Industry & Competitor Analysis

Week 9

Rabia Zia

rabia.zia@nu.edu.pk

What is Industry Analysis?

- Industry
  - An industry is a group of businesses that produce similar products or services and compete within the same market. Industries are categorized based on economic activities and can range from technology and healthcare to retail and manufacturing.
  - Example: The automobile industry includes companies like Toyota, Ford, and Tesla, which manufacture vehicles.

- Industry Analysis
  - Is business research that focuses on the potential of an industry.

Three Key Questions

When studying an industry, an entrepreneur must answer three questions before pursuing the idea of starting a firm.

Question 1	Question 2	Question 3
Is the industry accessible—in other words, is it is realistic place for a new venture to enter?	Does the industry contain markets that are ripe for innovation or are underserved?	Are there positions in the industry that avoid some of the negative attributes of the industry as a whole?

Techniques Available to Assess Industry Attractiveness

Assessing Industry Attractiveness

Study Environmental and Business Trends	Porter's Five Forces Model (Competitive Model)

Studying Industry Trends

- Environmental Trends
  - Include economic trends, social trends, technological advances, and political and regulatory changes.
  - For example, industries that sell products to seniors are benefiting by the aging of the population.
- Business Trends
  - Other trends that impact an industry.
  - For example, are profit margins in the industry increasing or falling? Is innovation accelerating or waning?

Porter's Five Forces Model (Competitive Model)

- Explanation of the Five Forces Model
  - The five competitive forces model is a framework for understanding the structure of an industry.
  - The model is composed of the forces that determine industry profitability.
  - They help determine the average rate of return for a business in an industry.

The Five Competitive Forces Model
2 of 2

Rivalry Among Existing Firms (Industry Competition)

- What it means: The intensity of competition among existing businesses.
- Impact: High competition reduces profit margins; weak competition allows pricing power.
- Some industries are fiercely competitive, to the point where prices are pushed below the level of costs, and industry-wide losses occur.
- In other industries, competition is much less intense and price competition is subdued.
- Example: Coca-Cola vs. Pepsi → Strong rivalry in the soft drink industry.

Threat of Substitutes

1 of 3

- What it means: The risk of customers switching to alternative products or services.
- Impact: High substitution threats force businesses to innovate or lower prices.
- In contrast, when close substitutes for a product exist, industry profitability is suppressed, because consumers will opt out if the price gets too high.
- Example: Uber replacing taxis, or plant-based milk replacing dairy milk.The price that consumers are willing to pay for a product depends in part on the availability of substitute products. There are few if any substitutes for prescription medicines, which is one of the reasons the pharmaceutical industry is so profitable.

Threat of Substitutes

- The extent to which substitutes suppress the profitability of an industry depends on the propensity for buyers to substitute between alternatives.
- This is why firms in an industry often offer their customers amenities to reduce the likelihood that they will switch to a substitute product, even in light of a price increase.

Threat of Substitutes

- This independently owned coffee shop doesn’t just sell coffee.
- It also offers its patrons a convenient and pleasant place to meet, socialize, and study.
- It provides these amenities to decrease the likelihood that its customers will “substitute” coffee at this shop for less expensive alternatives.

Threat of New Entrants
1 of 6

- What it means: How easy or difficult it is for new businesses to enter the market.
- Impact: If entry barriers are low, more competitors will emerge, increasing competition.
- If the firms in an industry are highly profitable, the industry becomes a magnet to new entrants.
- Unless something is done to stop this, the competition in the industry will increase, and average industry profitability will decline.
- Firms in an industry try to keep the number of new entrants low by erecting barriers to entry.
  - A barrier to entry is a condition that creates a disincentive for a new firm to enter an industry.

Threat of New Entrants

Barriers to Entry

Barrier to Entry	Explanation
Economies of Scale	Industries that are characterized by large economies of scale are difficult for new firms to enter, unless they are willing to accept a cost disadvantage.
Product differentiation	Industries such as the soft drink industry that are characterized by firms with strong brands are difficult to break into without spending heavily on advertising.
Capital requirements	The need to invest large amounts of money to gain entrance to an industry is another barrier to entry.

