Questions to ask when analyzing industry:

So here are the key questions to ask when we examine industry structure.

- What are the industry's dominant economic factors?
- Is the industry attractive and what are the prospects for long term profitability?
- What are the key factors for success?
- Is the structure changing and if yes, what is causing the industries competitive structure & business environment to change?
- What is the competition like, how strong are the competitive forces?
- Who are the complementors & how can we lock them in?
- Which adjacent industries are likely to transform these industry forces?

Moving ahead, what are the specific steps in carrying out an industry analysis?

First, define the relevant industry: What is the served market? What products are in it? And what is the geographic scope of competition?

Second, identify participants & segment them into groups, wherever appropriate:

Third, evaluate the forces and their underlying drivers to determine which forces are strong or which are weak and why.

Fourth, after determining the overall industry structure, test your analysis for consistency – ask the following questions.

- Why is the level of profitability what it is?
- Which are the controlling forces for profitability?
- Is your analysis consistent with the actual observed long-run profitability in this sector?

Fifth, analyze the likely future changes in each force, both positive & negative.

So, what mistakes do people make in conducting an industry analysis? The first mistake that my students often do is defining the industry too broadly or too narrowly. In neither case, the results are not useful. Second, treating each force as equally important rather than figuring out which is more important. Third, treating industry analysis as static and ignoring industry trends. Fourth, confusing cyclical or transient changes with true structural changes. As I said before, the results from the industry analysis should be seen as a way to enable us to make strategic choices that can improve the profitability at the level of the firm as well as the industry.