2nd Question

What is Industry Analysis?

Industry:
A collection of firms producing similar products or services, such as airlines, fitness drinks, furniture, or electronic games.

Industry Analysis:
A business research process focusing on the potential of an industry to support a new venture.

Importance of Industry Analysis

In-depth Understanding: Helps the entrepreneur understand the *ins and outs* of the industry, ensuring that the niche market identified during the feasibility study is viable.

Market Favorability: Identifies whether the selected niche market offers opportunities for a new firm to thrive.

Strategic Decision-Making: Provides insights into market conditions, trends, and opportunities, enabling informed decisions about entry and positioning.

Three Key Questions to Answer in Industry Analysis

Question 1: Is the industry accessible?

Evaluate whether the industry is realistic for a new firm to enter.

Consider:

- Barriers to Entry: High startup costs, regulatory requirements, or intense competition.
- Ease of Acquiring Resources and Market Access: Availability of suppliers, distributors, and customer reach.

Question 2: Does the industry contain markets that are suitable for innovation or are underserved?

Explore whether there are opportunities for unique or improved solutions that address customer needs.

Consider:

- Markets with Little Competition: Niche segments within the industry.
- Gaps in Existing Products or Services: Areas where customer demands are unmet.
- Customer Dissatisfaction: Issues customers face with current solutions.

Question 3: Are there positions in the industry that avoid some of its negative attributes?

Identify areas within the industry that are less exposed to challenges like intense rivalry, price wars, or low-profit margins.

Consider:

- Niches with Lower Competition: Specialized or less crowded markets.
- Differentiation Opportunities: Unique value propositions, such as premium features or personalized services.

How Industry and Firm-Level Factors Affect Performance.

1. Firm-Level Factors

Firm-level factors are internal aspects that define a company's competitive advantage and operational efficiency.

- **Assets**: Physical, financial, and intangible resources such as machinery, cash flow, patents, and brand equity.
- **Products**: The quality, uniqueness, and demand for a firm's offerings.
- **Culture**: The organization's work environment, values, and norms that drive employee behavior.

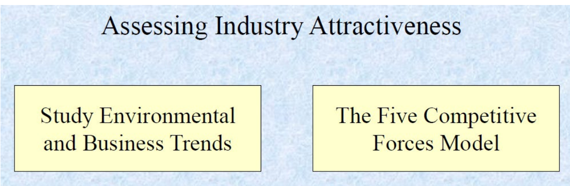
- **Teamwork**: Collaboration and coordination among employees.
- **Reputation**: The firm's image and trustworthiness in the eyes of customers and stakeholders.
- **Resources**: Both tangible and intangible resources that provide a competitive edge.

2. Industry-Level Factors

Industry-level factors pertain to the external environment in which the business operates.

- **Threat of New Entrants**: Barriers to entry and the likelihood of new competitors joining the market.
- **Rivalry Among Existing Firms**: Intensity of competition within the industry.
- **Bargaining Power of Buyers**: The influence customers have on pricing and product quality.
- **Bargaining Power of Suppliers**: The control suppliers have over the availability and cost of inputs.
- **Threat of Substitutes**: The availability of alternative products or services that satisfy the same customer need.

<u>Techniques Available to Assess Industry Attractiveness</u>



1. Study Environmental and Business Trends

Environmental Trends

These are macro-level forces that influence the attractiveness of an industry. They can create opportunities or pose challenges for firms operating within the industry.

- **Economic Trends**: Fluctuations in interest rates, inflation, and consumer spending patterns.
  Example: During economic downturns, consumers spend less on luxury goods, leading companies like **Gucci** to introduce more affordable product lines.
- **Social Trends**: Changes in consumer preferences and demographics.
  Example: The growing awareness of **sustainability** has led to a rise in demand for **eco-friendly products**, pushing companies like **Tesla** and **Patagonia** to thrive.
- **Technological Advances**: Innovations that disrupt or enhance industries.
  Example: The rise of **AI and automation** is transforming industries, with companies like **OpenAI (ChatGPT)** and **Tesla (self-driving cars)** leading innovation.
- **Political and Regulatory Changes**: New laws, trade policies, and tax reforms that impact industries.
  Example: The ban on **single-use plastics** in many countries has created opportunities for **biodegradable packaging startups** like **Notpla**, which makes edible seaweed-based packaging.

