

Applied Strategic Management

Industry Structural Analysis

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The Analysis of Competition in an Industry

Industry Structural Analysis

The basic premise that underlies industry analysis is that the level of industry profitability is neither random nor the result of entirely industry specific influences but is determined, in part at least, by the systematic influence of industry structure.

M. Porter

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The profits earned by the firms in an industry are determined by three factors

- **the value of the product or service to customers;**
- **the intensity of competition;**
- **the relative bargaining power at different levels in the production chain.**



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The Underlying Theory

- **theory of monopoly**
- **the theory of perfect competition**



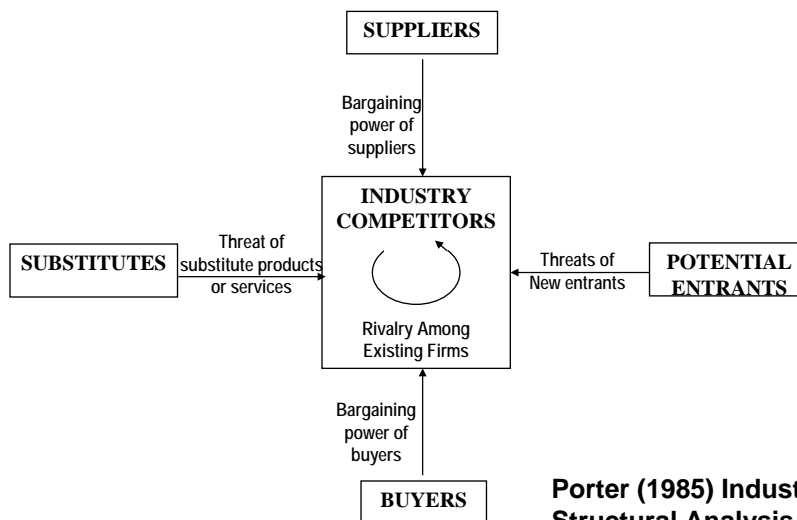
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The Spectrum of Industry Structures

<i>Structural Features</i>	<i>Industry Type</i>			
	<i>Perf. Comp.</i>	<i>Oligopoly</i>	<i>Duopoly</i>	<i>Monopoly</i>
No. of producers	Many	Few	Two	One
Entry & Exit barriers	None	Significant	High	High
Product differentiation	None	Extensive	Moderate	Low
Information	Perfect Availability	Restricted	Restricted	Restricted



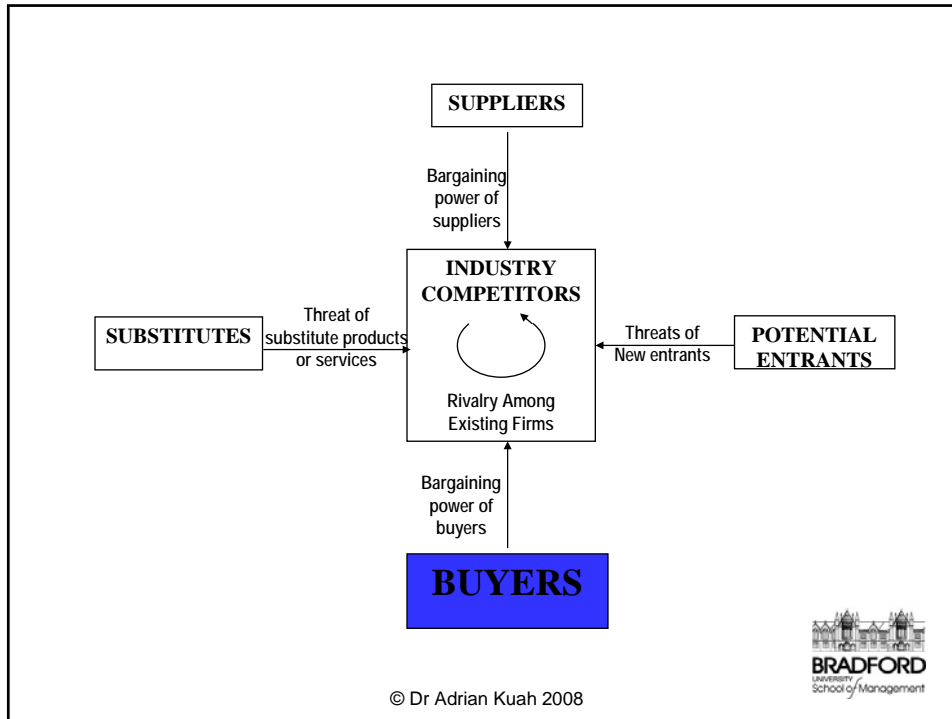
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Porter (1985) Industry Structural Analysis



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Buyer Power

Buyers compete with the industry by

- Forcing down price
- Bargaining for higher quality/ services
- Playing competitors against one another

