

# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

NOTES

## STRATEGIC ANALYSIS: INDUSTRY ANALYSIS

**“When an industry with a reputation for difficult economics meets a manager with a reputation for excellence, it is usually the industry that keeps its reputation intact.”**

Warren Buffet

**DEEPAK DATTA**  
UTA MBA  
2011

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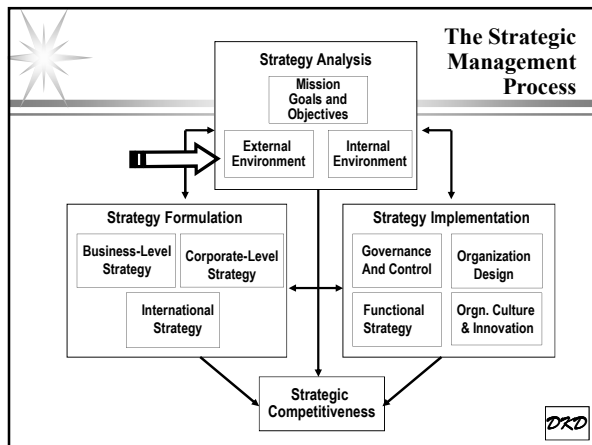
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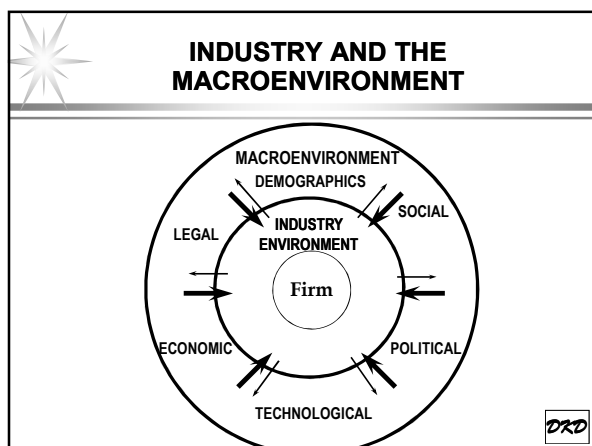
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS


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## INDUSTRY/MARKET DEFINITION

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- **Qualitative approach:** Two products are in the same market if they are close substitutes
  - » Same or similar product performance characteristics
  - » Same or similar occasions for use
  - » Sold in the same geographic markets
  
- **SIC (Standard Industrial Classification)/NAICS (North American Industry Classification System) Codes**
  - » Used by U.S. Bureau of Census to analyze and report on U.S. business activity.



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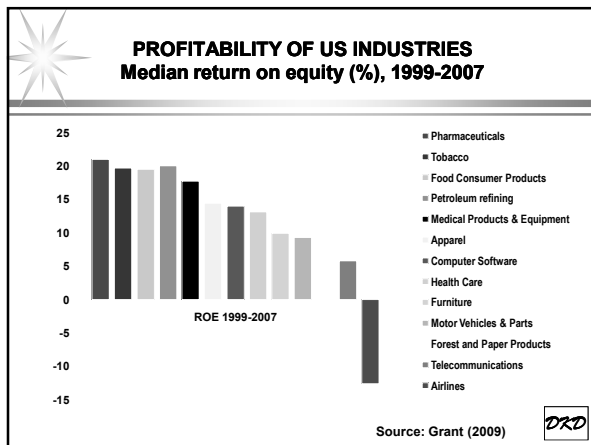
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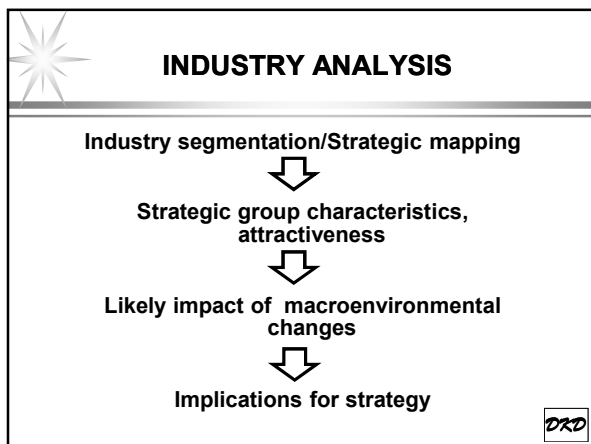
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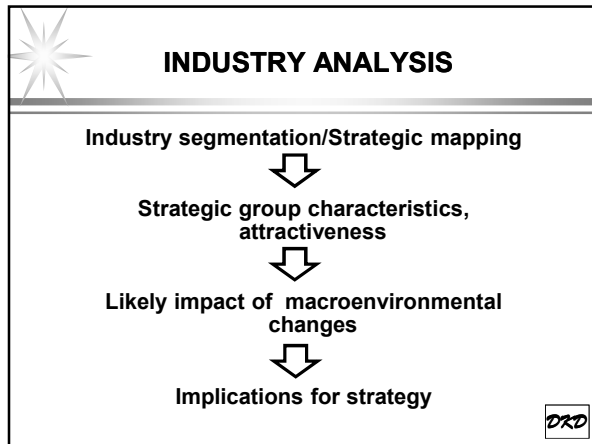
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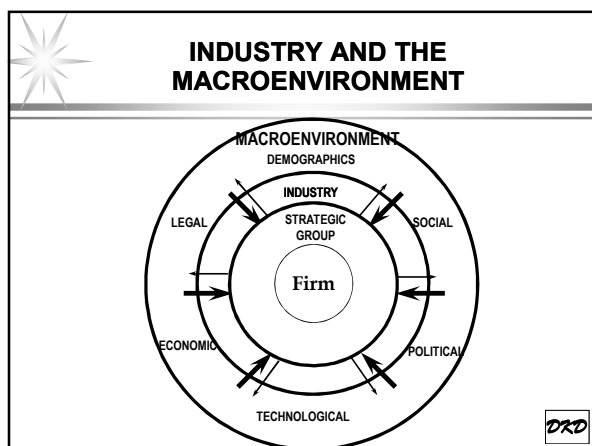
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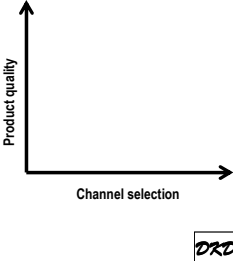


