

Analyzing Industry Structure

Porter defined industry as “a group of companies offering products or services that are close substitutes for each other, that is, products or services that satisfy the same basic customer needs.” This is indeed a good way to look at an industry. Within an industry, however, there may be multiple ways of competing.

For example, consider the case of the airline industry. In this industry, we can group firms based on their service offerings and pricing policies. With this classification, firms in this industry get organized into low cost carriers and full service carriers. Such groups of firms that employ similar dimensions or business models to compete in the market place are called as strategic groups. In a sense, you can call them proximate competition. Note that strategic groups are not the same as market segments. Unlike segmentation analysis which is centered on the characteristics of product markets as a basis for dividing industries, strategic group analysis uses firm characteristics as a basis for industry division.

This has implications for our analysis in the sense that different strategic groups may have different levels of attractiveness. Secondly, the two sets of players are different and it may not be easy for firms to move from one group to another due to what one may call as mobility barriers, quite similar to the entry barriers that we encountered in an earlier session. For instance, consider the pharma industry. The set of firms operating in the generics group may find it difficult to move to the more highly differentiated brand name drugs group as the product research & development capabilities and capital requirements may be vastly different across these two groups.

We still have another question to answer. What does it take to succeed in your chosen industry and how will industry profits be shared among competing firms? To understand this, we need to examine what are the prerequisites for success. Or in other words, what do customers want and what does it take for a firm to survive among competitors. For example, consider your local supermarket. Customers desire low prices, convenient locations, variety in product offerings and a pleasant ambience. Firms in the industry survive on price competition and reduced cost of operations. Put the two together and we see that for a discount super store, advantages will come from setting up scale efficient stores, achieving economies of scale and scope, and operating at high levels of efficiency. These, in turn, are the key success factors that will drive the profitability of the discount stores.