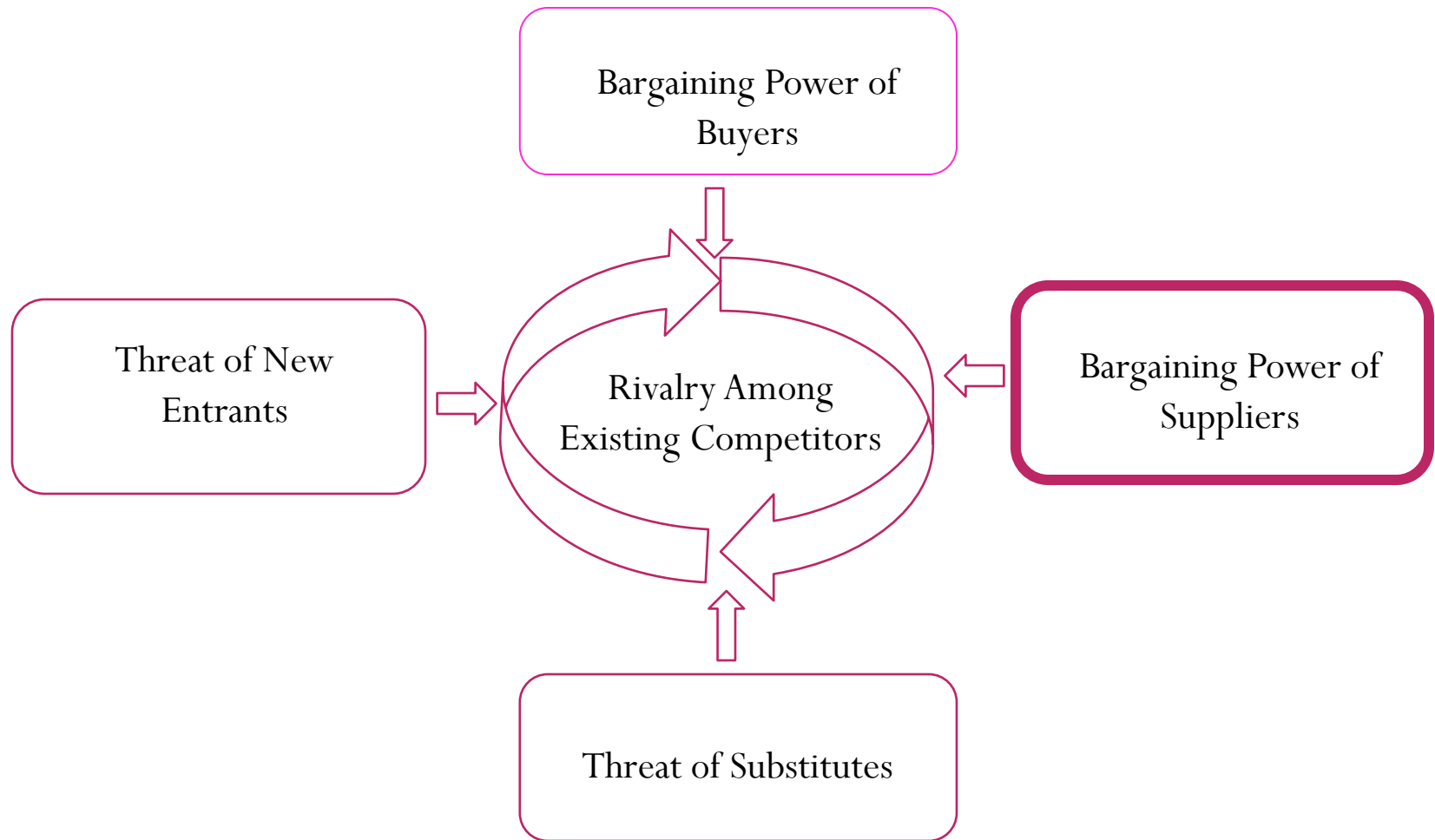
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# Porter's 5 Forces

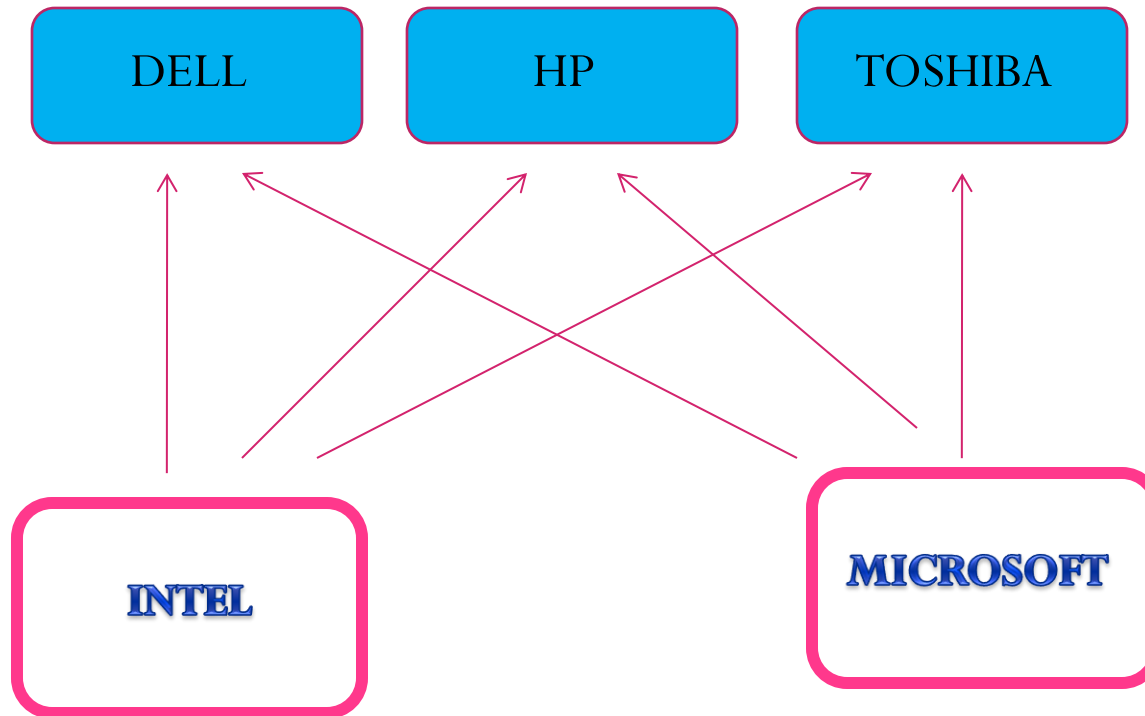
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Bargaining Power of Suppliers		
Competitive Rivalry		
Threat of New Entrants		
Threat of Substitutes		

# Porter's 5 Forces



# Supplier Power

- PC Manufacturing Industry



# Supplier Power

Bargaining Power of  
Suppliers



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graph TD; A[Supplier Power] --> B[Bargaining Power of Suppliers]; B --> C[Airlines have little choice  
(Aircraft providers, Fuel Providers)]; C --> D[Pilots and aircraft technicians are skilled labour];
```



Airlines have little choice  
(Aircraft providers, Fuel Providers)

Pilots and aircraft technicians are skilled labour

