The Macro View of Industry and Markets

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Objectives

- At the end of class, you should be able to:
  - Differentiate between markets and industry
  - Define market size
  - Explain factors that are if a market is attractive
  - Describe the six Macro forces that influence markets and industries.
  - Explain the impact of Porter's Five Forces on an industry
  - Conduct Porter Five Force analysis to determine industry attractiveness

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Markets and industries: what's the difference?

- A market consists of a group of current and/or potential customers having the willingness and ability to buy products – goods or services – to satisfy a particular class of wants or needs. Thus, markets consist of buyers – people or organizations and their needs – not products.
- An industry consists of sellers – typically organizations – that offer products or classes of products that are similar and close substitutes for one another.
- Why is the market–industry distinction important? Because judgements about the attractiveness of the market one proposes to serve may be very different from judgements about the industry in which one would compete.

Is the Market Attractive ? Macro-Market Assessment

- Three crucial questions about markets
  1. Is your market large enough today to allow different competitors the opportunity to serve different segments without getting in each other's way?
  2. What are the predictions for your market's short-term growth rate? (In the absence of other information to the contrary, the recent rate of growth in your market may be the best available predictor of growth in the near future.)
  3. What are the predictions for your market's long-term growth rate? (This is likely to be influenced heavily by macro-trends: economic, demographic, sociocultural, technological, regulatory and/or natural.)
- What investors want to know
  - Whether the opportunity has the potential to be big – in other words, scale.
  - Large growing markets make it possible to grow large companies.
  - Equally important, large markets offer the chance for multiple players to be successful, each serving a different segment perhaps in a different way. That's good for reducing risk, because it offers multiple pathways to success.

Is the Market Attractive ? Macro-Market Assessment

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- It is actually quite straightforward to conduct a macro-level market assess ment. One first assesses – usually by gathering secondary data from trade publications, the business press and so on – how large the market is.
- Market size can be measured in many ways – the more the better. Measures include:
  - Number of customers in the market, say for workplace snacks;
  - The aggregate money spent by these customers on the relevant class of goods or services, in this case workplace snacks;
  - The number of units of relevant products or usage occasions, such as workplace snacks, bought annually.

Market Size

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- As of 2022, the global Second Hand Apparel market was estimated at USD 33002.0 million, and it's anticipated to reach USD 77981.3 million in 2028, with a CAGR of 15.41% during the forecast years.25 Jan 2024
- In 2024, the revenue in the Apparel market in Kenya amounts to US$5.95bn. It is projected to experience an annual growth rate of 3.51% (CAGR 2024-2028). Among the different segments of the market, the largest one is Women's Apparel, with a market volume of US$2.23bn in 2024.
- **According to the study, 88% of Kenyans (or 9 out of 10) purchase "mitumba," or used clothing that is imported in large quantities and sold primarily by street ...**
- The Kenya Used Car Market size is estimated at USD 1.23 billion in 2024, and is expected to reach USD 1.39 billion by 2029, growing at a CAGR of greater than 2% during the forecast period (2024-2029).

Market Size

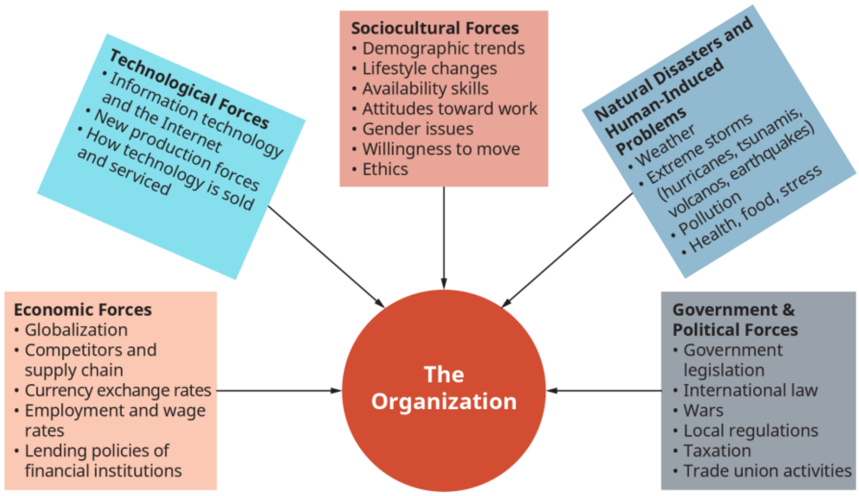
- TAM or Total Available Market is the total market demand for a product or service.
- serviceable available market (SAM), which is the portion of the market that your business can serve based on your products, services, and location
- SOM or Serviceable Obtainable Market is the portion of SAM that you can capture.

