

ENT 2112 Homework 5

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All uncited quotes are from the textbook

1. What is an industry?

- "An **industry** is a group of firms producing a similar product or service, such as music, Pilates and Yoga studios, and solar panels"

2. What is an industry analysis and why is it important for a new firm to analyze the industry in which it may choose to compete?

- **Industry analysis** is "business research that focuses on the potential of an industry"

3. How can startups stay on top of environmental and business trends in their industries?

- Startups can stay on top of trends by participating in trade associations, trade shows, and trade journals. "Three important Ts that lead to industry activity are trade associations, trade shows, and trade journals. Start-ups should consider utilizing these Ts as a part of their early and ongoing activities:"

4. What are the five forces that determine an industry's profitability?

1. Threat of Substitutes
2. Threat of New Entrants
3. Rivalry among Existing Firms
4. Bargaining Power of Suppliers
5. Bargaining Power of Buyers

5. How can the threat of substitute products suppress an industry's profitability?

- "in industries where close substitutes for a product do exist, industry profitability is suppressed because consumers will opt not to buy when the price is too high."

6. How can the threat of new entrants suppress an industry's profitability?

- "In general, industries are more attractive when the threat of entry is low. This means that competitors cannot easily enter the industry and successfully copy what the industry incumbents are doing to earn profits."

7. What are the major determinants of profitability in most industries?

- "the number and balance of competitors, the degree of difference between products, the industry's growth rate, and the level of fixed costs"

8. How does rivalry among existing firms have the potential to suppress an industry's profitability?

- Different firms can become engaged in price wars for their products, employees, or in other areas. Price wars drive prices for goods down and employee wages up. Both of these decrease firm profitability.

9. What are the two values created by firms when they successfully use the five forces model?

- "(1) whether it should enter a particular industry and (2) whether it can carve out an attractive position in that industry."

10. How does the bargaining power of suppliers have the potential to suppress an industry's profitability?

- "In some cases, 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."

11. What are the five primary industry types, and what are the opportunities they offer?

1. "An **emerging industry** is a new industry in which standard operating procedures have yet to be developed. The firm that pioneers or takes the leadership of an emerging industry often captures a first-mover advantage. A **first-mover advantage** is a sometimes insurmountable advantage gained by the first company to establish a significant position in a new market."
2. "A **fragmented industry** is one that is characterized by a large number of firms of approximately equal size."
3. "A **mature industry** is an industry that is experiencing slow or no increase in demand, has numerous repeat (rather than new) customers, and has limited product innovation. Occasionally, entrepreneurs introduce new product innovations to mature industries, surprising incumbents who thought nothing new was possible in their industries."
4. "A **declining industry** is an industry or a part of an industry that is experiencing a reduction in demand."
5. "A **global industry** is an industry that is experiencing significant international sales. Many start-ups enter global industries and from day one try to appeal to international as well as to domestic markets."

12. How does the bargaining power of buyers have the potential to suppress an industry's profitability?

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

13. What are the nontraditional barriers to entry that are particularly suitable for entrepreneurial firms to study when selecting an industry in which to compete?

- Strength of management team

- First-mover advantage
- Passion of management team and employees
- Unique business model
- Internet domain name
- "Inventing a new approach to an industry and executing the idea in an exemplary fashion"

14. How can a start-up avoid or sidestep the pressure applied by one of the five forces on industry profitability by establishing a unique "position" in an industry?

- "To help sidestep or diminish these threats, it must establish a favorable position. One firm that has accomplished this is Panera Bread, as discussed in Case 5.1 at the end of this chapter. By studying the restaurant industry, Panera found that some consumers have tired of fast food but don't always have the time to eat at a sit-down restaurant. To fill the gap, Panera helped to pioneer a new category called "fast casual," which combines relatively fast service with high-quality food. Panera has been very successful in occupying this unique position in the restaurant industry."

15. What are the characteristics of a fragmented industry and why are these important for entrepreneurs?

- "A **fragmented industry** is one that is characterized by a large number of firms of approximately equal size." These are important for entrepreneurs because they provide a vector to market dominance through establishing industry standards that may not exist already.

16. What is the primary opportunity for new firms in fragmented industries?

- "The most common way to do this is through a **geographic roll-up strategy**, in which one firm starts acquiring similar firms that are located in different geographic areas"

17. What are the characteristics of a mature industry?

- "A **mature industry** is an industry that is experiencing slow or no increase in demand, has numerous repeat (rather than new) customers, and has limited product innovation."

18. What is the primary opportunity for new firms in a mature industry?

- The primary opportunity for new firms in a mature industry is through innovation in an established product line such as Beyond Meat's meat substitutes in the meat and plant protein industries.

19. What is a global industry?

- "A **global industry** is an industry that is experiencing significant international sales."

20. What are the two most common strategies pursued by firms in global industries?

1. "Firms that pursue a **multidomestic strategy** compete for market share on a country-by-country basis and vary their product or service offerings to meet the demands of the local market."
2. "In contrast, firms pursuing a **global strategy** use the same basic approach in all foreign

markets"