Buyer Power

Price Sensitiveness

- Product cost w.r.t. to total cost
- Competition with others

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Buyer Power

Bargaining power

- size and concentration of buyers relative to suppliers
- buyers' switching costs
- buyers' information
- buyers' ability to backward integrate

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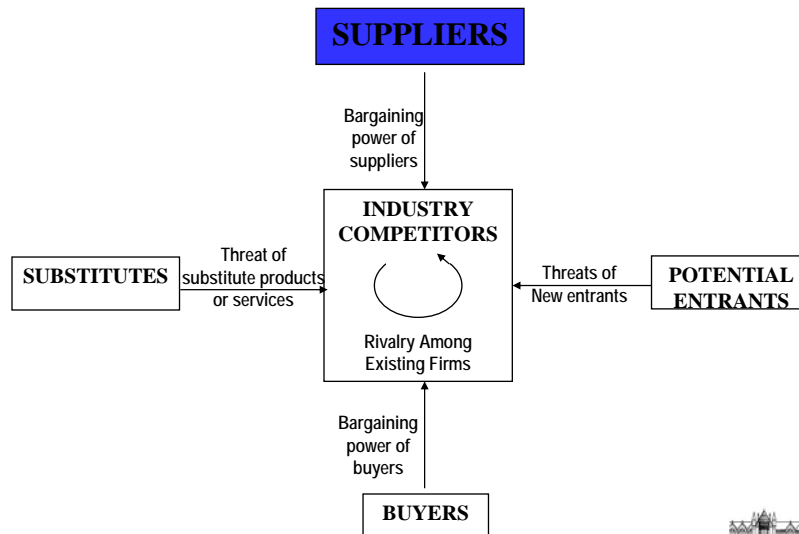
Bradford Checklist

Power of Customers Is High If:

- Customer is price sensitive, as when:
 - *cost of product is high relative to total costs*
 - *it is hard to differentiate products*
 - *customers are facing stiff competition for their products*
- Bargaining power:
 - *size and concentration of customers is high relative to suppliers*
 - *customers have low switching costs*
 - *customers are well-informed*
 - *customers have the ability to integrate backwards*



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Supplier Power

- **Factors determining power of suppliers relative to producers are same as those determining power of producers relative to buyers.**



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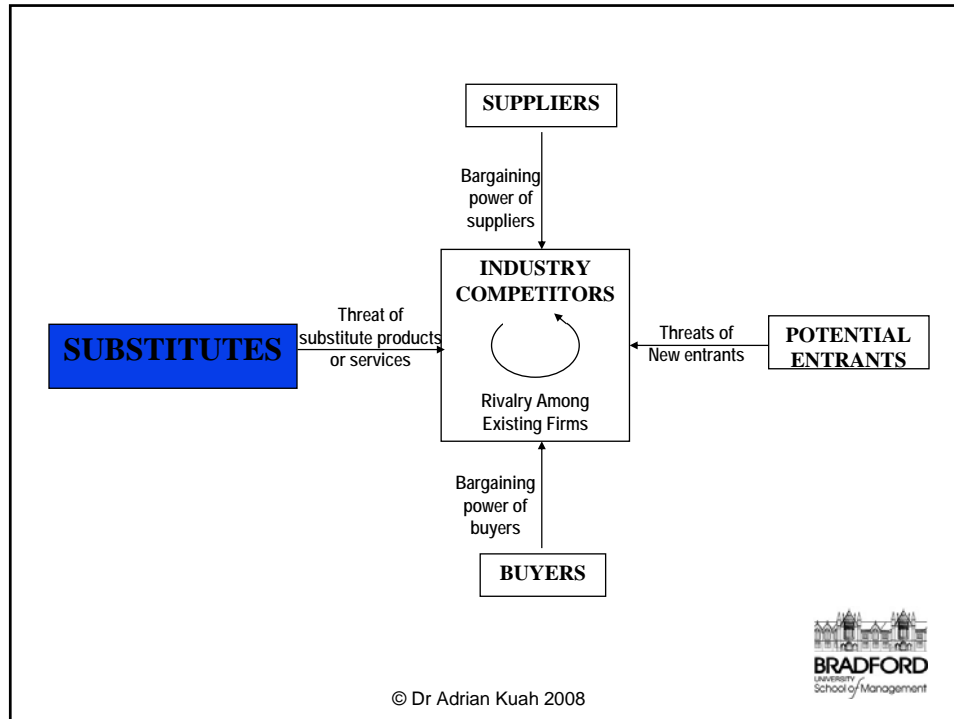
Bradford Checklist

Power of Suppliers Is High If:

