J D Women's College

Course Name- PG vocational MBA

(3rd semester)

Subject- Security Analysis and Portfolio Management

Topic- Industry Analysis (part-1)

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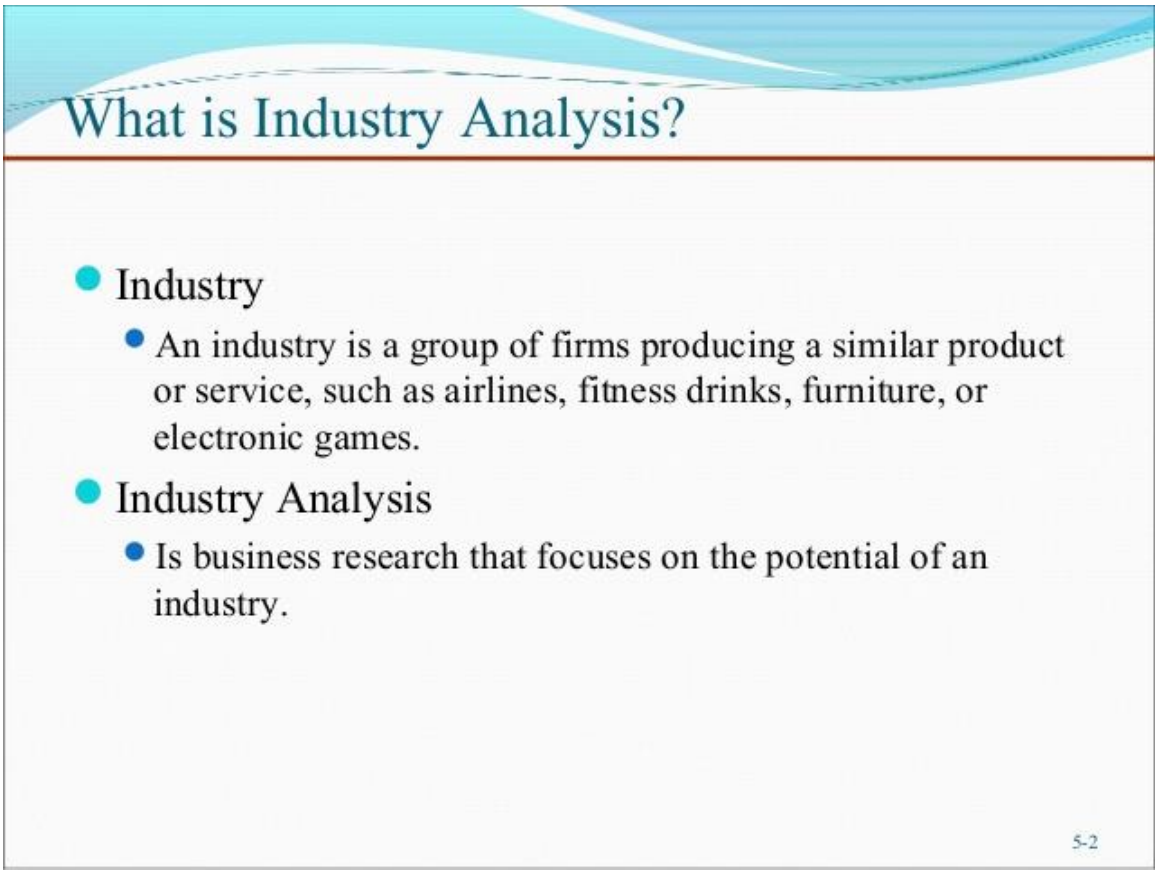
Industry Analysis



After economic analysis, another question arises "which industries will benefit most from the upcoming economic environment?" The objective of this analysis is to assess the prospects of various industrial groupings. A company's performance cannot be completely or permanently isolated from the economic climate of the industry within which the major portions of its activities occur. Consequently, industry information has to play a significant role in the evaluation of individual companies. So that industry will lead to choose the better positioned in market.

