Introduction to Entrepreneurship and Innovation

Spring 2022/2023

CHAPTER 5

Industry and Competitor Analysis

Industry and Competitor Analysis

Industry analysis

Assessing industry attractiveness
- **4** Environmental trends (PESTLE)
- business trends
- Five forces model

Five forces model
- Threat of new entrants
- Threat of substitutes
- Bargaining power of suppliers
- Bargaining power of buyers
- Rivalry among existing firms

Industry types and the opportunity
- Emerging industries
- Fragmented industries
- Mature industries
- Declining industries
- Global industries

Competitor analysis

Identifying Types of competitors
- Direct competitors
- Indirect competitors
- Future competitors

Competitive intelligence
- Collecting information
- Competitive analysis grid

What is Industry Analysis?

https://youtu.be/CCSFnGSphQk

https://www.investopedia.com/terms/i/industry.asp

Industry

- An industry is a group of firms producing a similar product or service, such as music, Pilates and Yoga studios, airlines, fitness drinks, furniture, electronic games, and solar panels.

Industry Analysis

- Is business research that focuses on the potential of an industry.

The importance of knowing the competitive landscape, which is what an industry is, may have been first recognized in the fourth century BC, by Sun Tzu, a Chinese philosopher, who wrote *The Art of War* to help generals prepare for battle.

However, the ideas in the book are still used today to help managers prepare their firms for the competitive wars of the marketplace. The following quote from Sun Tzu's work points out the importance of industry analysis:

> "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"

These words serve as a reminder to entrepreneurs that regardless of how eager they are to start a business, they are not adequately prepared until they are "familiar with the face of the country"—that is, until they understand the industry or industries they plan to enter and in which they intend to compete.

What is Industry Analysis important?

- Once it is determined that a new venture is feasible in regard to the industry and market in which it will compete, **a more in-depth analysis is needed to learn the ins and outs of the industry**.

- The analysis helps a firm **determine if the niche market** it identified during feasibility analysis **is favorable for a new firm**.

For example, if the industry for e-book publishing is expected to grow at an annual rate of 7.5 percent over the next five years, and for the same period, the industry for traditional book publishing is expected to grow at an annual rate of 0.7 percent, this means that the conditions for growing a company are significantly more favorable in the e-book industry than in the traditional book publishing industry. Or maybe an entrepreneur could find a niche in the traditional book publishing industry.

Try to answer these questions through industry analysis:

When studying an industry, an entrepreneur must answer three questions before pursuing the idea of starting a firm.

- Question 1
  - Is the industry accessible—in other words, is it a realistic place for a new venture to enter?
- Question 2
  - Does the industry contain markets that are ripe for innovation or are underserved?
- Question 3
  - Are there positions in the industry that will avoid some of the negative attributes of the industry as a whole?

Techniques Available to Assess Industry Attractiveness

Assessing Industry Attractiveness:

- Study Environmental and Business Trends.
- The Five Competitive Forces Model.

Studying Industry Trends

The first technique an entrepreneur has available to discern the attractiveness of an industry is to study industry trends.

Motorcycles industry example

Environmental Trends

- The strength of an industry often surges or wanes because environmental trends shift in favor or against the industry.
- Environmental trends include economic trends, social trends, technological advances, and political and regulatory changes.

Sales are increasing not because improvement in management or innovation

For example, companies in industries selling products to seniors, such as the hearing aid industry, benefit from the social trend of the aging of the population. In contrast, industries selling food products that are high in sugar, such as the candy industry and the sugared soft-drink industry, suffer as the result of a renewed emphasis on health and fitness

Extra example

Extra example

PESTLE ANALYSIS OF UBER

Leading Shared Taxi Service Provider

Political Factor

- Need to make its stand clear about drivers' insurance.
- Have to follow minimum wage rules.
- Have to have deal with bans in many countries.

Economic Factor

- Easily accessible.
- Affordable fare charges
- Offers jobs opportunities, but pay may not be convincing.