Business Trends

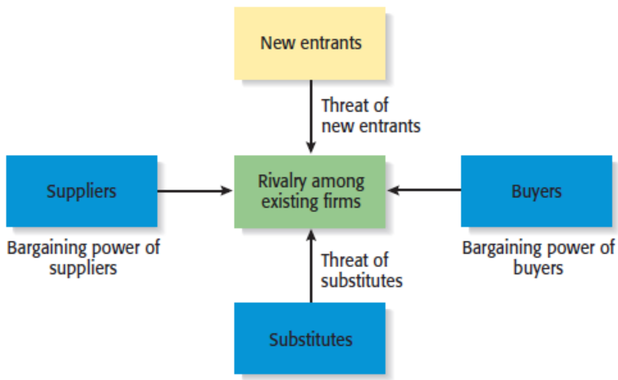
These are industry-specific factors that impact operational dynamics and profitability.

- **Profit Margins**: Whether they are expanding or contracting.
  Example: The **fast food industry** operates on low margins, but chains like **McDonald's** use high sales volume and cost efficiency to remain profitable.
- **Rate of Innovation**: Speed and significance of product and process innovations.
  Example: The **smartphone industry** sees rapid innovation, with brands like **Apple and Samsung** launching new models yearly with improved features.

- **Input Costs**: Changes in the cost of raw materials and resources.
  Example: The **rising cost of cocoa** has impacted the **chocolate industry**, forcing brands like **Hershey's** and **Nestlé** to increase prices or find alternative ingredients.

2. The Five Competitive Forces Model

The Five Forces Model, developed by Michael Porter, is a framework for analyzing the structure of an industry and the factors that determine its profitability. It provides a way to understand the forces that impact an industry's **average rate of return** and **guides firms** in strategizing to improve their performance.



Threat of Substitutes

The threat of substitutes refers to the impact that alternative products or services have on an industry's profitability. When substitutes are readily available and attractive to consumers, they limit how much companies in the industry can charge for their products.

Key Insights,

Price Sensitivity and Substitutes

- The willingness of consumers to pay for a product depends on the availability of substitute products.
- If substitutes are scarce, consumers have limited options, allowing firms to maintain higher prices.
- *Example*: Prescription medicines often lack substitutes, which is why the pharmaceutical industry remains highly profitable.

Effect of Close Substitutes

- When substitutes are readily available and offer similar benefits, consumers are more likely to switch if prices rise.
- This suppresses profitability and forces firms to compete on price or quality.
- *Example*: The soft drink industry faces competition from substitutes like bottled water, tea, or energy drinks, which limits how much they can charge.

Buyer Propensity to Switch

- The degree to which substitutes affect profitability depends on how willing customers are to switch between alternatives.
- Factors such as cost, convenience, and quality of substitutes influence this propensity.

Strategies to Mitigate the Threat of Substitutes

- To reduce the threat, firms can differentiate their offerings and add value that substitutes do not provide.
- *Example*: Starbucks faces competition from cheaper coffee options but mitigates the threat by offering a premium experience. Its focus on quality coffee, excellent service, and a welcoming atmosphere makes customers less likely to switch to cheaper alternatives.

Threat of New Entrants

The threat of new entrants refers to the likelihood of new companies entering an industry, which increases competition and potentially decreases profitability.

Highly profitable industries attract new entrants, leading to more competition and a decline in industry profitability unless barriers to entry are established.

Barriers to Entry,

Barriers to entry deter new firms from entering an industry and help existing firms maintain profitability.