Threat of New Entrants
3 of 6

Barriers to Entry (continued)

Barrier to Entry	Explanation
Cost advantages independent of size	**Existing firms may have cost advantages not related to size. For example, the existing firms in an industry may have purchased land when it was less expensive than it is today.**
Access to distribution channels	**Distribution channels are often hard to crack. This is particularly true in crowded markets, such as the convenience store market.**
Government and legal barriers	**Some industries, such as broadcasting, require the granting of a license by a public authority to compete.**

Threat of New Entrants

- Nontraditional Barriers to Entry
  - It is difficult for start-ups to execute barriers to entry that are expensive, such as economies of scale, because money is usually tight.
  - Start-ups have to rely on nontraditional barriers to entry to discourage new entrants, such as assembling a world-class management team that would be difficult for another company to replicate.

Threat of New Entrants

Nontraditional Barriers to Entry

Barrier to Entry	Explanation
Strength of management team	**If a start-up puts together a world-class management team, it may give potential rivals pause in taking on the start-up in its chosen industry.**
First-mover advantage	**If a start-up pioneers an industry or a new concept within an industry, the name recognition the start-up establishes may create a barrier to entry.**
Passion of the management team and employees	**If the employees of a start-up are motivated by the unique culture of a start-up, and anticipate a large financial reward, this is a combination that cannot be replicated by larger firms.**

Threat of New Entrants

Nontraditional Barriers to Entry (continued)

Barrier to Entry	Explanation
Unique business model	**If a start-up is able to construct a unique business model and establish a network of relationships that makes the business model work, this set of advantages creates a barrier to entry. Airbnb**
Internet domain name	**Some Internet domain names are so "spot-on" that they give a start-up a meaningful leg up in terms of e-commerce opportunities. Cars.com**
Inventing a new approach to an industry	**If a start-up invents a new approach to an industry and executes it in an exemplary fashion, these factors create a barrier to entry for potential imitators. Tesla**

Bargaining Power of Suppliers

- What it means: How much control suppliers have over pricing and availability of materials.
- Impact: If few suppliers exist, they can demand higher prices; if many suppliers exist, companies have more choices.
- 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.
- Example: Apple relies on specific chip manufacturers, giving suppliers strong bargaining power.

Bargaining Power of Buyers

- What it means: The ability of customers to influence pricing and demand better quality.
- Impact: If buyers have many options, businesses must compete on price and value.
- Buyers can suppress the profitability of the industries from which they purchase by demanding price concessions or increases in quality.
- For example, the automobile industry is dominated by a handful of large companies that buy products from thousands of suppliers in different industries. This allows the automakers to suppress the profitability of the industries from which they buy by demanding price reductions.

A summarized table of Porter’s Five Forces Analysis for the Automobile Industry

Force	Impact Level	Key Factors	Examples	Effect on Profitability
Competitive Rivalry	🔥 **High**	- Many global automakers - Price wars & tech innovation	**Toyota vs. Ford vs. Tesla**	🚗 Lower profit margins due to intense competition
Threat of New Entrants	🚧 **Low - Moderate**	- High capital investment - Strict regulations	**Tesla & Rivian disrupted market**	⚖️ Difficult to enter, but innovation makes it possible
Threat of Substitutes	📉 **Moderate**	- Public transport - Ridesharing & micromobility	**Uber, Metro, E-bikes**	⏳ Some risk, but cars remain essential
Supplier Bargaining Power	💰 **Moderate - High**	- Dependence on specialized parts (batteries, chips) - Supply chain bottlenecks	**Semiconductor shortage (2021)**	📈 Increases costs for automakers
Buyer Bargaining Power	📈 **High**	- Many options for consumers - Price sensitivity	**EV buyers compare Tesla, Nissan Leaf, BYD**	📉 Forces companies to offer discounts & better financing

First Application of the Five Forces Model

- First Application of the Model
  - The five forces model can be used to assess the attractiveness of an industry by determining the level of threat to industry profitability for each of the forces.
  - If a firm fills out the form shown on the next slide and several of the threats to industry profitability are high, the firm may want to reconsider entering the industry or think carefully about the position it would occupy.

