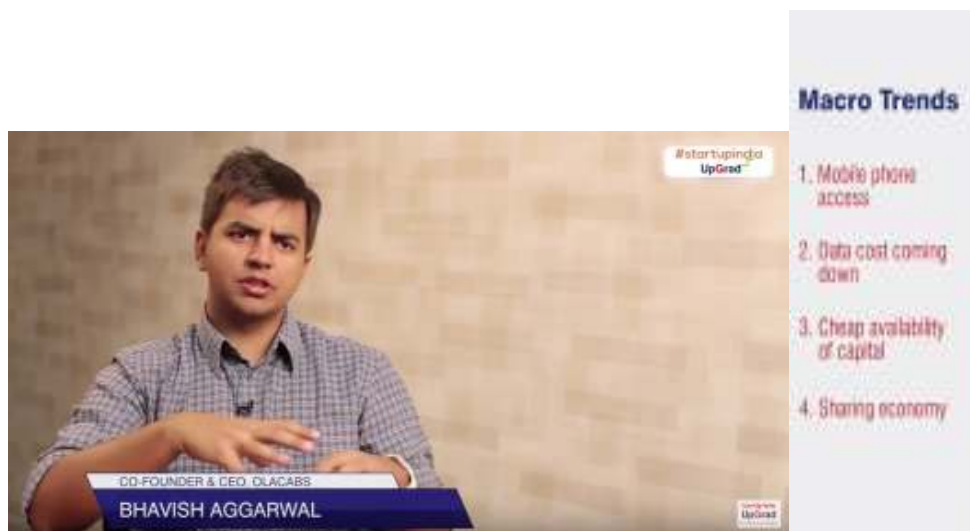


## Transcription

### Analysing Environment & Competitive Advantage

#### Analysing Environment



I think there are many macro trends in India right now, not just for our business, but for the entire internet mobility business. Two of those trends are India is seeing immense growth in mobile phones. People in India have never had access to a screen which is in their hands like mobile phones. Not many people had desktops in India. Television is a one way medium and mobile phones have really opened up this interactive medium for the first time with Indians and that's going to open up consumption in every vertical. And businesses like ours businesses like e-commerce businesses will have to innovate for that platform.

That's one – the hardware is there now and it is getting cheaper and cheaper. Data costs are coming down, data is improving gradually. 4G is being rolled out. Data costs are coming down. That's enabling again the whole consumption on the mobile phones. Capital is available for smart entrepreneur to build very local business models and all these things, this whole technology growth is happening in parallel with this interesting dynamic of schedule, people can have more flexible work choices and this also has a very deep interplay with what kind of regulations need to be built around this whole sharing economy and these mobile ecosystems. So, new businesses have to straddle all these worlds of regulatory, economic, technology, social impact.



Bhavish Agarwal rightly pointed out the dynamic business environment around Ola's app-based cab business. But as an aspiring entrepreneur, who is actually on the look out for validating his/her idea, sometimes I wonder how does he/she rightly evaluate and identify which ideas would work and which ideas won't and that is where I feel it is very important to have a complete understanding of the business environment. It helps immensely in setting clear and feasible business goals. We would be covering that in one of our subsequent modules. As of now, it would be good to understand how Bhavish from Ola correctly identified the factors that would impact his business to come up with an offering that is customer centric and viable at the same time.

### Environmental Analysis

1. To identify elements impacting performance
2. To align strategies with environment
3. To determine business potential

A woman with glasses, wearing a patterned shirt, is speaking and gesturing with her hands. In the background, there is a blue wall with the "#StartupIndia UpGrad" logo.

Businesses are greatly influenced by their environment. So, it is very important for you to analyze the existing business environment and look for the competitive advantages you can have in the market.



Environmental analysis is a strategic tool. It is a process to

1. Identify all the elements, which can affect the organization's performance.
2. The analysis of such elements help align strategies with the firm's environment.