Traditional Barriers to Entry

- **Economies of Scale:** Large-scale production reduces per-unit costs, making it hard for small firms to compete.
  Example: The automobile industry has significant economies of scale, requiring massive investments to achieve cost-competitive production.
- **Product Differentiation:** Strong brands create customer loyalty, making it expensive for new entrants to compete.
  Example: Coca-Cola and Pepsi dominate the soft drink industry due to their established brands.
- **Capital Requirements:** High upfront costs deter new entrants.
  Example: Setting up a semiconductor manufacturing plant requires billions of dollars in investment.
- **Cost Advantages Independent of Size:** Established firms benefit from lower costs due to early investments or favorable terms.
  Example: Existing hotel chains may own prime real estate bought at lower historical prices.
- **Access to Distribution Channels:** New firms may struggle to get shelf space or secure distribution agreements in crowded markets.
  Example: Start-ups in the snack food industry may face difficulty competing with brands like Lay’s in grocery stores.
- **Government and Legal Barriers:** Regulatory requirements or licensing restrict entry.
  Example: Pharmaceutical companies need FDA approval, which takes time and money, creating barriers for new entrants.

Non-Traditional Barriers to Entry

Start-ups with limited resources rely on innovative and unconventional barriers:

- **Strength of Management Team**: A top-tier team attracts investors and deters competitors.
  Example: Tesla's early success was partly attributed to the vision and expertise of Elon Musk.
- **First-Mover Advantage**: Early entrants establish brand recognition and customer loyalty.
  Example: Amazon’s early entry into e-commerce gave it a competitive edge.
- **Passion and Culture**: A highly motivated team and unique culture can create an edge that competitors can’t replicate.
  Example: Start-ups like SpaceX are driven by employees’ belief in the mission, making it hard for competitors to copy their culture.
- **Unique Business Model**: Innovative models disrupt industries and create unique barriers.
  Example: Airbnb’s peer-to-peer model disrupted the hospitality industry and is hard to replicate.
- **Internet Domain Name**: Owning a highly relevant domain name gives a start-up a strong e-commerce presence.
  Example: Hotels.com’s domain name makes it the go-to site for booking accommodations.
- **Inventing a New Approach**: A fresh perspective on an industry creates differentiation.
  Example: Uber redefined transportation by introducing a ride-hailing app that challenged traditional taxi services.

Rivalry Among Existing Firms

The level of rivalry among existing firms in an industry is one of the most significant determinants of industry profitability. Intense competition can erode profitability, while subdued rivalry allows firms to thrive without aggressive price wars.

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

- **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. Example: The retail grocery industry has many well-established players like Walmart, Kroger, and Target, leading to frequent price wars and promotions.
- **Degree of difference between products:** The degree to which products differ from one product to another affects industry rivalry. Example: The smartphone industry sees less intense price rivalry between Apple and Samsung because of brand loyalty and differentiated features.
- **Growth rate of an industry:** The competition among firms in a slow-growth industry is stronger than among those in fast-growth industries. Example: The renewable energy sector (fast growth) experiences less rivalry compared to the steel industry (slow growth).
- **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. Example: Airlines have high fixed costs, such as fuel and aircraft maintenance, leading to fierce competition and pricing battles to ensure maximum seat occupancy.

Bargaining Power of Suppliers

The bargaining power of suppliers refers to their ability to influence the terms of supply, including pricing, quality, and availability of goods or services. Powerful suppliers can negatively affect industry profitability by increasing costs or degrading the quality of components.

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

- **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. Example: The semiconductor industry has a few key players, such as Intel and TSMC, supplying to numerous technology firms, giving suppliers substantial leverage.
- **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. Example: Automakers often face high switching costs when changing parts suppliers due to retooling and testing requirements.
- **Attractiveness of substitutes:** Supplier power is enhanced if there are no attractive substitutes for the product or services the supplier offers. Example: Unique materials like rare earth metals, essential for manufacturing batteries and electronics, have limited substitutes, enhancing supplier power.
- **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. **Example**: A software vendor supplying components to a SaaS company might develop its own competing software platform.

Strategies to Mitigate Supplier Power

- Diversifying Suppliers: Reduce dependence on any single supplier to minimize risk.
- Vertical Integration: Acquire suppliers to gain control over the supply chain.

- Developing Substitutes: Innovate or partner with alternative providers to create viable substitutes.
- Negotiation Tactics: Leverage bulk purchasing or long-term contracts to secure better terms.

