

Industry Context

In addition to the PESTLE analysis, organizations can benefit from conducting an analysis of their industry and their own profitability within this.

Two things determine your company's profitability-the industry in which it competes and its strategic position in the industry. Some industries have inherently low profit potential while others are highly profitable. The most profitable companies have a strong competitive position in a highly profitable industry. The poorest companies have weak positions in weak industries.

Organisations benefit from industry analysis by:

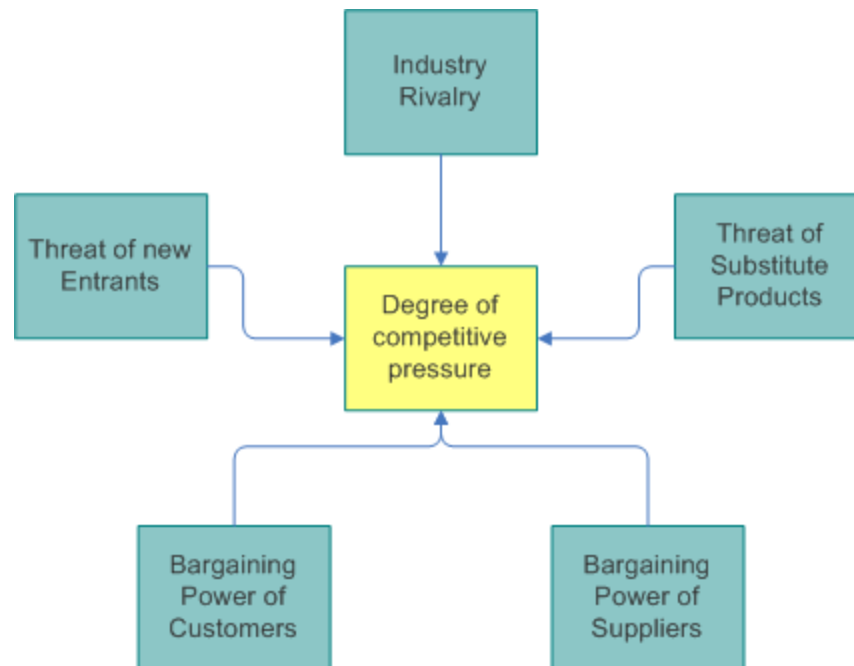
1. Understanding the competitive forces in their industry.
2. Assessing the attractiveness of, and growth opportunities within a new industry.
3. Developing effective strategies to raise profitability, power, and competitive position in an industry.

Michael Porter's Five Forces Analysis

Michael Porter developed a framework, which identified 5 forces that act to either increase or reduce the competitive forces within an industry. These five forces are

- The bargaining power of your customers
- The threat of new entrants into your industry
- The bargaining power of suppliers
- Threat of substitute products or services
- Rivalry amongst existing firms

In general terms, the greater the competitive forces in your industry the more pressure you are likely to find on your prices. Whereas, the weaker the competitive forces in your industry the less pressure you are likely to have on your prices.



By completing a competitive analysis you are becoming informed on who has the bargaining power before you commence negotiations with your customers and suppliers. Being informed ensures that your negotiations are less influenced by the skill of the negotiator and more by your commercial reality.

Now let's look at each of these five forces in more detail.

Porters Five Forces – Overview of Each Force

The Bargaining Power of Your Customers

When analyzing the power of your customers you are really determining who needs who the most. This is driven, in part, by the number of prospective customers compared to the number of suppliers (suppliers are your competitors).

A strong or powerful customer can play you off against your competitors. Your strong customers may ask for higher quality or improved service at the same price or simply, for a lower price. A less strong customer may simply try to bluff you.

In general

- The greater the number of customers to your industry the less commercial power any one customer will have
- The greater the number of competitors you have the greater your customers negotiating power

However, other factors such as the significance of the customer to you or their ability to switch to your competitors also plays a part in determining who has the power.

The Threat of New Entrants to Your Industry

A new entrant to your industry is a brand new competitor or maybe a new brand product or service from an old competitor.

A new competitor to your industry may erode some of your customer base, your challenge is to determine if it is likely that a new competitor will come along and try to steal your customers away.

If new competitors are restricted by up front capital costs, access to technology or requirements to obtain licenses then your market position is likely to be protected.

However, if there are no barriers to entry your position could be weakened.

Tip: Sometimes a new competitor in your area is a good thing. For example if you own a craft shop and four more craft shops open near you, the collective scale of the five craft shops may attract significantly more people to the area resulting in growth of your business.

The Bargaining Power of Your Suppliers

The bargaining power of your suppliers is like the bargaining power of customers only in reverse, you are now the customer, where before you were the supplier.

How dependant on your business is your supplier, or are you dependant on your supplier?

How much power do your suppliers have? Can they raise prices or reduce service without the fear of losing your business?

In general terms the fewer suppliers that you have to choose from the less power you have to negotiate. Other factors such as the cost to switch suppliers also plays a part in determine who has the power.

You will find that a supplier with a unique product that contributes to the uniqueness of your product has a lot of negotiating power, unless they too are dependant on you.

Note: The more powerful the suppliers to an industry, the less profitable the industry tends to be.

The Threat of Substitute Products or Services

A substitute product is a product that replaces the need for your product altogether.

One example, Timber is the main component of house frames. However, more and more steel frames are being produced. From a timber mills perspective, steel is a substitute for timber in house frames.

Are your customers likely to find an alternative product or service to use instead of your product or service? Will substitute products or services erode your profits?

Rivalry Amongst Existing Firms

In many industries most marketing is aimed at maintaining market share, especially when looking at fast moving consumer goods. The industry becomes stable and changes in market share tend to be slow.

However, are any of your competitors thinking about growing their business? If so will you lose business? Will they steal your customers away?

Some of the tactics that your competitors may use to compete for market position are

- Reduced prices or increased price competition
- Increased advertising
- Differentiating based on customer service
- or, many other techniques

SWOT Analysis

What should be included?

STRENGTHS The things we do well Resources Employee skills, experience Workplace relationships Products/services Financial situation	WEAKNESSES The things we do badly Resources we lack Gaps in employee skills, experience Workplace relationships Products/services Financial situation
OPPORTUNITIES National or local trends increasing demand Failing competition New products/services Growth markets Availability of funding Re-location	THREATS National or local trends decreasing demand Strong competition New products/services Failing markets Lack of funding Location

