Industry analysis

What is Industry Analysis?

Industry analysis is a market assessment tool used by businesses and analysts to understand the competitive dynamics of an industry. It helps them get a sense of what is happening in an industry, e.g., demand-supply statistics, degree of competition within the industry, state of competition of the industry with other emerging industries, future prospects of the industry taking into account technological changes, credit system within the industry, and the influence of external factors on the industry.

Industry analysis, for an entrepreneur or a company, is a method that helps to understand a company's position relative to other participants in the industry. It helps them to identify both the opportunities and threats coming their way and gives them a strong idea of the present and future scenario of the industry. The key to surviving in this ever-changing business environment is to understand the differences between yourself and your competitors in the industry and use it to your full advantage.

Types of industry analysis

There are three commonly used and important methods of performing industry analysis. The three methods are:

1.Competitive Forces Model (Porter's 5 Forces)

2.Broad Factors Analysis (PEST Analysis)

3.SWOT Analysis

Competitive Forces Model (Porter's 5 Forces)

One of the most famous models ever developed for industry analysis, famously known as Porter's 5 Forces, was introduced by Michael Porter in his 1980 book "Competitive Strategy: Techniques for Analyzing Industries and Competitors."

According to Porter, analysis of the five forces gives an accurate impression of the industry and makes analysis easier. In our Corporate & Business Strategy course, we cover these five forces and an additional force — power of complementary good/service providers

1.Intensity of industry rivalry

The number of participants in the industry and their respective market shares are a direct representation of the competitiveness of the industry. These are directly affected by all the factors mentioned above. Lack of differentiation in products tends to add to the intensity of competition. High exit costs such as high fixed assets, government restrictions, labor unions, etc. also make the competitors fight the battle a little harder.

2.Threat of potential entrants

This indicates the ease with which new firms can enter the market of a particular industry. If it is easy to enter an industry, companies face the constant risk of new competitors. If the entry is difficult, whichever company enjoys little competitive advantage reaps the benefits for a longer period. Also, under difficult entry circumstances, companies face a constant set of competitors.

3.Bargaining power of suppliers

This refers to the bargaining power of suppliers. If the industry relies on a small number of suppliers, they enjoy a considerable amount of bargaining power. This can particularly affect small businesses because it directly influences the quality and the price of the final product.

4.Bargaining power of buyers

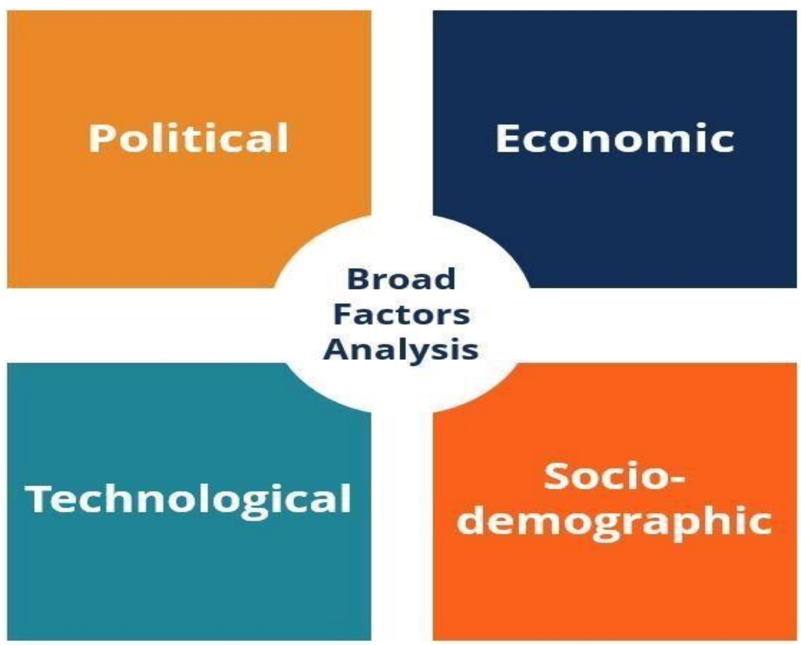
The complete opposite happens when the bargaining power lies with the customers. If consumers/buyers enjoy market power, they are in a position to negotiate lower prices, better quality, or additional services and discounts. This is the case in an industry with more competitors but with a single buyer constituting a large share of the industry’s sales.