Bargaining Power of Buyers

Buyers' bargaining power refers to their ability to influence prices, demand higher quality, or negotiate better terms. Powerful buyers can suppress industry profitability by demanding concessions from suppliers.

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

- **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.
- **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.
- **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.
- **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.

Strategies to Mitigate Buyer Power

- Product Differentiation: Offer unique features, quality, or branding to reduce price sensitivity.
- Increase Switching Costs: Lock buyers into long-term contracts or loyalty programs.
- Target Diverse Buyers: Diversify the customer base to avoid over-reliance on a few dominant buyers.
- Vertical Integration: Enter the buyer's industry to gain control over distribution and reduce dependence.

How the Five Competitive Forces Impact Profitability

Michael Porter's Five Forces Model helps businesses understand the competitive pressures within an industry. Each force can either erode or protect profitability, influencing a firm's ability to sustain competitive advantages.

1. **Threat of Substitutes → Reduces Profitability**

Impact: If alternative products offer similar benefits at a lower price, customers may switch, forcing companies to lower prices and reduce profit margins.

Example:

- Netflix vs. YouTube & Gaming Platforms:

- Netflix's profitability is affected by substitutes like YouTube, TikTok, and gaming platforms like PlayStation and Xbox.
- If customers find free or more engaging content elsewhere, Netflix must invest heavily in exclusive content or lower subscription fees.

How Netflix Maintains Profitability:

- Producing exclusive content like Stranger Things.
- Expanding into gaming and interactive
- content. Offering ad-supported plans to cater to price-sensitive customers.

2. **Threat of New Entrants → Reduces Profitability**

Impact: New competitors entering the market increase competition, drive down prices, and reduce profitability unless barriers to entry exist.

Example:

- **Tesla and the EV Market:**

- Initially, Tesla had a **first-mover advantage** in electric vehicles.
- As new players like Rivian, Lucid Motors, and legacy automakers (Ford, GM) enter the EV market, Tesla faces **price competition** and higher R&D costs.

How Tesla Maintains Profitability:

- **Brand loyalty** and strong customer perception.
- **Economies of scale** by increasing production volume.
- **Supercharger network** as an entry barrier for new firms.

3. **Rivalry Among Existing Firms → Reduces Profitability**

Impact: Intense competition forces firms to lower prices or increase marketing, reducing overall profit margins.

Example:

- **Coca-Cola vs. Pepsi in the Beverage Industry:**

- Both brands compete heavily through advertising, promotions, and product innovations.
- Price wars and aggressive marketing reduce profit margins for both companies.

How Coca-Cola Maintains Profitability:

- **Strong brand identity and customer loyalty.**
- **Diversification into healthy drinks (Smartwater, Minute Maid).**
- **Global distribution dominance.**

4. **Bargaining Power of Suppliers → Reduces Profitability**

Impact: If suppliers control essential raw materials or components, they can increase costs, reducing business profitability.

Example:

- **Apple vs. Chip Suppliers (TSMC, Qualcomm):**

- Apple relies on **TSMC** for advanced chip production.
- If TSMC increases prices, Apple's **manufacturing costs rise**, impacting profit margins.

How Apple Maintains Profitability:

- **Vertical integration:** Apple started designing its own chips (M1, M2) to reduce dependence on suppliers.
- **Diversifying suppliers:** Expanding partnerships with multiple chipmakers.
- **Negotiation power:** Apple's massive order volumes give it leverage to negotiate better deals.

5. **Bargaining Power of Buyers → Reduces Profitability**

Impact: If customers have too many options, they demand lower prices, better quality, or additional services, reducing profitability.

Example:

- **Walmart vs. Consumer Goods Suppliers:**

- Walmart has significant bargaining power over brands like P&G and Nestlé.
- If suppliers **refuse lower prices**, Walmart may replace them with private-label brands.

How Suppliers Maintain Profitability Against Walmart:

- **Product differentiation** – Creating exclusive product variations for Walmart stores.
- **Brand power** – Some brands, like Nike, avoid selling through Walmart to maintain premium pricing.

