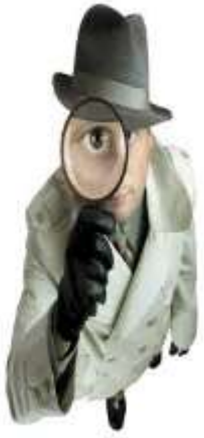
Analysis Of Industry Competitiveness

Analyze Competitors

Analyzing key competitors allows an entrepreneur to:

- Avoid surprises from existing competitors' new strategies and tactics.
- Identify potential new competitors and the threats they pose.
- Improve reaction time to competitors' actions.
- Anticipate rivals' next strategic moves.



Analyze Competitors

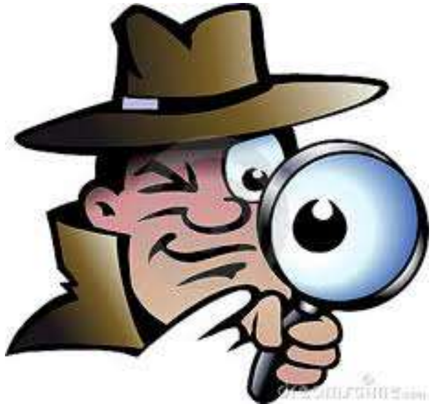
Techniques do *not* require unethical behavior:

- Monitor industry and trade publications.
- Talk to customers and suppliers.
- Regularly debrief employees, especially sales representatives and purchasing agents.
- Attend trade shows and conferences and study competitors’ sales literature.

Analyze Competitors

Techniques do *not* require unethical behavior:

- Watch for employment ads from competitors to get an idea about their plans for the future.
- Conduct patent searches for patents competitors have filed.
- Learn about the kinds of equipment and raw materials competitors are importing.
- Buy competitors' products and "benchmark" them.

