

Starting New Ventures

64-361.202

Chap 5 Industry and Competitor Analysis.

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Element Bars _opening Profile

- Energy Bars that can be “customized”
- Jonathon Miller, MBA Northwestern
- Maria Sutanto, PhD Nutrition Univ. Chicago



Key Analytics

- Industry Analysis
 - How good is this industry for your idea?
- Competitor Analysis
 - What does the prospective competition look like?



Industry Analysis

- Industry Analysis

- Position

- Sun Tsu –the Art of War

- We are not fit to lead an army on the march unless we are familiar with the face of the country –its pitfalls and precipices, its marshes and swamps.

- 8-30% of success is due to industry

- IT 4yr survival rate: 38%

- Education or Health Care: 55%

- Industry Trends

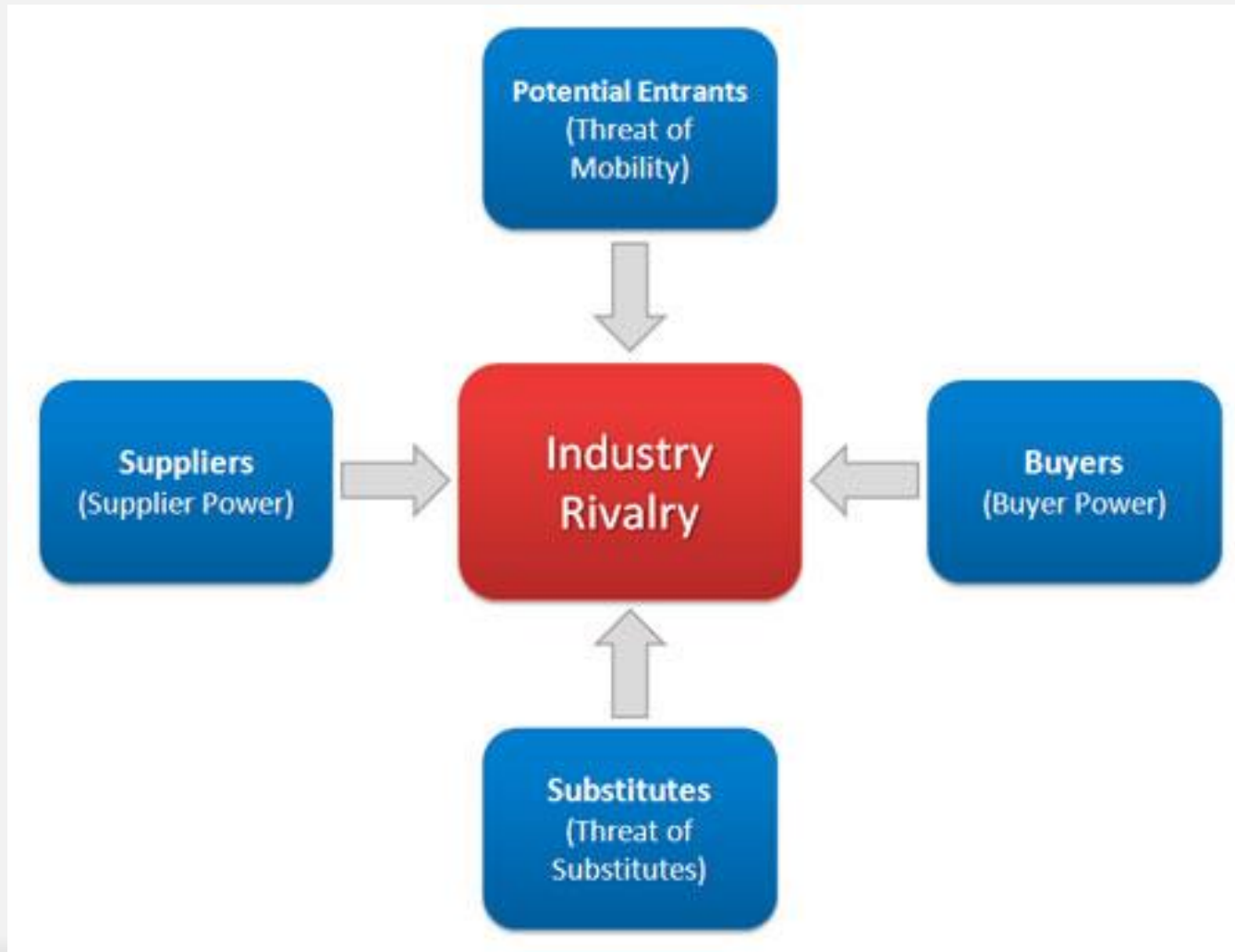
- Environmental

- Economic, Social, Technological, Political, Regulatory

- Business (3 T's: Trade Associations, Trade Shows, Trade journals)