First Application of the Five Forced Model

Assessing Industry Attractiveness Using the Five Forces Model

Competitive Force	Threat to Industry Profitability		
	Low	Medium	High
Threat of substitutes			
Threat of new entrants			
Rivalry among existing firms			
Bargaining power of suppliers			
Bargaining power of buyers			

Instructions:

Step 1 Select an industry

Step 2 Determine the level of threat to industry profitability for each of the forces (low, medium, or high)

Step 3 Use the table to get an overall feel for the attractiveness of the industry

Step 4 Use the table to identify the threats that are most often relevant to industry profitability

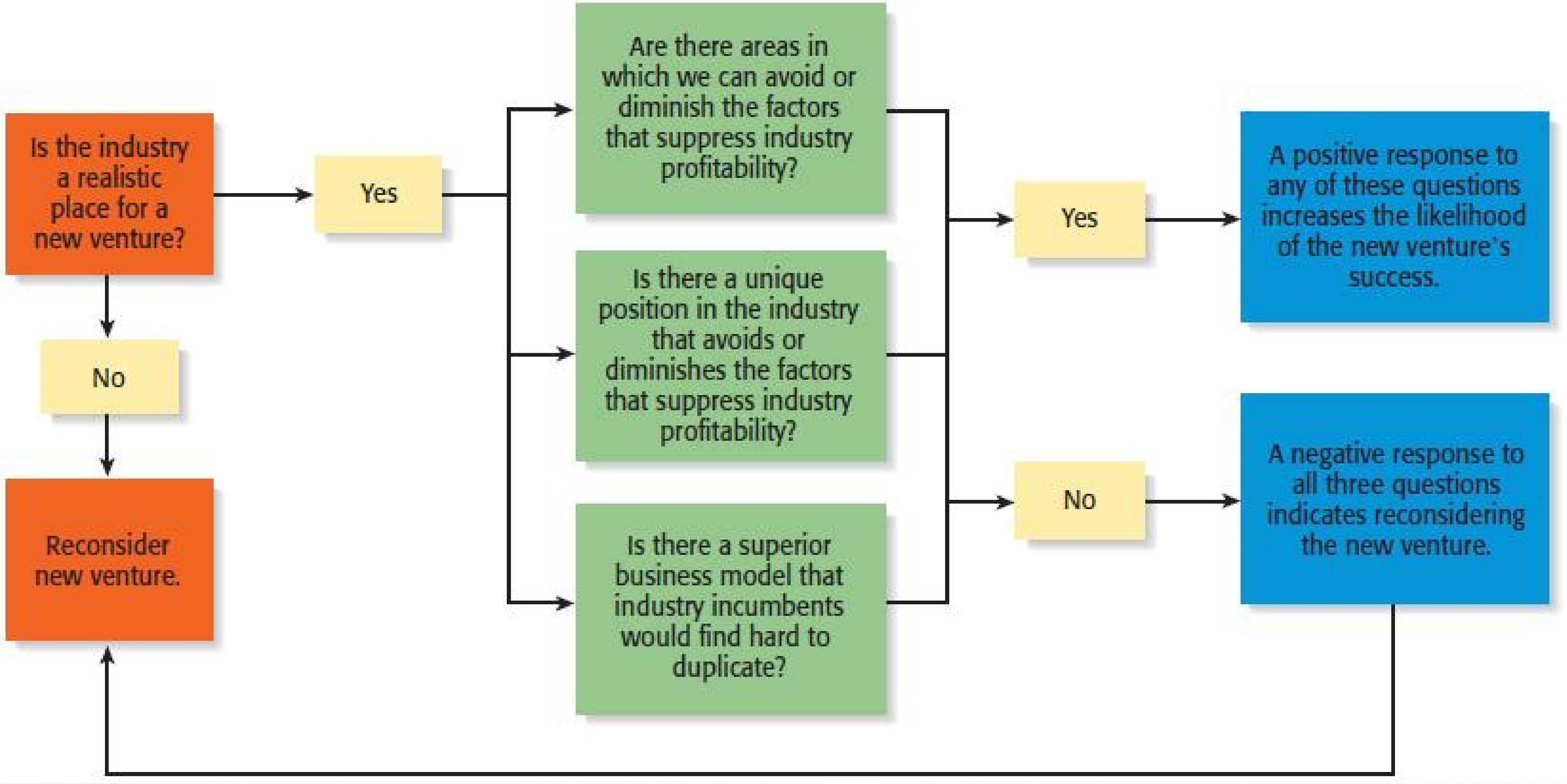
Second Application of the Five Forces Model