Social Factor

- User friendly
- Quick pick up
- Gives better ride experience than taxis

Tech. Factor

- Excellent mobile app for users
- Using social media and other electronic media well for promotion

Legal Factor

- Need to prevent ban in many countries
- Need to follow labor and employee safety laws well
- Copyright laws need to be looked at as well

Environ. Factor

- Fuel usage may increase
- Traffic congestion is a concern as well

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Studying Industry Trends

The first technique an entrepreneur has available to discern the attractiveness of an industry is to study industry trends.

Business Trends

- Other trends affect industries that aren't environmental trends per se but are part of the core nature of an industry

- **For example, the firms in some industries benefit from an increasing ability to outsource manufacturing or service functions to lower-cost foreign labor markets, while firms in other industries don't share this advantage.**

- **In a similar fashion, the firms in some industries are able to move customer procurement and service functions online, at considerable cost savings, while the firms in other industries aren't able to capture this advantage. Trends such as these favor some industries over others.**

The five competitive forces model (Porter's Model)

- The five competitive forces model is a framework **for understanding the structure of an industry.**
- The model is composed of the forces that **determine industry profitability.**
- Each of the five forces **impacts** the average **rate of return** for the firms in an industry by applying **pressure** on industry **profitability.**
- Well-managed firms try to position their firms in a way that avoids or diminishes these forces—in an attempt to beat the average rate of return of the industry.

1. Threat of Substitutes

Industry is more **attractive** when the **threat of substitutes is low**.

- The price that consumers are willing to pay for a product depends in part on the availability of substitute products.
- For example, there are few, if any, substitutes for prescription medicines, which is one of the reasons the pharmaceutical industry is so profitable.
- In contrast, when close substitutes for a product exist, industry profitability is suppressed, because consumers will opt out if the price gets too high.

- **Meetings online is a substitute to physical meeting in hotels or business centers which is costly**
- **Attaching a file to an email is less expensive than sending it by Fedex**

1. Threat of Substitutes

This is why firms in an industry often offer their customers amenities to reduce the likelihood that they will switch to a substitute product, even in light of a price increase.

2. Threat of New Entrants

Industry is more **attractive** when the **threat of entry is low**

If the firms in an industry are highly profitable, the industry becomes a magnet to new entrants.

Unless something is done to stop this, the competition in the industry will increase, and average industry profitability will decline.

Firms in an industry try to keep the number of new entrants low by erecting barriers to entry.

A barrier to entry is a condition that creates a disincentive for a new firm to enter an industry. This means that competitors cannot easily enter the industry and successfully copy what the incumbents are doing to generate profits.

Established firms

2. Threat of New Entrants ***Barriers to Entry***

Threats of New Entrants is less when there are *Barriers to Entry*

Barrier to Entry	Explanation
1. **Economies of Scale**	**Industries that are characterized by large economies of scale are difficult for new firms to enter, unless they are willing to accept a cost disadvantage.** A cost disadvantage means your business is unable to create, produce, acquire, transport or distribute goods to customers at rates equal to or better than competitors.
	Bigger companies has usually much lower average costs than smaller ones. **Economies of scale**: are the factors that lead to a reduction in average costs as a business increases in size.
2. **Product differentiation**	**Industries such as the soft drink industry that are characterized by firms with strong brands are difficult to break into without spending heavily on advertising.** e.g.: Apple regularly improving the feature on its line of MacBooks

Economies of scale factors:

1. Purchasing economies: buying in bulk
2. Marketing economies
3. Financial economies: lower rates of interest on loans
4. Managerial economies: employing experts
5. Technical economies: flow production methods

Average cost = total cost/ output

2. Threat of New Entrants ***Barriers to Entry***

Threats of New Entrants is less when there are *Barriers to Entry*

Barrier to Entry	Explanation
3. Capital requirements	**The need to invest large amounts of money to gain entrance to an industry is another barrier to entry.** Tesla started using funds raised by securing the confidence of investors through its expertise and innovation in electric car technology
4. Cost advantages independent of size	**Existing firm may have cost advantages not related to size.** For example, the existing firms in an industry may have purchased land when it was less expensive than it is today.