The Porter 5 Forces Model -predicts profitability



Substitutes

- Are there substitutes for the product that you are selling?
- Business Travel -> Videoconferencing
- Federal Express -> email attachments
- Polaroid Instant Photos -> digital photography
- Oil heat -> natural gas
- US Air Shuttle ->Amtrak
- Brand Pharmaceuticals -> generics
- Danger when:
 - Switching costs are low
 - Substitutes are affordable
 - Substitute quality or performance is better

New Entrants

- Barriers to entry-
 - Economy of Scale –hard to compete with the big guys
 - Intel
 - Product differentiation-
 - brand names Coke, Apple,
 - Capital requirements
 - Car industry, steel mills before minimills!
 - Cost advantages other than size
 - Access to distribution channels –shelf space
 - Government and legal barriers
 - (IP, patents, trademarks, copyright, or licenses)

Rivalry Among Existing Firms

- Number and Balance Among Competitors
 - Less is more –usually
 - Fierce competition drives down prices and margins
- Degree of Difference Among Products
 - Less is a commodity, more is a specialty
- Growth Rate of an Industry
 - More is more
- Level of fixed costs
 - Less is more for the entrant



Bargaining Power of the Suppliers

- Less is better for the new entrant!
 - Intel supplies chips to PC makers –high bargaining power
- Supplier concentration
 - More suppliers mean less bargaining power for supplier
- Switching costs
 - Intel, Microsoft, costly to switch suppliers!
- Attractiveness of Substitutes
 - supplier power enhanced if no attractive substitutes
 - Microsoft vs Sun vs Google etc
- Threat of Forward integration
 - Can a supplier enter your industry?
 - Microsoft entering the tablet industry!
 - Past: The Browser wars

Bargaining Power of Buyers

- Less is better for the new entrant
- Buyer Group Concentration
 - Pressure sellers to reduce costs (auto industry for example)
- Buyers costs
 - If your product is a big part of their final cost –expect pressure
- Degree of Standardization of Suppliers Products
 - Buyer has more power when suppliers offer many choices for same stuff
- Threat of backward integration
 - Can buyer threaten to enter the industry?
 - Could PC companies threaten to build monitors?



5 Forces Table

Competitive Force	Low	Medium	High
Threat: Substitutes			
Threat: New Entrants			
Rivalry among Existing Firms			
Bargaining Power of Suppliers			
Bargaining Power of Buyers			

