

# 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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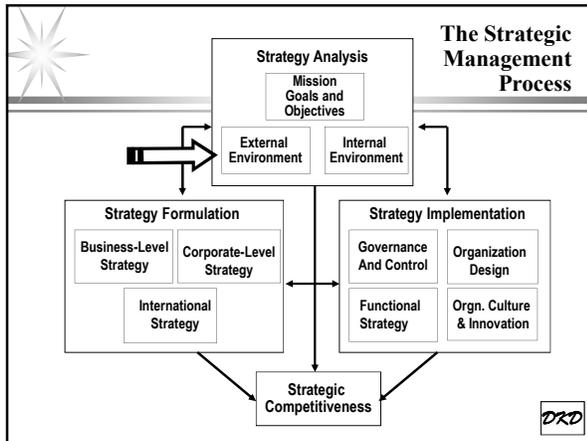
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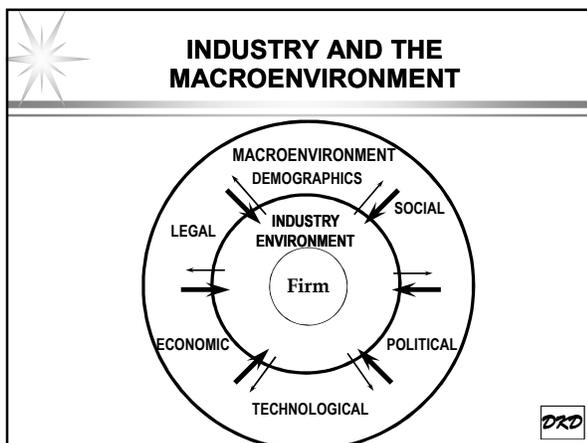
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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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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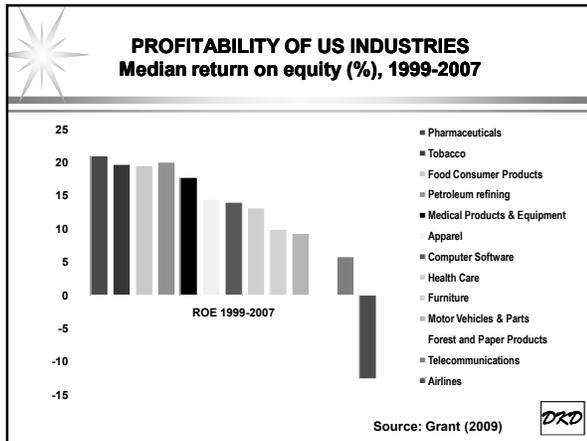
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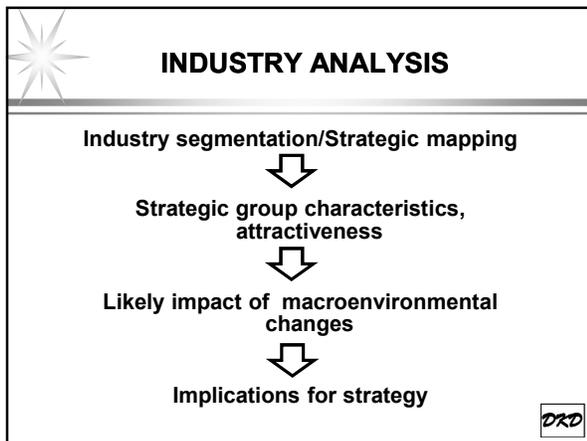
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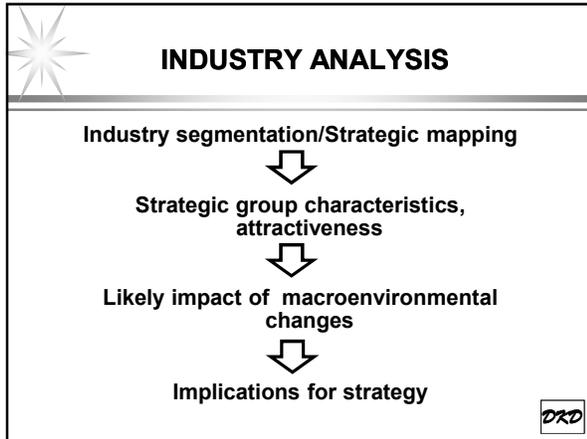
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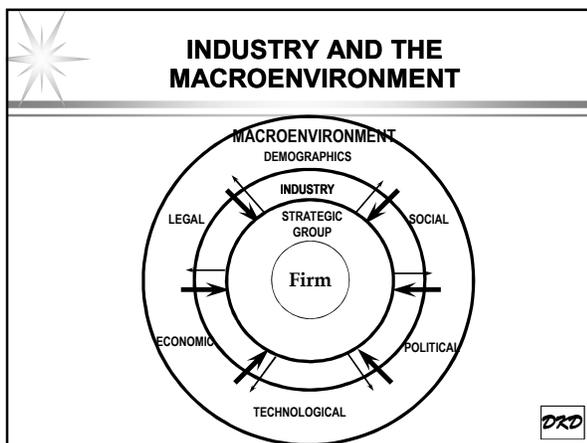
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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## INDUSTRY SEGMENTATION AND STRATEGIC GROUP MAPPING

