
Chap 10 Industry and Competitor Analysis.

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Key Analytics

Any good business planning project has to start with some analysis of the industry in which the venture will operate and the competitors who already operate in that industry.

These two aspects will define the operating environment for the venture. One might say that these create a description of the playing field for the competitive battle.

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

Industry Analysis

The industry in which the venture operates is one of the largest factors in the statistical success or failure of new ventures. Research tends to show that 8-30% of success is due to the industry.

For example: new ventures in the Information Technology industry have a 4 year survival rate of 38%, while new ventures in education or health care have a 55% survival rate.

As the famous Chinese military and political tactician, Sun Tsu, wrote in 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.

We will consider two aspect of the industry analysis. The first is the type of industry and the postion the new venture will fill in the industry.

The second is aspect deals with the Industry Trends and the Environmental, Economic, Social, Technological, Political, Regulatory forces and trends.

One can learn much about each of these through the various industry trade groups: Trade Associations, Trade Shows, and Trade journals

Industry Structures

We should begin by considering the types of industries. The following categories are used to classify groups of industries that seem to be alike:

- **Emerging Industries**
 - Industries that are reasonably new. These are often due to advances in technologies.
 - Example: Social media, eCommerce, On demand video,
- **Fragmented Industries**
 - Industries that have no dominant competitors that have significant market share
There are many companies sharing a fragmented market.
 - Example: Fast food, Fast casual food, Groceries,
- **Mature**
 - Industries that have been around for along time and in which consolidation has led to only a few firms with significant market share.
 - Examples: Automotive, Airlines, Computer manufacturing, Office productivity software.
- **Declining**
 - Declining industries are mature industries that have passed their peak and are seeing regular declines in revenues that have been going on for a long time and which do not appear reversible.
 - Examples: Newspapers, Tobacco products, Circuses, phographic film,
- **Global**
 - Industries that have a global presence and must execute a global strategy.
 - Examples: Automotive, McDonalds, Steel,

Emerging Industries

- New demands or technologies can create new industries
 - Since there may not have been time for industry leaders to establish themselves, it can be easier to enter these industries –especially if the entering firm has an advantage in their business model or their technology.
- There can be a potential **First-Mover advantage**
 - In this case there can be some advantage (*First mover advantage*) to being the earliest entrant, but remember the leaders get hit first. Often it is the fast followers who do better. Alta Vista was the first internet search engine, Yahoo quickly followed Alta Vista and became the largest standard, and now Google dominates the industry.
 - The first spreadsheet was Visicalc –invented just down the road from Lowell. But then Lotus 123, invented in Cambridge came to dominate the market. Now Excel has the lion's share (over 90%) of the spreadsheet market.
 - A fast follower can imitate and avoid mistakes of the leader.
- Examples of Entrepreneurial Firms in emerging industries
 - Apple iTunes
 - Altaeros in wind energy generation.
 - PharmaSecure –detect counterfeit pharmaceuticals
 - Google, Yahoo, Altavista, Bing, and others were entrants in an emerging industry in search engines over a decade ago. Now that industry is becoming more mature with a few dominant players.
 - Facebook, MySpace, LinkedIn, Twitter, Snapchat, Instagram are all competitors in the social media space that is still an emerging industry –even as we see signs of consolidation beginning.
- Can you name some other industries that are emerging?
- Can you name some other entrepreneurial ventures?

Fragmented Industries

A fragmented industry has a large number of firms that each only have a small share of the market. There is no dominant player. In many cases there are a large number of similar firms.

The opportunity in a fragmented industry is through consolidation. A **“roll up strategy”** is one in which a firm acquires a number of competitors to either add their products to their product line or simply take them out of the market.