An **industry analysis** consists of three major elements:

1. Underlying forces at work in the **industry**;

2. Overall attractiveness of the **industry**; and

3. Critical factors that determine a company's success within the **industry**.

Industry analysis is an important tool that facilitates a company's understanding about its position relative to other companies which produce similar products or services. Understanding the forces at work in the overall industry is an important component of effective strategic planning. Industry analysis enables small business owners to identify the threats and opportunities. and to focus their resources on developing unique capabilities that could lead to a competitive advantage.

Purpose of Industry Analysis

Industry analysis is important for knowing the capability and the associated skills used to carry out business activities. They will help to gain an intimate understanding of the environment within which business operating.

This importance of analysis has various facets to it, however, and they can each be discussed in some detail.

1. Industry Analysis to predict performance

One of the greatest indicators of how well business will perform in an industry is the performance of the industry as a whole. If the industry is doing well, then it seem business is likely to do well within that industry. If there is need to, that changes are likely to take place in the industry, this will help that industry to achieve their set target

2. Industry Analysis and Positioning of a Business

During the planning phase of business, first understand the market in which they are playing that how the market works. For example, understand the kind of products being sold in the market, as well as how saturated the market is. There is needed to be better able to figure out how one business can differentiate from the competition.

3. Industry Analysis to Identify Threats and Opportunities

Throughout the process of industry analysis, industry will be able to identify many different threats and opportunities. Threats are any phenomena that would delay the growth of business, while opportunities are phenomena that would catalyze the growth of business.

There are three main ways of industry analysis. These are:

1. The Competitive Forces Model, also known as Porter's 5 Forces.
2. The Broad Factors Analysis, also known as PEST Analysis.
3. SWOT Analysis.

Porter's 5 Forces/Competitive Forces Model

This is one of the most famous models of industry analysis, today. It was first used by Michael Porter in the book *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. This theory explained that there are five forces, the analysis of which will give a business a proper impression of what is going on within the industry. The five forces are as laid out below:

1. **The intensity of rivalry in the industry:** There are two factors can use to measure, how competitive the industry is overall are the number of participants that take part in the industry and the market share that each industry player commands. A variety of factors determine this. If there isn't much differentiation in the products sold in the industry, then typically, there will be very stiff competition. There are some factors as labor unions, restrictions by the government, and high exit costs, due to the nature of fixed assets, these things will contribute to the intensity with which competitors will go at each other.

2. **The threat of new entrants to the industry:** some question likes that how easy is it for a new firm to enter the industry? Can a new player just walk in and set up shop without too many things working against that player? If it is very easy for a new business to enter the market and set up shop, then the players already in the market are constantly facing the threat of new competition, in addition to the competition they already face from existing players.

If entry costs are especially high and it is extremely difficult for new players to enter the market, then whichever company currently enjoys a competitive advantage gets to enjoy that competitive advantage. Also, as long as entry is difficult, then the company players will face the same competitors throughout, which make it much easier for them to adjust.

3. **The bargaining power enjoyed by suppliers:** If there are small number of suppliers? If it does, then those suppliers will have a lot of bargaining power, since they enjoy a kind of oligopoly. If there are a lot of suppliers then the bargaining power will be shifted to the business instead. This can be critical for a small business because dealing with difficult suppliers can have a direct influence on the price of a product, as well as its final quality.

4. **The bargaining power enjoyed by buyers:** It is a one of the important aspect which considered; the kind of bargaining power that buyers have. If the buyer enjoys most of the power in the market, then that buyer can demand lower prices on products, as well as better quality products and discounts, or after-sales services on those products. Typically, this is what happens in industries where there are a few buyers but a lot of businesses offering the same product. In this situation, few buyers will have the bargaining power in that industry.

5. **The threat of substitute goods and services:** An industry will be in direct competition with another industry that offers substitute goods or services for that industry. All of the companies within an industry will be in competition with other companies in a competing industry. Their profitability will be affected by this, because of the prices they can charge for their products and services.

Generally there are two kinds of substitutes:

First are products that have the same quality or function as the product in question, but are products are offered at a lower price, while the second are products that are offered at the same price as the product in question but are of a higher quality or greater utility.