2. Threat of New Entrants ***Barriers to Entry***

Threats of New Entrants is less when there are *Barriers to Entry*

Barrier to Entry	Explanation
5. Access to distribution channels	Distribution channels are often hard to crack. This is particularly true in crowded markets, such as the convenience store market.
6. Government and legal barriers	Some industries, such as broadcasting, require the granting of a license by a public authority to compete. Other industries such as biotechnology and software may require patents, trademarks and copyrights.

2. Threat of New Entrants ***Barriers to Entry***

Threats of New Entrants is less when there are *Barriers to Entry*

None-traditional Barriers to Entry entrepreneurs can use

- It is difficult for start-ups to execute barriers to entry that are expensive, such as economies of scale, because money is usually tight.

- Start-ups have to rely on nontraditional barriers to entry to discourage new entrants

2. Threat of New Entrants ***Barriers to Entry***

Threats of New Entrants is less when there are *Barriers to Entry*

None-traditional Barriers to Entry entrepreneurs can use

Barrier to Entry	Explanation
1. Strength of management team	If a start-up puts together a world-class management team, it may give potential rivals pause in taking on the start-up in its chosen industry.
2. First-mover advantage	If a start-up pioneers an industry or a new concept within an industry, the name recognition the start-up establishes may create a barrier to entry.
3. Passion of the management team and employees	If the employees of a start-up are motivated by the unique culture of a start-up, and anticipate large financial reward, this is a combination that cannot be replicated by larger firms.

2. Threat of New Entrants ***Barriers to Entry***

Threats of New Entrants is less when there are *Barriers to Entry*

None-traditional Barriers to Entry entrepreneurs can use

Barrier to Entry	Explanation
4. Unique Business Model	If a start-up is able to construct a unique business model and establish a network of relationships that makes the business model work, this set of advantages creates a barrier to entry.
5. Internet Domain Name	Some Internet domain names are so "spot-on" that they give a start-up a meaningful leg up in terms of ecommerce opportunities.
6. Inventing a new approach to an industry	If a start-up invents a new approach to an industry and executes it in an exemplary fashion, these factors create a barrier to entry for potential imitators. مثالي

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3. Rivalry Among Existing Firms

Generally speaking, industry is more attractive when the **rivalry among existing firms is low…**

- In most industries, the major **determinant of industry profitability** is the **level of competition** among existing firms.

- Some industries are fiercely competitive, to the point where prices are pushed below the level of costs, and industrywide **losses** occur.

- In other industries, competition is much less intense and price competition is subdued.

3. Rivalry Among Existing Firm

Generally speaking, industry is more attractive when the **rivalry among existing firms is low…**

Factors that determine the intensity of the rivalry among existing firms in an industry

1. Number and balance of competitors	The more competitors there are, the more likely it is that one or more will try to gain customers by cutting its price.
2. Degree of difference between products	The degree to which products differ from one producer to another affects industry rivalry.
3. Growth rate of an industry	The competition among firms in a slow-growth industry is stronger than among those in fast-growth industries. VS
4. Level of fixed costs	Firms that have high fixed costs must sell a higher volume of their product to reach the break-even point than firms with low fixed costs.

4. Bargaining power of suppliers

Industry is more **attractive** when the **bargaining power of suppliers is low**

Bargaining power of suppliers is the pressure that suppliers can put on companies by raising their prices, lowering their quality, or reducing the availability of their products.

- Suppliers can suppress the profitability of the industries to which they sell by **raising prices** or **reducing the quality** of the components they provide.

- If a supplier reduces the quality of the components it supplies, the **quality of the finished product will suffer**, and the manufacturer will eventually have to **lower its price**.

- If the suppliers are powerful relative to the firms in the industry to which they sell, industry profitability can suffer.

4. Bargaining power of suppliers

Industry is more **attractive** when the **bargaining power of suppliers is low**

Factors that impact the ability of suppliers to exert pressure on buyers

	Explanation
1. Supplier concentration	When they are only a few suppliers that supply a critical product to a large number of buyers, the supplier has an advantage.
2. Switching costs	Switching costs are the fixed costs that buyers encounter when switching or changing from one supplier to another. If switching costs are high, a buyer will be less likely to switch suppliers.