# Porter's 5 Forces

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Competitive Rivalry		
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# Supplier Power

Bargaining Power of  
Suppliers



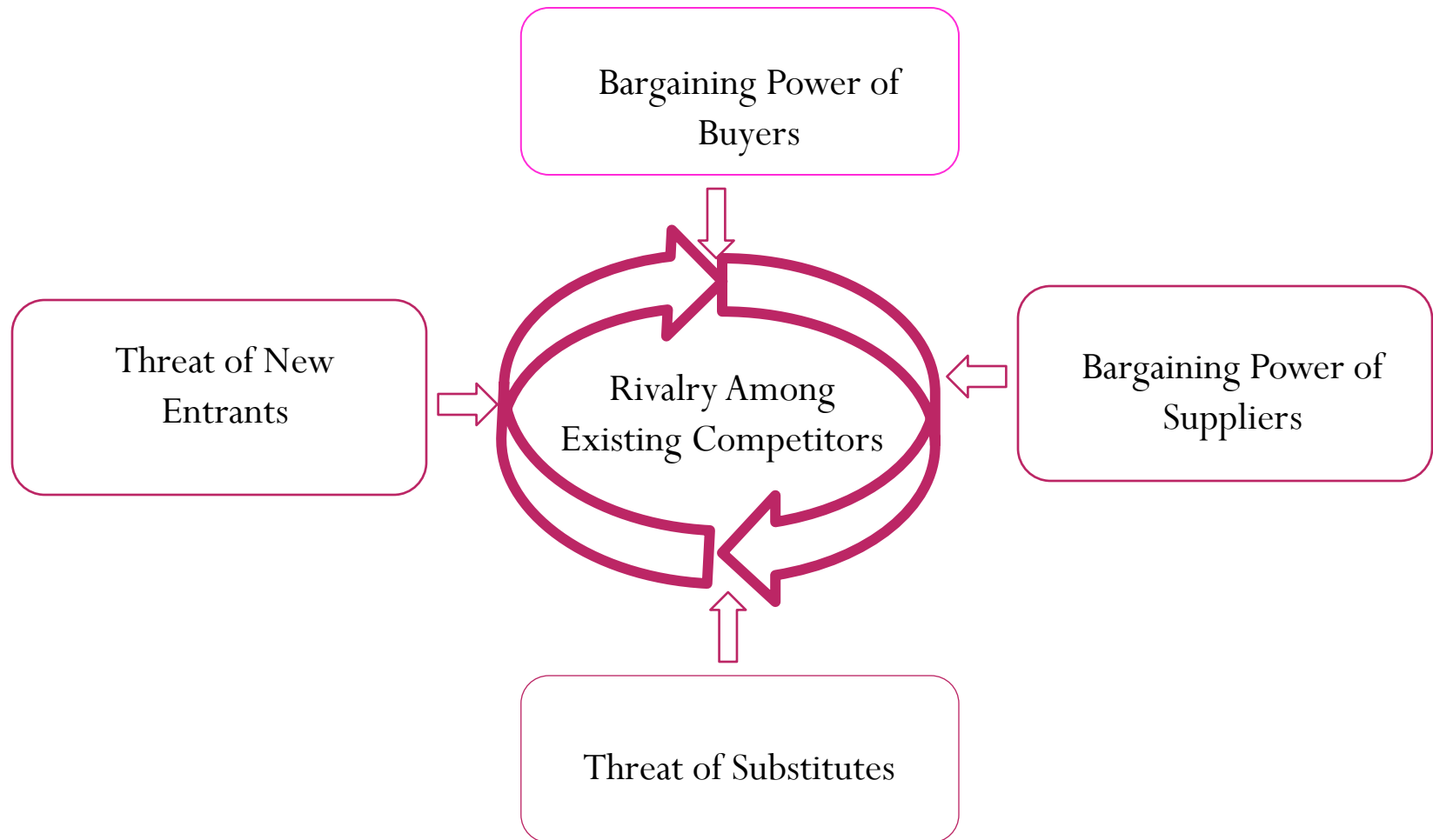
Soft drinks manufacturers rely on suppliers who have insufficient bargaining power to significantly erode profitability (generic ingredients such as water and sugar and unskilled employees)



# Porter's 5 Forces

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Competitive Rivalry		
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# Porter's 5 Forces



# Competitive Rivalry

Rivalry Among Existing  
Competitors



Competitors can fight on price

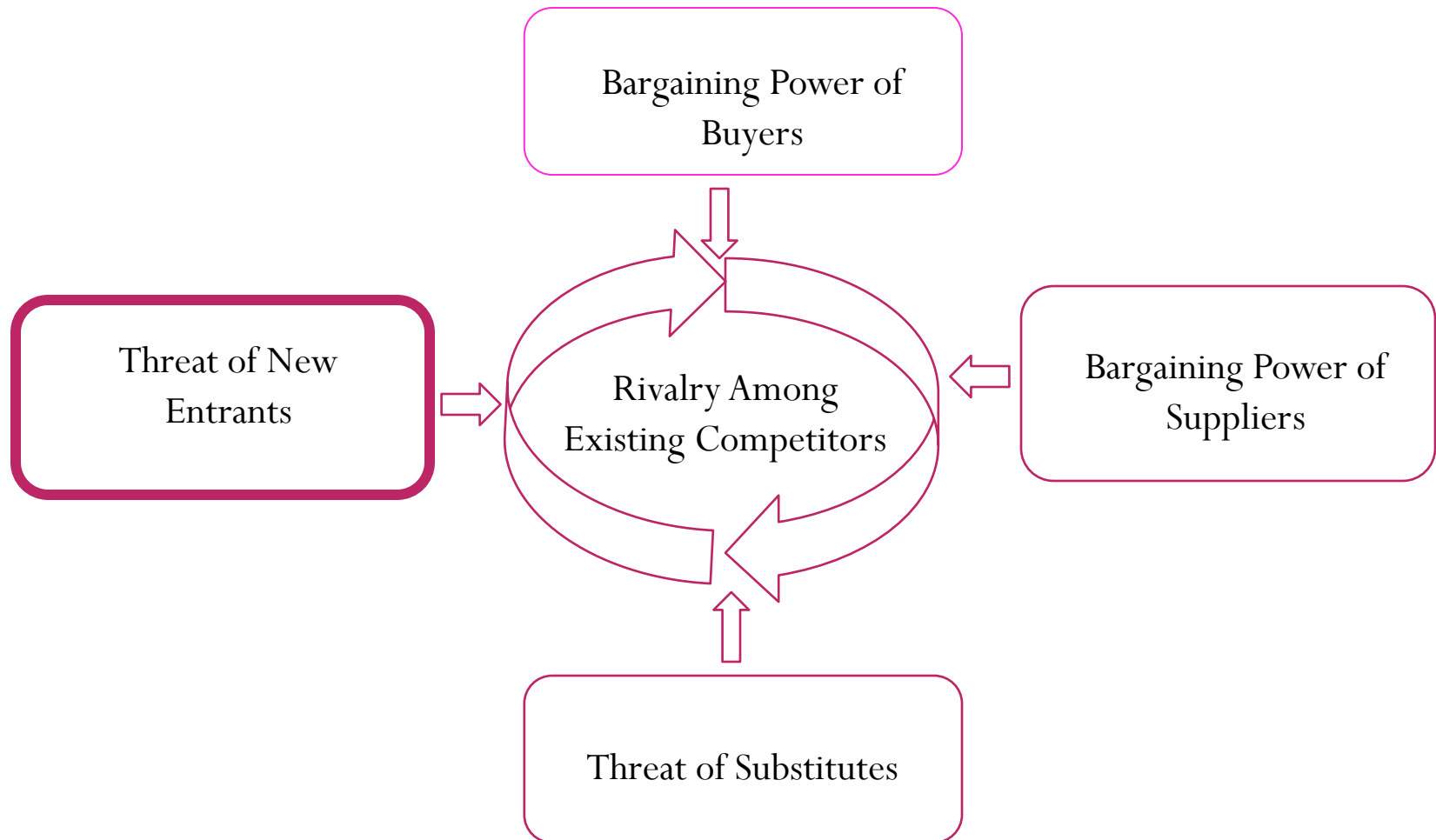
AND/OR

On advertising levels, investment in products and services, R&D  
levels...

# Porter's 5 Forces

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Threat of New Entrants		
Threat of Substitutes		

# Porter's 5 Forces



# Threat of Entry

Threat of New Entrants



Businesses in some industries are forced to keep prices low or raise product or service levels in order to put off potential new entrants

The coffee retailing industry suffers from low barriers to entry

Semi-conductor industry is very hard to enter

# Threat of Entry

Threat of New Entrants



High barriers to entry exist in industries where goods are mass produced – fixed costs can be spread over more units – supply side economies of scale

In order to compete on the same cost terms new entrants have to immediately start out as big as the incumbents.

