INDUSTRY ANALYSIS TEMPLATE

- The Five Forces Framework -

Prepared by Stefano Messori, this document accompanies the industry analysis excel spreadsheetdeveloped on the basis of Porter's five forces model available for free download (now also availableunlocked). Here the basic materials needed to perform an industry analysis are outlined

MICHAEL E. PORTER'S FIVE FORCES MODEL

Porter's five forces model explains how the rules of competition are embodied in five competitive forces, namely (i) the rivalry among the existing competitors, (ii) the entry of new competitors, (iii) the threat of substitutes and the bargaining power of (iv) buyers and (v) customers. The interaction of the five forces is illustrated in the diagram below.

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1.1) Published data:

A wide range of published data exists for most industries. The limitation is that frequently the data are too broad or too general. Different industry characteristics determine the quantity of the published data available. In the case of established and large industries with a slow rate of technological change there is usually a good range of ready to use studies. In new and smaller industries characterised by a high rate of technological change it's often hard to find organised information.

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Categories of published sources of data:

1) Industry studies: these provide a general overview of the industry. They may be book-length studies, frequently prepared by economists, or shorter and more focused studies provided by consulting firms.

2) Trade association publications: trade associations frequently possess great quantities of industry related data and from time to time they publish detailed industry reports containing a range of statistics.

3) Trade magazines: constantly monitoring relevant trade magazines is an inexpensive way of observing the dynamics of the industry.

4) Business press: in most sectors there are a number of business publications focusing on the industry and the companies within it.

5) Company directories: these are generally not available to the public. They are provided only to subscribers and are often expensive.

6) Company documents: public companies are obliged to publish a variety of documents about themselves. Other useful resources include press releases, product literature, manuals, transcripts of annual meetings, patents and advertising.

7) Government sources: national revenue services hold vast amounts of data relating to various industries and (depending on the country) may publish statistics based on tax returns.

8) Other sources: other relevant information can be found in antitrust records, local tax records and local newspapers.

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1.11) Filed data:

This refers to data collected during interviews with industry participants and observers,through surveys and questionnaires, etc. **When collecting field data it is important** to have a framework to help identify possible sources, to determine their attitudes to cooperation in the research process and, finally, to determine the best means to approach them.

Framework of field data sources: the diagram beside highlights the most important sources of field data. These are the industry participants themselves, firms and individuals in adjacent industries, service organisations and industry observers. The separate analysis of each of these sources is useful because each has different characteristics. Such analyses will generate valuable information that is directly applicable in the performance of industry analyses.
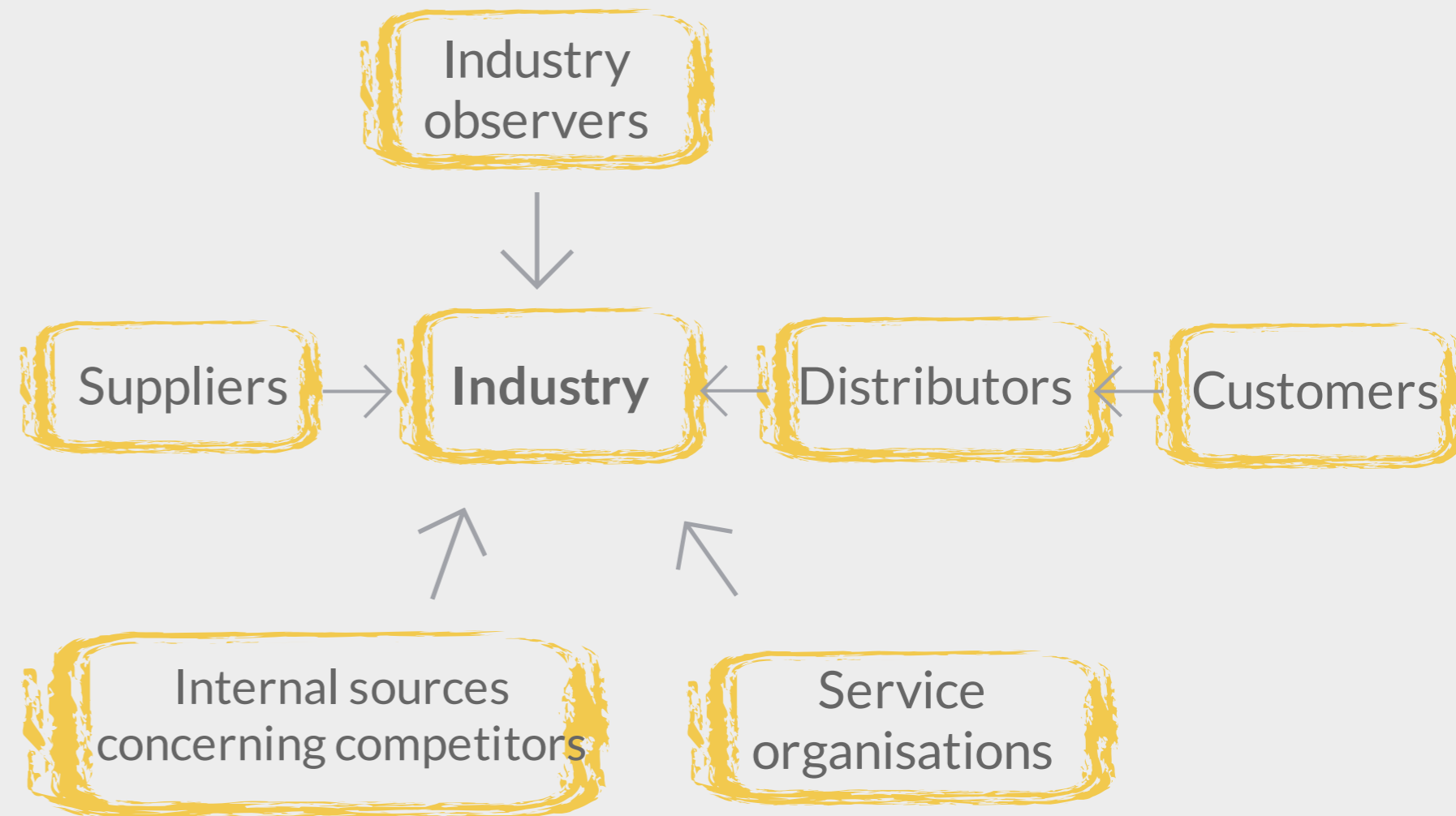
Industry observers