Entrepreneurs must focus on the target market (SOM) within the TAM and the SAM and allocate resources to attract customers who can be satisfied by the value proposition.

Target Market Size (SOM)

- To be realistic your SOM needs to factor in:
  - Your product: people will want to buy your goods
  - Your marketing plan and the identified distribution channels: you have a clear plan to reach a large portion of your target customers
  - Your SAM and the strength of your competition: chances are that you are not going to take 50% market share within 6 months. Therefore your SOM needs to be a reasonable fraction of your Serviceable Available Market.
- If you can deliver SOM in time then you are capable and credible, and you might be able to increase the market share and reach a more important penetration of the SAM which would deliver a good return on investment.
- Once you have demonstrated your ability to penetrate a local market and de-risked the investment, the investor can start looking at how you can expand and increase the company's penetration within the TAM.

6 Macro Forces Affecting Industry and Markets



6 Macro Forces Affecting Industry and Markets

The acronym to remember the 6 Macro Forces is **P**EST**L**E

Political and Legal

- There are very few markets that escape political influence. Political influences affect the costs and ease of doing business within a country and can be imposed in any of the following ways:
  - The political stability of a region – including the risks of war and military action.
  - Taxes on goods – these affect the price of domestic goods and imports. The taxes can be value-added tax, sales tax and import duties. Taxes raise the price of products and can slow sales.
  - Government policy and laws– most governments have policies that influence businesses. Some encourage free trade and investment from overseas. Some policies are nationalistic and favor local suppliers. Some governments like state control while others encourage free.
  - Laws such as labor, pricing regulations, environmental laws.

6 Macro Forces Affecting Industry and Markets

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- **Economic factors** influence the attractiveness of a market from the point of view of costs and growth. These include:
  - the GDP of the region – its economic prosperity;
  - average incomes and disposable incomes;
  - employment and unemployment rates and cost of labor;
  - Credit availability, exchange rates, inflation
  - Comparative cost advantage in the region.
- **Social factors** are those forces that affect the workforce and buyers of products. They include.
  - Demographics
  - Class structure within a country
  - Attitudes
  - Ethical considerations

6 Macro Forces Affecting Industry and Markets

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- **Technological factors** can influence the costs of doing business within a region or a market. They are important because they affect the ability of a company to innovate. They vary in importance depending on the nature of the business. Factors to be considered here include:
  - Technical infrastructure in the region (eg broadband distribution and strength);
  - Types and speed of technological change within the market;
  - Research and development spend;
  - Patent protection.
- **Environmental factors** includes human induced and natural disasters.
  - Geographical location of a country
  - Weather and climate change and pollution
  - Raw materials

Is the industry attractive? Macro Level Perspective

- Michael Porter, in the late 1970s, identified the forces that determine industry attractiveness.
  - These forces – five of them – are powerful determinants of the overall profitability of any industry, not a bad thing for an aspiring entrepreneur to know:
    - Threat of entry;
    - Buyer power;
    - Supplier power;
    - Threat of substitutes;
    - Competitive rivalry

Industry and Market Feasibility

Porters Five Forces

1. **Rivalry among companies competing in the industry.** The strongest of the five forces in most industries is the rivalry that exists among the businesses competing in a particular market. This force is the major determinant on how competitive and profitable an industry is. In competitive industry, firms have to compete aggressively for a market share, which results in low profits.
   - Generally, an industry is more attractive when:
     - The number of competitors is large or, at the other extreme, quite small (fewer than five).
     - Competitors are not similar in size or capability.
     - The industry is growing at a fast pace.
     - The opportunity to sell a differentiated product or service is present.

Porters Five Forces

2. **Bargaining power of suppliers to the industry.** Strong bargaining power allows suppliers to sell higher priced or low-quality raw materials to their buyers. This directly affects the buying firms' profits because it must pay more for materials. Generally, an industry is more attractive when:
   - Many suppliers sell a commodity product to the companies in it.
   - Substitute products are available for the items suppliers provide.
   - Companies in the industry find it easy to switch from one supplier to another or to substitute products (i.e., "switching costs" are low).
   - The items suppliers provide the industry account for a relatively small portion of the cost of the industry's finished products.

Porters Five Forces

3. **Bargaining power of buyers.** Buyers have the power to demand lower price or higher product quality from industry producers when their bargaining power is strong. Both scenarios result in lower profits for producers.