# Porter's 5 Forces

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Threat of Substitutes		



# Threat of Entry

Threat of New Entrants

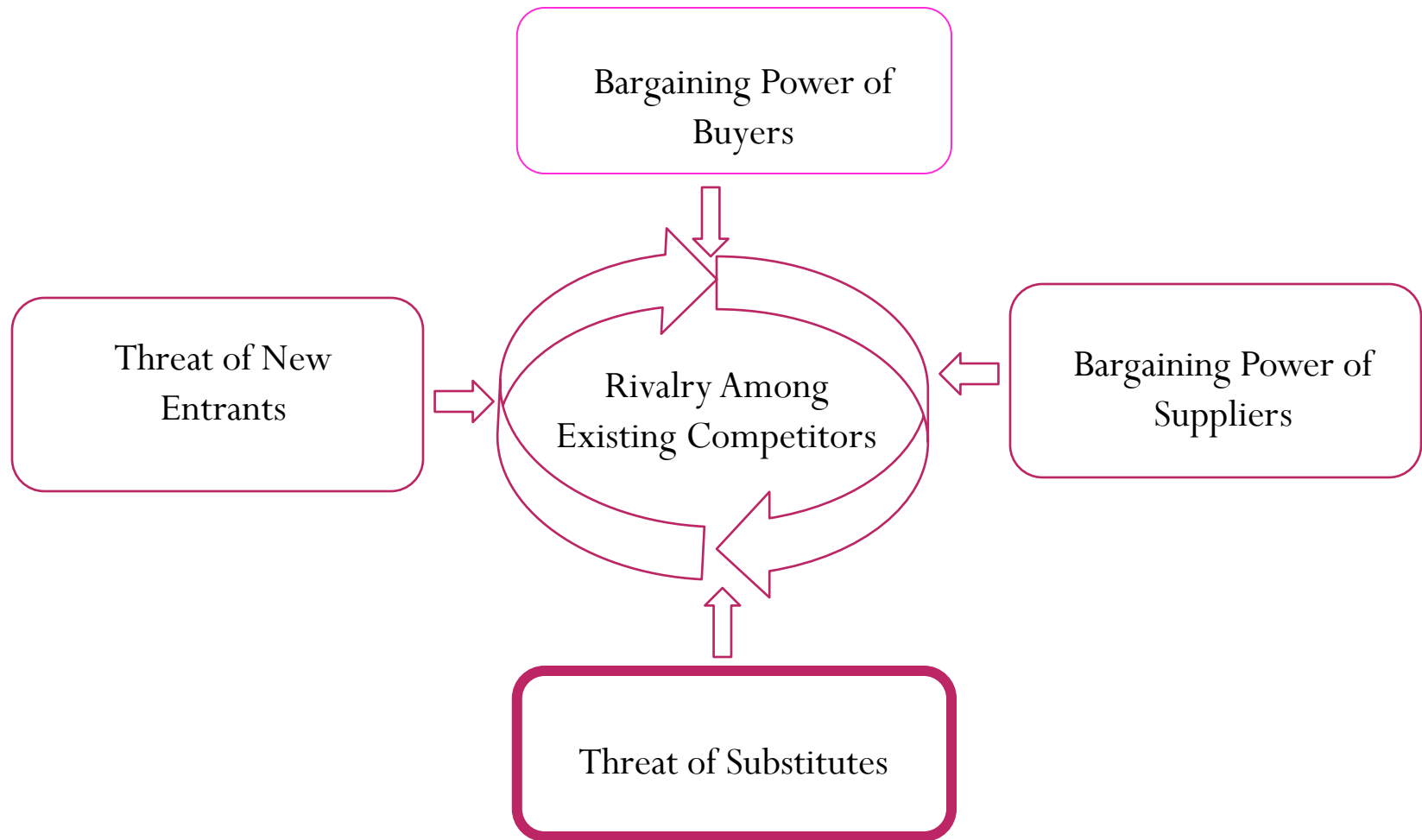


Perhaps surprisingly the airline industry is easy to enter (A new entrant can hire a plane and hire a gate. It only needs one flight between two destinations)

# Porter's 5 Forces

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Threat of Substitutes		

# Porter's 5 Forces



# Substitutes

Threat of Substitutes



Some businesses suffer from the fact that their products or services can be easily replaced by those of other industries