- Examples of Entrepreneurial Firms in fragmented industries include:
 - Starbucks and Dunkin Donuts in coffee shops
 - Panera and Chipotle in fast casual food
 - The digital course management system industry has been fragmented since it began in the 1990’s, but Blackboard has emerged as a dominant player by acquiring, Prometheus, WebCT, Wimba, and others in a classic “roll up” strategy.
 - Disk drives for personal computers were once made by many different companies: Seagate Acquired Maxtor and incorporated a little of their brand and some of their products and took them out of the market as a competitor.
- Can you name some other industries that are fragmented?
- Can you name some other entrepreneurial ventures?

Mature Industries

- Mature industries are full of a few well established firms. There is generally slow growth. They serve many repeat customers, and there is limited product innovation.
- The automotive industry is a mature industry.
- Innovation in process and services provides one entry into the market, but it can be very difficult. The entry of several electric and hybrid car companies like Tesla and Fisker provide an example of an innovative approach. The jury remains out as to whether they will eventually be successful.
- Silk soymilk succeeded in entering a mature dairy industry, but it is difficult to enter and succeed in a mature industry.
- Southwest Airlines and Jet Blue both managed to enter the mature airline market, four decades ago and two decades ago respectively, by offering lower costs and improved customer experience.
- Examples of Entrepreneurial Firms
 - Tesla in Automobile Sales
 - Fisker, a plug in hybrid, tried to make a go of it, but went bankrupt and was sold at auction to a Chinese manufacturer –who has suggested plans to revive the brand.
 - Amazon in book sales not only successfully entered a mature market, but it knocked many of the traditionally dominant players right out of the industry. They did this with an innovative business model (**Business Model Innovation**) that replaced the traditional middlemen of local bookstores or national chains of local bookstores with a more direct connection between publisher and reader. Now they are working directly with authors and the major publishing companies fear that they too may be “**disintermediated**” by a new model
 - Huffington Post in “newspapers” (although newspapers may be better classed as a declining industry!)
 - Instymeds- prescription drug sales
 - Fresh Health Vending in food vending
 - Daisy Rock Guitars in guitars
- Can you name some other industries that are mature?
- Can you name some other entrepreneurial ventures?

Declining Industries

- In a declining industry there is consistently decreasing industry demand.
- Warren Buffet described “Cigar-Butt” style investing as picking up discarded cigar butts and trying to take a few last puffs! In declining industries, some buy out of favor companies at very low cost and then milk the last value out of the company before closing or selling them again. Buffet learned that style of investing from his mentor, Benjamin Graham, but eventually rejected it as a viable strategy. He opted to look for higher quality opportunities.
- Opportunity: leaders, niche, cost reduction strategy, harvest, and divest.
- Examples of Entrepreneurial Firms in declining industries.
 - Nucor in steel –disruptive innovation through a cost reduction strategy.
 - JetBlue in Airlines – finding a geographic niche and cost reduction
 - Cirque du Soleil in circuses – creating a new niche which was a combination of circus, theater, music and dance.
- Can you name some other industries that are declining?
- Can you name some other entrepreneurial ventures?