## INDUSTRY SEGMENTATION AND STRATEGIC GROUP MAPPING

**Strategic Group**  
Set of firms emphasizing similar strategic dimensions to use a similar strategy. Rival firms with similar competitive approaches and positions in an industry

**Possible dimensions:**

- » Specialization
- » Brand identification
- » Channel selection
- » Product quality
- » Technological leadership
- » Customer service
- » Pricing policy



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## CONSTRUCTING A STRATEGIC GROUP MAP

- **STEP 1:** Identify competitive characteristics that differentiate firms in an industry from one another
- **STEP 2:** Plot firms on a two-variable map using pairs of these differentiating characteristics
- **STEP 3:** Assign firms that fall in about the same strategy space to same strategic group
- **STEP 4:** Draw circles around each strategic group, making circles proportional to size of group's respective share of total industry sales



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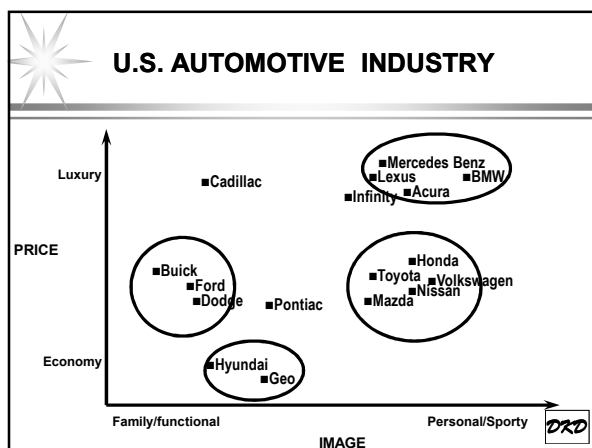
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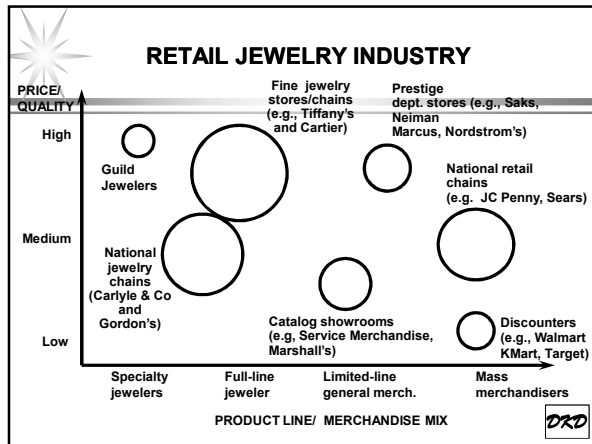
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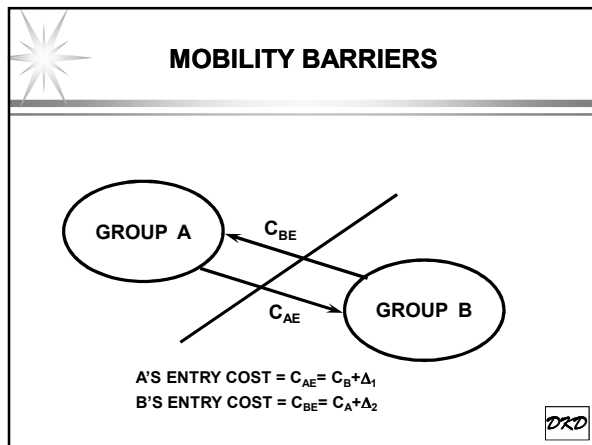
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**STRATEGIC GROUP CHARACTERISTICS**