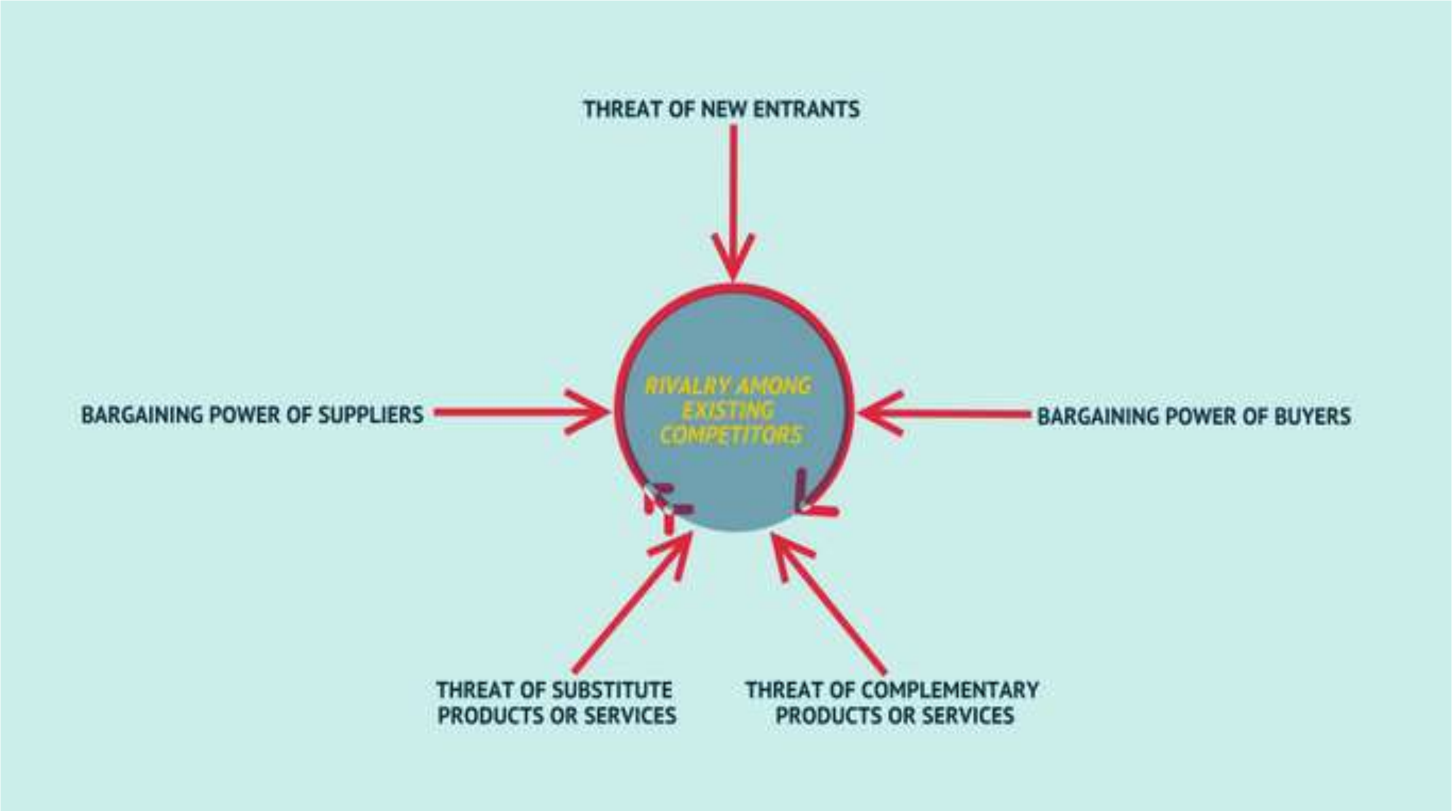


Analyze Competitors

Techniques do *not* require unethical behavior:

- Get competitors' credit reports.
- Check out the reports publicly held competitors must file.
- Use the World Wide Web to learn more about competitors.
- Visit competing businesses to observe their operations.

Six Forces Model



Force #1: Competitors in the industry

The first of Porter's 5 forces is the number of competitors in a particular industry. Competitors are the core of this specific strategy framework by Michael Porter. So important, that when Porter's 5 Forces model is represented using a diagram, competitors are placed in the center and the rest of the four forces are placed around it (as shown in the infographic).

Now, when a company operates in an industry in which there are many competitors selling similar products, it'll have lesser power. The reason is that there are many rivals trying to get a more significant share of the pie. This is a scenario in which a customer has many options to choose from. So, they will go for the best, the cheapest, the trendiest, and so on. On the other hand, if a company offers products in an industry that doesn't have much competition, it can easily charge a premium price and dominate the market. This is because, in the absence of another alternative, the customers will have no choice but to depend on one company for a particular product.

Practical example:

Let's consider the hospitality industry as an example. In every country, every city, and every neighborhood, there are many hotels for customers to select from. Customers make their decision by evaluating the price, ratings, reviews, and location of a hotel. With the advent of online bookings, the competition has become tougher. So, if there are two hotels in the same location with 4-star ratings, and one offers a room for a measly $30 less, then it's very likely that customers will go for the cheaper one. From a strategy perspective, if one is thinking about getting into the hotel business, one must know that rivalry in this industry is intense.