5.Threat of substitute goods/services

The industry is always competing with another industry producing a similar substitute product. Hence, all firms in an industry have potential competitors from other industries. This takes a toll on their profitability because they are unable to charge exorbitant prices. Substitutes can take two forms – products with the same function/quality but lesser price, or products of the same price but of better quality or providing more utility.

Broad Factors Analysis (PEST Analysis)

Broad Factors Analysis, also commonly called the PEST Analysis stands for Political, Economic, Social and Technological. PEST analysis is a useful framework for analyzing the external environment**.**



To use PEST as a form of industry analysis, an analyst will analyze each of the 4 components of the model. These components include:

1.Political

Political factors that impact an industry include specific policies and regulations related to things like taxes, environmental regulation, tariffs, trade policies, labor laws, ease of doing business, and overall political stability.

2.Economic

The economic forces that have an impact include inflation, exchange rates (FX), interest rates, GDP growth rates, conditions in the capital markets (ability to access capital), etc.

3.Social

The social impact on an industry refers to trends among people and includes things such as population growth, demographics (age, gender, etc.), and trends in behavior such as health, fashion, and social movements.

4.Technological

The technological aspect of PEST analysis incorporates factors such as advancements and developments that change the way a business operates and the ways in which people live their lives (e.g., the advent of the internet).

SWOT Analysis

SWOT Analysis stands for Strengths, Weaknesses, Opportunities, and Threats. It can be a great way of summarizing various industry forces and determining their implications for the business in question.

1.Internal

Internal factors that already exist and have contributed to the current position and may continue to exist.

2.External

External factors are usually contingent events. Assess their importance based on the likelihood of them happening and their potential impact on the company. Also, consider whether management has the intention and ability to take advantage of the opportunity/avoid the threat.

<u>We believe one of the best methods to analyze an Industry is to Apply Porter's Five Forces Tool:</u>

Bargaining power of Buyers & Sellers

Both buyers and suppliers tend to be powerful if:

a) They are few in numbers and large in size (Pidilite)

b) How painful will it be to lose that particular customer or supplier?

c) Switching costs are high

d) Can a Company do backward integration & reduce dependence on suppliers (Sangam India, Mayur Uniquoters)

Threat of Substitutes

a) Kodak was killed by Digital cameras – will be likely killed by mobile phones (future belongs to electric cars)

Threat of New Entrants

a) Do the incumbents have an edge in any of the following – technology/brands/prime locations/distribution channels (WABCO/Colgate/Tata Steel/Asian Paints/HDFC Bank etc.)

b) Does government policy restrict or prevent new entrants? (No licenses for any new cigarette and liquor Company?

c) How large are the Capital and Recurring investments?

d) Does the value to a customer increase as more customer‟s use a Company‟s product?/Network effect? (Facebook)

Rivalry among existing competitors

a) Lack of industry growth will lead to higher competition as Companies look at growing via market share gains

b) Is the industry leader rational? Often an industry leader has the ability to enforce practices that help the whole industry (Between 2000 – 2012, Parle and Eveready behaved irrationally inspite of being market leaders.

c) High exit barriers – if Companies in a crowded industry have invested heavily (Textiles)

d) Irrational commitment to business. Company may feel its image requires a full product line irrespective of ROI.

e) Price based competition is higher if the product has commoditized in nature (Pharma has R&D based competition, FMCG products have advertising based competition, however pricing based competition is the worst.

f) Business dynamics are such that there are high fixed costs and low marginal costs, creating the pressure to drop prices because any new customer addition will contribute towards covering fixed overhead costs.

g) Is the product perishable or going to lose its value/become obsolete if unused? (A restaurant table, hotel room, an airline seat, an unsold fashion garment – all are perishable)

<u>We have applied Porter's Five Forces Tool to understand the paint industry:</u>

1.Bargaining power of suppliers (moderate):

Paint manufacturers depend on bothlocal and international suppliers and have a low bargaining power vis-à-vis prices ofsupplies. While some crude based materials are purchased from Indian suppliers like HPCL and BPCL, others often have a wide international market with multiple suppliers. Some key components like titanium dioxide are also in short supply globally

2.Bargaining power of buyers (moderate):

a) Buyers of decorative paints in the B2C market have low bargaining power. Volumes in the industry are not materially affected by price hikes.

b) Buyer power is high for the industrial segment (B2B), especially auto OEMs and infrastructure companies.

c) With increasing consumer awareness of decorative products, bargaining power of buyers is improving.