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**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

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- 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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## U.S. AUTOMOTIVE INDUSTRY

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PRICE

Luxury

Economy

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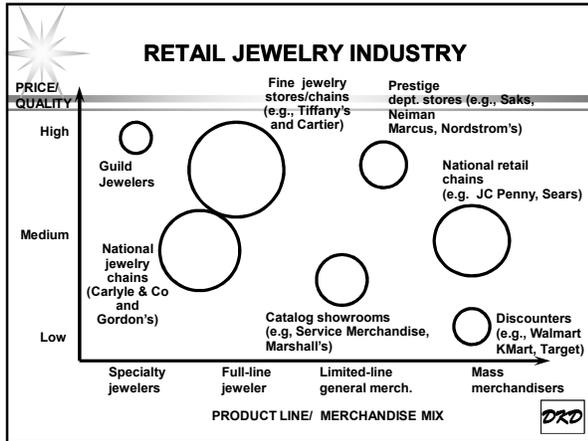
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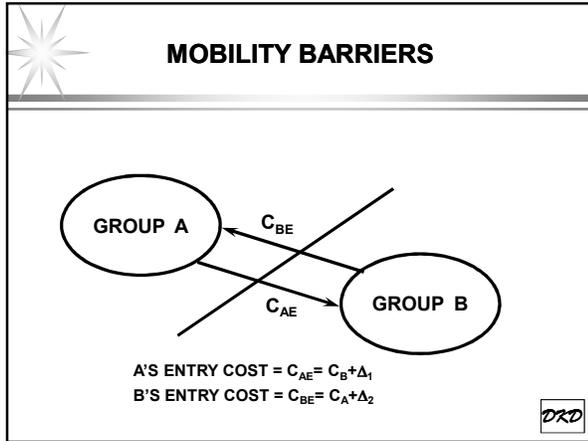
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- STRATEGIC GROUP CHARACTERISTICS**
- Firms in the same SG tend to be affected by and respond similarly to external events
  - Profitability levels vary across SGs
  - Existence of multiple SGs typically means higher rivalry
  - Macroenvironmental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