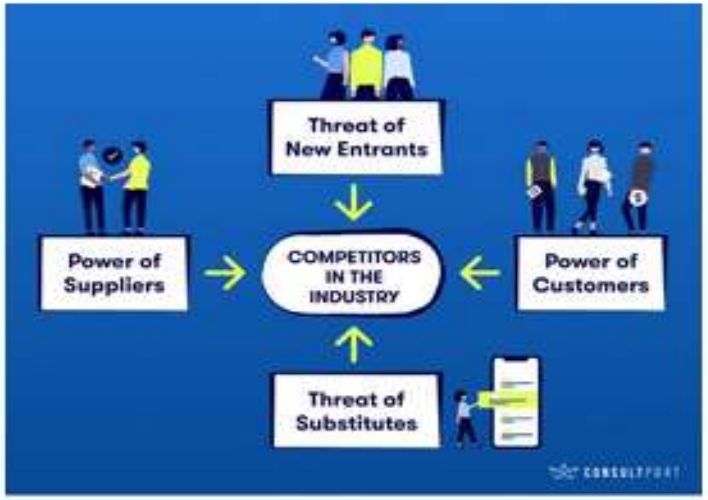
Force #2: The threat of new entrants

The second of Porter's 5 forces is the threat of new entrants. Before partaking in a business venture, investors, and entrepreneurs should ask themselves: How easily can others do what we're planning to do? The threat of new entrants can be divided into three categories: high, medium, and low. If an industry enables new competitors to enter quickly and without investing a lot of money, then the barrier to entry is low and the threat of new entrants is high. On the flip side, for industries like petroleum and pharmaceuticals, the barriers to entry are way too high for an average businessman or investor to cross. Part of the reason are the high investment costs. So, in such cases, the threat of new entrants is low and usually, only one or very few companies can ever operate in these industries.

Practical example:

What's the first brand name that comes to your mind when you hear the term 'electric vehicle'? That's right—it is Tesla! This company is a great example of an industry in which the threat of new entrants is really, really low. Why? Well, it's one thing to design a prototype of an EV and show it off in trade shows, and it's another thing to manufacture these cars on a mass scale and bring it to the customers. It's hard to compete with Tesla, even for established car manufacturers. Thus, a new entrant is highly unlikely to be a threat.

Force #3: Bargaining power of suppliers



The third of Porter's 5 forces is the power of suppliers. Maybe you didn't think that suppliers would affect a business's strategy? Well, they actually do. You see, as customers, most of us only see the finished product—a laptop, a car, a camera, and so on. However, Michael Porter mentions how suppliers of raw materials, equipment, etc. can drive the cost of a product and make businesses rethink their strategy. The lower the number of suppliers in an industry, the more power they'll have, and vice versa. Let's understand this using a real-life case.

Practical example:

The restaurant industry is a great example of a supplier-dependent sector. Everything from cooking oil to flour comes from an external supplier. Restaurant owners are not farmers, so they can't have any raw material for their business without external help. Thus, in a location where there is a lack of suppliers (for example, if there's only one supplier for cooking oil), the restaurant may have to pay whatever price the supplier asks for to run their restaurant. On the other hand, in a place where there is an abundance of suppliers, restaurant owners can choose the best one from a pool of many suppliers.

