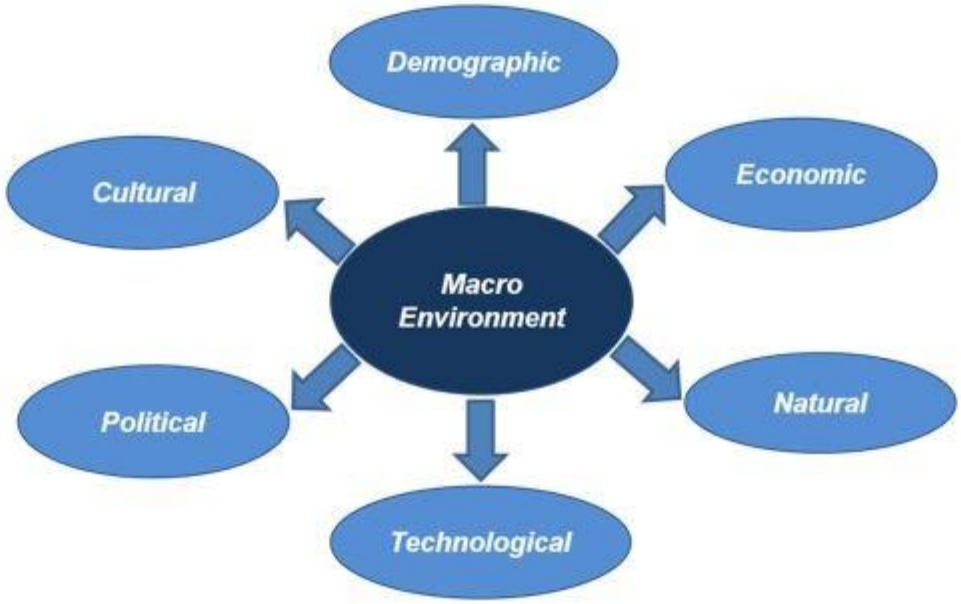
Chapter 3
Industry and Competitive Analysis

Macro environmental factors

Macro environment refers to the major external and uncontrollable factors that influence the decision making of an organization. A company does not operate alone in its business environment, but operates in a larger context. It comprises of forces that provide opportunities, but at the same time also pose threats to company. Six components of macro environment are *Demographic*, *Economic*, *Natural*, *Technological*, *Political* and *Cultural* environments.



Demographic environment

Demography can be defined as the study of human population in context of size, density, age, location, gender, race, occupation and other statistics. The marketers have special interest in the demographic environment because it consists of people and people are the driving force for development of markets. The large and diverse demographics offer both opportunities as well as challenges for businesses.

Economic environment

The economic environment consists of factors that can affect consumer purchasing power as well as the spending patterns. As an example, it is not advisable for a company to start exporting its goods to a country before having examined the citizens spending patterns. Important economic criteria includes GDP, GNI, Import duty rate, unemployment, inflation, spending patterns as well as the disposable personal income.

Natural environment

It refers to the natural resources or physical environment that are required as inputs by marketers or which is affected by the marketing activities. The ecological conditions have become a crucial factor to consider as the environmental concerns have grown strongly in the recent years. Example: air and water pollution, floods, droughts, etc.

Technological environment

Technology has a crucial influence in the macro environment. An organization needs to perform a thorough research on the spread and use of technology, before investing in any of marketing activities. The company needs to have an understanding of the technology penetration as well as user interface technology in the region and make plans accordingly for their communication and campaigns.

Political environment

The developments in the political environment strongly affect the marketing decisions. This involves laws, government agencies, as well as the pressure groups that can influence or give constrains to various individuals or organizations in a given society.

Cultural environment

The cultural environment links to factors which affects the basic values, preference, perceptions and behavior of the society. Organizations needs to understand the cultural beliefs and practices prevalent in society for marketing decision making. Failure of companies in understanding foreign cultures can lead to many cultural blunders. For example, a symbol having a positive meaning in one culture can have a negative meaning in some other culture.

In conclusion, success of any marketing campaigns is highly dependent on the micro and macro environmental factors. Any strategic marketer should have an in-depth consideration of these factors for any decision making. Considering these factors can boost the success rates of marketing campaigns for any organization as well as increase the reputation of brand in long term.

What are core competencies?

Core competencies are the defining products, services, skills and capabilities that give a business advantages over its competitors. In other words, business core competencies are advantages that no competitor can reasonably offer or replicate.

Identifying your company's core competencies – including its core products and most compelling competitive advantages – is an essential business strategy for proving your value to new and longtime customers. When you know your business's core competencies, you can strengthen your company's reputation, keep current customers, and grow your business with new sales and marketing efforts.

What are examples of core competencies in business?

You may be wondering about your business's core competencies. If you can't immediately identify any, that's OK. Core competencies can also be skills and abilities.

Some typical core competencies include the following:

- Consistently high quality
- Incomparable value
- Ceaseless innovation
- Clever, successful marketing
- Great customer service
- Formidable size and buying power

To explain further, let's look at an example of a leader in each of these core competencies.