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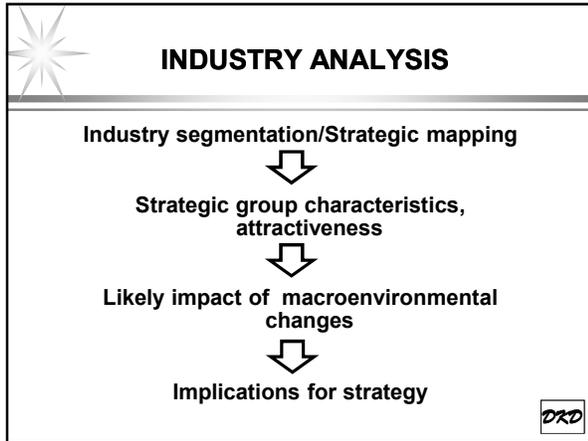
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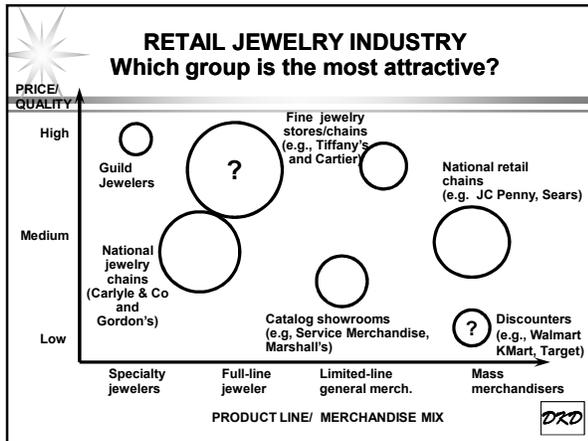
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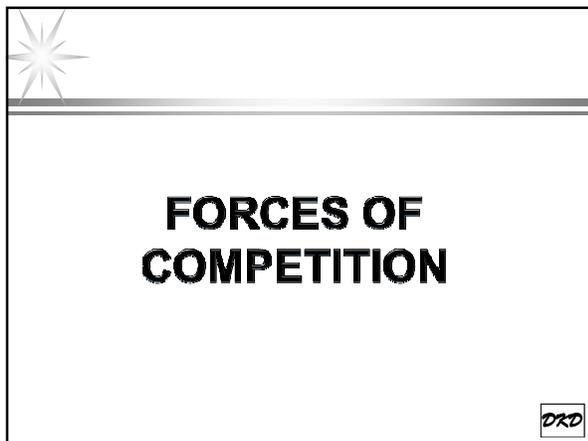
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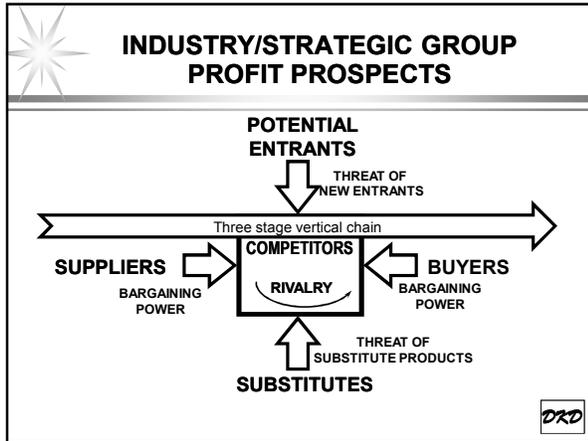
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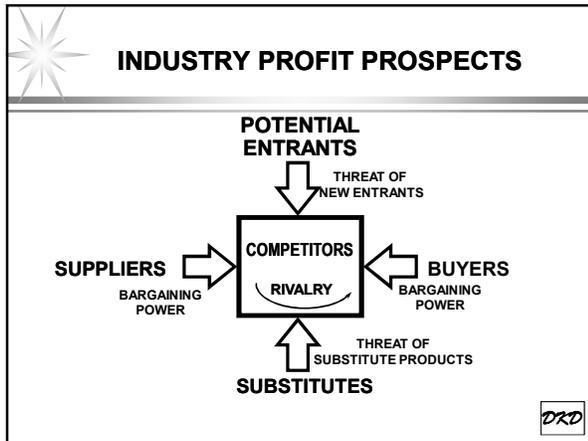
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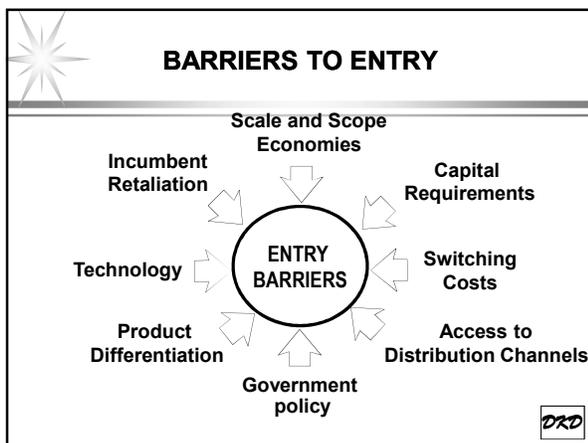
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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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