- Generally, an industry is more attractive when:
  - Industry customers' "switching costs" to competitors' products or to substitutes are relatively high.
  - The number of buyers in the industry is large.
  - Customers demand products that are differentiated rather than purchase commodity products they can obtain from any supplier (and subsequently can pit one company against another to drive down price).
  - Customers find it difficult to gather information on suppliers' costs, prices, and product features—something that is becoming much easier for customers in many industries to do by using the Internet.
  - The items companies sell to the industry account for a relatively small portion of the cost of their customers' finished products

Porters Five Forces

4. Threat of new entrants to the industry. The larger the pool of potential new entrants to an industry, the greater is the threat to existing companies in it. This is particularly true in industries where the barriers to entry, such as capital requirements, specialized knowledge, access to distribution channels, and others are low. Generally, an industry is more attractive to new entrants when:
   - The advantages of economies of scale are absent. Economies of scale exist when com panies in an industry achieve low average costs by producing huge volumes of items (e.g., computer chips).
   - Capital requirements to enter the industry are low.
   - Cost advantages are not related to company size.
   - Buyers are not extremely brand-loyal, making it easier for new entrants to the industry to draw customers away from existing businesses.
   - Governments, through their regulatory and international trade policies, do not restrict new companies from entering the industry.

Porters Five Forces

5. **Threat of substitute products or services.** Substitute products or services can turn an entire industry on its head. For instance, many makers of glass bottles have closed their doors in recent years as their customers—from soft drink bottlers to ketchup makers—have switched to plastic containers, which are lighter, less expensive to ship, and less subject to breakage. Printed newspapers are struggling to compete with free instantly updated news.

- Generally, an industry is more attractive when:
  - Quality substitute products are not readily available.
  - The prices of substitute products are not significantly lower than those of the industry's products.
  - Buyers' cost of switching to substitute products is high

Five Forces Matrix

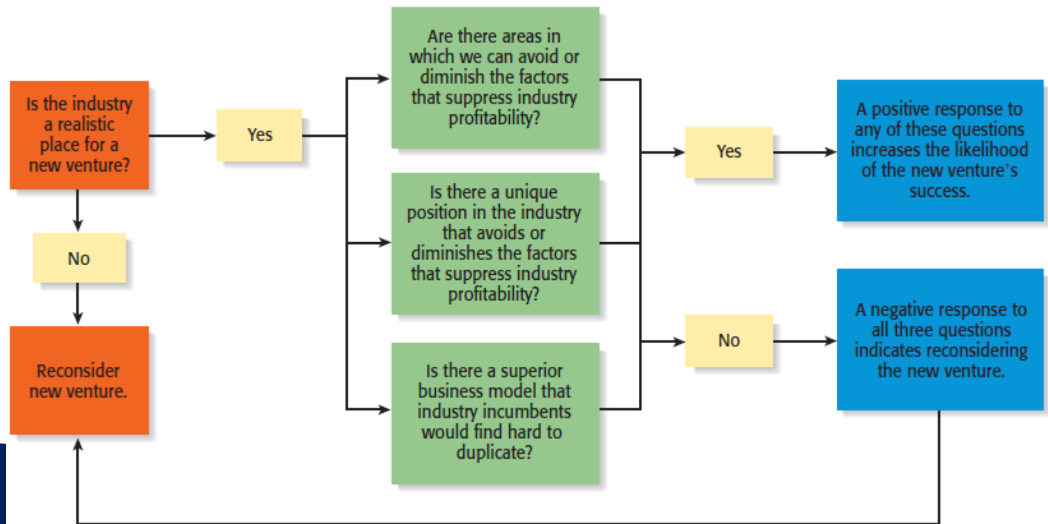
Assign a value to rate the importance of each of the five forces to the industry on a 1 (not important) to 5 (very important) scale. Then assign a value to reflect the threat that each force poses to the industry. Multiply the importance rating in column 2 by the threat rating in column 3 to produce a weighted score. Add the weighted scores in column 3 to get a total weighted score. This score measures the industry's attractiveness. The matrix is a useful tool for comparing the attractiveness of different industries.

Minimum Score = 5 (Very attractive)
Maximum Score = 125 (Very unattractive)

Force	Importance (1 to 5) (1 = Not Important, 5 = Very Important)	Threat to Industry (1 to 5) (1 = Low 3 = Medium 5 = High)	Weighted Score Col 2 × Col 3
Rivalry among companies competing in the industry	5	2	10
Bargaining power of suppliers in the industry	2	2	4
Bargaining power of buyers	2	4	8
Threat of new entrants to the industry	3	4	12
Threat of substitute products or services	4	1	4
		Total	38

PORTER'S FIVE FORCES ANALYSIS

Based on your PFF analysis, pose questions to determine the potential success of a new venture in an Industry



Group Activity

Market Analysis and industry Analysis