Consistent high quality: Google is the world's leading search engine and one of the most-used email, calendar and cloud storage platforms. Its software quality remains consistently high, no matter the tool. Whether you're using Google Photos to access your beloved memories, Docs to create and edit text, Google Analytics to gain website insights, Google Calendar to manage your time, or Maps to get around, you likely turn to Google for its ease of use, modern look and feel, and extensive organization options.

Incomparable value: Many companies use Drop box for quick and simple file sharing because it makes these tasks easier and its price is widely seen as incredibly reasonable for its services. For a massive amount of cloud storage, offline file access, e-sign tools and watermarking features, business owners pay $24 per user per month.

Ceaseless innovation: Whatever QuickBooks version you use, QuickBooks has been the best accounting software for decades because it constantly adds new tools and features that other platforms just don't have. The brand's ceaseless innovation is the crux of its competency model and a primary reason it has long been seen as the first accounting software choice for businesses of all sizes. Read our QuickBooks review to learn more.

Clever, successful marketing: Chances are good that no matter where you live, you have an abundance of department stores to choose from when you need all manner of items. Despite the competition, Target has continued to expand largely because its brand is undeniable. Marketing images of employees in red shirts, its branded mascot Bulls eye the white bull terrier, its familiar fonts, and its consistent red-and-white motif have caught the eyes of customers – and sellers – for decades.

Formidable size and buying power: Part of why McDonald's has been able to expand its dominance worldwide is its size and buying power. The company is so large and has such massive buying power that it can easily afford to open new franchise locations wherever it pleases. It also has enough buying power and a large enough supply chain to purchase food at such low prices that it can sell meals at highly competitive prices.

Great customer service: Amazon is arguably the most omnipresent brand in the world, and its success comes in large part from its unparalleled ability to provide excellent customer service. Given that Amazon's online marketplace lacks one defining core product and is instead a sea of options that fulfill myriad wants and needs, the company's strategic planning has long involved an unflagging focus on customer satisfaction. Amazon Stores are also an excellent tool for businesses that want to start selling online.

Competitive Advantage Areas

To build a competitive advantage, a company can use one of three main methods:

Cost: Provide offerings at the lowest price
Differentiation: Provide offerings that are superior in quality, service, or features
Specialization: Provide offerings narrowly tailored to a focused market

How to build a competitive advantage

To build a competitive advantage, a company must know what sets it apart from its competitors and then focus its message, service, and products with that difference in mind. Here are several strategies companies use to build a competitive advantage:

Research the market: Market research helps a company identify and define its target market, which can guide it in developing the most effective advantage.

Identify strengths: A company can find its unique strengths, especially relative to competitors, by reviewing products, services, features, positioning, and branding.

Evaluate finances: Companies can take a close look at their financial performance to spot profit centers and areas of stability, using financial statements and ratios.

Review operations: How efficient is a company's operations? Where is it effective and where is there room for improvement? Consider customer service as well as production and supply chain management.

Research and development (R&D): Securing intellectual property prohibits competitors from using processes or know-how that the company can use to produce products competitors can't legally copy.

Consider human resources: The talent a company can attract as employees and leadership can make an important difference in the success of the business. Evaluating company culture, hiring, and staffing practices can help.

What Are Porter's Five Forces?

Michael Porter's five-force strategic analysis model, introduced in a 1979 article published in the *Harvard Business Review,* remains a fundamental tool for strategic analysts plotting the competitive landscape of an industry.

Porter's Five Forces

1. Competitive Rivals

Porter's first force is what we usually mean when discussing business competition. We think of Pepsi and Coca-Cola for soft drinks, Apple and Samsung for smartphones, Nike and Adidas for sneakers, and Ford and General Motors for autos.

Indeed, some of these rivalries are so influential that consumers split almost culturally among those who have an iPhone, drive a Ford, or prefer Netflix to Hulu. Thus, it's no accident that we also consider business competition chiefly a war among rivals.

Such rivalries can lead to price wars, high-priced marketing battles, and races for slight advances that could mean a competitive advantage. These tactics can stimulate companies to make ever better products but also erode profits and market stability.3

Several factors contribute to the intensity of competitive rivalry in an industry:

> **The number of competitors**: The more competitors in an industry, the more fierce the rivalry, each fighting for scraps of market share.
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> **Industry growth**: In an expanding industry, competition is usually less dramatic because the market is growing so fast that competitors have little need to fight for

customers—think of the automobile industry of the early 20th century and the dot-com boom of the late 1990s. However, in a stagnant or declining industry, competition can be ferocious as firms fight for a larger piece of a shrinking pie, such as in the global coal mining or print media industries of today.

Similarities in what's offered: When the products or services in a market are awfully similar (think of the lower page of results in any Amazon product search), competition tends to be intense because customers can easily switch. However, if a company offers a unique product or service or has earned brand loyalty, this can reduce competitive rivalry. Apple, Inc. (AAPL) comes to mind in tech goods, just as Rao's Italian sauces or King Arthur flour do in your supermarket aisles, each charging a higher price given its style, taste, or whatever makes it unique.