DKD

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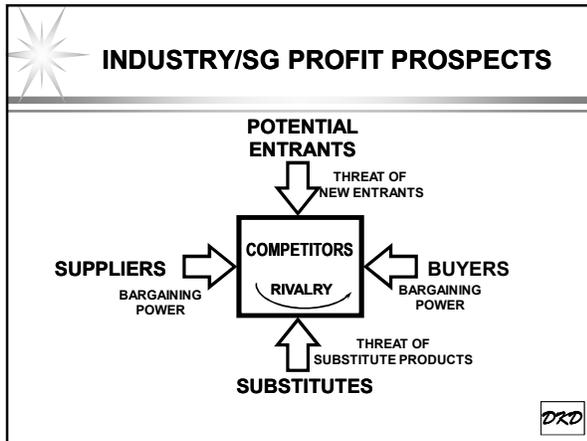
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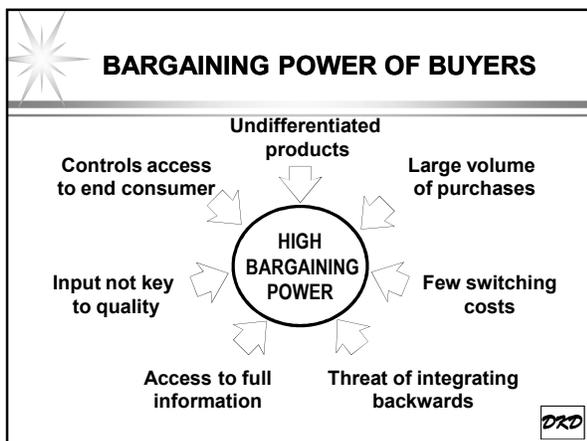
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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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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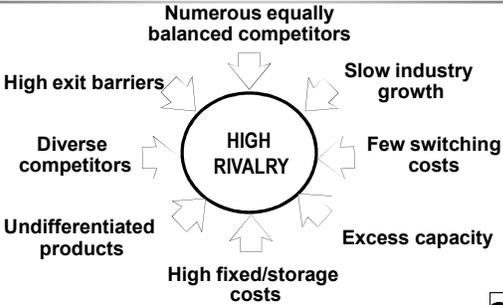
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## RIVALRY



Numerous equally balanced competitors

Slow industry growth

Few switching costs

Excess capacity

High fixed/storage costs

Undifferentiated products

Diverse competitors

High exit barriers

**HIGH RIVALRY**



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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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<b>PROFITABILITY OF US INDUSTRIES</b> 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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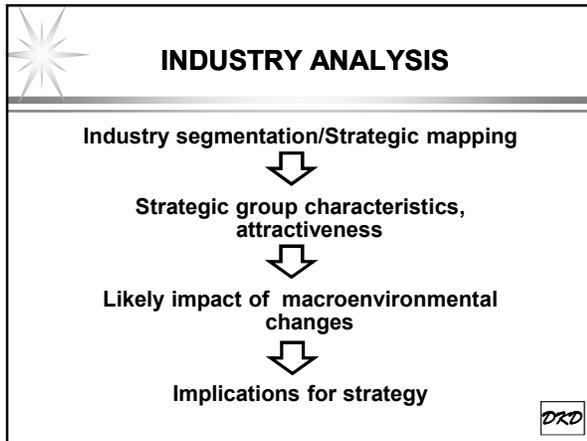
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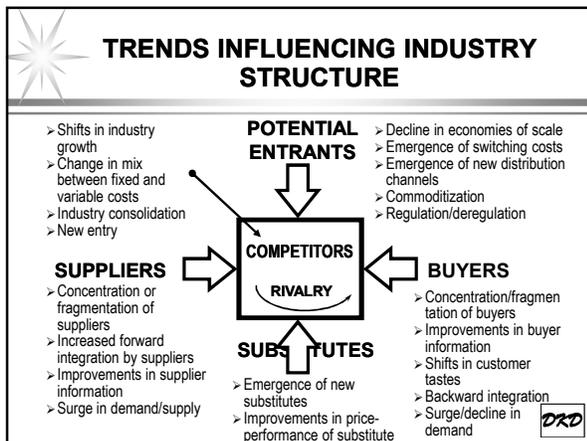
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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 **APPLYING STRUCTURAL ANALYSIS**

