

ECONOMICS OF STRATEGY

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3rd
EDITION

WILEY
INTERNATIONAL
EDITION

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APPENDIX 10.1

TEMPLATE FOR DOING A FIVE-FORCES ANALYSIS

FACTORS AFFECTING RIVALRY AMONG EXISTING COMPETITORS

To what extent does pricing rivalry or nonprice competition (e.g., advertising) erode the profitability of a typical firm in this industry?

	<i>Characterization (Current)</i>	<i>Future Trend</i>
Degree of seller concentration?		
Rate of industry growth?		
Significant cost differences among firms?		
Excess capacity?		
Cost structure of firms: sensitivity of costs to capacity utilization?		
Degree of product differentiation among sellers? Brand loyalty to existing sellers? Cross-price elasticities of demand among competitors in industry?		
Buyers' costs of switching from one competitor to another?		
Are prices and terms of sales transactions observable?		
Can firms adjust prices quickly?		
Large and/or infrequent sales orders?		
Use of "facilitating practices" (price leadership, advance announcement of price changes)?		
History of "cooperative" pricing?		
Strength of exit barriers?		

FACTORS AFFECTING THE THREAT OF ENTRY

To what extent does the threat or incidence of entry work to erode the profitability of a typical firm in this industry?

	<i>Characterization (Current)</i>	<i>Future Trend</i>
Significant economies of scale?		
Importance of reputation or established brand loyalties in purchase decision?		
Entrants' access to distribution channels?		
Entrants' access to raw materials?		
Entrants' access to technology/know-how?		
Entrants' access to favorable locations?		
Experience-based advantages of incumbents?		

	Characterization (Current)	Future Trend
Network externalities: demand-side advantages to incumbents from large installed base?		
Government protection of incumbents?		
Perceptions of entrants about expected retaliation of incumbents/reputations of incumbents for "toughness"?		

FACTORS AFFECTING OR REFLECTING PRESSURE FROM SUBSTITUTE PRODUCTS AND SUPPORT FROM COMPLEMENTS

To what extent does competition from substitute products outside the industry erode the profitability of a typical firm in the industry?

	Characterization (Current)	Future Trend
Availability of close substitutes?		
Price-value characteristics of substitutes?		
Price elasticity of industry demand?		
Availability of close complements?		
Price-value characteristics of complements?		

FACTORS AFFECTING OR REFLECTING POWER OF INPUT SUPPLIERS

To what extent do individual suppliers have the ability to negotiate high input prices with typical firms in this industry? To what extent do input prices deviate from those that would prevail in a perfectly competitive input market in which input suppliers act as price takers?

	Characterization (Current)	Future Trend
Is supplier industry more concentrated than industry it sells to?		
Do firms in industry purchase relatively small volumes relative to other customers of supplier? Is typical firm's purchase volume small relative to sales of typical supplier?		
Few substitutes for suppliers' input?		
Do firms in industry make relationship-specific investments to support transactions with specific suppliers?		
Do suppliers pose credible threat of forward integration into the product market?		
Are suppliers able to price-discriminate among prospective customers according to ability/willingness to pay for input?		

FACTORS AFFECTING OR REFLECTING POWER OF BUYERS

To what extent do individual buyers have the ability to negotiate low purchase prices with typical firms in this industry? To what extent do purchase prices differ from those that would prevail in a market with a large number of fragmented buyers in which buyers act as price takers?

	<i>Characterization (Current)</i>	<i>Future Trend</i>
Is buyers' industry more concentrated than industry it purchases from?		
Do buyers purchase in large volumes? Does a buyer's purchase volume represent large fraction of typical seller's sales revenue?		
Can buyers find substitutes for industry's product?		
Do firms in industry make relationship-specific investments to support transactions with specific buyers?		
Is price elasticity of demand of buyer's product high or low?		
Do buyers pose credible threat of backward integration?		
Does product represent significant fraction of cost in buyer's business?		
Are prices in the market negotiated between buyers and sellers on each individual transaction or do sellers post a "take-it-or-leave-it" price that applies to all transactions?		