These substitute industries place a cap on the prices that a business can charge

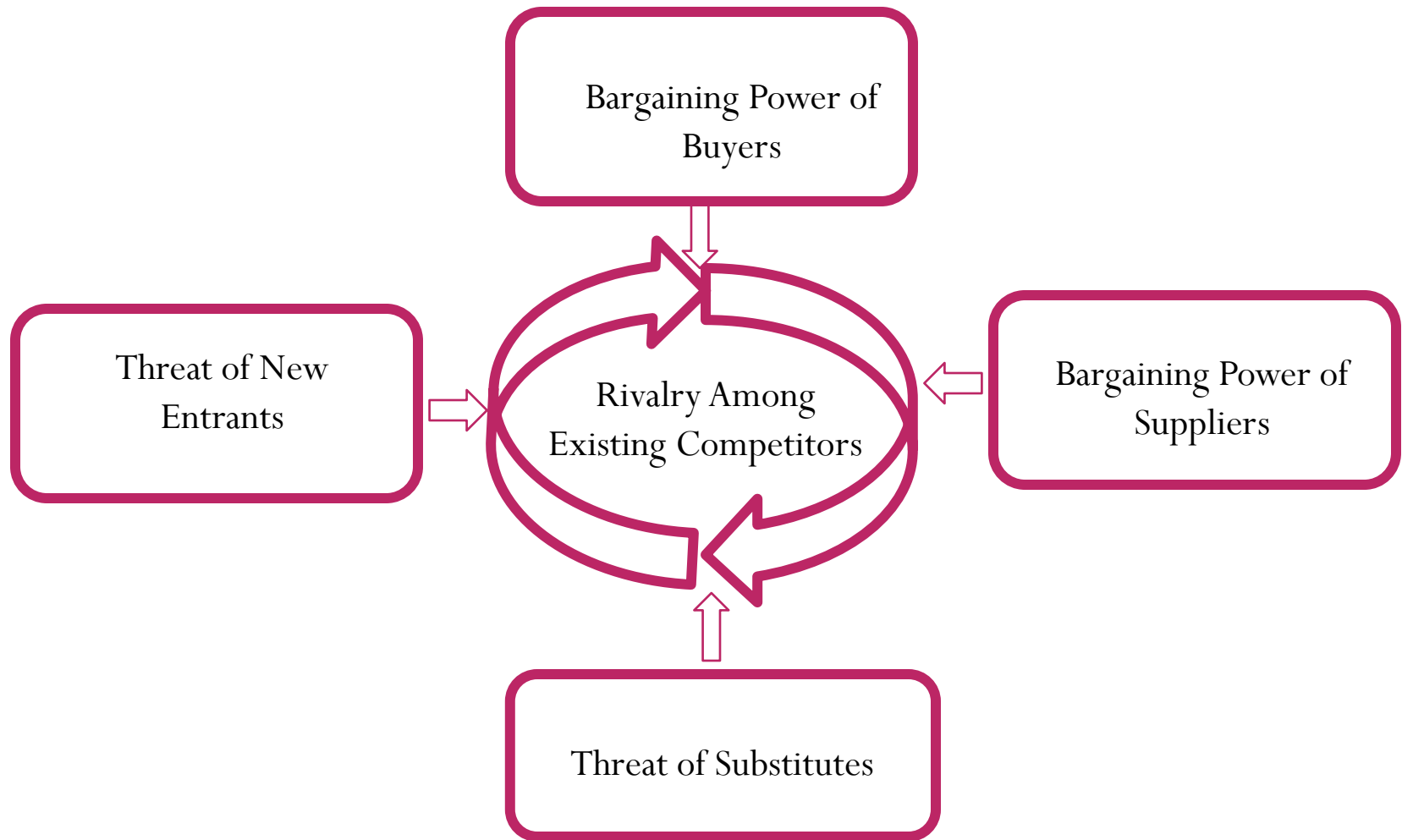
US Short Haul Airline Industry **Vs** Train, Car, Coach, Video Conferencing

Soft Drinks Industry **Vs** limited substitute industries

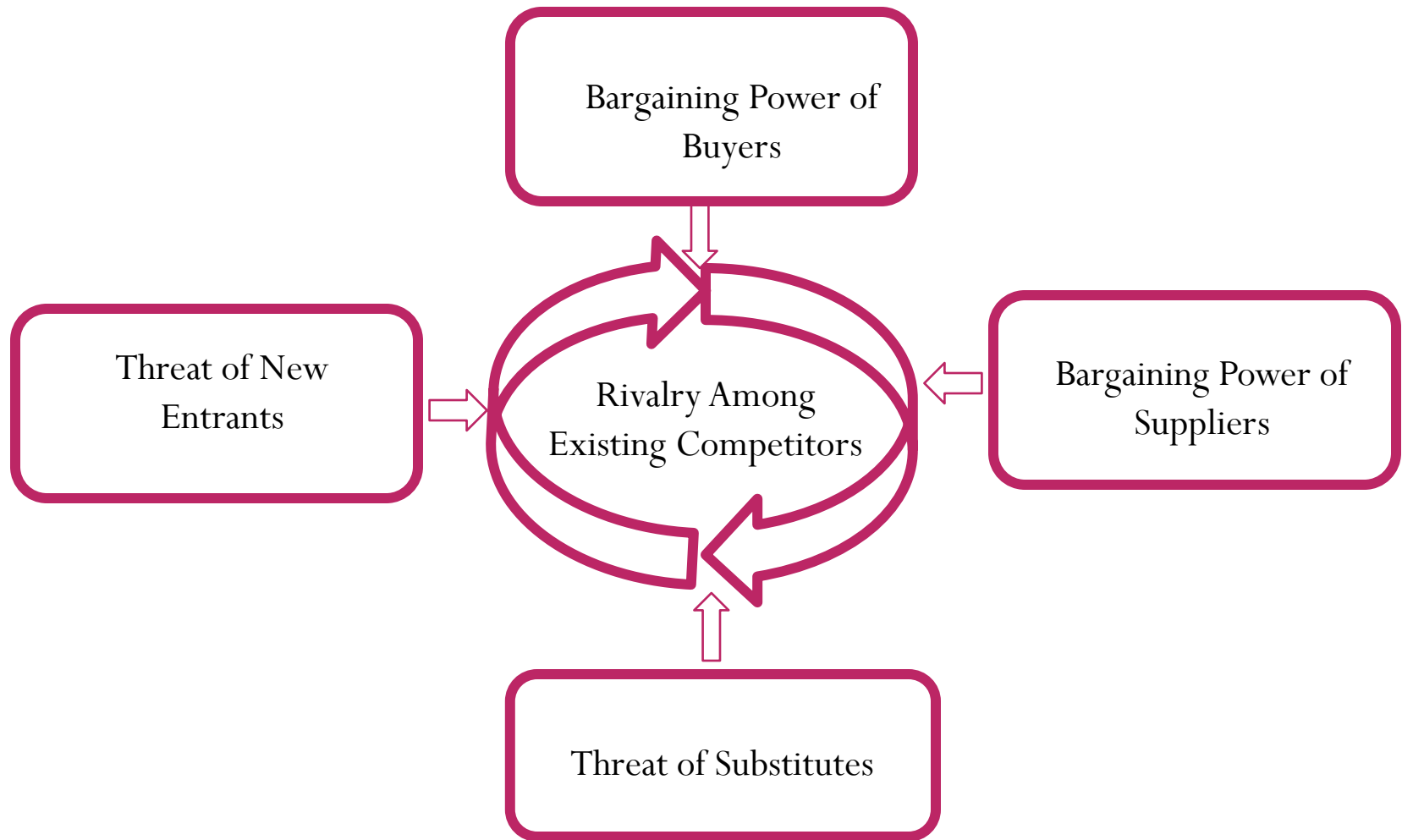
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Threat of Substitutes	<b>STRONG:</b> Car, Coach, Train, Video Conference...	<b>WEAK:</b> Limited substitutes to the soft drinks industry

# Airline Industry



# Soft Drinks Industry



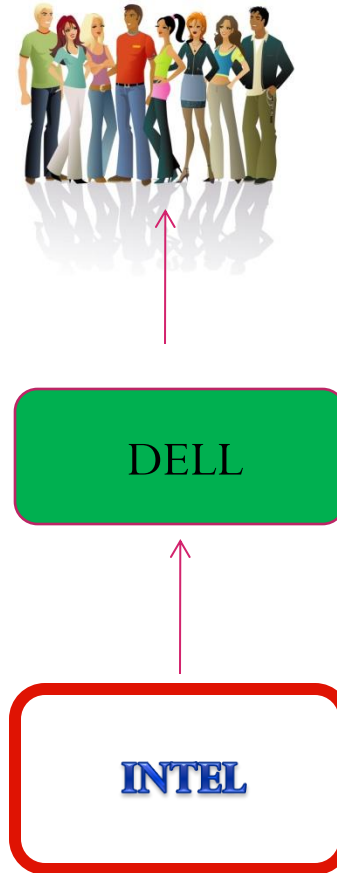