Global Industries

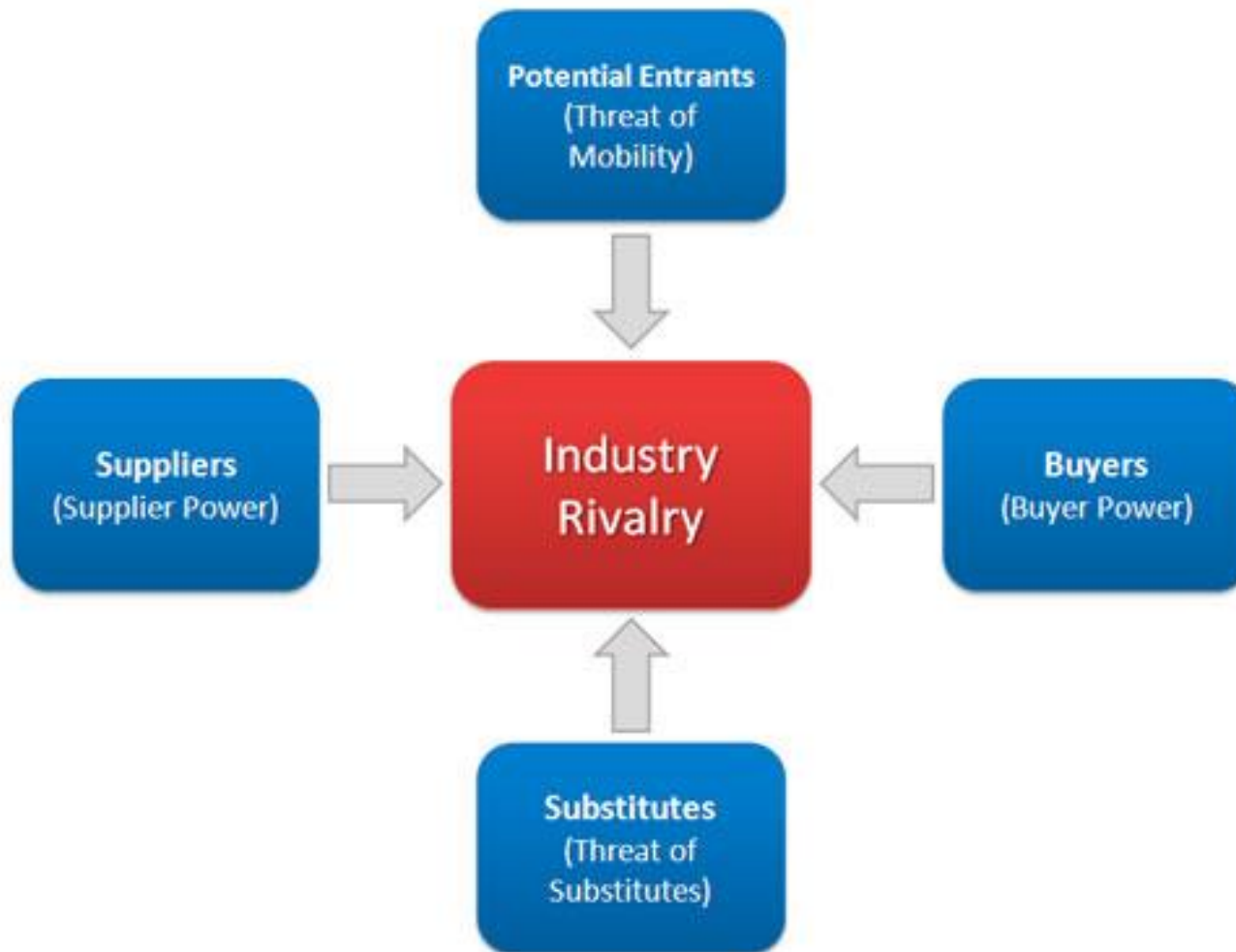
- Obviously these are industries with a significant global presence and sales.
- They require a multinational or global approach with two basic strategies:
 - Global Strategy
 - Selling the same products in all markets
 - This is preferable but not always feasible.
 - Examples: shoes-watches- jewelry-fashion
 - Multi-domestic strategy
 - Creating specific products for specific markets.
 - This is more expensive, but is often necessary
 - Examples: – food, cars – McDonalds is a good example.
- Examples of Entrepreneurial Firms
 - **PharmaJet** in needle-less injection systems
 - **D.light** in solar powered lanterns
 - **UMass Medical** in Rabies monoclonal antibody

Analyzing the industry

- Once one has identified the characteristics of the industry in which a venture is planning to operate, it is then necessary to analyze the potential (or actual) position of the new venture in regard to a 360 degree view of the industry –including suppliers, customers, competitors, substitutes, and other potential new entrants.
- Michael Porter, Harvard Business School Professor, has created a powerful tool to analyze these five forces and then draw some conclusions about the the **average profitability for the firms in an industry**.
- The tool looks at these **Five Forces**:
 - Bargaining power of suppliers
 - Bargaining power of customers
 - Threat of new entrants
 - Threat of substitution of an alternate product or service.
 - Rivalry among the firms in an industry.
- This is called a **Porter Five Force Analysis**

The Porter 5 Forces Model -predicts profitability

- Considers these five forces and then estimates the average profitability of firms in the industry.