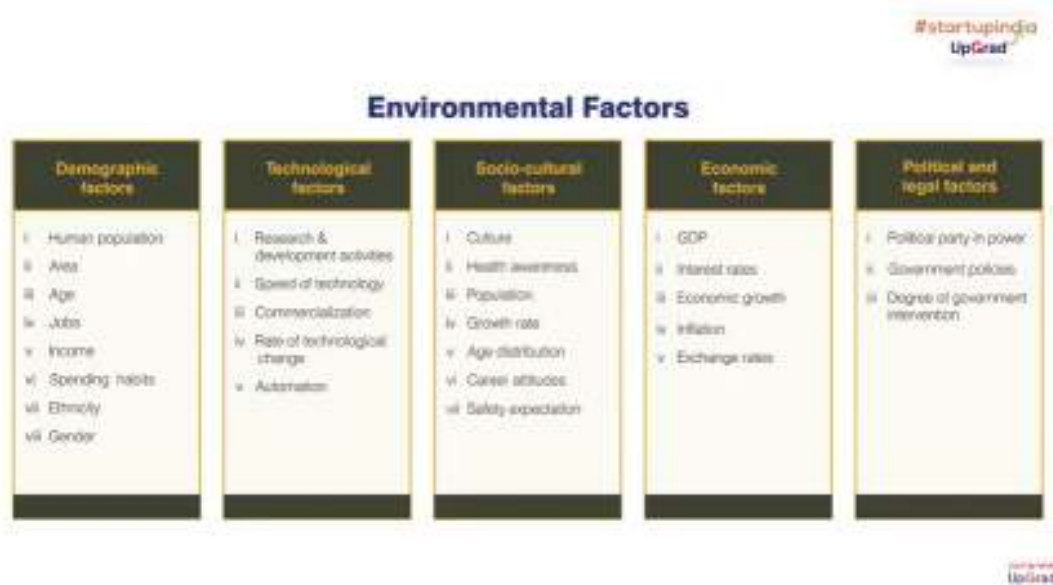
The analysis is also important to determine the potential of your business. In any business environment, there will be many factors beyond your control that will affect your business, both positively as well as negatively. Since you are not able to influence these factors, it is will be good for you to understand them in order to take appropriate strategies. There are various environmental factors to be kept in mind. Let's discuss them one by one – The first one is Demographic factors. Simply put, it is the study of the human population, living in an area, their age, jobs, income, spending habits, ethnicity and gender and so on. In India, more than 50% of the population is below the age of 25 years which gives the chance to start ups to focus on youth centric products. Then there are technological factors that include research and development activities, the speed of technology commercialization, rate of technological change, automation and so on. In the Indian context, we can very clearly observe a smartphone revolution where lots of people are becoming more tech savvy, and moving to more sophisticated mobile devices, regardless of age.



Now is mobile a significant part? Yes. Definitely, yes. But whether you should be a mobile only or mobile forced or mobile also company is something you need to determine basis user behaviour. In our case it was very clear that we need to be a mobile also company and that is what we have stuck to. The research does show that without having a mobile presence, you are a dead business. Because these are what the statistics are right, India is the second largest country in terms of smartphone ownership. By 2016 it is estimated that close to around 200 million people in India would be smartphone enabled and also the researchers indicate towards India every 10th smartphone in the world being shipped to India by 2017. So you can't definitely let go of mobile as the key element of your business.



Of course, there are socio-cultural factors that take into consideration trends, behavior or attitude changes related to culture, health awareness, population, growth rate, age distribution, career attitudes and safety expectations. In the Indian scenario, we can see a behavioral shift in the consumers who used to shop offline are now very comfortably shopping online.



Then, there are the Economic factors which include GDP, interest rates, economic growth, inflation and exchange rates. They impact how your business operates and the decisions you make in that particular environment. Others are Political and legal factors. These factor take into consideration the political party in power, government policies affecting the economy and the degree of government intervention. In India for instance, the current government intends to give a good push to the startups and thereby, initiated the start-up India campaign and many others which focus on different sections of the society.

#### Environmental Factors



<input checked="" type="checkbox"/>	Demographic factors
<input type="checkbox"/>	Technological factors
<input type="checkbox"/>	Socio-cultural factors
<input checked="" type="checkbox"/>	Economic factors
<input checked="" type="checkbox"/>	Political and legal factors

Let us take an example to understand the impact of such factors in decision making for your venture. Let's assume that you love books, and that has got you thinking about starting a book store. Now let's judge this idea against the parameters we have just listed: While previous generations focused on basics like food, clothing and shelter, the current younger generations have evolved to focus on higher order needs like entertainment. Thus, based on this demographic parameter, the idea of setting up a book store seems good. The world of books has changed. You can easily buy books online and you can have them delivered to your doorstep through portals such as Amazon and Flipkart.