- Firms in the same SG tend to be affected by and respond similarly to external events
- Profitability levels vary across SGs
- Existence of multiple SGs typically means higher rivalry
- Macroenvironmental changes may have different implications for different SGs
- SGs may have different critical success factors

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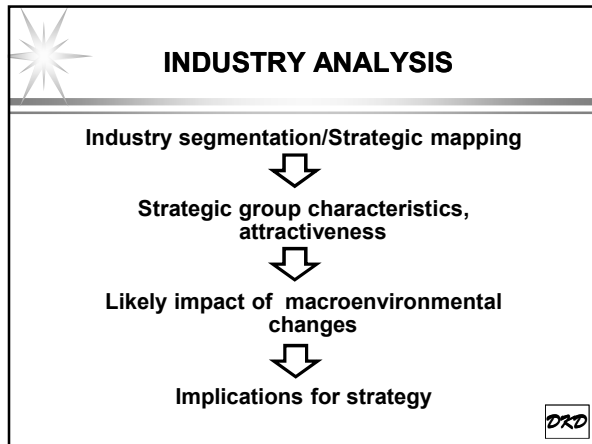
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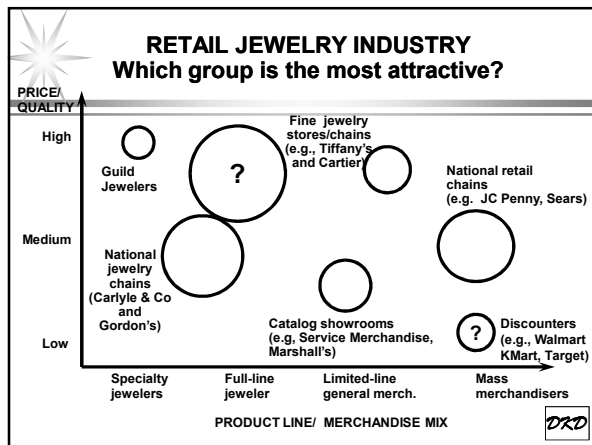
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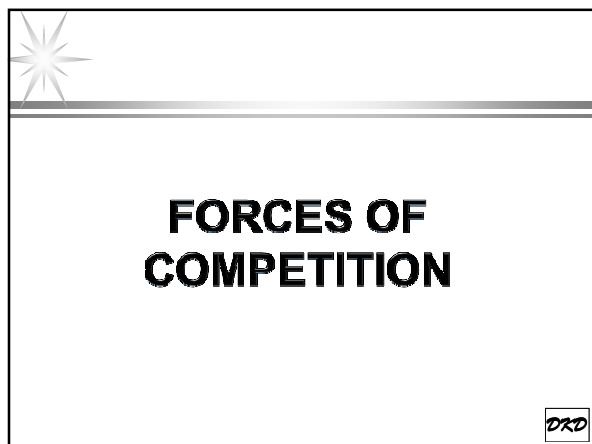
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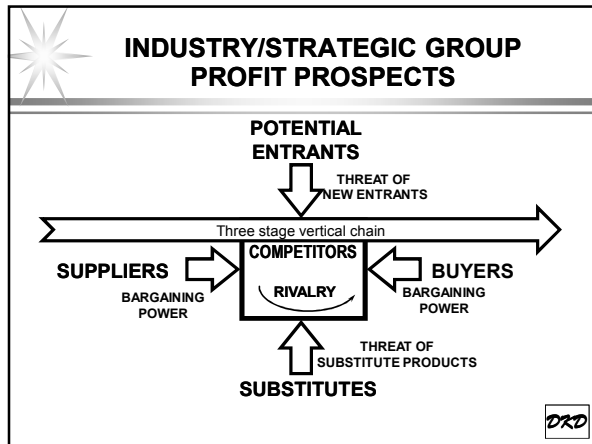
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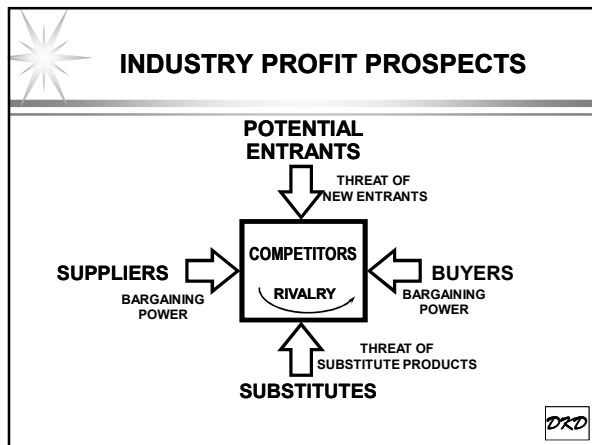
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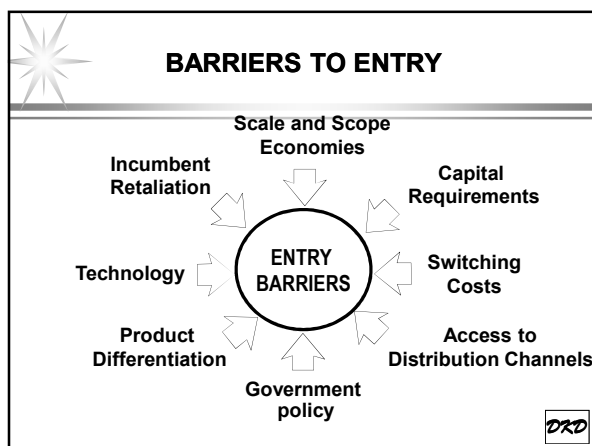
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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## ENTRY-DETERRING STRATEGIES

