Management 390 Industrial Condition Analysis

Reading

Top 10 Highly Concentrated Industries

* The greater levels of industry concentration can be seen as a measure of superior economic performance, stronger competitiveness in the global market and increased profitability from economic scale
* Most concentrated industry in US
  + Search Engine
    - Google
    - Yahoo
    - Microsoft
    - Increase concentration during the past five years
    - It may be difficult for new companies to enter the industry
    - Required skilled software programmers
  + Arcade, Food & Entertainment Complex
    - CEC Entertainment Inc.
    - Dave & Buster’s
    - Has increasingly concentrated over resent year as large players seek cost advantage through higher volumes of sales
  + Sanitary Paper Product Manufacturing
    - Kimberly-Clark Corporation
    - Proctor & Gamble
    - Georgia –Pacific

The Herfindahl-Hirschman Index

* A statistical measure of concentration
* Achieved an unusual degree of visibility for a statistical index
* Can be used to measure concentration in a variety of contexts
* Useful in horizontal mergers because such mergers affect market concentration
* HHI accounts for the number of firms in a market as well as concentration by incorporating the relative size of all firms in a markets
  + HHI =
  + i,n are the number of firm
* HHI gives much heavier weight to firms with large market shares than to firms with small shares as a result of *squaring* the market shares
* The greater concentration of output in a small number of firms, the greater the likelihood that, other things equal, competition in a market will be weak.
* If the concentration is low, reflecting a large number of firm with small market shares, competition will be vigorous