1. Bargaining power of suppliers
2. Bargaining power of customers/buyers
3. Threat of new entrants
4. Threat of substitution of an alternate product or service.
5. Rivalry among the firms in an industry.

Substitutes

- Are there substitutes for the product that you are selling?
 - A substitute is not another version of the same product.
 - For example: if the price of an airline shuttle ticket from Boston to New York is perceived as being too high, then the traveler may take the Amtrak train instead.
 - Many companies are now substituting videoconferencing or web conferencing for actual business travel.
 - Federal Express has lost a lot of the document delivery business to email attachments and other digital delivery methods –including digital signatures.
 - Polaroid Instant Photos -> digital photography
 - Oil heat has been rapidly replaced by natural gas as the price of gas has gone down due to increased US production of natural gas
 - Brand Pharmaceuticals -> generics
- The greatest danger of substitution occurs when:
 - **Switching costs** are low
 - there is not a lot of cost (financial or training/learning) to the substitution.
 - Substitutes are affordable
 - Substitute quality or performance is better

New Entrants

- Are there barriers to entry for new firms or is it easy to enter the business?
- Barriers:
 - 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

- What is the nature and intensity of the rivalry among existing firms?
- Number and Balance Among Competitors
 - Less is more –usually. Fewer competitors may make it easier, but sometimes fragmentation can be an asset to the new entrant.
 - Does fierce competition drive down prices and margins. That is bad for profitability.
- Degree of Difference Among Products
 - Less is a commodity, more is a specialty. Being a commodity is a more difficult role.
- Growth Rate of an Industry
 - More is more. Everyone likes growth.
- Level of fixed costs
 - Less is more for the entrant. Low fixed costs make it easier for smaller competitors to get into the industry and get started at a smaller scale.

Bargaining Power of the Suppliers

Do the suppliers wield a lot of control over the supplies that you need for your venture?

- Less is better for the new entrant!
 - Intel supplies chips to PC makers –high bargaining power. If you want to build computers, you have very little ability to negotiate with Intel or Microsoft.
- Supplier concentration
 - More suppliers mean less bargaining power for supplier
- Switching costs
 - Intel, Microsoft products are hard to switch away from. It is costly to switch suppliers! It requires a major redesign of hardware and it requires retraining of users. Android and AMD have made some inroads against each and give a firm some options.
- Attractiveness of Substitutes
 - Supplier power is enhanced if there are no attractive substitutes
 - Microsoft vs Sun vs Google etc
- Threat of Forward integration
 - Can a supplier enter your industry?
 - Microsoft entering the tablet industry was a shock to tablet makers that bought Microsoft software.!
 - Past: The Browser wars

Bargaining Power of Buyers

- Less bargaining power of buyers is better for the new entrant
- Buyer Group Concentration
 - Pressure sellers to reduce costs
 - The Auto industry can pressure suppliers (alternators, seats, windows, tires, batteries, etc) to meet their terms. They have a high bargaining power of buyers.
- 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			