# Porter's 5 Forces

- Determining the key industry profit constraints is only the starting point...



# Intel Case Study

- Buyer Power

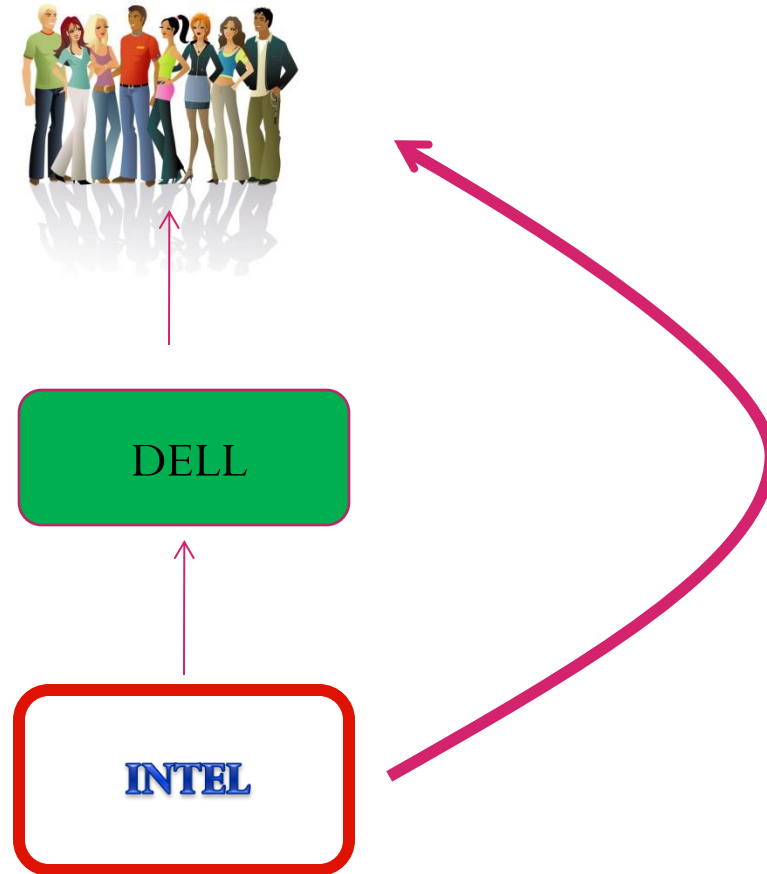


# Intel Case Study

“By 1988, our 386 processor had already been out on the market for 3 years, which is a really long time in this industry. The problem was that no one was buying it; everyone was still wedded to our 286 chip. The 386 was a much better product, but it had only been adopted in high-end products such as servers ... PC manufacturers weren't yet displacing the 286.”