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- 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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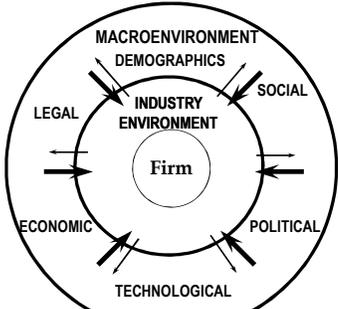
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 **MACROENVIRONMENT: IMPACT**

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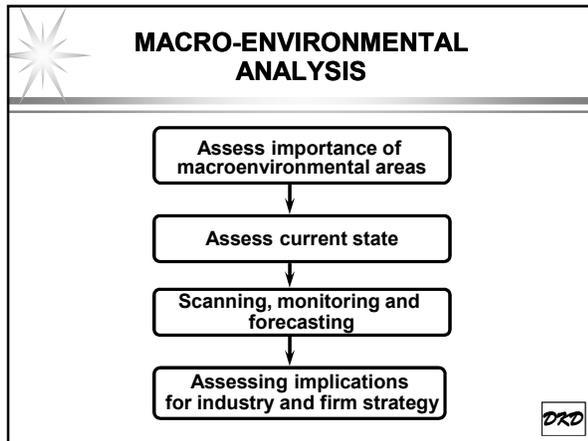
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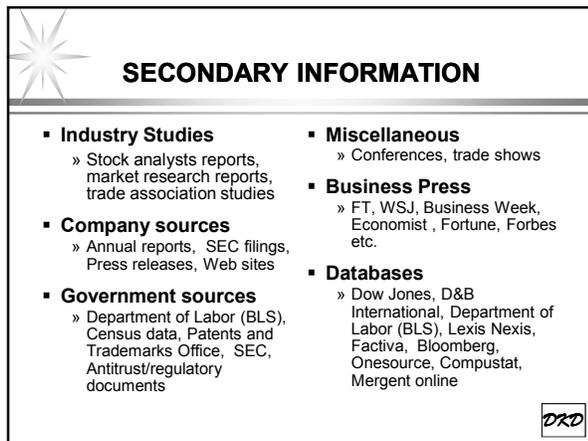
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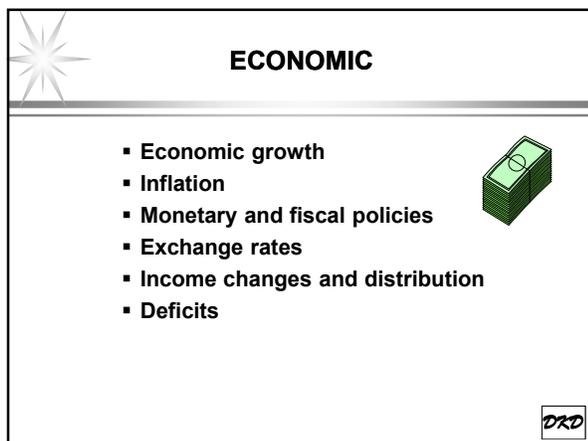
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# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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## SOCIO-CULTURAL

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- 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

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- 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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## POLITICAL/LEGAL

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

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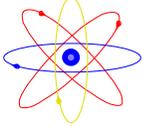
# STRATEGIC MANAGEMENT INDUSTRY ANALYSIS

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 **TECHNOLOGICAL**

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



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 **MACROENVIRONMENTAL TRENDS**

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- **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”**

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- **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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