3.Competitive intensity (moderate):

Strong underlying volume growth in the Industry has attracted new entrants like Nippon Paints, Jotun and Sherwin Williams. However, widespread distribution networks of the incumbents have made it difficult For these new entrants to establish a meaningful presence in the industry. Rising Marketing spends by top five players has led to a 100bps-150bps reduction in Margins and ROEs over the past three years.

Barriers to entry (high):

Despite being a relatively simple product to manufacture, The requirement of a strong supply chain, brand and scale makes it difficult to have a Material presence in the market. Global majors such as Nippon Paints, Sherwin Williams and Jotun have found it extremely hard to penetrate the Indian paints Industry.

Threat of substitution (low):

Whilst wallpapers can be considered a convenient Substitute, it is a much smaller market and is not preferred by customers due to the Attached maintenance costs. Lime wash is also used as a low quality substitute. However, consumer patterns are shifting away from lime wash and towards paints

Company Analysis

We believe one of the best methods to analyze a Company's business is to Apply Porter's Five Forces Tool:

Understanding the Tool

Five Forces Analysis assumes that there are five important forces that determine Competitive power in a business situation.These are:

Competitive rivalry: This force examines how intense the competition currently is In the marketplace, which is determined by the number of existing competitors and What each is capable of doing.

Rivalry competition is high when there are just a few businesses equally selling a Product or service, when the industry is growing and when consumers can easily Switch to a competitors offering for little cost. When rivalry competition is high, Advertising and price wars can ensue, which can hurt a business's bottom line. Rivalry is quantitatively measured by the Concentration Ratio (CR), which is The Percentage of market share owned by the four largest firms in an industry.

Bargaining power of suppliers:

This force analyzes how much power a business's Supplier has and how much control it has over the potential to raise its prices, which,In turn, would lower a business's profitability. In addition, it looks at the number of Suppliers available:

The fewer there are, the more power they have. Businesses are In a better position when there are a multitude of suppliers. Sources of ssupplie Power also include the switching costs of firms in the industry, the presence of Available substitutes, and the supply purchase cost relative to substitutes**.**

Bargaining power of customers:

This force looks at the power of the consumer to Affect pricing and quality. Consumers have power when there aren't many of them, But lots of sellers, as well as when it is easy to switch from one business's products Or services to another. Buying power is low when consumers purchase products in Small amounts and the seller's product is very different from any of its competitors.

Threat of new entrants:

This force examines how easy or difficult it is for Competitors to join the marketplace in the industry being examined. The easier it is For a competitor to join the marketplace, the greater the risk of a business's market by Share being depleted. Barriers to entry include absolute cost advantages, access toInputs, economies of scale and well-recognized brands.

Threat of substitute products or services:

This force studies how easy it is for Consumers to switch from a business's product or service to that of a competitor. It Looks at how many competitors there are, how their prices and quality compare to The business being examined and how much of a profit those competitors are Earning, which would determine if they have the ability to lower their costs even More. The threat of substitutes are informed by switching costs, both immediate and Long-term, as well as a buyer's inclination to change.

The relationship of the industry analysis to the company analysis

Industry analysis and company analysis are both important components of business intelligence, and they are closely related.

Industry analysis involves evaluating the overall market in which a company operates. This includes assessing factors such as market size, growth potential, competitive landscape, regulatory environment, and technological trends. By analyzing the industry, companies can identify opportunities and threats that may impact their business.