# Intel Case Study

- Buyer Power



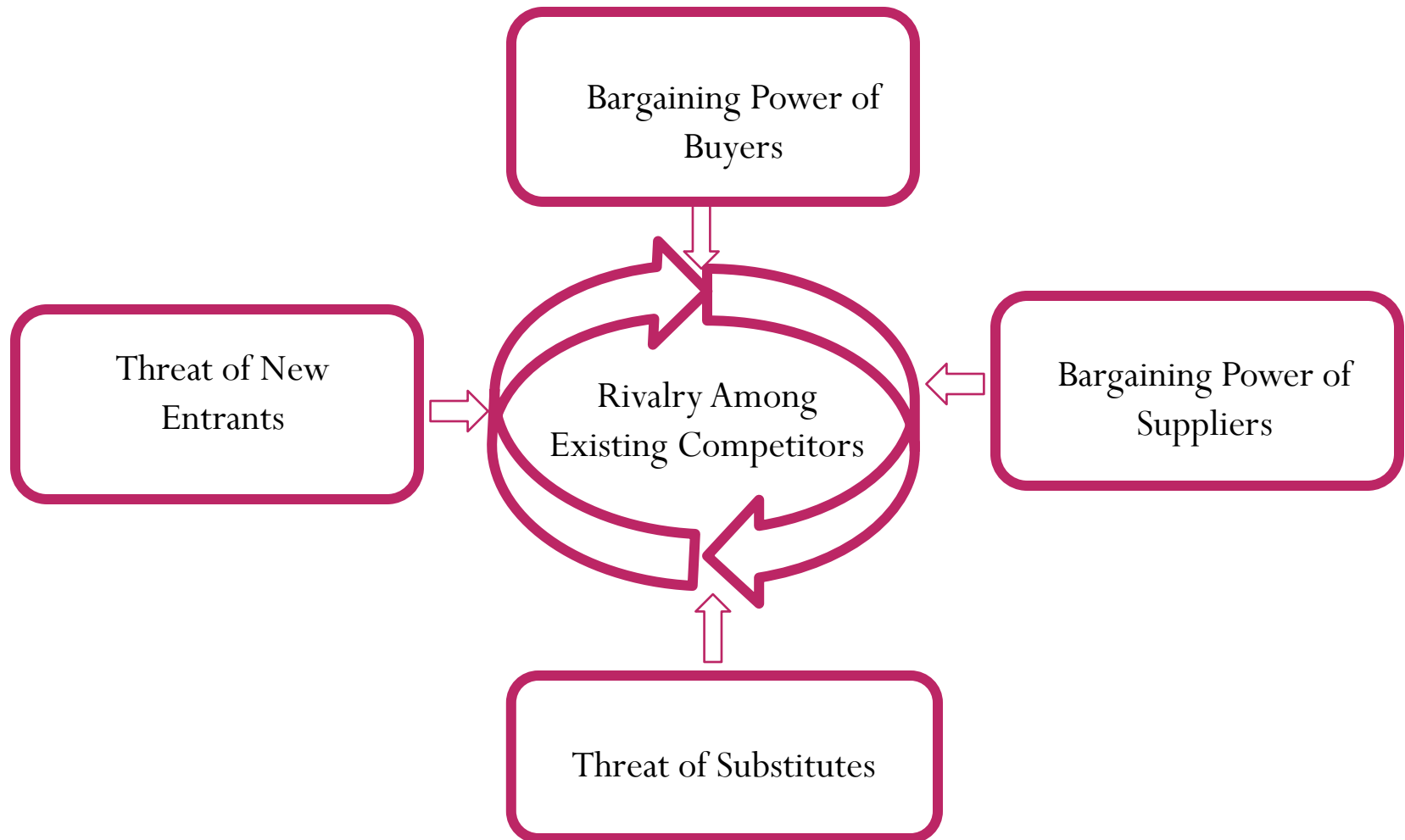
# Intel Case Study

“Because of the campaign, the microprocessor has come to be viewed as a very important component of the PC, which has probably kept us from getting squeezed on price and allowed us to spend more on R&D than we otherwise could have...”

# Intel Case Study

“Our market segment share is definitely higher as a result. Also, the PC market would not have grown as quickly without the emergence and growth of PC magazines, which were fuelled by Intel Inside advertising”

# Porter's 5 Forces



# Buyer Power

- Tie buyers in with long term agreements (e.g. Insurance, Mobile)
- Introduce buyer loyalty arrangements (e.g. Store Cards, Air Miles, Customer Reward Programmes)
- Advertise to the buyer's buyer (e.g. Intel)
- Form a consortium with other competitors (e.g. Dairy)

# Supplier Power

- Outsource manufacturing to where it is cheaper
- Get the customers to do some of the work
- Efficient use of resources through processes management
- Standardise specifications for parts to make supplier switching easier
- Search for lowest cost suppliers



# Competitive Rivalry

- Avoid a price war by making it difficult for customers to compare prices
- Differentiate product / service
- Buy out competition
- Focus on a more niche customer segment