Added to that, with the advent of reading gadgets like Kindle and general all-purpose devices such as tablets, and big-screen phones, most book readers, especially those who read while traveling, prefer to load thousands of books on their gadget, rather than carry around individual bulky books. With the rapid rise in the penetration of such gadgets, physical book buying, and that too via a physical purchase in a book store, seems like a dying activity. So, based on this technological parameter, the idea does not seem good. Far from it actually. The youth are socialising more, eating out more, and traveling more. Visiting a book store, seems less likely to fall into this pattern. Thus, based on this socio-cultural parameter, the idea does not seem so good. If you are thinking of opening your book store in India, then the economic factors are in favour of the business As the Indian economy is on a high rise. In fact, it's a market which is being eyed upon by many international players. The political and legal environment as of now is stable and conducive but you will be required to get into the depth of state regulations and how does it impact your business. So let us assume all is well from that standpoint, and it's a Yes in for Economic and Political factors. So at a combined level, it seems a 2-2 score on these parameters, which puts in a neutral place. A positive score in favour is ideally when the business should be considered as worthy of being thought about.

## Understanding Industry (Porter's 5 Forces Model)



Now, analysing the broader business environment seems an elaborate exercise. But on the contrary, it is an important one to get more clarity for your venture idea. But what after analysing the Business Environment? Probably, one has to get into understanding of the industry in specific. This is essential for entrepreneurs who actually want to assess the attractiveness of the industry their business idea pertains to. Let's get some assistance from our subject matter experts on how to carry out industry analysis.





After analysing the business environment, it's important for an entrepreneur to analyse the industry he intends to enter. Industry analysis involves reviewing the economic, political and market factors that influence the way the specific industry functions and develops. Industry analysis enables a business to develop a competitive strategy that best defends against the competitive forces or influences them in its favour. For doing a complete industry analysis, first identify your industry very clearly.



In the late 1970s, Michael Porter, created a framework, which is relevant to this day. According to him, Industry attractiveness is determined by five forces in that industry, and these forces typically interact with each other.

The five forces are:

1. Threat of entry
2. Buyer power
3. Supplier power
4. Threat of substitutes
5. Competitive rivalry

The more forces that are favourable to the entrepreneur, the more attractive that industry is. Now, let's look at them one by one. New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete. Think about the realty sector. A few years ago, there were just two major players, 99acres and Magicbricks catering to online aggregation of properties being rented/leased or sold. But suddenly many other players entered the foray such as housing.com, nobroker.in and many like them.

The threat of entry of new entrants puts a cap on the profit potential of an industry, as more and more players come in to take a slice of the pie. Having said that, expecting no competition to enter the domain is unrealistic, but knowing your competitive scenario at the time of YOUR entry into market is critical. The threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. Like, if the online realty players have a great network offline also then it is a barrier that the others cannot easily replicate or match.



Let's take another example of Amazon. There is always a threat of new entrants (Marketplaces) as it is relatively less costly to enter the market and setup operations. There is no additional cost incurred to set up any physical stores and locations. In addition, traditional established physical stores can easily move into online retailing and bring with them their substantial consumer base.



On the other hand, amazon has created entry barriers through:

1. Variety of Products offerings
2. First mover advantage
3. Substantial economy of scale

While assessing for your own venture, the question you need to ask is – Whether it is easy or difficult to enter this industry? If you are planning to build an enduring venture then it is better to have a high barrier to entry to begin with.



Next force in the model is Buyers power. Powerful customers can capture more value by forcing down prices, demanding better quality or more service (thereby driving up costs), and generally playing sellers off against one another. Let us take the example of the power industry. Most of the coal which is produced in India is purchased by the thermal power industry. Thermal power plants are the major buyers of coal. So, in India due to limited number of large thermal power plants, they are very powerful buyers and if the domestic mining companies increase the price of coal to a high level, power plants will import coal from outside. Take another example of Walmart.



Walmart is extremely powerful as a buyer. It has enormous reach and reaches thousands of end users. It also buys in large quantities and controls how a customer accesses the brands and products that it stocks. This means that Walmart can dictate prices, delivery times and product quality from its suppliers. Suppliers cater to this pressure by basing their operations close to Walmart headquarters and allowing easy access to the company's purchasing departments to test products and negotiate terms. Walmart can easily switch suppliers which gives the company additional power to dictate terms. Here, the Buyers would have high buying power as the number of buyers are low. The product is anyways standardized, providing low switching costs, thus making the seller even more powerless. Large-volume buyers are particularly powerful in industries with high fixed costs, such as telecommunications equipment, offshore drilling, and bulk chemicals. The question you have to ask is:

1. Do your buyers have the power to set terms and conditions?

For an entrepreneur it is better to have weak buyer power.