No	Firm	Market share (MS)*
1	Dar Al-dawa'a	47.60%
2	Jordanian Company	32.50%
3	Middle East company	9.10%
4	Alhayah Company	7.60%
5	Arab Center	1.50%
6	Philadelphia	1.10%
7	Alkindy company	0.20%
Total		

4. Bargaining power of suppliers

Industry is more **attractive** when the **bargaining power of suppliers is low**

Factors that impact the ability of suppliers to exert pressure on buyers

	Explanation
3. Attractiveness of substitutes	**Supplier power is enhanced if there are no attractive substitutes for the product or services the supplier offers.** Example: Local tourism vs International tourism
4. Threat of forward integration	**The power of a supplier is enhanced if there is a credible possibility that the supplier might enter the buyer's industry.**

A good example of forward integration would be a farmer who directly sells his crops at a local grocery store rather than to a distribution center that controls the placement of foodstuffs to various supermarkets. Or, a clothing label that opens up its own boutiques, selling its designs directly to customers instead of or in addition to selling them through department stores.

Supplier

Buyer

5. Bargaining Power of Buyers

Industry is more **attractive** when the **bargaining power of buyers is low**

Bargaining power of buyers the pressure that customers/consumers can put on businesses to get them to provide higher quality products, better customer service, and/or lower prices.

- Buyers can suppress the profitability of the industries from which they purchase by **demanding price concessions** or **increases in quality**.

For example, the automobile industry is dominated by a handful of large companies that buy products from thousands of suppliers in different industries. This allows the automakers to suppress the profitability of the industries from which they buy by demanding price reductions.

5. Bargaining Power of Buyers

Industry is more **attractive** when the **bargaining power of buyers is low**

Factors that prevent profitability of the industry

	Explanation
1. **Buyer group concentration**	**If there are only a few large buyers, and they buy from a large number of suppliers, they can pressure the suppliers to lower costs and thus affect the profitability of the industries from which they buy.** Buyers that purchase a large percentage of the seller's goods and services are more powerful, as Walmart demonstrated by aggressively negotiating with suppliers over the years.
2. **Buyer's costs**	**The greater the importance of an item is to a buyer, the more sensitive the buyer will be to the price it pays.** Most consumers pay little attention to prices when buying toothpaste, but many spend hours exhaustively searching the Internet for information on automobile prices.

5. Bargaining Power of Buyers

Industry is more **attractive** when the **bargaining power of buyers is low**

Factors that prevent profitability of the industry

	Explanation
3. Degree of standardization of supplier's products	**The degree to which a supplier's product differs from its competitors affect the buyer's bargaining power.** alternative suppliers are easy to find and competitors are played against each other
4. Threat of backward integration	**The power of buyers is enhanced if there is a credible threat that the buyer might enter the supplier's industry.**

Example: corn syrup or vinegar

Supplier

Buyer

A furniture producer when buys forests to obtain wood; rather buying it through a supplier, then falls in the category of Backward Integration; as the furniture manufacturing unit is not dependent on a supplier to obtain woods. Another good example was Apple Inc. buying a chip supplier Dialog in 2018.

Application of the Five Forces Model

- The five forces model can be used to assess the attractiveness of an industry by determining the level of threat to industry profitability for each of the forces.

- If a firm fills out the form shown bellow and several of the threats to industry profitability are high, the firm may want to reconsider entering the industry or think carefully about the position it would occupy.

	Threat to Industry Profitability		
Competitive Force	**Low**	**Medium**	**High**
Threat of substitutes			
Threat of new entrants			
Rivalry among existing firms			
Bargaining power of suppliers			
Bargaining power of buyers			

Instructions:

Step 1: Select in industry.

Step 2: Determine the level of threat to industry profitability for each of the forces (low, medium or high).

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

Step 4: Use the table to identify the threats that are most often relevant to industry profitability.

