

Why External Analysis?

Learning Objectives

External analysis allows firms to:

- discover threats and opportunities
- see if above normal profits are likely in an industry
- better understand the nature of competition in an industry
- make more informed strategic choices

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Why is the Market so Crowded?

Barriers to Entry → LOW: McD, KFC, BK, SB,

Consumer Trend → Eat out / save time → Demand.

Quick money making potential ↓ Cultural change ↑

Younger pop'n → Demand. Licencing is easy?

Influencers → Demand. safe business!!

Social media. Quick turn over.

Purchasing Power → Demand.

Learning easy

Capital Intensity
Risk less.

Brand Equity.
↳ expenditure is low

Inventory mgmt.

2

Why not something else?

Substitution

↳ menu / RTE

↳ home food

↳ packed food

↳ cloud kitchen innovation.

High → low marginal.

KFC. High → low marginal.

sub

Energy.

Petrol.

EV

Delicious food. / Quality. / taste.

Convenience.

Offers / Addiction.

Proximity / Availability

Pricing

Lifestyle. / Status Symbol.

SOPs

Medical.

medicines.

homeopathy

Ayur.

AI

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Is it difficult to make?

Suppliers

↳ vegetables ✓

↳ spiced ✓

↳ labor ✓

↳ equipment ✓

↳ meat ✓

↳ packaging ✓

↳ tomato / Swissy ✓

↳

easy to bargain

⇒ volume.

difficult to bargain

- availability / supply.

- branding.

- credit

energy

oil. → OPEC. \$100

Cartel.

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Do we have any Powers?

Buyers

- Final Customers: Low power.
- Delivery Partner: has med. power. → low switching cost.
- Franchise Owner (circled):
 - Brand
 - SOP
 - Agreement ✓
 - Loyalty ✓

Pa Britannia → Bisk Farm.

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Finally, the Competition

Market Forces

Structure: Fragmented. Competitive.

Telecom:

- Airtel
- Jio
- Duopoly.

Differentiation.

Imitate. DFC.

Price War.

Threats

Opportunities

BTE → Low ↓

Subscriber → many ↓

Supplier → low ↑

Buyer → med. ↑

Comp → high ↓

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Environment Analysis

At the core of the Macro environment is the Industry Environment

The Macro Environment impacts the firm through its effect on the Industry Environment

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Industry Structure

Analysing Industry Attractiveness

50% → 500 firms

Vegetable → Perfect Competition

Railways → Monopoly

	Perfect Competition	Oligopoly	Duopoly	Monopoly
Concentration	Many firms	A few firms	Two firms	One firm
Entry and Exit Barriers	No barriers	Significant barriers		High barriers
Product Differentiation	Homogeneous Product	Potential for product differentiation		
Information	Perfect Information	Imperfect availability of information		

MS
VW
TM
Hu
Kia

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Industry Analysis

Industrial Economics

S C P
The Structure-Conduct-Performance Model

CCI:

- originally developed to spot anti-competitive conditions for anti-trust purposes
- came to be used to assess the possibilities for above normal profits for firms within an industry
- model of environmental threats was developed from this economic tradition

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Structure Conduct Performance

The Model

Porter:

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Porters Five Forces

Analysing Industry Attractiveness

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Structural Determinants of Competition

Analysing Industry Attractiveness

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Threat of New Entry

Analysing Industry Attractiveness

Threat from New Competition

- If firms can easily enter the industry, any above normal profits will be bid away quickly.
- Barriers to entry lower the threat of entry.
- Barriers to entry make an industry more attractive.
 - This is true whether the focal firm is already in the industry or thinking about entering.

