

CHAPTER 3: INDUSTRY AND COMPETITOR ANALYSIS

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3.1 Industrial Analysis (Porter's five force model)

- Analysis of the industry environment is focused on the factors & conditions influencing the firm's profitability in the industry
- Definition
 - An industry is a group of firms producing products that are close substitutes
 - Firms that influence one another
- Compared to the general environment, the industry environment has a more direct effect on the firm's strategic competitiveness and above-average returns

The Five Forces Model of Competition



- **Barriers to entry**
 - Economies of scale
 - Product differentiation
 - Capital requirements
 - Switching costs
 - Access to distribution channels
 - Government policy
 - Expected retaliation/make an attack in return for a similar attack.

Economies of scale

- Marginal improvements in efficiency that a firm experiences as it incrementally increases in size
- Advantages and disadvantages of large-scale and small-scale entry

Product differentiation

- Unique products, customer loyalty, products at competitive prices

Capital requirements

- Physical facilities, inventories, marketing activities, availability of capital

Switching costs

- Switching costs are the costs that a consumer incurs as a result of changing brands, suppliers or products. Although most prevalent switching costs are monetary in nature, there are also psychological, effort- and time-based switching costs.

Access to distribution channels

- Stocking or shelf space
- Price breaks
- Cooperative advertising allowances

Government policy

- Licensing and permit requirements
- Deregulation of industries

Expected retaliation

- Responses by existing competitors

3.1.3 Bargaining Power of Suppliers

- **Supplier power increases when:**
 - Suppliers are large and few in number
 - Suitable substitute products are not available
 - Individual buyers are not large customers of suppliers and there are many buyers
 - Suppliers' goods are critical to buyers' marketplace success
 - Suppliers' products create high switching costs
 - Suppliers pose a threat to integrate forward into buyers' industry

3.1.4 Bargaining Power of Buyers

- **Buyer power increases when:**
 - Buyers are large and few in number
 - Buyers purchase a large portion of an industry's total output
 - Buyers' purchases are a significant portion of a supplier's annual revenues
 - Buyers can switch to another product without incurring high switching costs
 - Buyers pose threat to integrate backward into the sellers' industry