- Industry is not price sensitive, as when:
 - ❖ *cost of supplied product is low relative to total industry costs*
 - ❖ *the suppliers' products are easy to differentiate*
 - ❖ *the industry is not facing stiff competition for its products*
- Supplier bargaining power is high, as when:
 - ❖ *size and concentration of suppliers is high relative to the industry*
 - ❖ *industry has high switching costs*
 - ❖ *industry is not well-informed*
 - ❖ *supplier has the ability to integrate forward*



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Threat of Substitutes

- **buyer propensity to substitute**
- **relative price performance of substitutes**
- **Low degree of differentiation**

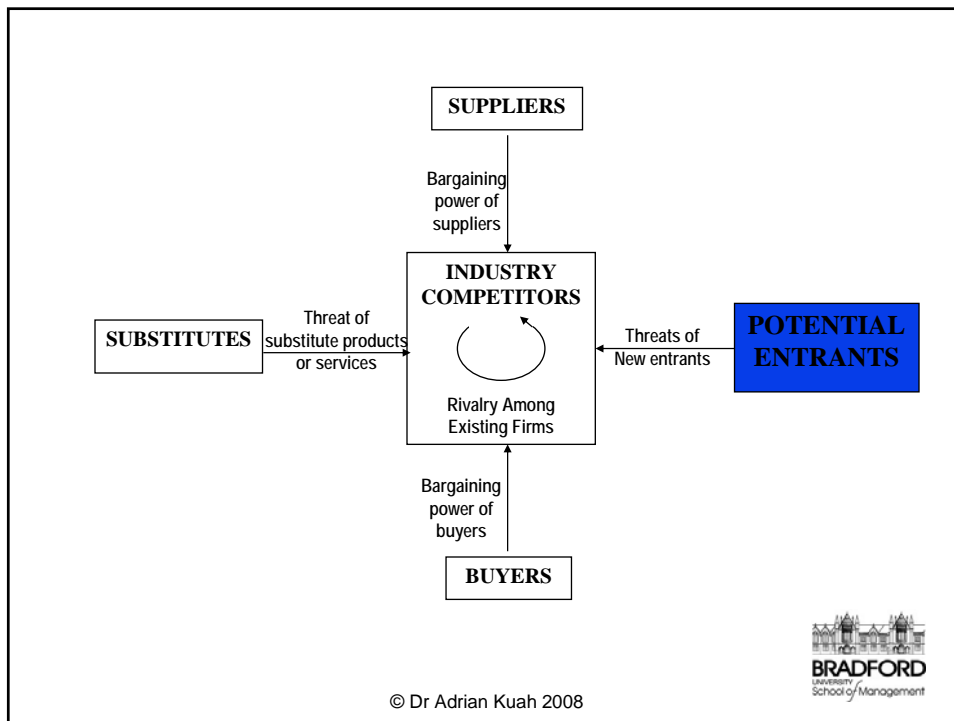
Bradford Checklist

Threat of Substitutes Is High If:

- ↳ Buyer propensity to substitute is high
- ↳ Relatively good price performance of substitutes
- ↳ Low degree of differentiation
- ↳ BUT there is also the possibility that one's own products could find new markets as substitute for some other product.



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Threat of New Entry

- **economies of scale**
- **strong learning curve**
- **product differentiation**
- **capital requirements**
- **access to distribution channels**
- **governmental and legal barriers**
- **retaliation by established producers**



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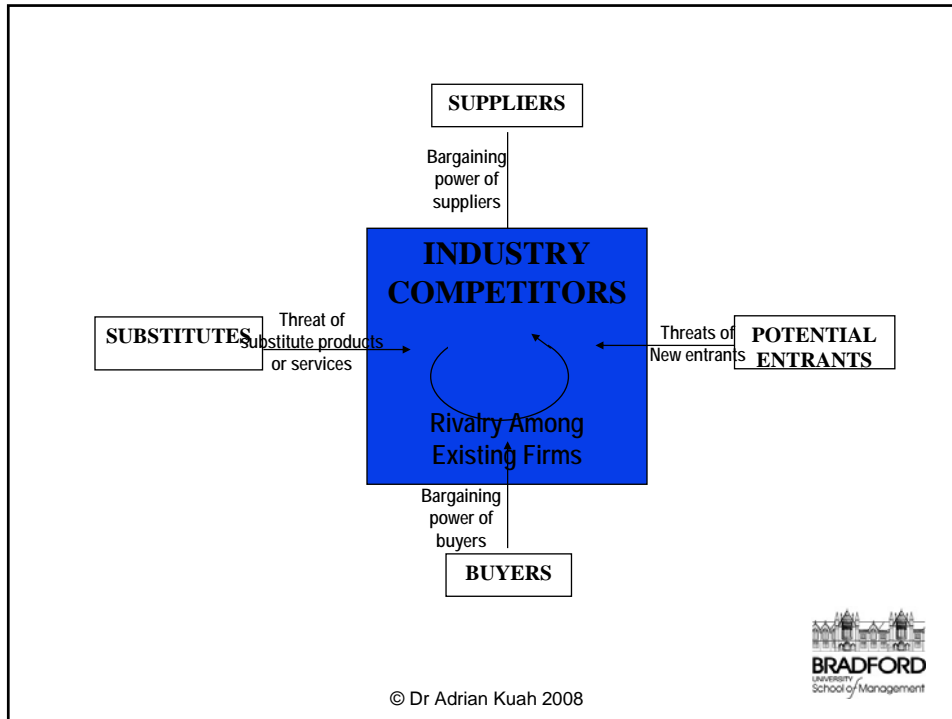
Bradford Checklist