1 of 2

- Second Application of the Model
  - The second way a new firm can apply the five forces model to help determine whether it should enter an industry is by using the model to answer several key questions.
  - The questions are shown in the figure on the next slide, and help a firm project the potential success of a new venture in a particular industry.

Second Application of the Five Forces Model

Using the Five Forces Model to Pose Questions to Determine the Potential Success of a New Venture in an Industry



What is a Competitor Analysis?

- A competitor analysis is a detailed analysis of a firm's competition.
- It helps a firm understand the positions of its major competitors and the opportunities that are available.
- A competitive analysis grid is a tool for organizing the information a firm collects about its competitors.

Identifying Competitors

Types of Competitors New Ventures Face

Direct Competitors

Businesses offering identical or similar products

Indirect Competitors

Businesses offering close substitute products

Future Competitors

Businesses that are not yet direct or indirect competitors but could be at any time

Sources of Competitive Intelligence
1 of 3

- Collecting Competitive Intelligence
  - To complete a competitive analysis grid, a firm must first understand the strategies and behaviors of its competitors.
  - The information that is gathered by a firm to learn about its competitors is referred to as competitive intelligence.
  - A new venture should take care that it collects competitive intelligence in a professional and ethical manner.

Sources of Competitive Intelligence

- Many companies attend trade shows to not only display their products, but to see what their competitors are up to.

Completing a Competitive Analysis Grid

- Competitive Analysis Grid
  - A tool for organizing the information a firm collects about its competitors
  - A competitive analysis grid can help a firm see how it stacks up against its competitors, provide ideas for markets to pursue, and identify its primary sources of competitive advantage.

Competitive Analysis Grid for Element Bars

TABLE 5.5 Competitive Analysis Grid for Element Bars

Name	Element Bars	Power Bar	Clif Bar	Balance Bar	Larabar
Nutritional value	Advantage	Even	Even	Even	Even
Taste	Even	Disadvantage	Even	Even	Disadvantage
Freshness	Advantage	Disadvantage	Disadvantage	Disadvantage	Disadvantage
Price	Disadvantage	Advantage	Advantage	Advantage	Advantage
Packaging	Advantage	Even	Even	Even	Even
Branding	Disadvantage	Advantage	Advantage	Even	Even
Customizable	Advantage	Disadvantage	Disadvantage	Disadvantage	Disadvantage
Social consciousness/ philanthropy	Disadvantage	Disadvantage	Advantage	Disadvantage	Even

Class Activity

- Smartphones (e.g., iPhone, Samsung, Google Pixel, OnePlus)
- Sneakers (e.g., Nike, Adidas, Puma, New Balance)
- Soft Drinks (e.g., Coca-Cola, Pepsi, Sprite, Fanta)
- Fast-Food Chains (e.g., McDonald's, KFC, Burger King, Subway)
- Laptops (e.g., Dell, HP, Apple MacBook, Lenovo)

Feature	Brand 1	Brand 2	Brand 3	Brand 4
Feature 1				
Feature 2				
Feature 3				
Feature 4				
Feature 5				
Feature 6				

THA
NK
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