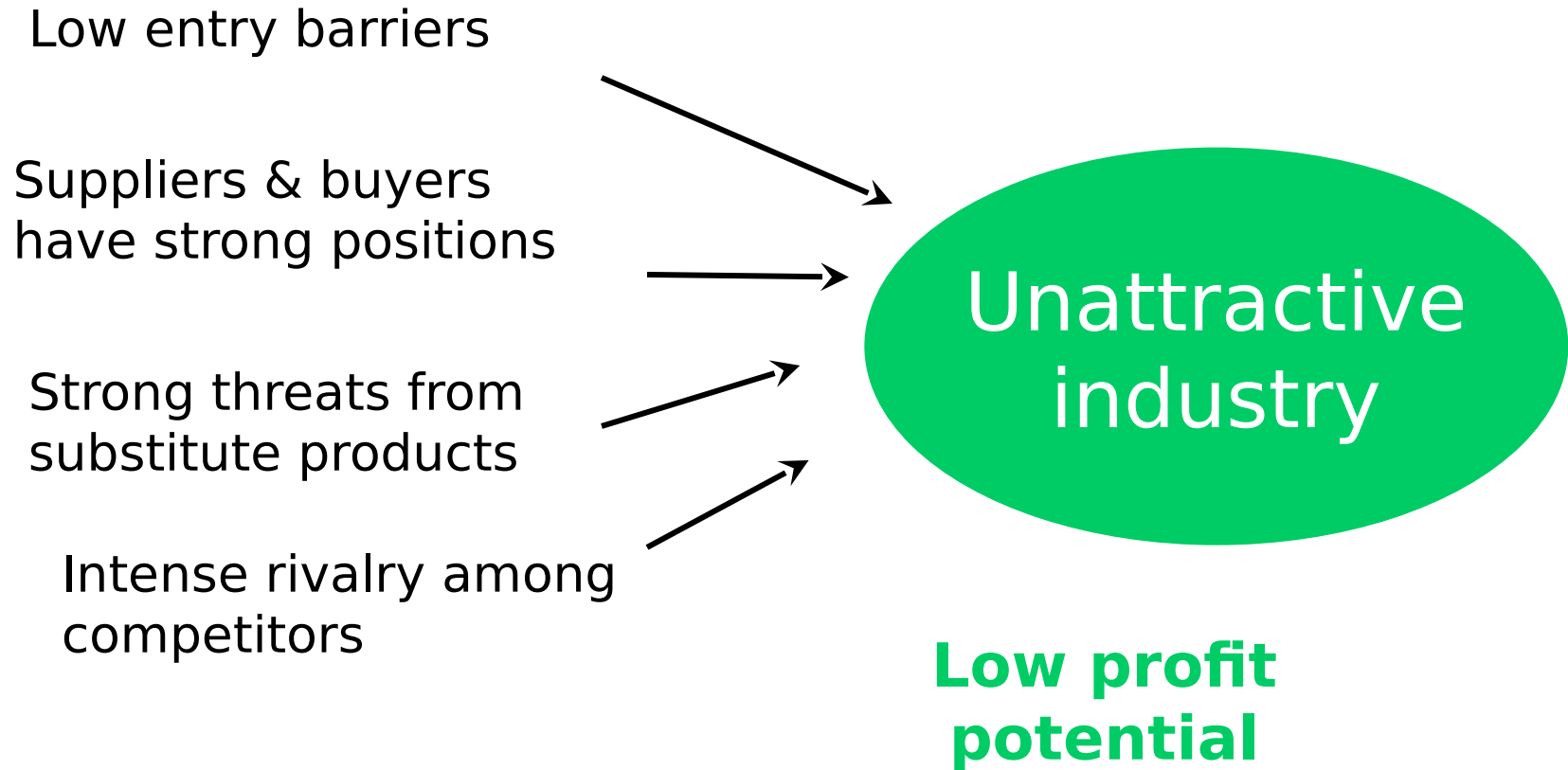
3.1.4 Threat of Substitute Products

- **The threat of substitute products increases when:**
 - Buyers face few switching costs
 - The substitute product's price is lower
 - Substitute product's quality and performance are equal to or greater than the existing product
- **Differentiated industry products** that are valued by customers reduce this threat