- **Alternative sales channels** – Expanding direct-to-consumer models (e.g., Nike's online store).

STP: Segmenting, Targeting, and Positioning (STP) Strategy

The **STP model** (Segmenting, Targeting, and Positioning) is a fundamental framework for businesses to define their market strategy. It helps businesses **identify their ideal customers**, **focus on the most profitable segments**, and **differentiate their products/services from competitors**.

1. **Segmenting the Market**

Definition

Market segmentation is the process of **dividing a broad customer base into smaller, manageable groups** based on shared characteristics. This helps businesses identify and focus on specific groups that are more likely to purchase their products or services.

Why is Market Segmentation Important?

- Helps businesses **understand customer needs** better.
- Allows for **efficient use of marketing resources** by targeting the right audience.
- Reduces competition by **focusing on specific niches**.

Methods of Market Segmentation:

Demographic Segmentation – Age, gender, income, education, occupation.
Example: A luxury car brand targets high-income professionals.

Geographic Segmentation – Location, climate, urban vs. rural.
Example: A winter clothing brand focuses on cold-weather regions.

Behavioral Segmentation – Buying habits, brand loyalty, usage rates.
Example: A streaming service creates different plans based on user engagement.

Psychographic Segmentation – Lifestyle, values, interests, personality.
Example: A fitness brand targets health-conscious individuals.

Example:

In the **computer industry**, the market can be segmented by:

- **Product type** (laptops, desktops, gaming PCs).
- **Price point** (budget, mid-range, premium).
- **Customer segment** (students, professionals, businesses, gamers).

2. **Selecting a Target Market**

Definition

Once the market is segmented, businesses must choose the **most attractive segment** to serve. A **target market** is the group of customers a business **focuses on and tailors its products/services to meet their needs**.

Why is Target Market Selection Important?

- Ensures **efficient resource allocation** by focusing on the most profitable customers.
- Helps in **creating specialized marketing campaigns** for specific groups.
- Reduces risk by **choosing a segment with strong demand**.

Factors to Consider When Selecting a Target Market:

Market Size – Is the segment large enough to be profitable?

Growth Potential – Will demand for this segment increase over time?

Competition – Are there too many businesses targeting the same market?

Alignment with Company Strengths – Can the company effectively serve this segment?

Example:

- In the **computer industry**, the **Netbook segment** (lightweight, low-cost laptops) was targeted by startups like **Eee PC**, focusing on students and business travelers looking for portable, budget-friendly devices.

3. **Establishing a Unique Position in the Market**

Definition

Market positioning is the **process of creating a distinct image of a product or brand in the minds of consumers**. A company must communicate how it **stands out from competitors** based on its **unique value proposition**.

Why is Market Positioning Important?

- Helps **build brand identity and loyalty**.
- Allows businesses to **charge premium prices for unique features**.
- Creates **a clear, memorable perception of the brand** in customers' minds.

How to Position a Brand Effectively?

Identify Unique Selling Points (USPs) – What makes the product different?

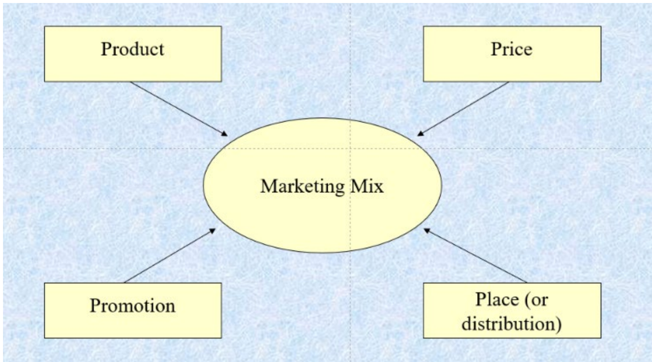
Develop a Strong Message – Clearly communicate the product's benefits.

Use a Tagline/Slogan – Reinforce brand identity in a simple, catchy phrase.

Example:

- **Nike's tagline: "Just Do It."** – Appeals to athletes and non-athletes alike, promoting determination and perseverance.
- **Apple's positioning:** "Think Different" – Focuses on innovation, creativity, and premium user experience.

