# STRATEGIC INDUSTRY ANALYSIS

Dr Rashmita Singh
School of Studies in Management
Jiwaji University

Industry

• Industry is a homogenous group of companies or group of firms that manufacture similar products which serves the same requirements of common set of purchasers.

• Industries are conventionally categorized on the basis of products like steel, pharmaceutical oil and gas industries, textile, and cement.
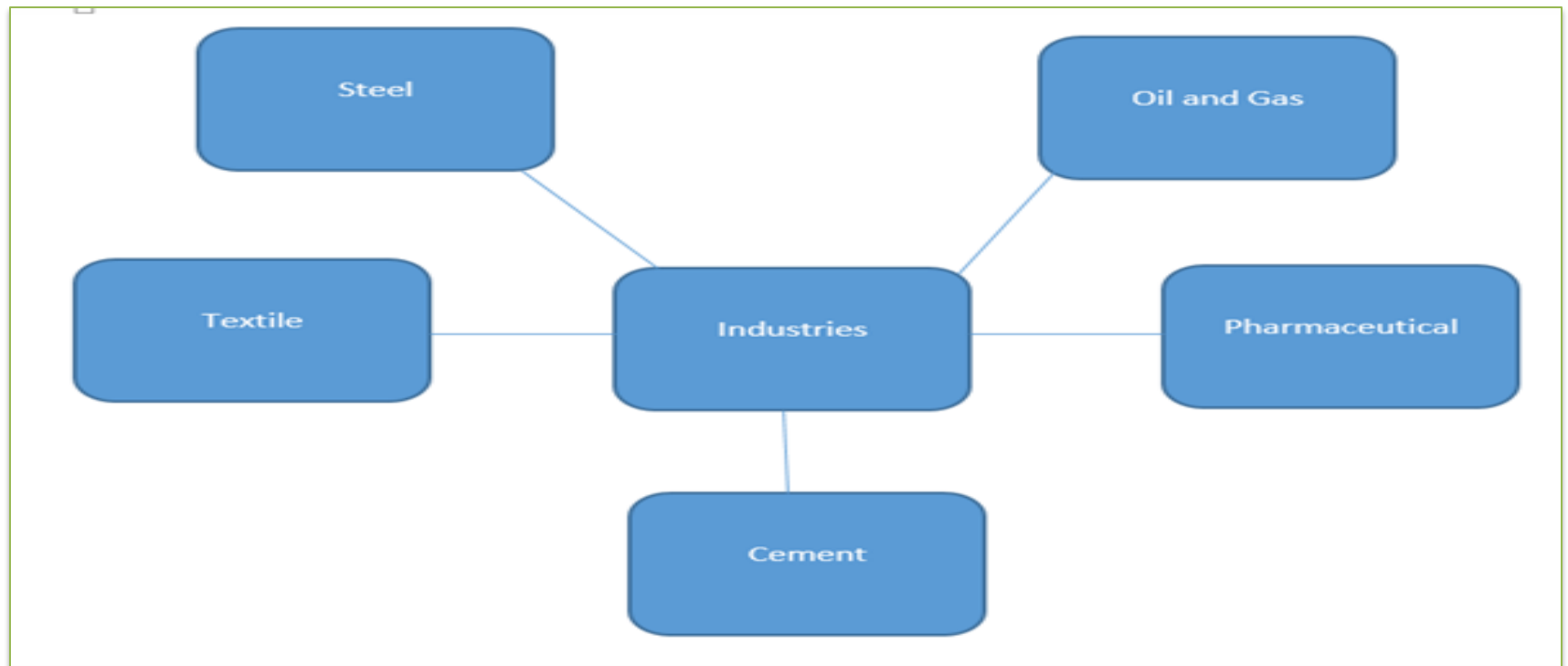
Industry Analysis

❖Industry Analysis is effective market assessment tool designed to provide a business with an idea of the intricacy of a particular industry.

❖It reviews the economic, political and market factors that influence the way the industry develops.

❖an evaluation of the relative strengths and imperfections of specific industries

The Standard Business Plan Requires

- Basic Industry Overview: Numbers and Analysis
  - Industry history and current situation
  - Trends and forecast
  - Your business in relation to the industr

But to Succeed, You Need to do More…

This lecture gives you the tools for radical, strategic rethinking

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Can Your Business Compete Effectively?