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Threat of New Entry

Analysing Industry Attractiveness

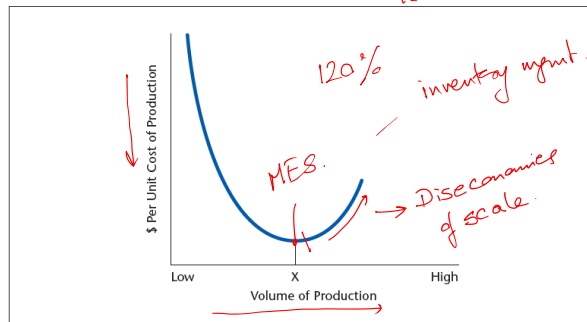
Barriers to Entry:

- **Economies of scale**—firm that can't produce the minimum efficient scale will be at a disadvantage.
- **Product differentiation**—entrants are forced to overcome customer loyalties to existing products.
- **Cost advantages independent of scale**—incumbents may have learning advantages, and so on.
- **Government policies**—governments may impose trade restrictions and/or grant monopolies.

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Economies of Scale

Cost of Production



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Rivalry between Established Competitors

Analysing Industry Attractiveness

The extent to which industry profitability is depressed by aggressive price competition depends upon:

- Concentration** (number and size distribution of firms)
- Diversity of competitors** (differences in goals, costs strategies, etc.)
- Product differentiation**
- Excess capacity and exit barriers**
- Cost conditions**
 - Ratio of fixed to variable costs
 - Extent of scale economies

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Threat of Substitutes

Analysing Industry Attractiveness

slack. NA - EU. ASIANS. time currency.

Extent of competitive pressure from producers of substitutes depends upon:

- Buyers' propensity to substitute
- The price-performance characteristics of substitutes.

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Bargaining Power of Buyers / Suppliers

Analysing Industry Attractiveness

MES.

The extent to which buyers are able to depress profitability in an industry depends upon:

Buyer's price sensitivity

- Importance of item in relation to buyers' total costs.
- Differentiation of the purchased item
- Intensity of competition among buyers
- Whether item is critical to the quality of buyers' own output

Relative bargaining power

- Size and concentration of buyers relative to sellers.
- Buyer's information .
- Ability to backward integrate.

NOTE: analysis of supplier power is symmetric

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Industry Analysis to Strategy

Five-forces analysis to forecast industry profitability

Forecasting Industry Profitability

- If we can forecast changes in industry structure we can predict likely impact on competition and profitability.

Strategic Positioning

- Once we know which structural features of the industry support profitability and which depress profitability, we can choose a favorable positioning within the industry.

Strategies to Improve Industry Profitability

- Which of the structural variables that are depressing profitability can we change by individual or collective strategies?

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Identifying Key Success Factors

Developing Competitive Advantage

Pre-requisites for success

What do customers want?

Analysis of demand

- Who are our customers?
- What do they want?

How does the firm survive competition?

Analysis of competition

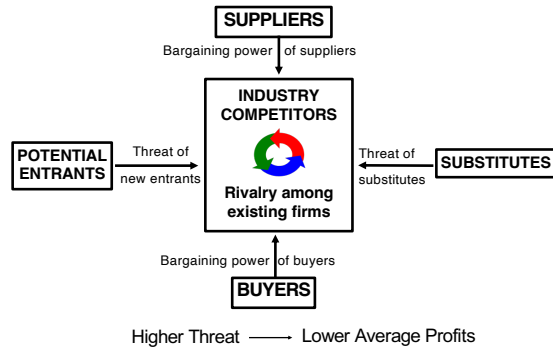
- What drives competition?
- What are the main dimensions of competition?
- How intense is competition?
- How can we obtain a superior competitive position?

KEY SUCCESS FACTORS

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Porters Five Forces

Industry Analysis for Franchise Owners



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Summarise

External Analysis

- How firms can create and exercise market power
- Understanding the external environment (industry, PESTLE) important to predict performance of a firm
- External environment gives us the **THREATS** and **OPPORTUNITIES** facing a firm
- Porters 5 forces broke the SCP paradigm. Conduct can alter Structure and thereby Performance
- Role of regulators vital in controlling Structure

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