- Aggressively seeking cost advantage by moving down the learning curve
- Intensive advertising to create brand loyalty
- Enhancing firm's reputation for predation through signaling
- Limit pricing
- Capacity expansion
- Acquiring patents for all variants of a product

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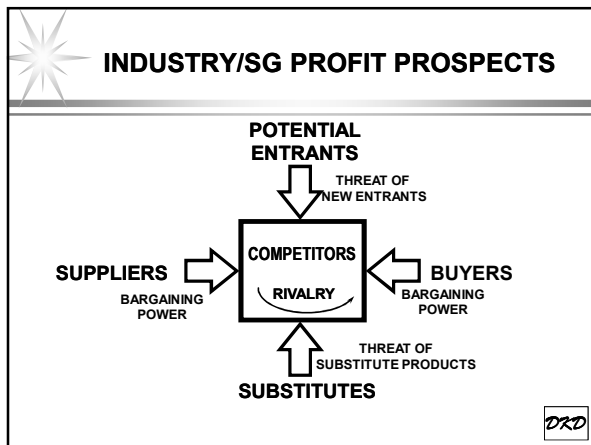
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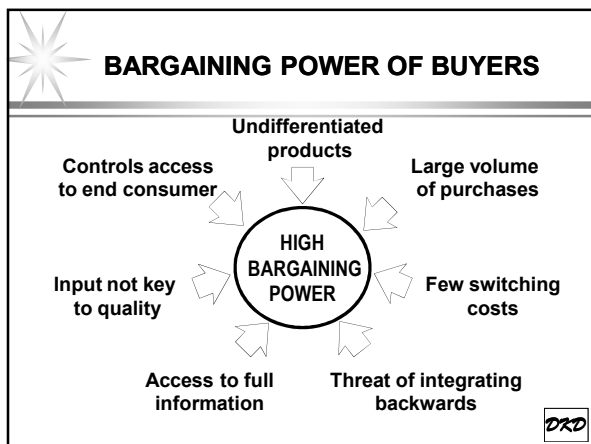
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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## WHY SUBSTITUTE PRODUCTS MATTER

- Competitively priced substitutes can place **CEILING** on **PRICES** industry can charge for its product
- Price ceiling can place a **LID** on **PROFITS** industry members can earn
- Availability of substitutes invites customers to make **QUALITY** and **PERFORMANCE** comparisons as well as **PRICE** comparisons
- The lower the **SWITCHING COSTS**, easier it is for customers to shift to substitute products