- Enter into a price war (if the business knows it can win and price its competitors out of the market)

# Threat of New Entrants

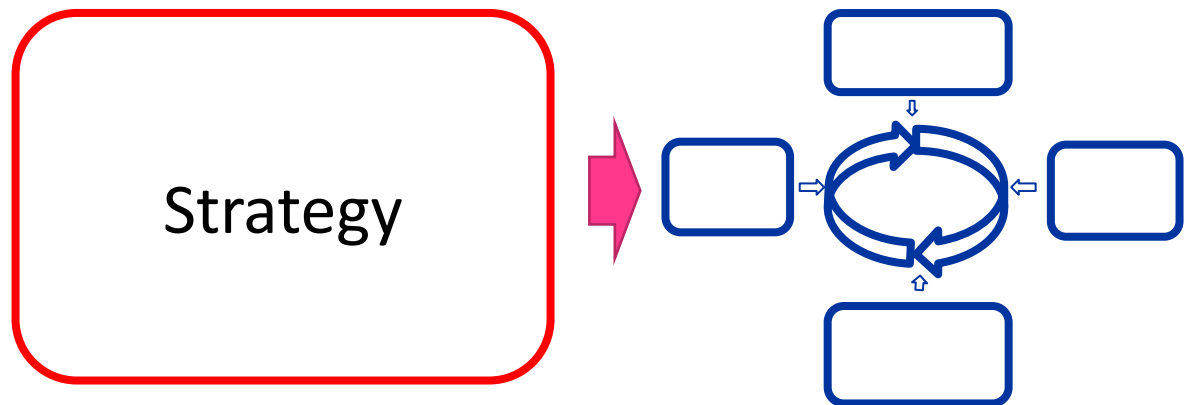
- Protect IP
- Tie up distribution channels with exclusivity agreements
- Develop a widely adopted industry standard
- Form alliances with linked / complimentary products
- Exploit Demand Side / Supply Side Economies of Scale
- Retaliation Tactics
- Create buyer loyalty

# Threat of Substitutes

- Introduce a new product / service feature to ensure substitute is not determined to be a valid replacement
- Create customer loyalty
- Accentuate differences through advertising and branding
- Adopt attributes provided by substitutes

# Porter's 5 Forces

- The 5 Forces guide managers towards the most fruitful possibilities for strategic action



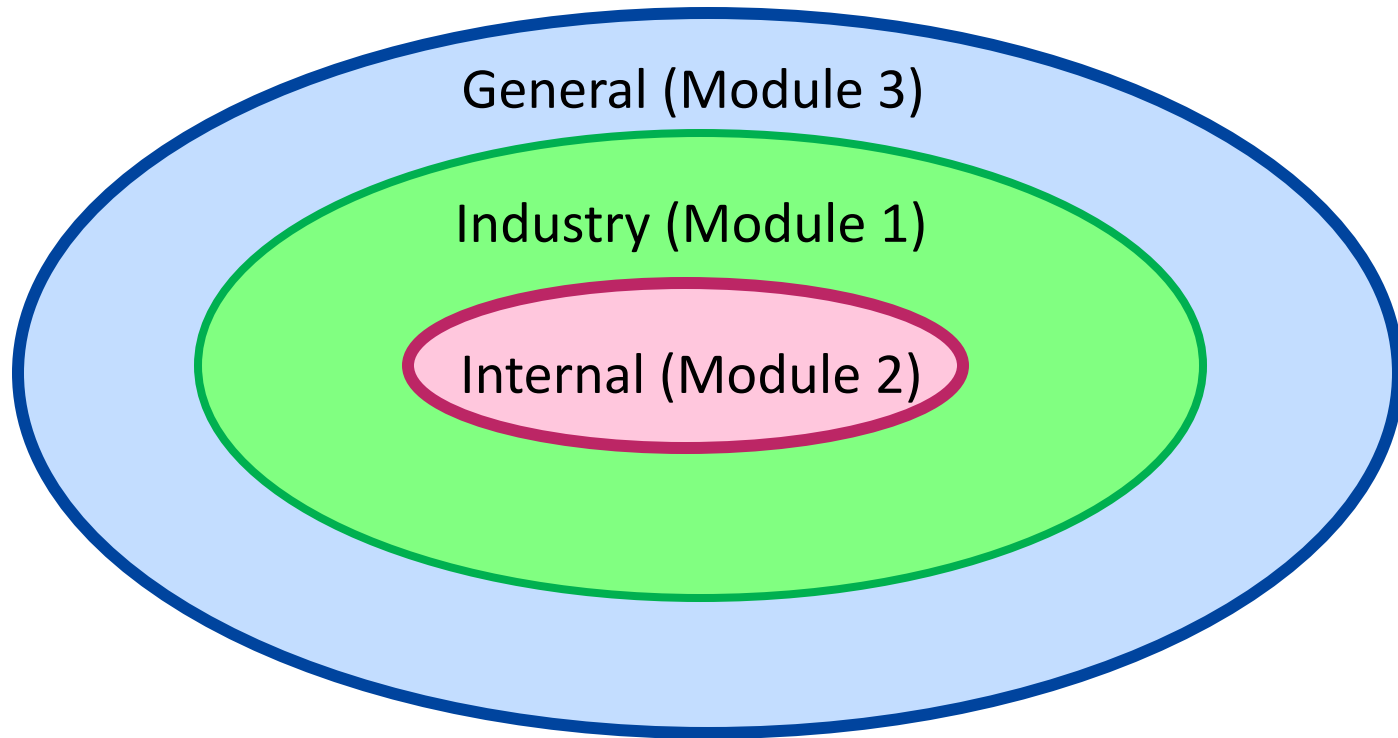
# Why?

- Raising Finance
- Licensing IP
- Litigation
- Real Estate
- Negotiating deals
- Employment
- Regulatory Advice
- M&A
- Corporate Strategy

# Summary

- Module 1 objectives:
  - Modern Theory of Business Strategy
  - The three layers of strategic analysis
  - How to carry out an industry analysis
  - How to define strategy based on an industry analysis

# Means of Analysis



# Contact

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Online resources: [www.BuildYourOwnMBA.com](http://www.BuildYourOwnMBA.com)