- Know your industry inside-out
  - Where it's going and its characteristics
- Complete positioning analyses
  - (PEST and SWOT)
- Utilize Porter's Five Forces analysis
- If e-business: Amit and Zott's value model
- Create a competitive business model

Analytical Tools

1. PEST Analysis

2. 2. SWOT Analysis

3. Porter's Five Forces

4. E business Value Creation Models

5. Network Effects

http://www.flickr.com/photos/blu

PEST (STEEPLE) Analysis

- Use before SWOT

- Assesses the entire market, from standpoint of a particular business

- Looks at macro-environmental factors

- Quadrant significance varies depending on the business type

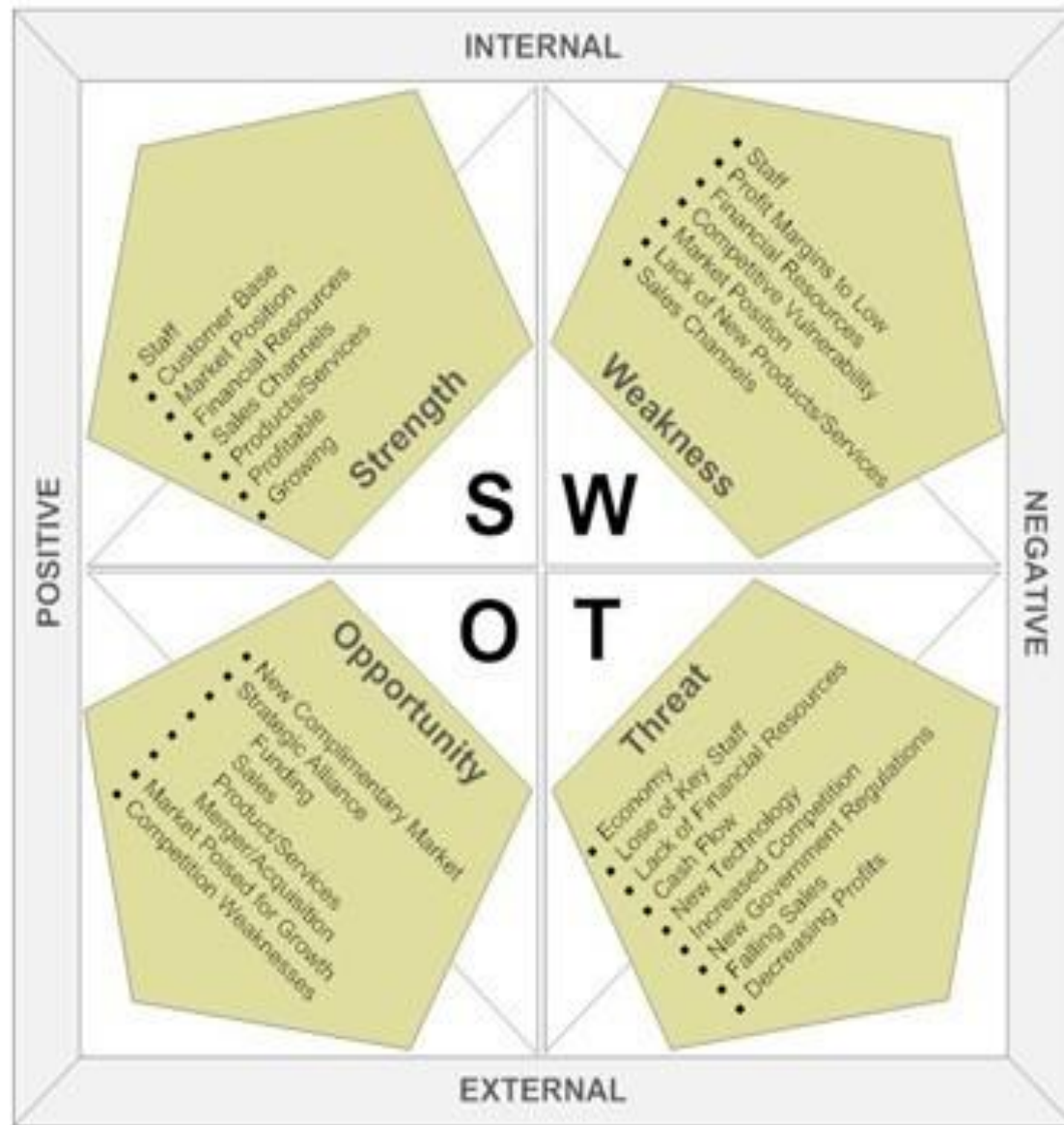- Important to define the subject of the analysis: a brand, a new company, an product, acquisition?