Suppliers → **Industry** ← Distributors ← Customers

Internal sources concerning competitors

Service organisations

(Source: Porter E. M. 1980. Competitive Strategy: techniques for analysing industries and competitors, Free Press378 pp.)

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The most important sources of field data are:

1) Industry participants: the main actors in the industry, people or organisations that play a central role in the industry as direct competitors.

2) Firms and individuals in businesses adjacent to the industry: suppliers, distributors, customers, etc.

3) Service organisations: these are organisations in contact with the industry as consultants, auditors, bankers and trade associations.

4) Industry observers: the financial community and regulators.

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11.1) Framework for data collection:

Data categories

1) Product lines

2) Buyers and their behaviour

3) Complementary products Functional

4) Substitute products

5) Growth rate
   5.1) Pattern (seasonal, cyclical)
   5.2) Determinants

6) Technology of production and distribution
   6.1) Cost structure
   6.2) Economies of scale
   6.3) Added value
   6.4) Logistics
   6.5) Labour

7) Marketing and sales
   7.1) Market segmentation
   7.2) Marketing practices

8) Suppliers

9) Distribution channels (if indirect)

10) Innovation
   10.1) Types
   10.2) Sources
   10.3) Rate
   10.4) Economies of scale

11) Competitor-strategies, goals, strengths, weaknesses and assumptions

12) Social, political and legal environment

13) Macro-economic environment

Data sorted by

1) Company

2) Year

3) Functional area

(Source: Porter E. M. 1980. Competitive Strategy: techniques for analysing industries and competitors, Free Press 370 pp.)

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11.11) Data collection:

It is important to define a number of steps as to how to produce enough data in each area. There are important benefits to be had from getting a general overview of the industry first,and only then focusing on the specifics.

There are three basic factors relevant for data generation:

1) Who is in the industry: developing a list of the overall industry participants is essential in order to get a general overview of the industry. Once the overall picture of the industry's actors is clear,attention will focus on the key participants. It is necessary to obtain as great an insight into their specific situations as is possible.

2) Industry studies: in some industries a wide variety of studies are available. Going through these studies is a useful way to obtain a better overview of the industry and its participants.

3) Annual reports: checking the latest annual reports of the major companies involved in the industry is a good starting point for the understanding of the industry and its direction.

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III) Interpreting the data collected

After the data collection process (as carried out separately by the various departments involved) has been completed, all of the data is collated in a single spreadsheet.

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After the data collection process (as carried out separately by the various departments involved) has been completed, all of the data is collated in a single spreadsheet.

Once this master spreadsheet is ready, the management staff should meet to discuss the contents. A representative of each team or department involved in the data collection process should explain to the other participants the main findings in their area.

The main purpose of this meeting is to provide a detailed overview for the management team, and to create shared insights amongst managers into how competition works in the industry in question. Only in this way can strategic thinking start to become a shared value within the organisation.

The initial meeting should be followed by sessions focusing on the implications of the findings of the industry analysis. The mere application of the model is not sufficient. It is necessary to understand the industry structure and its dynamics so that you and your management team can implement successful strategic actions such as:

1) positioning your company in a part of the industry where competition is less intense;
2) exploiting changes in the industry, anticipating possible future scenarios; 3) shaping industry structure in a manner favourable to your company, changing the game and expanding competition to new frontiers.

Many factors determine the success of this process in your organisation. For example, being able to draw the right boundaries around your industry is an essential part of strategy implementation.

It is not possible to describe in this document all of the potential factors and the possible implications of the data collated as part of the industry analysis, and the central role the data play in the strategy implementation process. For a more in depth analysis please contact me directly.

CONCLUSION

The five forces model, conceived 30 years ago, still represents a useful tool for looking at an industry,because it doesn't focus on trends or on the latest technologies. Instead it focuses on a deeper level,describing the enduring fundamentals that shape rivalry in an industry. These principles are independent of any particular moment in time.When applying this framework your job is:

1) to identify, from all the determinants listed in the model, those that really characterise your industry;

2) to dig deeply into the reasons that make them so important in your industry;

3) to find ways to shape them to your advantage, without hurting the overall industry structure.

Industries evolve over time with a series of gradual adjustments. From time to time they can change abruptly. It is necessary then to think of the five forces framework not as a static snapshot of the industry at a particular moment in time, but rather as a dynamic tool enabling companies to understand and anticipate changes to the industry and the implications of these changes for your company.

NEW ENTRANTS

RIVALRY
Among existing competitors.

SUPPLIERS

BUYERS

SUBSTITUTES

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