Threat of Entry Is High If:

- ↗ Few economies of scale
- ↗ Not a strong learning curve effect
- ↗ Low capital requirements for entry
- ↗ Difficult to differentiate the product
- ↗ Easy access to distribution channels
- ↗ No legislation preventing entry
- ↗ Little retaliation expected



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Industry Rivalry

- Takes in the form of jockeying for position, using tactics like price war, advertising battles, product introduction and increased customer services.

Industry Rivalry

- concentration
- diversity of competitors
- product differentiation
- excess capacity
- high exit barriers



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Bradford Checklist

Industry Rivalry Is High If:

- Low concentration
- Diversity of competitors
- Market is in slow growth
- Fixed costs are high
- Extra capacity comes in large increments
- Low differentiation of competing products
- High exit barriers



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Bradford Checklist

Industry Structural Analysis

Porter's Five Forces	Explanation	Industry Structural Analysis	Strategies Adopted By Key Players
Rivalry Among Existing Competitors	Rivalry among existing competitors takes the familiar form of jockeying for position, using tactics like price competition, advertising battles, increased warranties and customer services.	<ul style="list-style-type: none"> Though regulated by the Financial Service Authority (FSA), the financial services industry comprises numerous players in various sectors that allows some firms to carry out certain industry 'malpractices' and escape un-noticed until tested. The number of foreign players also plays an important role in introducing new competition and product innovation. Lack of 'real' differentiating costs adds to the rivalry. Main players have high strategic stakes and this further intensifies the competition. 	<ul style="list-style-type: none"> Players compete on product innovation, customer services and reliability through enhanced technologies.

CONCLUSION : **MODERATELY HIGH**
 Rivalry amongst players is moderately high as their moves (marketing, technology, pricing) is dependant on moves by the market leader/s. The competitors often feel the pressure and would cherish opportunities to improve their positioning through three key strategies : (1) Product Innovation, (2) Customer Services and (3) Reliability



Applied Strategic Management

Key Success Factor

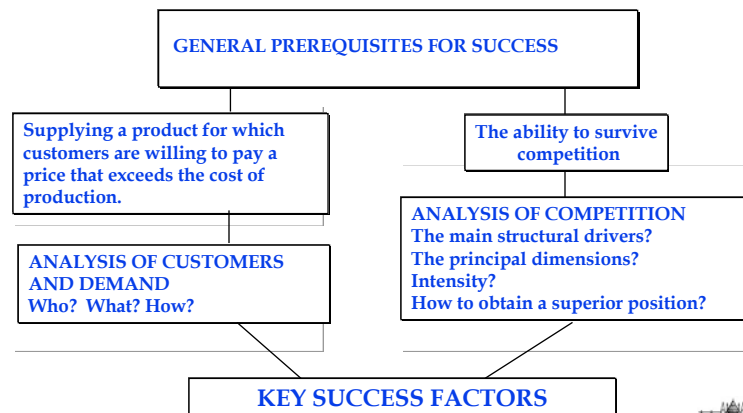
Key Success Factors

- what do our customers want?
- what does the firm need to do to survive competition?

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Identifying Key Success Factors



Bradford Checklist

Identifying Key Success Factors: Steel Industry

WHAT DO CUSTOMERS WANT? (Analysis of Demand)	HOW DOES A FIRM SURVIVE COMPETITION? (Analysis of Competition)	KEY SUCCESS FACTORS
Customers include auto, engineering, container industries. Customers acutely price sensitive. Also require product consistency & reliability of supply. Specific technical specifications required for special steel.	Primarily on price. Intense due to declining demand, high fixed costs and low-cost imports. Entry and exit barriers high. Strong union bargaining power. Transport costs high. Scale economies important.	Cost efficiency through scale-efficient plants, low cost location, rapid adjustment of capacity to output, low labour costs. In special steel, scope for differentiation.

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Learning Outcome

- Assessing the business environment – the industry
- Checklist for the 5 Forces to determine profitability and competition in the industry environment
- Defining and appraising KSF

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