The next force for industry evaluation is the Suppliers power. Just think. How many cell phone service providing companies are there in India? Four? Maybe five? Powerful suppliers, like telecommunication majors often create a situation where they get most of the value by charging higher prices, limiting quality

or services, or shifting costs to buyers. Looking at another industry, apply the same thought- Microsoft, for instance, has contributed to the erosion of profitability among personal computer makers by raising prices on their Microsoft software. So, the question you have to ask is that:

1. Will you or your suppliers have the power to set terms and conditions?

Of course, for a start-up it would be ideal to have low supplier power.



Threat of substitute is something that also needs to be analysed within the Industry. A substitute performs the same or a similar function as an industry's product by a different means. Substitutes are always present, but they are easy to overlook because they may appear to be very different from the industry's product. Let's take the example of Travel agents. Whether online or offline, they were threatened when airlines themselves became the substitute of travel agents. Let's take the case of the automobile industry. Just 2 to 3 years ago, if you were to ask any automobile sector expert, the list of potential "Substitutes". The list would have been very different. Today, with the advent of several aggregated taxi or cab services, such as Uber, Ola etc., the younger generation, especially the first time car purchasers, are often forgoing the decision of buying a car - they are doing on the basis the easy availability of a cab and a driver, without any headache of petrol filling, cleaning the car or maintenance. So the question here should be:

1. Is it easy or difficult for your product to be substituted?

As an entrepreneur your product should preferably have less threat of substitutes.



I personally don't own a car, I don't feel the need to own a car anymore. A lot I am seeing around me many people not buying their first cars also, my employees and other people who would have bought their first car by now. Stepping back at a macro level, if you see India, India has only 5 % car ownership and the public road structure is also – we are overcrowded and overwhelmed, completely overwhelmed, unlike west where there is 70% car ownership and the infrastructure is much better. So India cannot have a paradigm of mobility when everybody owns a car, it's just not going to happen and the paradigm for mobility is going to be a shared service like Ola. And I see that around me everywhere like you know people are not using their cars if they own a car they are not buying their second cars, many people like me are not even buying their first cars. I think that it's going to change much faster than most people expected it to.



Define your industry narrowly because it will clearly give you focus as to who your principal competitors are which will in turn help you in assessing the competitive rivalry. Take the example of social networking sites. Facebook commands a loyal user base across several user demographics and geographies. However, competition from Google+ and Twitter can cause a reduction in the average time spent by active users on the FB platform, as these platforms offer unique sets of features. Further, a number of social networks are

cropping up that target a niche user base. For example, Snapchat appeals to a younger audience and is more popular among females. We expect this trend to persist and hence Facebook could see competition intensifying within different user demographics. In traditional slow growth industries, like the pharmaceutical sector, competitive rivalry would be really high. Needless to say, in such a sector, heavy brand spends are needed to become the market leaders. While talking about Competitive rivalry – one thought- Don't overlook relevant substitutes. E.g. even bullet trains could be a competitor to the airline industry. The Question you need to ask yourself is:

1. Is your competitor rivalry intense?

As an entrepreneur you would prefer less competition of course.



UBER had actually been in India for 2 years. When Uber came into India, we were very small, I remember we had less than half a million dollars in the bank when Uber came to India and were doing 2000 rides a day, just nothing. So Uber and Ola have evolved actually fairly in parallel in India. We've done a much better job of building a much more local product and if you look at how a local company can retain its market lead and grow its market share it's about being more local, fundamentally being more local in everything, on the product that you are building, different geographies and different cultures require different features on the brand that you are building in our case on the driver end and the consumer end and on the partnerships and the integration with the ecosystem. Because if you are a local, you can do these things much faster.



Based on all five forces you have to assess your industry and find just how attractive or unattractive it is, remember the better your score in the five forces the better chance your venture has to succeed. Let's apply our learning to understand the porter's five forces model for eBay. eBay is one of the leading players in the worldwide e-commerce marketplace. If you look at the online market space, competitive rivalry within the industry, bargaining power of customers and the threat of new entrants are the three key forces that can pose a threat to eBay's business. eBay faces huge competition which restricts pricing increases on its marketplace. Due to relatively low barriers to entry, new companies continue to crop up in the global e-commerce market, further intensifying the competition.

