**ECONOMIC CHECKLIST**

**INDUSTRY ANALYSIS**

Scale: Can the company grow from a local to national or global market scale?

Industry Strength: Is your industry strong (emerging 6 vs. maturing 7, fragmented 8, or declining 9)?

Value Added Position: If your industry is not emerging, can you seek a value-added position? 10

Relative Market Share: Can the business gain a high relative share of its market?

Competition: Is there a low amount of competition in the industry?

Equal Playing Power: Are the competitors at unequal playing power so that no one company dominates the industry?

Encouraged to Exit: Can tenuous, sick, or marginal companies in your industry be encouraged to exit?

Locational Advantage: Are you in the best location to fight with competitors?

Industry Analysis: Have you done an industry analysis? 11

Buyers Bargaining Power: Do the buyers have weak bargaining power? 2

Suppliers Bargaining Power: Do suppliers have weak bargaining power? 3

Likelihood of Retaliation: Is there a low likelihood of retaliation by dominant players? Can you make moves for which retaliation would hurt the competitor’s broader positions or commitments?

Competitor Intelligence System: Do you have a competitor intelligence system in place?

Market Signals: Are there few market signals that indicate increased competition?

Demand: By interviewing prospective customers, is there a high demand for what your are doing (i.e. does what you are doing solve a lot of peoples problems)?

Affordability: By interviewing prospective customers, do they have the money to pay for you to solve their problems, and will they pay? 4

**OVERCOMING BARRIERS TO ENTRY**

Overcoming Barriers Strategy: Do (or can) you provide a product or service at reduced costs (cost leadership 12), a superior product or service (differentiation 13), or a product or service for a new or niche market (new focus, disruption 14), without getting stuck in the middle?

Don’t Want to or Disruption: Do (or can) you create a product that others wouldn’t want to develop (disruption)? \* Disruption is bad if it causes to much attention and competitors flood the market.

**FORTIFYING BARRIERS TO ENTRY**

Proprietary Marketing Advantage: Do (or can) you have a proprietary marketing advantage?

Switching Costs: Do (or can) you implement monetary, psychological, or effort and time switching costs?

Supply Channels: Do (or can) you lock up supply channels?

Proprietary Technology: Do (or can) you have proprietary technology?

Diffusion of Technology: Do (or can) you prevent the diffusion of your proprietary technology? 1

Favorable Locations: Do (or can) you establish favorable locations?

Domain Knowledge: Do (or can) you have domain knowledge/learning curve advantage?

Favorable Integration: Do (or can) you have favorable integration? 16, 17, 18, 19, 20

Governmental Regulations: Do (or can) you impose governmental regulations?

Intellectual Property: Do (or can) you obtain patents or copyrights?

Piggybacked Distribution: Do you have piggybacked distribution/existing relationships from other business ventures?

Economies of Scale: Do (or can) you obtain economies of scale (if you work in large tangible products such as railroads or construction it will benefit you, if you work in smaller or less tangible products such as information technology it may make you less agile and harm you)?

Economic Value Added: Do (or can) you have economic value added? 5

**PRODUCT**

Margins: Does you product have high margins (product-COGS)?

Fixed Costs: Does you product have low fixed costs?

**PERSONAL**

Synergies: Does what you are doing support other businesses you own or aspects of your life?

SWOT: Do your strengths, and opportunities outweigh your weaknesses and threats?

Risk: Do the returns match the risk? Is the level of risk appropriate for your long-term goals?

**ACQUISITION STRATEGY (IF APPLICABLE)**

Acquisition Strategy: Do you have superior information? Are the number of other bidders/buyers low? Is the condition of the economy bad? Is the selling company sick? Does seller have objectives/motives for sale beside maximizing the price? Does buyer have a distinctive ability to improve operations of the seller? Are you buying into an industry with uses for internal development? Will acquisition help buyer’s position in its existing business?

