

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

Sustainable Competitive Advantage Profits.

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Why is the Market so Crowded?

Barriers to Entry High Med **Low** → Competition

Lifestyle Change

Capital Intensity

Tech Intensity

Not highly regulated

Brand Equity: Sustained Inv. Mktg Adv.

Innovation/Quality

Price/Req.

Expenditure

Economies of Scale

Location/Manpower

Cost

Qty

first mover advantage

→ automate. 1 product in large nos. ↳ Raw mat ↓ cost ↳ Learning curve ↳ Manpower utilization.

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Why not something else?

Substitution

- healthy options (millets)
- Ready to eat
- Frozen food
- Indian (Dosa, Idlis)
- Home Chefs (Cloud Kitchen)

Convenience: time, fast, search, food delivery.

Variety:

Brand: Quality, trust, Aspirational Status Symbol

Addiction: Age group, Lifestyle.

Threat from Sub High Med Low

Advt: Top of mind recall. Impulse purchase

Good.

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Is it difficult to make?

Suppliers High Med **Low**

- vegetables
- flour/oil
- packaging
- LPG
- manpower
- Salt/masala
- meat
- brand protection
- Dairy products

Commodity.

few suppliers → more powerful

more suppliers → less powerful

timely quality → long term contracts

diversify

bulk

Cost → quantity

Accessibility

Branding

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Do we have any Powers?

Buyers

Final Consumer: Options → ^{Low} Switching Cost.
 Brand → Loyalty → price-sensitivity.
 more power. BAD. Customize.

Franchise Owner: High. Switching Cost.
 Brand → Loyalty fee → low margin.
 BAD ↑ less power. Brand SOPs. DFC.

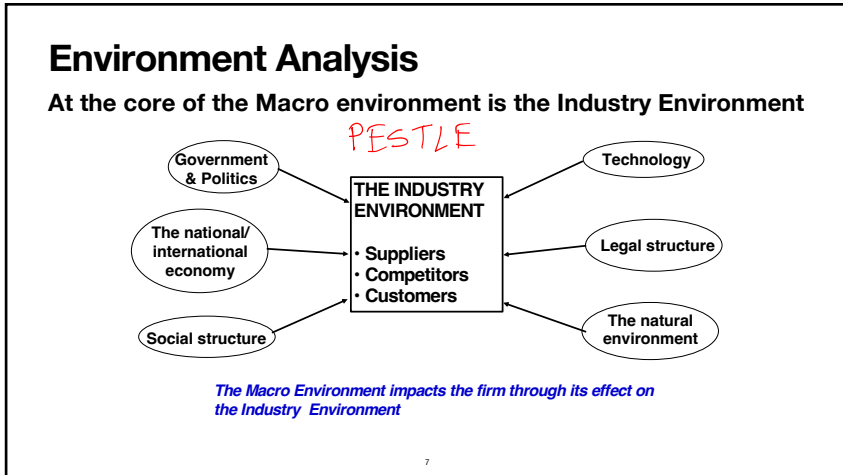
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Finally, the Competition

Market Forces

Barriers to entry ↓ ^{High Med Low}
 Perfect Competition. ↓ BAD.
 Price → packaging / offers.
 Imitation? Emerging Mkt. Legal.
 Channel.

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Industry Structure

Analysing Industry Attractiveness

	Perfect Competition	^{HRL, PCL, local store} Oligopoly	^{Intel, Sio} Duopoly	^{Railways, IREX, CESC} 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		

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Industry Analysis

Industrial Economics *SCP Paradigm*

CCI

The Structure-Conduct-Performance Model

- 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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Michael Porter

Structure Conduct Performance

The Model

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Porters Five Forces

Analysing Industry Attractiveness

Blackberry

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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:

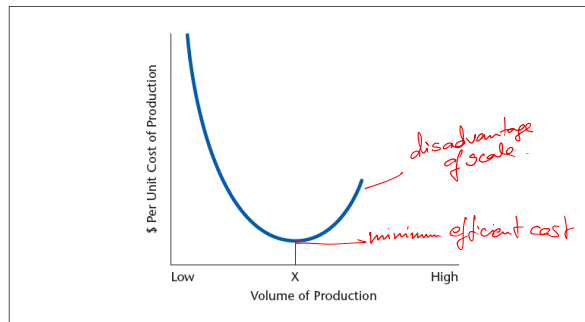
- **Economies of scale**—firm that can't produce the minimum efficient scale will be at a disadvantage.
- **Product differentiation**—entrants are forced to overcome customer loyalties to existing products.
- **Cost advantages independent of scale**—incumbents may have learning advantages, and so on.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

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

Analysing Industry Attractiveness

BiskFalm.

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?

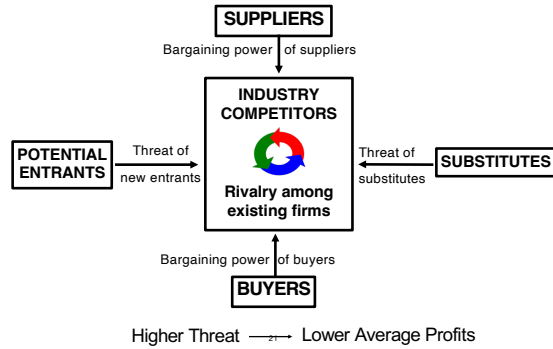
KEY SUCCESS FACTORS

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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 (*set the prices*)
- 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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