PEST (STEEPLE) Analysis

- Political
- Economic Social
- Technological
- Environmental
- Legal
-

SWOT Analysis

- What is good, or bad, about a business or a particular proposition

- Measures discreet idea, not a market

- Strengths: maintain, build, leverage

- Weaknesses: remedy or exit

- Opportunities: prioritize, optimize

- Threats: counter

INTERNAL

POSITIVE

NEGATIVE

EXTERNAL

Strength

- Staff
- Customer Base
- Market Position
- Financial Resources
- Sales Channels
- Products/Services
- Profitable
- Growing

Weakness

- Staff
- Profit Margins to Low
- Financial Resources
- Competitive Vulnerability
- Market Position
- Lack of New Products/Services
- Sales Channels

Opportunity

- New Complimentary Market
- Strategic Alliance
- Funding
- Sales
- Product/Services
- Merger/Acquisition
- Market Poised for Growth
- Competition Weaknesses

Threat

- Economy
- Lose of Key Staff
- Lack of Financial Resources
- Cash Flow
- New Technology
- Increased Competition
- New Government Regulations
- Falling Sales
- Decreasing Profits

S W
O T

SWOT

Using PEST and SWOT

- Insert SWOT into Marketing Section
  - Use SWOT Analysis to formulate marketing strategy

- Insert PEST into Industry Analysis
  - Create business strategy and model based upon PEST analysis
  - Combine with other Industry Analysis factors

Porter's Five Forces
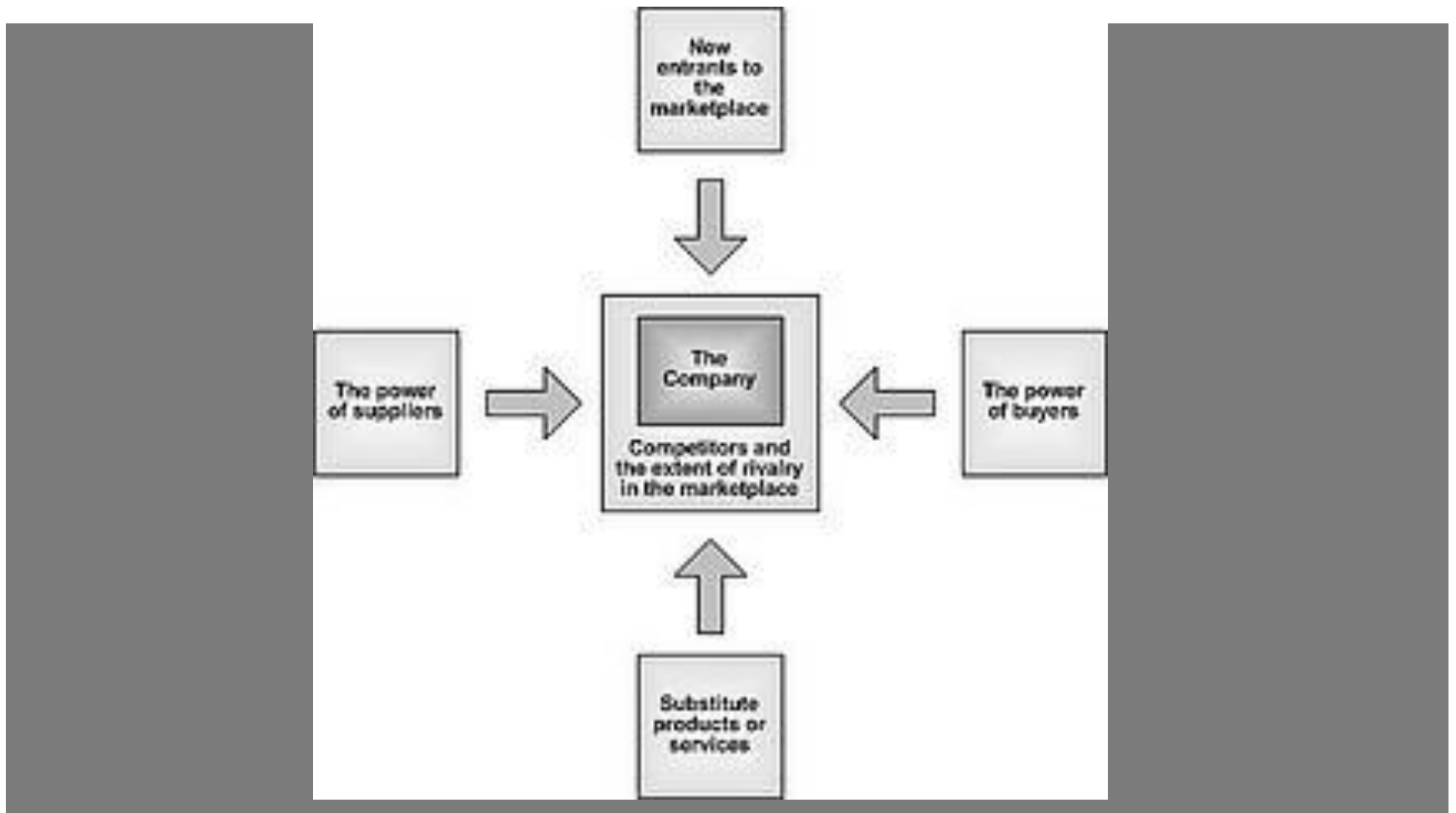
E-BUSINESS: THE NEW TREND