*Footnotes:*

1. *Diffusion of Proprietary Technology:* Most technology has a very short shelf life if you cannot patent it. The more complex the technology, the more specialized and technical personnel, the greater the economies of scale, continual investment into R&D, and patent protection or gov’t regulation can prevent the diffusion of proprietary technology/knowledge.
2. *Weak Bargaining Power Of Buyers:* Buyers have weak bargaining power when there are a large number of buyers, buyers will compete, product is an insignificant portion of buyers expenses, product is unique and differentiated, switching costs are low, buyer earns high margins, buyer does not pose a credible threat of backward integration, product is important to buyer’s quality assurance, buyer has poor information.
3. *Weak Bargaining Power Of Suppliers:* Suppliers have weak bargaining power when there are many suppliers that will compete for your business, obliged to contend with substitute products, industry is an important customer of the supplier group, suppliers product is not important input in buyer’s business, suppliers products are not differentiated, there are not switching costs, supplier group does not pose a threat to forward integration.)
4. *Customer Interview:* When arranging an interview to gain industry related information, make sure you have something to offer the interviewee in return for his or her time.
5. *Economic Value Added:* EVA is defined as net operating profit after tax (NOPAT), less a capital charge that reflects a firm’s cost of capital. EVA amortizing certain expenses that add long-term value to the company such as research and development and marketing.
6. *Emerging Industries:* Newly formed or re-formed industry created by technological innovations, shifts in costs, emergence of new consumer needs, or other economic changes.
7. *Maturing Industries:* Slowing growth, more competition, emphasis on cost and service, problems in adding capacity and labor, industry profits fall.
8. *Fragmented Industries:* An industry in which it is tough for a firm to gain a significant market share to strongly influence the industry outcome. Fragmented industries are created by low barriers to entry, absence of economies of scale or experience curve, high transportation costs, high inventory costs or erratic sales fluctuations, no advantages of size in dealing with buyers or suppliers, low standardization (allowing economies of scale), low exit barriers, gov’t prohibition of concentration, and newness.
9. *Declining Industry:* Industries that have experienced a decline in unit sales. Causes of decline are usually technological substitution, shrinkage in customer group, shift in customer needs.
10. *Value Added Position for Weak Industries:* If your industry is not emerging, you can pursue aggressive competitive actions, purchase or acquire other business to gain market share, purchase exiting assets or customers, reduce competitors exit barriers, make commitments, share positive information, raise stakes for others, create or defend a particular niche, or harvest the resources.
11. *Industry Analysis:* Who is in the industry, what is the standard industrial classification (SIC) code by the Census Bureau, are their industry studies, annual reports, trade associations, who are the buyers, sellers, trade magazines, business press, company directories, government sources.
12. *Cost Leadership :* Need access to capital, process engineering skills, supervision of labor, ease of manufacturing, low cost distribution, tight control, control reports, structure, quantative incentives, economies of scale
13. *Product Differentiation:* Need strong marketing, product engineering, creative flair, research, good reputation, tradition in the industry, track record, strong cooperation from channel, qualitative incentives, amenities to attract highly skilled labor
14. *New Focus :* Need combination of the above policies directed at the target market.
15. *Benefits Of Vertical Integration:* Assures supply and demand are controlled in-house and not subject to market forces, improves bargaining power, enhances the ability to differentiate the product, elevates entry and mobility barriers.
16. *Risks Of Vertical Integration:* Increased fixed costs and operating leverage, greater swings in earnings, reduced flexibility to change partners, higher exit barriers, greater capital investment requirement.
17. *Backward Integration:* Placing the manufacturing channels (resources to make the product or service) within the company.
18. *Forward Integration:* Placing the distribution/sales channels (resources to sell the product or service) within the company. Allows greater ability to differentiate the product, better access to sales channels, better access to customer/market information, and higher price realization.
19. *Tapered Integration:* Placing some of the distribution or sales channels within the company and some outside of the company. Allows for the threat of integrating more without the downsides of full vertical integration.
20. *Quasi-Integration:* Minority equity investment, loans or loan guarantees, pre-purchase credits, options, exclusive dealing agreements, specialized logistical facilities, cooperative R&D.