Let's look at Competitive Rivalry within The Industry. eBay faces competition in its marketplaces segment from both offline and online players. Customers can buy products from a wide range of retailers, distributors, auctioneers, directories, search engines, etc. and hence the competition is intense. Let's discuss the Bargaining Power of Customers now. The huge competition in the e-commerce market allows the customers to win as companies have to keep their prices in check to attract buyers. Customers can choose from a wide range of offline as well as online players. A large number of companies have entered the e-commerce space with relatively niche product offerings. Hence, customers can always buy from some other website or some other store in case they are not satisfied with any one player.

Now comes the other element which is Threat of New Entrants. The e-commerce market is characterized by low barriers to entry. It is relatively easy for newer players to enter the market and start selling products. Having said that, it's difficult for newer players to gain brand recognition and attain high ranking on search engines. Newer players require significant marketing budgets to compete on a large scale and this restricts entry of newer players to an extent.

Talking about Bargaining Power of Suppliers in case of eBay. Millions of sellers list their products on eBay marketplaces; hence their individual bargaining power is limited. However, sellers can also list their products on multiple platforms and sites, including Amazon, Flipkart, Snapdeal and various international e-commerce sites. Hence, if eBay introduces policy and price changes that are unsatisfactory to sellers, then it could result in lower number of product listings on its marketplace.



Threat of Substitute Products, which is the last force in the model, is pretty low because of the large product range on its platform and hence there is no real threat from this. Further, the product range continues to expand and eBay can easily introduce several different types of products to adapt to changing customer trends.

## Competitive Advantage



When we launched in India in 2005, we were talking to our advertising agency and they said what's the brief. And I said the brief is very simple. Just get people to our site and the site will do the rest, because we had something which no one else had. Basically we could solve through technology what off line travel agents couldn't do. And that was our USP. We could give you all the options including the low cost carriers offline agents didn't want to sell. Traditional travel agents didn't want to sell low cost carriers because they made no money out there. So that USP was there and even when we launched hotel we were the first game in town etc.





Well, that makes a lot of sense. So essentially what MakeMyTrip did was offer ticket prices that regular offline agents could not match. But, is it something that would count as competitive advantage? It would be good to understand what exactly competitive advantage means. In this segment we will also understand how we can build that competitive advantage by incorporating various differentiating factors in your business.



Ask yourself, for your venture idea – What is the one thing that you will focus on that will give you a sustainable competitive advantage which will be difficult for others to copy? Be honest to this question. This is probably one of the most important questions that you will ask yourself in your venture journey. The idea is to understand those factors, which can make you a successful entrepreneur. So, identify or create those factors which can then help you take your venture to the next level.

Let's discuss the factors that will help you build a sustainable competitive advantage:

1. The first one being the presence of proprietary elements. Elements like patents, trade secrets and so on - that other firms are unable to duplicate or imitate.

Let's take an example. One of the best examples around is Google, a brand that comes to mind automatically when it comes to internet. They have a sustainable competitive advantage which is through patenting their product and have exclusive rights for production/distribution of it for a finite period of years. Google is known to have one of the world's largest patent portfolio. As a company, they do not keep any new feature or new idea as trade secrets, instead they feel safer to patent it out. This solves two purpose for them – one is they have exclusive rights for the same and second it prevents them from any patent infringement legal battles.



Next is Superior organizational processes or capabilities which again cannot be easily imitated. Take the example of Dell. In 1997, Dell reorganized its assembly processes. Rather than having long assembly lines with each worker repeatedly performing a single task, Dell instituted “manufacturing cells.” These “cells” grouped workers together around a workstation where they assembled entire PCs according to customer specifications. Cell manufacturing doubled the company’s manufacturing productivity per square foot of assembly space, and reduced assembly times by 75%. Dell combined operational and process innovation with a revolutionary distribution model to generate tremendous cost-savings and unprecedented customer value in the PC market.