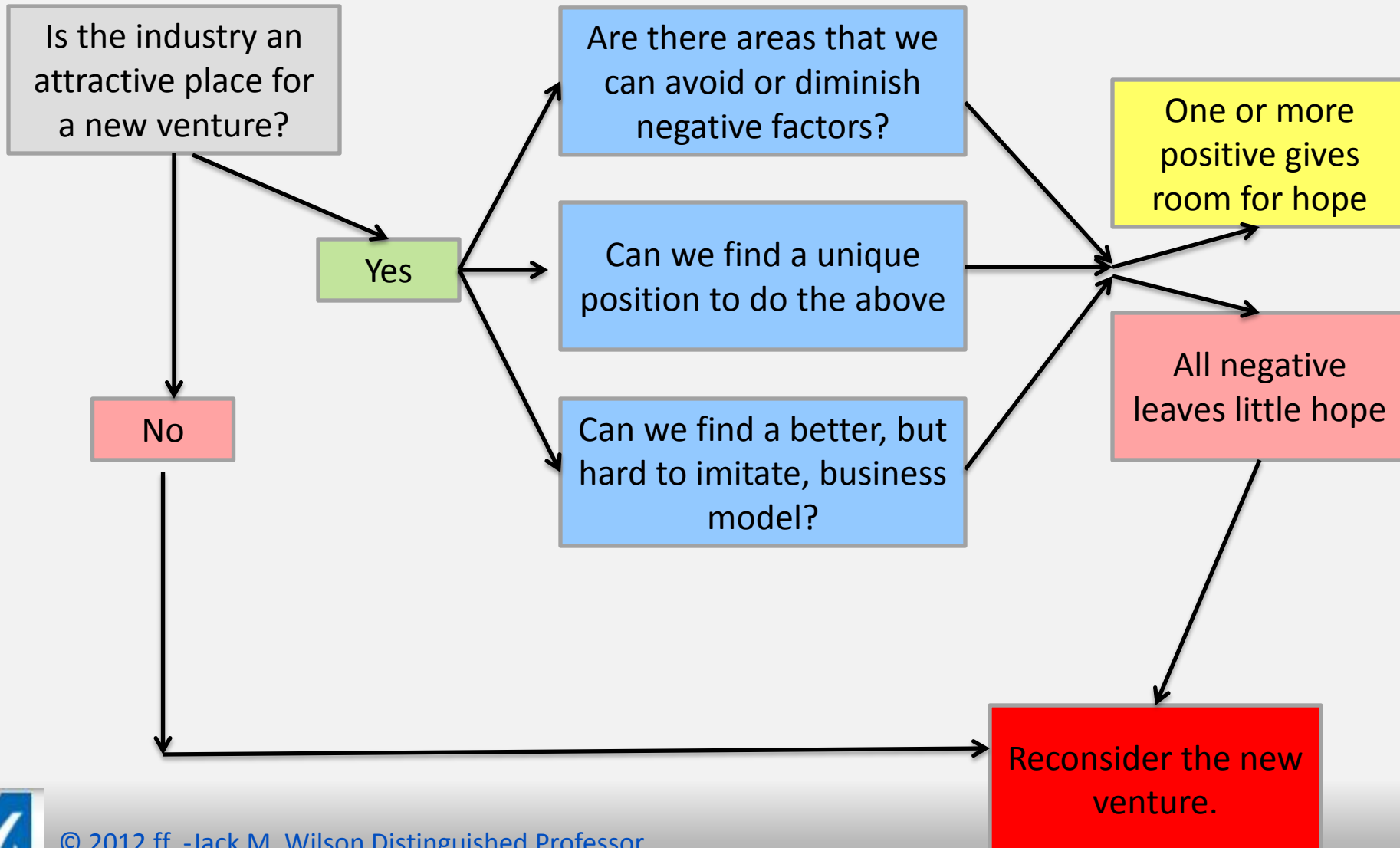
Step 1: Select an industry

Step 2: Fill in the table with the level of threat

Step 3: Use the table to get an overall feel for the attractiveness of the industry

Step 4: Use the table to identify the threats that are most relevant to the industry's profitability

Flow chart for the 5 Forces Analysis



Industry Structures

- Emerging
 - First mover advantage, but remember the leaders get hit first
 - Fast follower can imitate and avoid mistakes of the leader.
- Fragmented
 - Classic roll up strategies here
- Mature –some succeed –Silk soymilk
- Declining
 - Circuses, but cirque du Soleil found its niche.
 - Smoking the discarded cigar butts.
 - Strategies: leadership, cost reduction, niche
- Global
 - Multi-domestic strategy – localized products/services
 - Global strategy –executed the same world wide.



Emerging Industries

- New demands or technologies
- Potential First-Mover advantage
- Examples of Entrepreneurial Firms
 - Apple iTunes
 - Windspire-small wind generators
 - PharmaSecure –detect counterfeit pharmaceuticals
 - Google, Yahoo, Altavista, Bing, etc
 - Facebook, MySpace, LinkedIn, Twitter
- Can you name some other industries that are emerging?
- Can you name some other entrepreneurial ventures?



Fragmented Industries

- Large number of similar firms
- Opportunity: Consolidation
- Examples of Entrepreneurial Firms
 - Starbucks
 - 1-800 GotJunk
 - GeeksOnCall
 - Better Example: Seagate Acquired Maxtor
 - Better Example: Blackboard acquires, Prometheus, WebCT, Wimba, etc
- Can you name some other industries that are fragmented?
- Can you name some other entrepreneurial ventures?



Mature Industries

- Well established, slow growth, repeat customers, limited product innovation
- Innovation in Process and Services
- Examples of Entrepreneurial Firms
 - Instymeds- prescription drug sales
 - Fresh health Vending in food vending
 - Daisy rock Guitars in guitars
 - Better: Amazon in book sales
 - Better: Huffington Post in “newspapers”
- Can you name some other industries that are mature?
- Can you name some other entrepreneurial ventures?



Declining Industries

- Warren Buffet: “Cigar-Butt” style investing. Pick up discarded cigar butts and try to take a few last puffs!
- Consistently decreasing industry demand
- Opportunity: leaders, niche, cost reduction strategy, harvest, and divest
- Examples of Entrepreneurial Firms
 - Nucor in steel
 - JetBlue in Airlines
 - Cirque du Soliel in circuses
- Can you name some other industries that are declining?
- Can you name some other entrepreneurial ventures?