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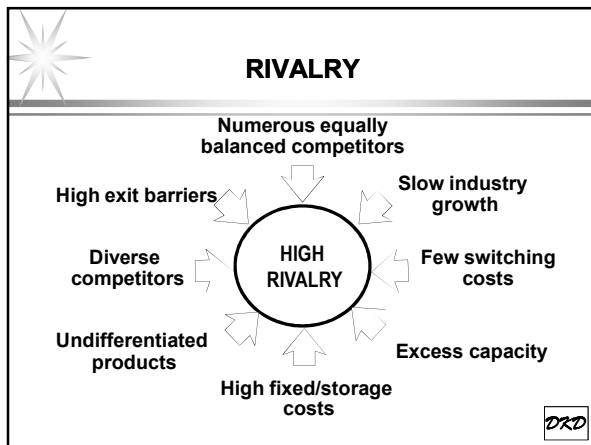
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## EXIT BARRIERS

- Task specific assets which have low resale value.
- Fixed costs of exit (e.g., severance pay)
- Emotional attachment
- Image and potential impact on other businesses
- Obligations and warranties
- Government and social restrictions



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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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PROFITABILITY OF US INDUSTRIES Median return on equity (%), 1999-2007	
Pharmaceuticals	21.0
Petroleum refining	20.0
Tobacco	19.7
Food Consumer Products	19.5
Medical Products & Equipment	17.7
Apparel	14.4
Computer Software	14.0
Health Care	13.1
Hotels, Casinos and resorts	12.7
Furniture	9.9
Motor Vehicles & Parts	9.3
Forest and Paper Products	6.6
Telecommunications	5.8
Airlines	(12.6)

Source: Grant (2009) 

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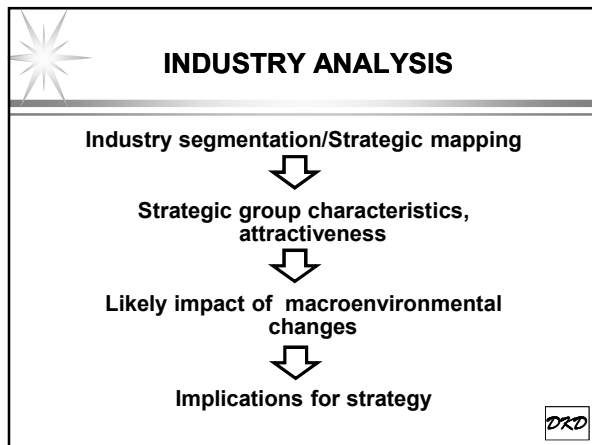
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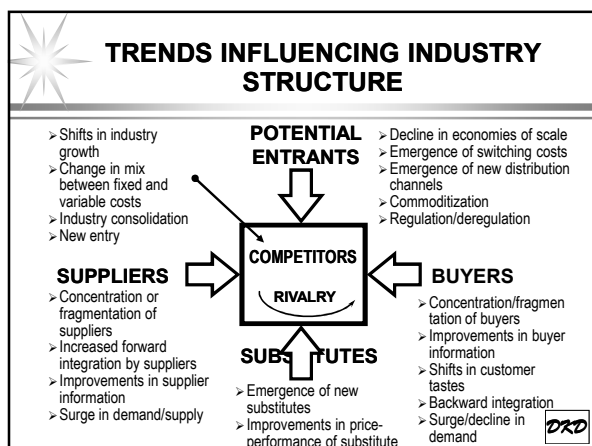
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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## APPLYING STRUCTURAL ANALYSIS

- Identify immediate and potential competitors
- Forecast profit potential
- Develop strategies for coping with forces
  - » Position firm to outperform rivals via strategy that insulates them from the five forces
  - » Identify profitable industry segment
  - » Change forces



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## MACROENVIRONMENT



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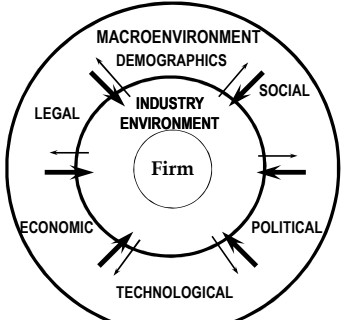
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## MACROENVIRONMENT: IMPACT