### Factors to Build Sustainable Competitive Advantage:

1. Proprietary elements- patents, trade secrets etc.
2. Superior organizational processes/capabilities
3. Business model differentiation



The third one is creating a business model differentiation. Innovating in value proposition, customer relationships, cost reduction, additional revenue stream will help you differentiate with other competitors in the same industry. Gillette, a century old brand, which we all consider synonymous to men's razors is one of those brands that has differentiated and sustained its competitive advantage over others by focusing more on getting a loyal base of repeat customers by their differentiated business model. The company has a philosophy of following a razor and blade business model, or simply a tied products model, wherein the purpose is to attach to a recurring stream of purchase over a period of time. Here, on one side, they sell razor handles either at a considerable discount or for free, and high margin disposable blades on the other side.

### Factors to Build Sustainable Competitive Advantage:

1. Proprietary elements- patents, trade secrets etc.
2. Superior organizational processes/capabilities
3. Business model differentiation
4. Businesses with network effects



Businesses with network effects have products or services that increase in value as more customers use them. The more people who join a social network like WhatsApp, the more valuable the platform is for the



people who belong. When a network effect business achieves scale, it can have incredibly lasting differentiation because recreating that network poses significant challenges to competitors. Taking the example of WhatsApp further, in India, people do not like to switch to Hike or any other messenger as their friends, relatives and many of their other contacts are primarily on WhatsApp.

**Factors to Build Sustainable Competitive Advantage:**

1. Proprietary elements- Patents, trade secrets etc.
2. Superior organizational processes/capabilities
3. Business model differentiation
4. Businesses with network effects
5. Product Innovation



Product Innovation is development of products that are either new or improved version of existing ones with respect to characteristics or intended uses. Businesses that are able to utilize product innovation effectively will be able to expand and grow into larger businesses, while gaining a competitive advantage over its remaining competitors. For example, Fogg is a product of Vini Cosmetics with a basic USP of long lasting fragrance and guaranteeing 800 sprays for a single Fogg bottle. When all the Deodorants brands were coming with the same type of product, Vini cosmetics came up with a different type of product, a liquid based product instead of gas. The consumer segment it was targeted towards have a common mind-set of getting more for less investment. Fogg understood this human behaviour and delivered a product in Indian market with demonstrating this product with only liquid and no gas. Axe, on the other hand was concentrating on more fragrances by keeping an image of cool and iconic brand.

**Coca-Cola**

**Competitive Advantage:**

1. Secret recipe- unique taste
2. Innovation of new products- 400 brands in 200 markets
3. Robust distribution system
4. Low cost strategy



Let's take the case of Coca-Cola that is maintaining its competitive advantage for the last 120 years. Some of the key features of Coca-Cola's strategy are:

1. Maintenance of differentiation strategy by having a secret recipe, which gives a unique taste to Coca-Cola's products
2. Innovation of new products with a product portfolio of 400 brands in 200 markets
3. Maintenance of a dense and robust distribution system throughout the world with consolidated bottling facilities
4. Maintenance of low cost strategy based on superior production techniques



Let's take the example of food-side start-up – Maroosh, India's fastest growing chain of quick service restaurants. On the face of it, the competitive advantage seems to be its Lebanese cuisine. But think once again – how difficult do you think it is to get a Lebanese menu for your restaurant. Probably not so hard. If you think deeper, the competitive advantage for Maroosh is its ability to source the best ingredients and focus on doing the core job of turning around orders quickly. The process of making a wrap has been standardized. Every time you order one, you are assured that you will get the same taste and be delivered in a shortest possible time.

## Summary: Analysing Environment and Competitive Advantage





In this session, you understood the importance of understanding and analysing the business environment surrounding any venture. We looked at factors that have a large influence on your business. These factors include demographics, technological factors, socio-cultural factors and finally even political-economic factors.



We also got into understanding and analysing the industry by judging the attractiveness of the market by looking into Porter's Five Forces which include:-

1. Market Entry Barriers
2. Supplier Power
3. Buyer Power
4. Threat of Substitutes
5. Competitive Rivalry

I've always heard of Porter's Five Forces but never saw it in this light. After analysing the industry, we looked into the differentiating elements that can help us create systematic and sustainable advantage in our business.



The Competitive Edge can come in through a lot of factors which include Proprietary Elements, Superior Organisational Processes, Business Model Differentiation and Business with Network Effects.

It was great seeing you for this session, and I look forward to seeing you again in the next session where you will understand how to define your business model in a structured framework through the use of Business Model Canvas. We will dive deep into the business model of Facebook to understand how it really works and who are the stakeholders involved so that you can use these learnings to go ahead and clearly define your own business model.

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