Company analysis, on the other hand, involves evaluating a specific company's financial and operational performance, including factors such as revenue, profitability, market share, product portfolio, and management team. By analyzing the company, analysts can identify the strengths and weaknesses of the business, and assess its ability to compete effectively within the industry.

The relationship between industry analysis and company analysis is that a company's performance is heavily influenced by the industry in which it operates. An industry analysis provides the context for understanding a company's performance and helps to identify potential risks and opportunities. Meanwhile, a company analysis provides more granular information about the specific strategies, strengths, and weaknesses of a company, which can inform the overall industry analysis.

Instrumental vs Relational Perspective

The instrumental perspective on organizations in business intelligence and company and industry analysis focuses on the formal structures and processes within an organization, as well as the technical tools and resources that are used to achieve its goals. This perspective emphasizes the importance of efficiency, productivity, and profitability, and tends to prioritize quantitative measures of success.

In contrast, the relational perspective on organizations places greater emphasis on the social and cultural dynamics within an organization, as well as the relationships between different stakeholders such as employees, customers, and suppliers. This perspective recognizes that organizations are complex social systems that are shaped by multiple factors beyond just technical tools and resources. It emphasizes the importance of trust, collaboration, and communication in achieving organizational goals.

When it comes to business intelligence and company and industry analysis, both perspectives have their strengths and limitations. The instrumental perspective can be useful in identifying key performance indicators, analyzing data and trends, and optimizing processes to improve efficiency and profitability. However, it may overlook important social and cultural factors that can impact an organization's success.

The instrumental versus the relational perspective on organizations: the case of personal and relational analysis in business intelligence

The instrumental perspective on organizations views them as rational, goal-oriented entities that exist to maximize efficiency and profit. In this view, employees are seen as resources to be used in service of the organization's goals, and relationships are valued only to the extent that they contribute to achieving those goals.

On the other hand, the relational perspective on organizations sees them as social systems that are shaped by the relationships and interactions between people within them. In this view, employees are seen as complex individuals with unique needs, desires, and perspectives, and relationships are valued for their own sake, as well as for the benefits they can bring to the organization.

When it comes to business intelligence, the instrumental perspective might focus on using data and analytics to optimize organizational performance, while the relational perspective might emphasize the importance of understanding the motivations, needs, and perspectives of individual employees and stakeholders.

Personal and relational analysis in business intelligence can involve both quantitative and qualitative methods, such as surveys, interviews, and social network analysis. By gathering data on employees' skills, preferences, and relationships, organizations can develop more personalized strategies for talent management, collaboration, and knowledge sharing.

Overall, while the instrumental perspective can be useful for achieving short-term goals and maximizing efficiency, the relational perspective offers a more holistic view of organizations as complex social systems that require attention to the human dimension in order to thrive in the long term.

Developing the intelligence model in business intelligence

Business intelligence (BI) is the process of gathering, analyzing, and interpreting data to make informed business decisions. Business intelligence models are designed to help organizations extract insights from their data and transform it into actionable intelligence. Developing a successful intelligence model in business intelligence involves several key steps:

Define your business goals

Identify your data sources

Design your data model

Develop your ETL process

Choose your analytics tools

Test and iterate

Define your business goals:

Before developing a business intelligence model, it's essential to identify your business goals. What questions do you want to answer with your data? What insights do you hope to gain? Understanding your objectives will help you design a model that meets your needs.

Identify your data sources: Once you know your goals, you need to identify the data sources that will help you achieve them. This could include data from internal sources such as sales or customer data, as well as external sources such as industry reports or social media data.

Design your data model: Your data model is the framework that structures your data and enables you to extract insights. Your model should be designed with your business goals in mind, ensuring that it supports the analysis you need to perform.

Develop your ETL process: Extract, transform, and load (ETL) is the process of moving data from source systems into your data model. This process can be complex, and it's important to ensure that your ETL process is efficient and reliable.

Choose your analytics tools: Once your data is in your model, you need to choose the analytics tools that will enable you to extract insights. This could include visualization tools, statistical analysis software, or machine learning algorithms.

Test and iterate: Developing a successful intelligence model is an iterative process. Test your model and analytics tools, and use the insights you gain to refine your model over time.