Value Creation in E-Business

	Efficiency	Complementarities	Lock-in	Novelty
Business Model Structure	•Transaction simplicity & speed •Bargaining costs •Access to info, goods, supply •Demand & supply aggregation •Transaction volume scalability	•Cross-selling •Supply chain integration •Online & offline activities	•Affiliate programs •Indirect/direct network externalities •Partner learning investments	•New customers & new links b/t them •Richness (quality/depth) of linkages First to introduce model •Unpreced # of participants/goods •Trade secrets/ IP

Value Creation in E-Business

	Efficiency	Complemen tarities	Lock-In	Novelty
Business Model Content	•Info widely available to make decisions •Transaction transparency	•Access to complimentary services, prod, info from firm, partners, customers •Vertical/horiz prods/services •Online & offline resources and capabilities	•Dominant design •Customized/personalized offerings and features •Participants use pecialized assets (software)	•Combination of new products, services and information

Value Creation in E-Business

	Efficiency	Complementarities	Lock-In	Novelty
Business Model Governance		•Develop co-specialized resources •Manage alliances well	•Loyalty programs •Customers control personal info •Community concept •Info flow security	•New incentives (such as user-generated content)

Two-Sided Networks

Strategies for Two-Sided Markets: Thomas Eisenmann, Geoffrey Parker, and Marshall W. Van Alstyne. HBR, October 2006

Two-Sided Networks

- Two user groups interact with each other
- One side subsidizes, the other is charged a premium
  - HMOs: patients and health care provider
  - Netfix: cheap monthly subscription, movie companies subsidize it
  - Monster.com (online recruiting): employers vs. job seekers
  - Video games: players vs. game developers

Same-Side & Cross-Side Network Effects

- Same-Side: users on one side bring in users to the same side, which is either more or less valuable to users on the same side.
  - Social networks (Linkedin, Facebook)
  - Tripadvisor.com Xbox users can play games with friends
  - Negative example: sellers prefer fewer rivals
- Cross-Side (usually only positive):
  - Facebook, iphone: more users, more app developers

How Will Your E-Business Create Value?

