ILLUSTRATION 3.3 Steps in an industry analysis

There are several important steps in an industry analysis before and after analysing the five forces.

Emily wants to start a coffee shop and perhaps even try to grow the business into several outlets. She needs to consider the following steps and questions:

1 **Define the industry clearly.** Do the actors in the industry face the same buyers, suppliers, entry barriers and substitutes?
   - *Vertical scope*: What stages of the industry value chain/system?
   - *Product or service scope*: What products or services? Which ones are actually parts of other, separate industries? What segments?
   - *Geographic scope*: local, national, regional or global competition?

Emily should consider that many diverse businesses serve coffee. They include not only local cafés and coffee shop chains, but fast food chains, kiosks and restaurants. The definition also depends on whether Emily intends to start in an urban or rural area.

2 **Identify the actors of each of the five forces and, if relevant, define different groups within them and the basis for this.** Which are the . . .
   - competitors that face the same competitive forces? (compare point 1 above)
   - buyers and buyer groups (e.g. end customers vs intermediaries, individual vs organisational)?
   - suppliers and supplier groups (e.g. diverse supplier categories)?
   - potential entrants?
   - substitutes?

Provided there is a clear industry definition the identification of the actors for each force should be rather straightforward for Emily, but groups within them need to be considered. On the supplier side, for example, they include not only inputs like coffee but also the location of the premises and labour supply.

3 **Determine the underlying factors and total strength of each force.**
   - Which are the main underlying factors for each force? Why?
   - Which competitive forces are strong? Which are weak? Why?

Not all underlying factors on the five force checklists will be equally relevant for Emily. With respect to buyers, for example, the products' degree of standardisation and prices matters most, while others are less important.

4 **Assess the overall industry structure and attractiveness.**
   - How attractive is the industry? Why?
   - Which are the most important competitive forces? Which control profitability?
   - Are more profitable competitors better positioned in relation to the five forces?

For Emily several of the forces are quite strong, but some are relatively more important for profitability. In addition, some competitors, like large coffee chains, are better positioned versus the five forces than others.

5 **Assess recent and expected future changes for each force.**
   - What are the potential positive/negative changes? How likely are they?
   - Are new entrants and/or competitors changing the industry structure in any way?

For example, Emily needs to consider the proliferation of coffee chains during the last few years and that pubs and bakers have improved their coffee offerings lately. Maybe she can also spot possible changes in consumer trends and growth.

6 **Determine how to position your business in relation to the five forces.** Can you:
   - exploit any of the weak forces?
   - neutralise any of the strong forces?
   - exploit industry change in any way?
   - influence and change the industry structure to your advantage?

To cope with the forces Emily could possibly identify a concept that would attract a certain group of customers even if buyers have many choices in urban areas. This could neutralise threats from competition and entry somewhat and perhaps provide loyalty from some customers.

Sources: M.E. Porter, 'The five competitive forces that shape strategy', *Harvard Business Review*, vol. 86, no. 1 (2008), pp. 58–77; J. Magretta, *Understanding Michael Porter: The Essential Guide to Competition and Strategy*, Harvard Business Review Press, 2012.

Questions

1 Help Emily and go through each step above. Answer the questions and make a complete analysis. What is your assessment of the industry?

2 Based on your analysis: How should Emily handle the different forces? What strategic options should she consider?