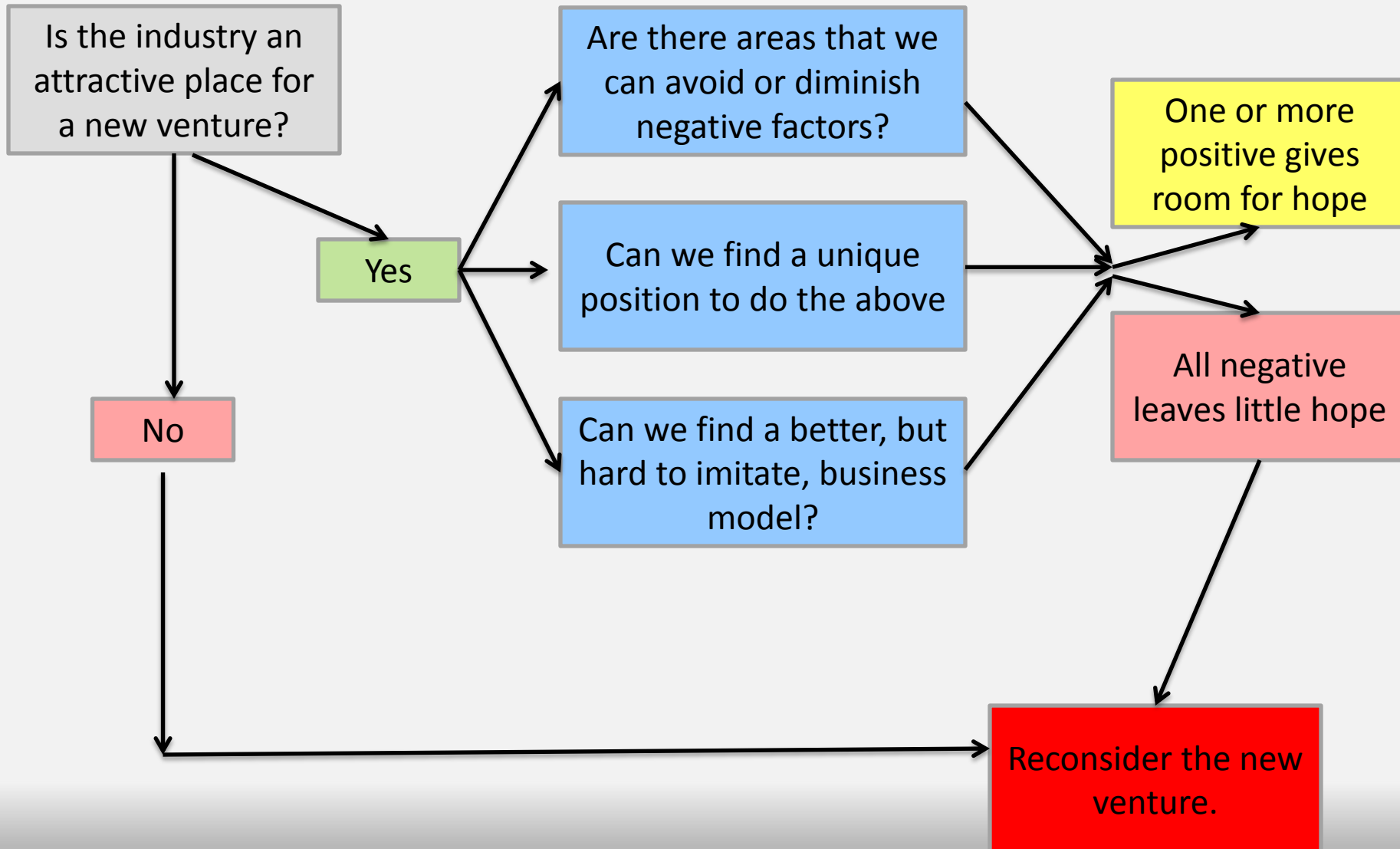
Step 1: Select an industry

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



Competitor Analysis

Now that you have analyzed the industry and understand the average potential profitability of your venture, you need to analyze your competitors in the industry.

There are two kinds of competitors

- Direct Competitors- identical products or services
- Indirect competitors- potential substitutes
 - Pepsi viewed fluids other than coke as indirect competitors.
- There are also **future competitors** –either direct or indirect.
 - Borders and Barnes & Noble met Amazon.com and that upended the industry.
- Competitive Intelligence
 - You need to seek out any sources of competitive intelligence and may want to fill out the grid on the next page before you commit to a new venture.

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