2.0 LITERATURE REVIEW

Competitive analysis is a process used in the formulating of strategic plans in most organisation. Very often, it is adopted due to its rational process of making long-term strategies. According to Stacey (1996), the rational prescriptions of making strategies are concerned first of all with formulating and selecting strategic plans according to given rational criteria. This is a procedure for identifying a specific accepatable strategy for each individual organisation, determined by its own particular circumstances.

In any competitive analysis, industry structure analysis is unavoidable. The first step in analysing industry structure is to define the market (or industry). A market as pointed out by Stacey, is an interaction between a grouping of customers who have similar requirements of a particular good or services on the one hand, and a strategic group of competitors competing to meet those requirements on the other hand. The boundary around a market is defined in terms of similarities in what is demanded and in terms of the closeness of the competition. Sometimes, it might be necessary to break this market down further to enable a more detail analysis.

Having defined the market, the next step in the analysis is to identify the structure of that market. It is very common to achieve this by analysing the external factors which may affect the market. We can do this by analysing the "Five Competitive Market Forces", as termed by Porter (1980). These competitive forces comprise of *Threat of new entrants, Degree of rivalry between firms, Threat of substitutes, Bargaining power of suppliers and Bargaining power of buyers.* Porter's work built on the structure, conduct and performance paradigm of industrial organisation economics. The essence of the model is that the structure of a market determines the state of competition within the market and sets the context for companies conduct that is their strategy. Most important structural forces (the five forces), determine the average profitability of the market and have a correspondingly strong impact on the profitability of individual corporate strategies.

In short, the competitive forces determine the relative market power of competitors, the kind of competition they engage in, the factors that give some of them a competitive advantage and the relative attractiveness of that market compared to others.

Analysing the forces and making judgements on their relative importance should lead managers to see how they can deal with and influences the forces, thus identifying the competitive advantage. When we analyse the structure of a market, we are identifying the position a firm should occupy and the posture it should adopt to generate acceptable performance. The purpose of identifying a market's structure, and the sources of competitive advantage it causes, is to draw conclusions about strategies that will match or fit the environment (Courtney, Kirkland and Viguerie, 1997). Strategy itself, has largely been shaped around the framework first conceived by Andrews (1971). Andrew defined strategy as the match between what a company *can do* (organisational strength and weaknesses) within the universe of what it *might do* (environment opportunities and threats).

Based on such framework, the managers need to demonstrate that strategies recommended fulfil a strategic logic. Strategic logic means that a proposed sequence of actions is consistently related to the objectives of the organisation and yet matches the organisation's capability to its environment. Therefore, in order to achieve this, various analytical techniques to determine the strategic logic of a sequence of actions have been prescribed. They include SWOT Analysis, Life Cycle Analysis, Portfolio Analysis, Industry Structure and Value Chain Analysis and more recently the HAX Methodology.