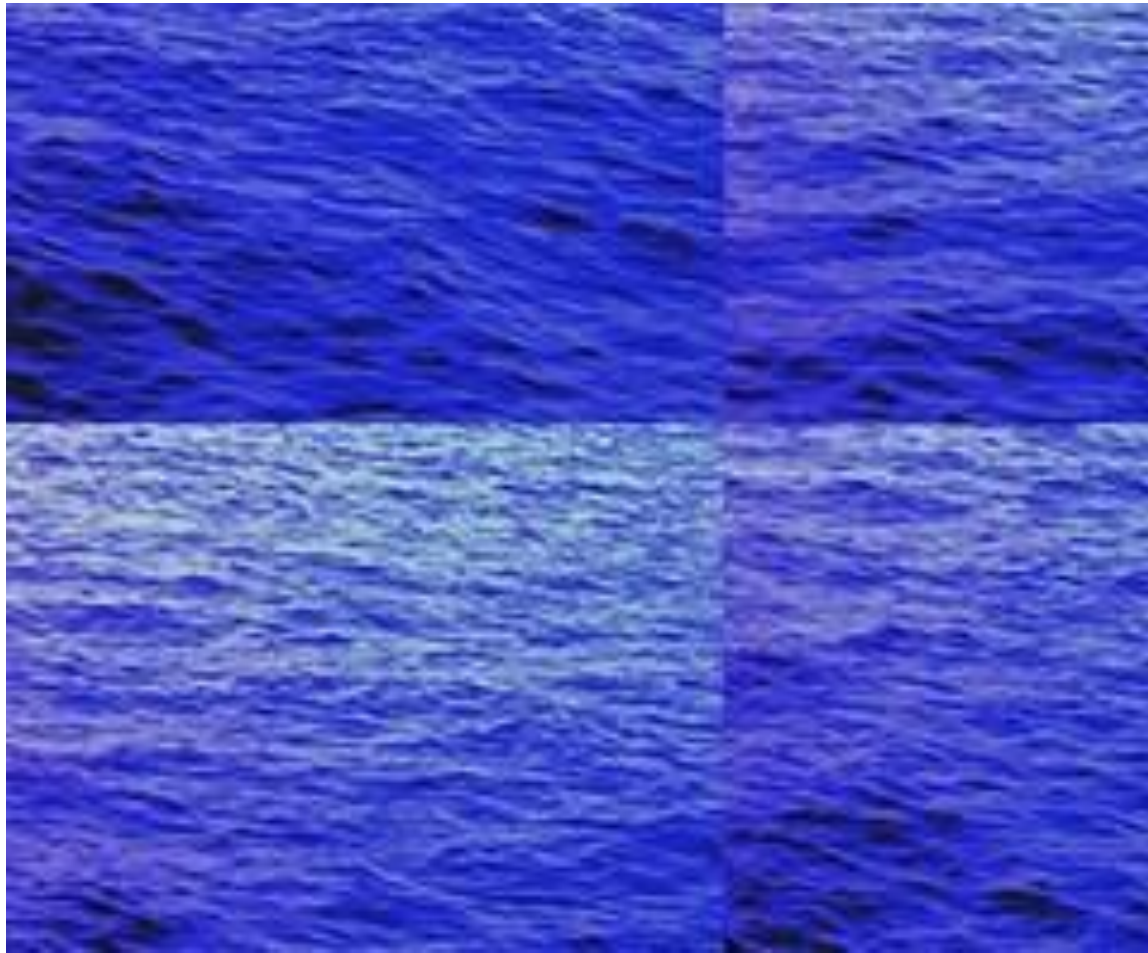# Use Your Analysis to Begin Building Your Business Model

- **How Can You Innovate?**
- **How Will You Be Competitive?**

Further Refining the Business Model

- Blue Ocean Strategy
- The Long Tail
- Crowdsourcing
- Small is the new Big (Seth Godin)

Consider a Blue Ocean Strategy

by W. Chan Kim and Renee Mauborgne

Blue Ocean Strategy

- Red Ocean – compete in current marketplace for profits, market share, etc.

- Blue Ocean – compete in unknown market space
- Value Innovation – creates value for both buyer and the company. Create value for market and eliminate less valuable features.

- Examples – Curves for women, SW Airlines, Wii (innovative console controls)

Where is the Blue Ocean?

- What are the least valued characteristics of your industry, product, service?

- How will you eliminate them?