The Four Ps of Marketing for New Ventures



.The **Four Ps of Marketing—Product, Price, Promotion, and Place**—are the key elements of a successful marketing strategy. They help businesses define **what to sell (Product), at what cost (Price), how to promote it (Promotion), and how to deliver it to customers (Place).** Effectively balancing these factors ensures market competitiveness and customer satisfaction.

1. **Product**

Definition: A **product** is the good or service a firm offers to its target market to satisfy a need or want.

Key Considerations:

- The **initial product launch** is a crucial phase in marketing, as new companies are largely unknown.

- Early customers need to take a **leap of faith** when purchasing from an unknown firm.
- **Reference accounts** (existing customers vouching for the product) can help build credibility and trust.

Core Product vs. Actual Product:

1. **Core Product** – The fundamental benefit or service offered by the product.
   - Example: An **antivirus software** provides protection against malware.
2. **Actual Product** – The **core product plus additional attributes** that enhance the offering.
   - Includes: **Quality, features, design, brand, packaging, warranty, and customer service.**
   - Example: An antivirus software with **automatic updates, customer support, and a sleek interface** becomes the actual product.

2. **Price**

Definition: Price is the amount of money consumers pay to purchase a product. It influences customer perception and market positioning.

Why Price Matters?

- The price reflects **product value** and **brand positioning.**
- **Example:** Oakley sunglasses are positioned as **high-quality, innovative, and stylish**, justifying their premium price.
- Price decisions affect **profitability, demand, and competition.**

Pricing Strategies:

1. Cost-Based Pricing:

- Price is determined by adding a **markup percentage** to the production cost.
- Formula: Price=Cost+(Cost×Markup Percentage)
- Example: If a product costs $200 to make, and the markup is 10%: 200+(200×10%)=220

2. Value-Based Pricing:

- Price is based on what **consumers are willing to pay** rather than production costs.
- It focuses on the **perceived value** of the product.
- Example: Luxury brands set higher prices based on exclusivity, not production cost.

3. **Promotion**

Definition: Promotion refers to all activities a company undertakes to communicate the benefits of a product to its target market.

Key Promotion Strategies:

- **Advertising:** Paid methods to increase brand awareness.
- **Public Relations (PR):** Creating a positive public image.
- **Sales Promotion:** Short-term incentives (discounts, coupons, free samples).
- **Personal Selling:** Direct interaction with customers (e.g., sales representatives).
- **Direct Marketing:** Personalized outreach (emails, SMS, catalogs).
- **Sponsorship:** Partnering with events, influencers, or sports teams.

Advertising: Pros & Cons

Pluses:
- Increases brand awareness.
- Educates customers about product benefits.
- Creates emotional associations with a brand.

Minuses:
- Low credibility (customers may not trust ads).
- Many viewers may **not be interested** in the product.

- Expensive compared to other promotion methods.
- Can be seen as **intrusive** by consumers.

Public Relations (PR):

- PR builds brand reputation and credibility.
- It **differs from advertising** because PR is **not directly paid for.**
- Example: Getting featured in **news articles, interviews, and social media coverage** can boost brand visibility **without advertising costs.**

4. **Place (Distribution)**

Definition: Place (distribution) refers to the methods and channels a company uses to get its product to the customer.

Key Distribution Decisions:

1. **Direct Distribution:** Selling directly to customers (e.g., through a website or own stores).
   - Example: **Apple sells directly via its Apple Stores and website.**
   - **Advantage:** Full control over branding, pricing, and customer experience.
   - **Disadvantage:** Requires more investment in logistics and marketing.
2. **Indirect Distribution:** Selling through **intermediaries** like wholesalers or retailers.
   - Example: **Nike sells products through third-party retailers like Foot Locker.**
   - **Advantage:** Faster market penetration and wider reach.
   - **Disadvantage:** Less control over pricing and branding.

Key Considerations:

- Businesses must **analyze how customers prefer to buy** before choosing a distribution strategy.
- Digital businesses often rely on **e-commerce** and online platforms for distribution.