Force #4: Bargaining power of buyers

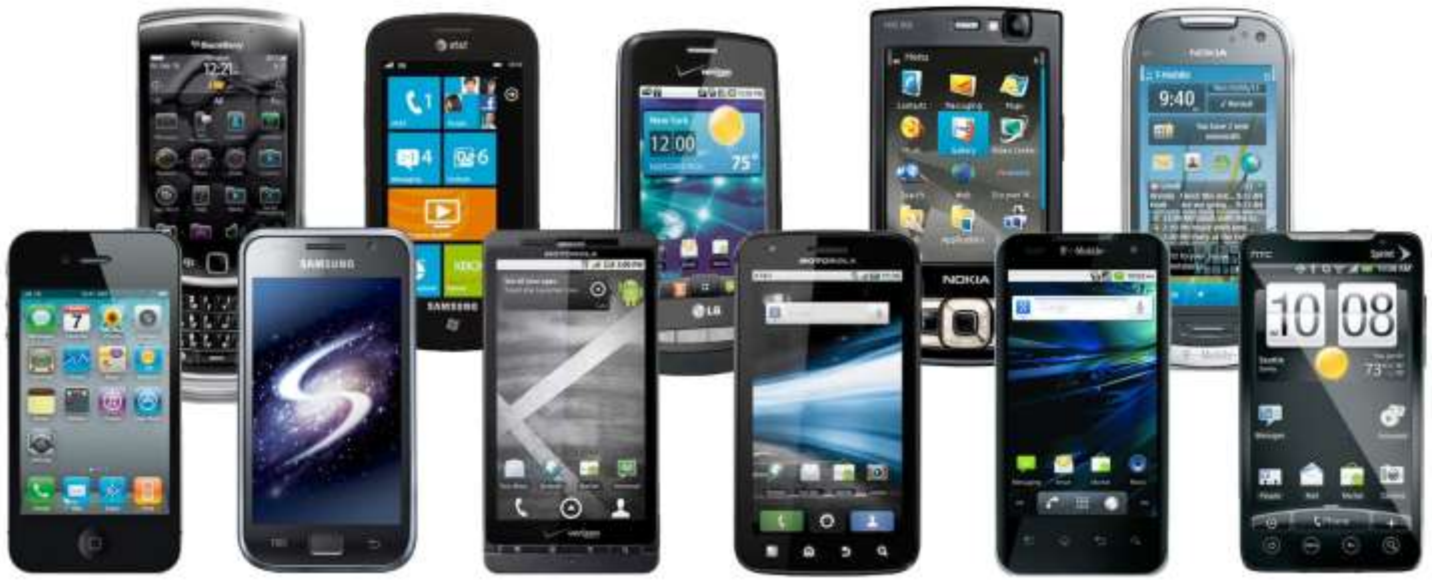
The fourth of five forces by porter is the power of customers. Michael Porter, being a smart strategist, elaborated on the role of customers in this classic strategy framework. In any industry, if a company only serves a small number of customers, then customers have more power to negotiate lower prices. This is because the business doesn't have too many options when it comes to customers. Therefore, it will have to customize itself based on customer demands. On the other hand, if a company has a very high number of customers, it can dictate the terms of engagement. For instance, it could charge a higher price for a product that is cheap to produce.

Practical example:

Let's talk about Apple. According to many sources, an iPhone only costs around $500-$600 to produce. Still, the cost of iPhones can be around $1000—almost double the production cost. The reason is that Apple's operating system and product are one of a kind. This means that currently there is only one competitor to Apple's smartphones—Android phones (source). Hence, when it comes to Apple, the number of customers and loyal fans is high. Therefore, the bargaining power of customers is low, and the company can charge a premium price.

Force #5: The threat of substitutes

- The fifth of Porter’s 5 forces is the threat of substitute products. A company can sell a very popular product that generates high profits. Still, if a substitute of that product seems more appealing, then customers may ditch the company’s products and go for the substitute. Now, you must understand what a substitute product really
calculator is not necessarily a fas
smartphone that has an in-built
different product type from the
the same product.



Force #6: Complimentary Products

- Complimentary products are those that are used in conjunction with a particular product or service. Companies strategically devise complimentary products such as accessories, add-ons, or services that enhance the experience of a different product.
- In another example, consider all of the potential accessories related to a smartphone such as earbuds, chargers, or cases. Should a company decide to embrace these complementary goods, the company may be able to increase profitability and market share by having more related products in a given industry. If competitors were to choose to not embrace these complementary goods, these companies may be at a disadvantage by only having one primary product to sell.

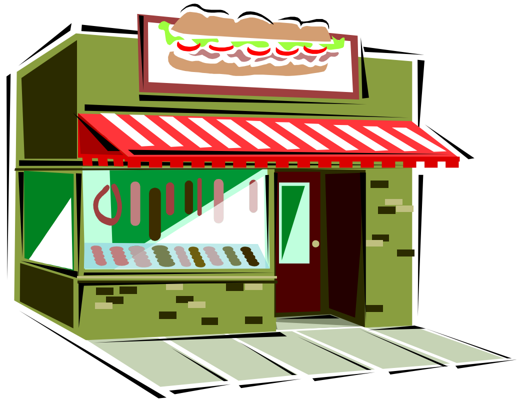
The Power of External Market Forces

Technological

Political

Economic

Legal



Environmental

Social