Industry types and the opportunities they offer

Types of industries

Type	Explanation	Opportunities
1. Emerging Industries	Industries in which standard operating procedures have yet to be developed. Because high level of uncertainty, opportunities may be short-lived. But barriers to entry are low	First-mover advantage. (significant position in a new market)
2. Fragmented Industries	Industries that are characterized by a large number of firms of approximately equal size. Use geographic roll-up strategy: acquiring similar firms located at different locations	Consolidation.-mergers and acquisitions

Industry types and the opportunities they offer

Types of industries

Type	Explanation	Opportunities
3. Mature Industries	Industries that are experiencing slow or no increase in demand (has repeated customers, limited product innovation)	Process innovation and after-sale service innovation.
4. Declining industries	Industries that are experiencing a reduction in demand (entrepreneurs may stake out a position that is not hotly contested)	Leadership, establishing a niche market, and pursuing a cost reduction strategy.
5. Global industries	Industries that are experiencing significant international sales.	Multi-domestic and global strategies.

Competitor Analysis

- A competitor analysis is a detailed analysis of a firm's competition.
- It helps a firm understand the positions of its major competitors and the opportunities that are available.
- A competitive analysis grid is a tool for organizing the information a firm collects about its competitors.

Who are the competitors of a flowers gift shop?

Identifying Competitors

Types of competitors that new ventures face

1. Direct Competitors: Businesses offering identical or similar products
They are the most important as they are going after the same customer segment as yours… it is difficult to win over loyal customers of other competitors.

2. Indirect Competitors: Businesses offering close substitute products
(Coca-Cola's enemies are milk, tea, coffee and water)

3. Future Competitors: Businesses that are net yet direct or indirect competitors but could be at any time (Barnes & Noble example)

Identifying Competitors that New Ventures Face

Types of competitors that new ventures face… cont.

It is difficult to identify all direct and indirect or future competitors
Try identifying at least 5 – 10 competitors for your project idea

Status quo can be the toughest competitor: people can be resistant to change, be tight on money, may need motivation to switch or learn something new

In crowded industries, you need to offer meaningful value and have sharp differentiation in order to survive

Example: providing value in a crowded industry

Example: providing value in a crowded industry

Sources of Competitive Intelligence

Collecting Competitive Intelligence

- To complete a competitive analysis grid, a firm must first understand the strategies and behaviors of its competitors.
- The information that is gathered by a firm to learn about its competitors is referred to as competitive intelligence.
- A new venture should take care that it collects competitive intelligence in a professional and ethical manner.

Sources of competitive intelligence

Ethical ways to obtain information about competitors

- Attend conferences and trade shows.
- Purchase competitor's products.
- Study competitors' Web sites.
- Set up Google and Yahoo! e-mail alerts.
- Read industry-related books, magazines, and Web sites.
- Talk to customers about what motivated them to buy your product as opposed to your competitor's product.

Competitive Analysis Grid

- A tool for organizing the information a firm collects about its competitors
- A competitive analysis grid can help a firm see how it stakes up against its competitors, provide ideas for markets to pursue, and identify its primary sources of competitive advantage.

Name	Comp. 1	Comp. 2	Comp. 3	Comp. 4	Comp. 5
Product features					
Benefits					
Price					
User experience					

Example: Competitive Analysis Grid for Panera Bread

	company	competitors			
Name	**Panera Bread**	**McAlister's Deli**	**Chipotle Mexican Grill**	**Panda Express**	**Qdoba**
Price	Even	Even	Even	Advantage	Even
Selection	Even	Even	Disadvantage	Disadvantage	Disadvantage
Perception of providing good, wholesome food	Advantage	Even	Even	Disadvantage	Even
Dining environment	Advantage	Even	Even	Disadvantage	Disadvantage
Speed of service	Even	Even	Advantage	Advantage	Advantage
Availability of Gluten free, non-GMO, organic, etc.	Even	Even	Even	Disadvantage	Even
Social Consciousness/ Philanthropy	Advantage	Even	Advantage	Even	Even