Exit barriers: When it's difficult or costly for companies to leave the industry due to specialized assets, contractual obligations, or emotional attachment, they may choose to stay and compete, even if the market's prospects grow dimmer by the day. The airline industry is a classic example. Airlines have high costs for their assets, contractual obligations (leasing agreements and labor contracts), and regulatory requirements, which means that when airlines face a shrinking market—or even an unprofitable route—they can't retreat from the market quickly.

Fixed costs: Porter notes that if an industry has high fixed costs, companies have a "strong temptation" to cut prices rather than slow production when demand slackens. Paper and aluminum manufacturing are two good examples that Porter gives.[1]

2. Potential for New Entrants in an Industry

Industries where new firms can enter more easily almost always have lower profit margins, and the firms involved each have less market share.[1]

The sector for local restaurants has relatively low entry requirements: there aren't significant investments or regulatory hurdles to surmount before opening to the public. Thus, it's also the case that your favorite restaurant may not stay open for long, given the hypercompetitive environment and constant entrance of new restaurants opening.

Here are factors in measuring how much new entrants threaten an industry:

Economies of scale: Industries where large-scale production leads to lower costs face less of a threat from new entrants. New firms would need to achieve a similar size to compete on price, which might be difficult or costly.

Product differentiation: When existing firms have strong brand identities or customer loyalty, it's harder for new entrants to gain market share, reducing the threat of entry.

Capital requirements: High startup costs for equipment, facilities, etc., can deter new entrants. For example, starting a car manufacturing business requires significant investment, so until Tesla Inc.'s (TSLA) growth in the early 2010s, Americans from the 1950s could have named the major U.S. car brands of the early 2000s.

Access to distribution channels: If existing firms control the distribution channels—retail stores, online platforms, cable infrastructure, etc.—then new entrants would need to find a way to replicate that structure while competing with the established firms on price, a tricky proposition.

Regulations: Licenses, safety standards, and other regulatory standards can create barriers, making it too ungainly or costly for new firms to enter the market. Examples would include those looking to build new hotels in downtown areas or supply power to a region.

Switching costs: If it's costly or difficult for customers to switch from existing firms to new entrants, the threat of entry is lower.

3. Supplier Power

Suppliers are powerful when they are the only source of something important that a firm needs, can differentiate their product, or have strong brands.

When the power of suppliers in an industry is high, this raises costs or otherwise limits the resources a firm needs. Here are some factors used to measure the supplier power of an industry:

The number of suppliers: When few firms can give a company something it needs to stay in business, each has greater negotiating power. They can raise prices or reduce quality without fear of losing business.

Uniqueness: If a supplier provides a unique product or it's not easy to find a substitute, it is more dominant. Businesses can't easily switch to another supplier.

Switching costs: If it's costly or time-consuming to switch suppliers, then they have more power. Businesses are less likely to switch, even if prices increase.

Forward integration: If suppliers can move into the buyer's industry, they have more power. They already have access to the necessary supplies, making it difficult for their former buyers to compete once they decide to enter the market themselves.

Industry importance: Some sectors are tightly intertwined, such as automotive suppliers and the major auto companies or the semiconductor and tech industries, which can balance the power between the suppliers and those in the sector. This is because the supplier needs these buyers to do well so that it can, too. When a supplier can just as easily sell its products elsewhere, that gives it a great deal more power.

4. Customer Power

When customers have more strength, they can exert pressure on businesses to provide better products or services at lower prices. This force intensifies under certain conditions:

- **The number of buyers**: The fewer the buyers, the more they have power. In sectors like aerospace manufacturing, each major airline, the industry's customers, has significant leverage in negotiations and can demand favorable terms because the sellers depend on their business.
- **Purchase size**: Just like you head off to the big box stores to buy in bulk for a cheaper per-unit cost on whatever now fills up your garage, major retail chains like Walmart Inc. (WMT) buy in large volumes and can negotiate better terms and discounts.
- **Switching costs**: In industries like telecommunications, where it's easy for consumers to switch providers, companies such as Verizon Communications, Inc. (VZ) and AT&T Inc. (T) have to offer competitive terms.
- **Price sensitivity**: In the fast-fashion industry, where customers are highly price-sensitive, brands must keep their prices low to attract cost-conscious consumers.
- **Informed buyers**: In many sectors, the customers are savvy, know the competitive terrain well, and thus can negotiate better prices.

5. Threat of Substitutes

Here are some ways that this threat can be magnified:

Relative price performance: If the cost of a substitute is lower and its performance is comparable or better, customers are likely to switch to the substitute. For instance, streaming services like Netflix became a substitute for traditional cable TV, providing a lower price that soon threatened the cable industry.

Customer willingness to go elsewhere: The threat is high if buyers find it easy to switch to a substitute. For example, in the early 2010s, customers found switching from taxis to ride-sharing apps like Uber or Lyft cheaper and easier.

The sense that products are similar: If buyers perceive that there are few differences between your product and a substitute, even if there are, they may be more likely to switch.

Availability of close substitutes: Though this sounds the same as the last bullet point, you have to strategize differently around it. There are times when potential substitutes are very different from a company's products but consumers still treat them as the same. But in other cases, there are genuinely similar products in the market and the threat of substitutes is high, such as between brand-name and generic medications.