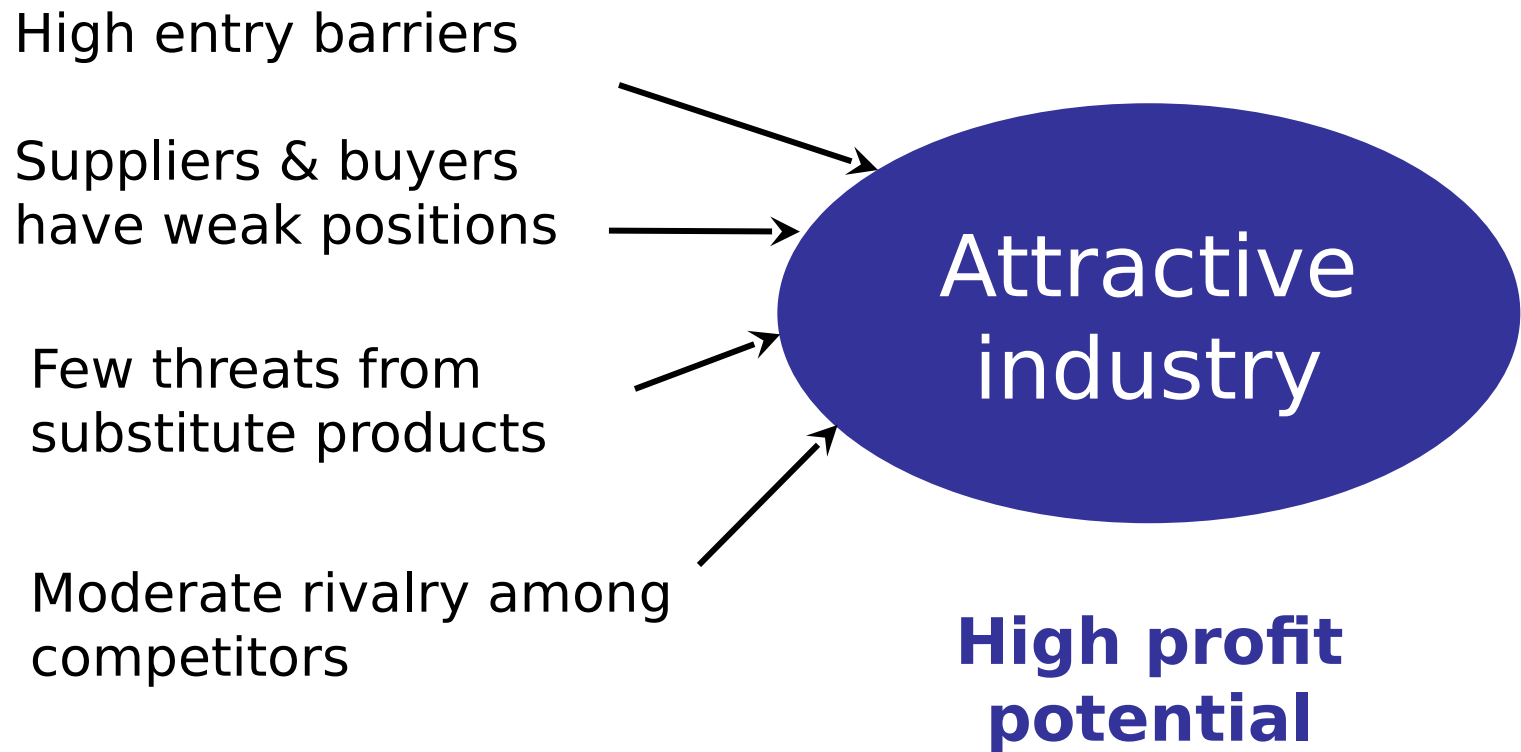
3.1.5 Intensity of Rivalry Among Competitors

- **Industry rivalry increases when:**
 - There are numerous or equally balanced competitors
 - Industry growth slows or declines
 - There are high fixed costs or high storage costs
 - There is a lack of differentiation opportunities or low switching costs
 - When the strategic stakes/risks are high
 - When high exit barriers prevent competitors from leaving the industry

Interpreting Industry Analyses



Interpreting Industry Analyses



3.2 Competitor Analysis

- Analysis of competitors is focused on predicting the dynamics of competitors' **actions, responses & intentions**
- **Competitor intelligence**
 - The **ethical gathering** of needed information and data that provides insight into the competitor's:
 - **Future objectives**
 - What drives the competitor?
 - **Current strategy**
 - What the competitor is doing and can do
 - **Assumptions**
 - What the competitor believes about its own firm and the industry
 - **Capabilities**
 - Competitor firm's capabilities, strengths and weaknesses

Competitor analysis components

Future objectives

- How do our goals compare with our competitors' goals?
- Where will emphasis be placed in the future?
- What is the attitude towards risk?

Current strategy

- How are we currently competing?
- Does this strategy support changes in the competitive structure?

Assumptions

- Do we assume the future will be volatile?
- Are we operating under a status quo?
- What assumptions do our competitors hold about the industry and themselves?

Capabilities

- What are our strengths and weaknesses?
- How do we rate compared to our competitors?

Response

- What will our competitors do in the future?
- Where do we hold an advantage over our competitors?
- How will this change our relationship with our competitors?