Global Industries

- Obviously a significant global presence and sales
- Require a multinational or global approach
- Examples of Entrepreneurial Firms
 - **PharmaJet** in needle-less injection systems
 - Note crazy typo in text: “needless”
 - **D.light** in solar powered lanterns
 - **UMass Medical** in Rabies monoclonal antibody
- Multidomestic strategy – food, cars –specific products for specific markets
- Global Strategy – shoes-watches- jewelry –same products in all markets
 - This is preferable but not always feasible.



Competitor Analysis

- Direct Competitors- identical products or services
- Indirect competitors- potential substitutes
 - Pepsi viewed fluids other than coke as indirect competitors.
- Future competitors
 - Borders and Barnes & Noble met Amazon

- Competitive Intelligence
 - Sources
 - Grid –see next page

Competitive Analysis Grid

Name	Element	Power Bar	Clif Bar	Balance Bar	Larabar
Nutrition	Advantage	Neutral	Neutral	Neutral	Neutral
Taste	Neutral	Dis-advantage	Neutral	Neutral	Dis-advantage
Freshness	Advantage	Dis-advantage	Dis-advantage	Dis-advantage	Dis-advantage
Price	Dis-advantage	Advantage	Advantage	Advantage	Advantage
Packaging	Advantage	Neutral	Neutral	Neutral	Neutral
Branding	Dis-advantage	Advantage	Advantage	Neutral	Neutral
Customizable	Advantage	Dis-advantage	Dis-advantage	Dis-advantage	Dis-advantage
Social	Dis-advantage	Dis-advantage	Advantage	Dis-advantage	Neutral

Advantage

Neutral

Dis-advantage



Cases:

- Thriving in a crowded industry by creating meaningful value and differentiation.
 - Home Made Pizza Company-delivered pizzas, but cooked at home
 - Hot Mama –Women’s Clothing-for mothers shopping with children
 - J Hilburn-Men’s Shirts-direct sales of custom made shirts from China
- Questions
- 1. What are the common attributes across the three? How does this help them thrive.
- 2. How does the company redefine the customer experience
- 3. Which has more promise to stay competitive? Most vulnerable?
- 4. What is another example of a company that is thriving in a crowded field.

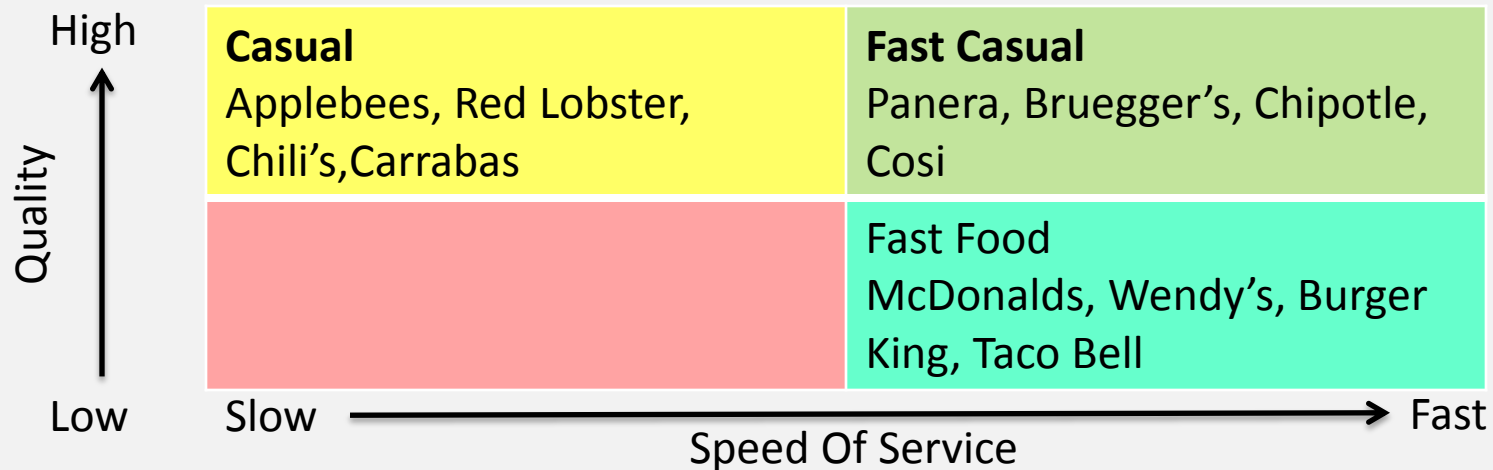
Cases

- You be the VC:
 - Xeros –Virtually waterless laundry –nylon polymer beads
 - Mission Motors-Electric motorcycle



Panera Bread Team 2

- Positioning and Execution
- Fast-Casual and good food



Local Dirt

- Locavore
- Broker Between local farmers and chains
- No fees. Membership dues only