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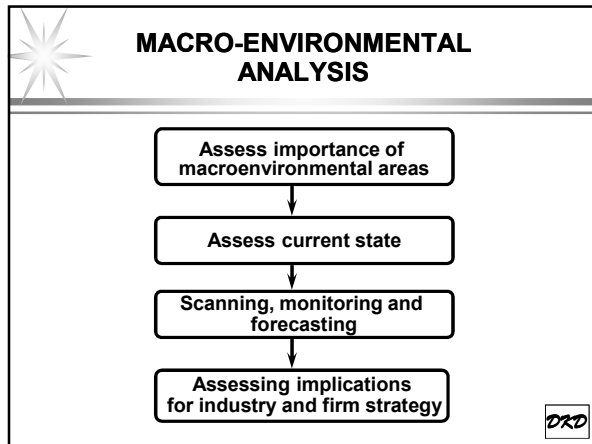
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# STRATEGIC MANAGEMENT

## INDUSTRY ANALYSIS

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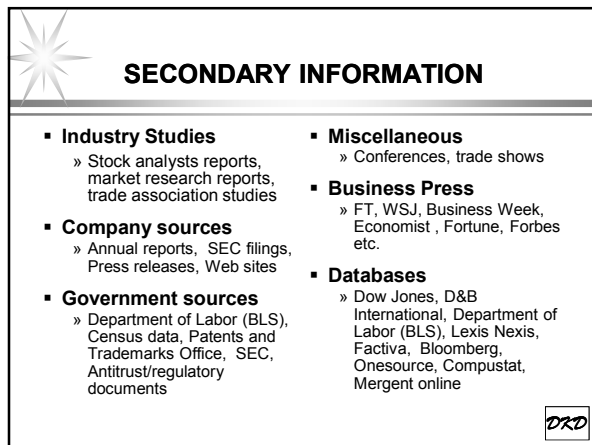
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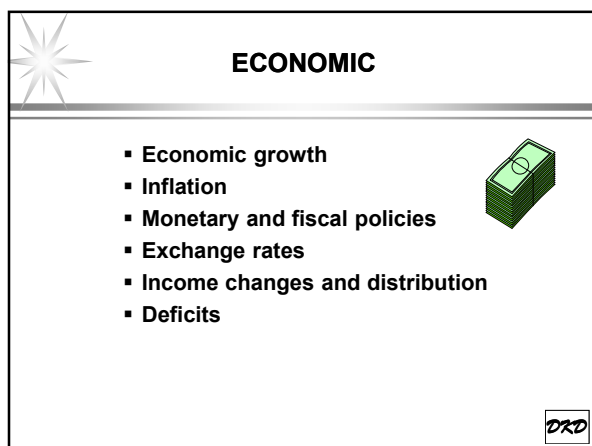
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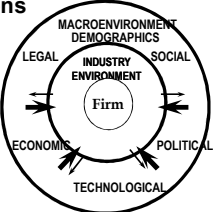
# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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## SOCIO-CULTURAL

- Changing career expectations
- Life style changes
- Social responsibility
- Social values and norms
- Environmental concerns
- Workforce diversity
- Quality of work life



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## DEMOGRAPHIC

- Education
- Population size and growth
- Income and income distribution
- Population shifts
  - » Composition changes (e.g., ethnic mix)
  - » Aging of population



WORLD POPULATION



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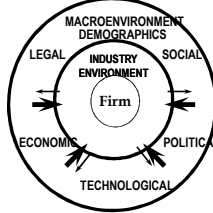
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## POLITICAL/LEGAL

- Attitude towards business
- Legislation
  - » Environment protection
  - » Product safety
  - » Antitrust
  - » Regulation and deregulation
  - » Tax
- Trade regulations/ protectionism
- Political risk



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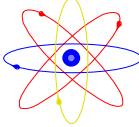
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## TECHNOLOGICAL

- New technology evolution
  - » Process innovations
  - » Product innovations
- Technological substitutes
- New information technologies
- Knowledge transfer
- Impact of the Internet





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## MACROENVIRONMENTAL TRENDS

- Key macroenvironmental areas/sub-areas
  - » Importance varies across industries
- Trends/forecasts
  - » May have different effects on various industries
- Impact on industry subgroups
  - » Impact may vary across strategic groups within an industry



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## "TAKE AWAYS"

- Strategic Group mapping – key to segmenting “non-homogeneous” industries
- Structural features of industry influences competition and profitability
- Five forces framework – understanding industry/strategic group profit potential
- Macroenvironmental analysis – key to assessing future attractiveness of industry and industry segments



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