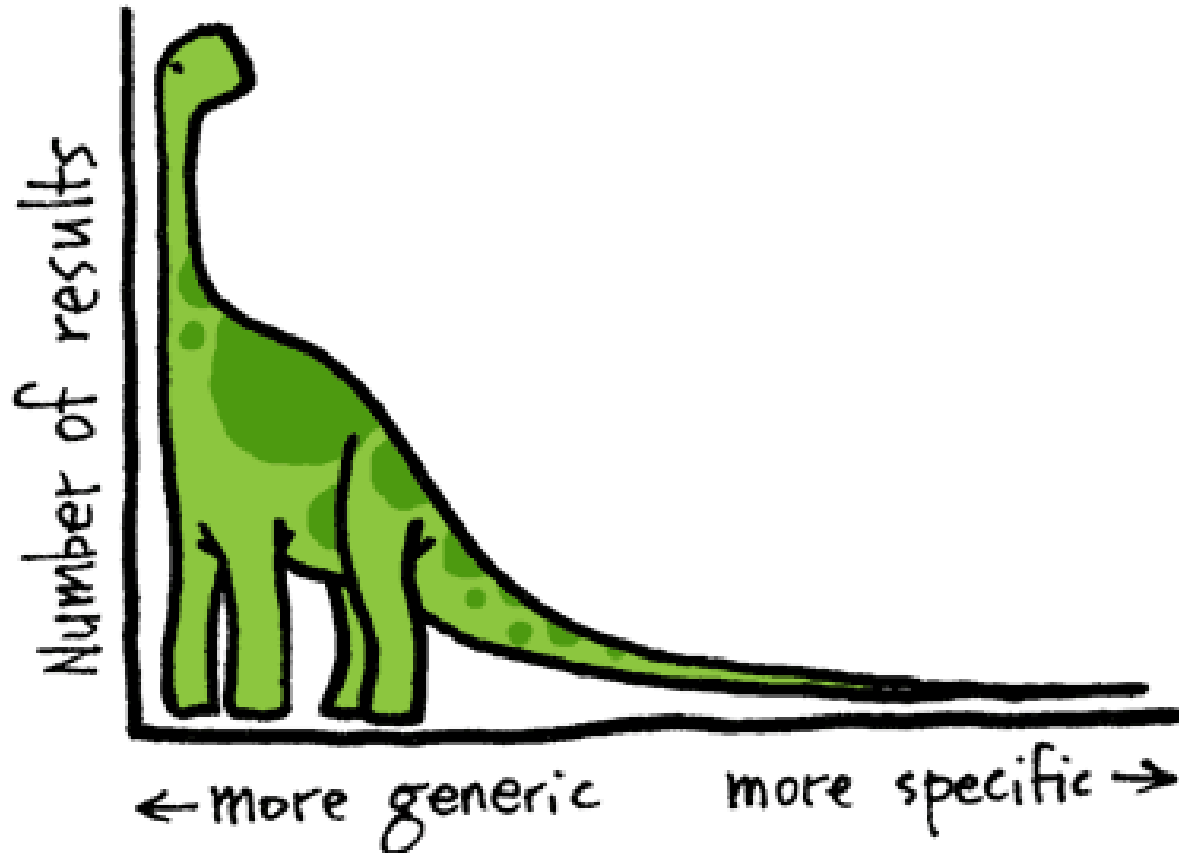- How will you innovate to add value to the industry, product, market?

The Long Tail

The Long Tail (Chris Anderson)

- Up to 25% of total sales are in the long tail
- For SEO – the more specific the search terms are at the tail – and so are the buyers
- Exploit niche markets
- Newer studies indicate may not be 25% of sales

SEO Long Tail

Crowdsourcing

- First used by Jeff Howe (Wired) in June 2006
  - www.crowdsourcing.com
- Use Collective Intelligence to answer questions, complete business tasks
- Use crowdsourcing to:
  - ask customers/stakeholders for ideas
  - create/change branding, product development,
  - integrate it into business model design

Crowdsourcing Examples

- Quotesdaddy.com – completely user-submitted quotes

- Dell's Ideastorm and MyStarbucksIdea

  - Submit ideas for Dell   or Starbuck's products/services and vote on them

- Istockphotos.com – upload your photos and earn royalties

- GreenAnySite.com – consumer use adds sites

- Netflix-uses it to offer video recommendations

Small is the New Big

Image © Mark Smiciklas - Intersection Consulting

Unique Selling Proposition

- What is your unique proposition that will convince a customer to switch brands?

- Fill a need, be ready to deliver

- Defines your business in relation

- What do your customers value most?

- Examples:
  - Oil of Olay: younger- looking skin
  - Google search: relevant search results

Unique Selling Propositions

Images: http://www.flickr.com/photos/soapylove/477616281/, http://www.flickr.com/photos/jpovey/2051196149/,
http://www.flickr.com/photos/jakecaptive/1483735132/

Strategic Questions about Your Business Model

- Where can you innovate?
- What industry opportunities are you taking advantage of?
- What excess are you eliminating?
- How will your business model add value?
- What is your competitive advantage?

ULTIMATELY: What is your Value Proposition?

TO CONCLUDE...

Major success factors for industry analysis

1. Ability to appeal new customers
2. Ability to hold existing customers
3. Ability to attract and retain good employees
4. Successful advertising campaigns (success is measured on the increase in sales)
5. Managing service or product
6. Managing human resources
7. Managing cash flow
8. Managing revenue growth and profit
9. Utilization of operating capacity
10. Strong distribution channels
11. Low cost production structure
12. Strong technology capability
13. Location to customers
14. Sustainability of the business

Thank You