3.3 Gap Analysis

What Can a Gap Analysis Do for You?

- A gap analysis is process that compares actual performance or results with what was expected or desired. In other words, how far did a person, group, or product fall from their capacity? Did the resources fall short of the needs?
- The method provides a way to identify suboptimal or missing strategies, structures, capabilities, processes, practices, technologies or skills, and then recommends steps that will help the company meet its goals.
- By comparing the current state with the target state, companies, business units, or teams can determine what they need to work on to make their performance or results better and get on the right path quicker.
- Companies can also use the gap analysis process to elevate individual or team performance, and look at attributes such as task competency, performance level, and productivity.
- Other names for the process include need-gap analysis, needs analysis, and needs assessment

Gap Analysis cont'd

- As opposed to a risk assessment, which tend to be forward-looking, a gap analysis examines the current state.

Gap Analysis can be:

- **Concrete or Conceptual**

- ✓ You can perform a concrete gap analysis that looks at the real world, or a conceptual one that examines hypothetical scenarios.

- **Strategic vs. Operational**

- ✓ A gap analysis can be strategic and focus on the overall organization and the planning and execution at that level, or it can be operational and focus on the day-to-day work of a team or department.

Gap Analysis cont'd

When to Perform a Gap Analysis

- A company can perform a gap analysis at any time, but being thoughtful about when you do one can maximize your effectiveness.
- When an organization is looking for problems with their performance, a gap analysis can be a key tool in identifying where things are falling short.

Gap Analysis cont'd

Benefits of a Gap Analysis

Gap analyses are a frequently-used tool because of the many benefits they can bring to the companies and organizations that implement them. These benefits include the following:

- Insight into areas that need improvement, such as efficiency, products, profitability, processes, customer satisfaction, performance, participation, and competitive advantage
- Ensuring that project requirements have been met
- Finding areas of weakness and shortcomings to address
- Uncovering differences in perception vs. reality
- Providing information to guide decision makers, which can lead to better decisions
- Finding the best places to deploy resources and focus energy
- Prioritization of needs
- If performed well, the results of a gap analysis are clear and easy to understand

Gap Analysis cont'd

Challenges of a Gap Analysis

Some challenges related to the gap analysis process include the following:

- Successful completion depends on knowledge and persistence of the people involved in the process.
- While the process may expose some causes, if it doesn't go deep enough, the proposed resolutions will not address the real root cause or can miss the complexities behind them. For example, when evaluating sales performance, an analysis might conclude that sales reps are not offering a new product enough, but may not find out why. Are they not familiar enough with the product? Are customers unwilling to change from an existing product? Or does the new product not work as advertised?
- The analysis can be inaccurate, as the ground is constantly shifting (especially in large organizations)

Gap Analysis cont'd

How to Perform a Gap Analysis

The basic steps for performing a gap analysis are explained below.

1. Identify the area to be analyzed and identify the goals to be accomplished.
2. Establish the ideal future state. If everything worked according to plan, where would you be?
3. Analyze the current state. What causes contributed to the targets being missed?
4. Compare the current state with the ideal state. How far from the target was actual production?
5. Describe the gap and quantify the difference.
6. Summarize the recommendations and create plan to bridge the gaps. Decide what needs to be changed and determine what steps need to be taken to fix things.

Gap Analysis cont'd

Frameworks for Gap Analysis

- When performing a gap analysis, there are many ways to identify and view problems. There are some common frameworks that you can utilize to perform the process.
- ✓ McKinsey 7S's Framework
- ✓ SWOT Framework
- ✓ PESTEL Framework (PESTEL is another acronym and stands for political, economic, social, technological, environmental, and legal.)
- ✓ Fishbone Framework (The fishbone diagram is a tool created by Kaoru Ishikawa, a Japanese quality control expert. The method is designed to identify problem causes and divide them into categories)



END

