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Industry Analysis and Purpose

Purpose

This Tool helps you analyse the industry you are competing in and the influences upon your firm. It also helps you to understand and explain the purpose of your business and how that is impacted by your analysis in this and other tools.

How to work through this tool

Look at the background to the five forces model, then use it to analyse your industry and your firm's position in it.

Develop the purpose for which the firm exists, then look at what you have done in Tool 1 and in the industry analysis to see how practical your business purpose is. For owner-managers it may be a good idea to check both the business purpose and your own purpose in having the business.

People Involved

All members of your business who will provide useful input to developing a business purpose.

Background Reading

The Print21 Action Agenda Background Papers 1, 2 and 3.

Any material relating to your industry.

Any material relating to your company's purpose.

Books on strategic management, including Professor Michael Porter's "Five Forces" Analysis

Useful inputs

- Any existing written business purpose or business purpose statements
- Industry figures from organisations such as the Australian Bureau of Statistics or an industry analysis
- Knowledge of the industry and issues surrounding it
- The outputs from Tool 1, your financial details.

Important Ideas

Five forces analysis

This is a standard method for the analysis of industries. It involves looking at an industry through an analysis of five "forces" acting upon it. These forces are as follows.

1. The threat of new entrants
2. The bargaining power of suppliers
3. The threat of substitute products or services
4. The bargaining power of customers
5. The effect of current competitors.

Business purpose

Why is the business in existence? What do you expect to gain from owning the business?

How does the business purpose relate to the financial analysis from Tool 1 and the five forces analysis of the industry?

To be effective, the purpose should capture your company's focus and define the desired future of the company.

A good business purpose can answer the following questions.

- 1 What customer needs can be identified?
- 2 What needs should the company satisfy?
- 3 Which products or services can be offered to satisfy those needs?
- 4 Which products or services are we offering to satisfy these needs?
- 5 Who are we offering our products or services to and what segments do they belong to?
- 6 What are the company's competitive advantages?
- 7 How is our income generated and how does this relate to our revenues, our profitability and our returns on investment?

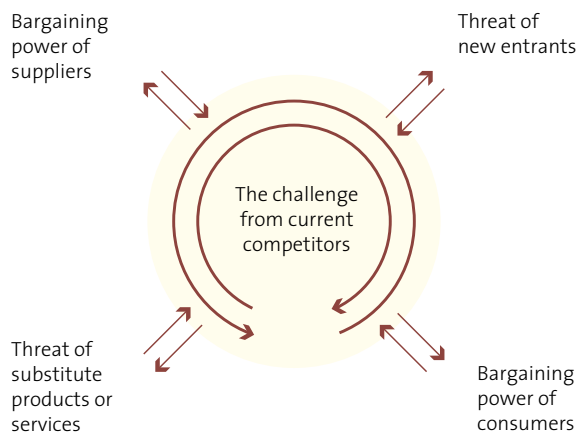
Before working through your company's purpose, you may want to take stock of your company's state of health. You can do this by making a quick assessment of the company's cashflow situation and briefly compare your existing business purpose with an ideal business purpose format.

Industry Analysis

What is five forces analysis?

The five forces approach is a simple method for identifying the major competitive issues confronting your firm. The focus of this analysis is on:

- the threat of new entrants
- the bargaining power of suppliers
- the bargaining power of customers
- the threat of substitute products
- the challenge from current competitors.



By analysing the five forces and looking at interactions a picture will begin to emerge of the key forces shaping your industry and affecting your company. The five forces approach is a simple but powerful method you can use to identify your company's strengths and weaknesses, articulate potential new business opportunities as well as identify potential new threats that may be emerging.

THE CONTENDING FORCES

Threat of new entrants

New entrants to the current business often bring in new production capacity and will aim to capture market share from the existing competitors.

The threat that new entrants pose depends to a large extent on the types of barriers to entry that operate within the industry. There are six major barriers to entry:

- 1) economies of scale - Where larger size gives an advantage new firms will find it difficult to compete. But where small new entrants can compete there is greater chance of successful entry.
- 2) product differentiation - Brand identification can stop a new entrant gaining share at your expense. If there is no branding then a new entrant can gain market share.
- 3) capital requirements - If the up front costs of entry are high then fewer people will want or be able to enter the industry. If the up front costs of entry are low then many people will feel financially able to enter the industry.
- 4) cost disadvantages independent of size - Established companies may have cost advantages not available to new entrants. Some of these advantages are due to established relationships, the learning effect, proprietary technology, and favourable location. Other advantages exist and are often specific to the firm and industry.
- 5) access to distribution channels - The new entrant must develop distribution channels to access the customers. If this is difficult it may be a significant issue, however if it can be done through standard channels then the barrier to entry is low in this case.
- 6) government policy - The government may control entry to certain industries, or segments of industries. For example to deal with government departments requires the firm to be endorsed as suitable. This may be difficult for a new entrant.

The reaction of established firms to new entrants will also have a bearing on ease of entry to the industry. Established firms will obviously wish to protect their competitive position and therefore may react by competitively targeting new entrants, by cutting prices and devoting additional resources to selective marketing and other competitive strategies.

In addition if industry growth is slow or negative the new arrival will not have a good potential financial result from their entry.

These conditions will change over time, leading to new opportunities and threats. Check the threat of new entrants regularly to see what is happening.

Analysis

Look through the barriers to entry and your own experience of the number and capacity of new entrants to your established business. Write down the major issues facing your company.

Strong barriers to entry:

Weak barriers to entry:

Likelihood of entry to the market:

Bargaining power of suppliers

Suppliers will be in a strong bargaining position if:

- they are heavily concentrated
- their product is unique or at a minimum difficult to substitute
- there are no substitutes for the product - for example different ways of doing the same thing or different raw materials to make the final product
- they can move into the industry - this can circumvent the industry's power to deal with suppliers
- the industry is not important to the supplier group - as importance declines, the industry will have decreasing influence over the supplier regarding prices, R & D and lobbying.

Analysis

Look at your suppliers and your own experience of their effect on your business. Write down the major issues facing your company.

Weak Suppliers:

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Strong Suppliers

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Threat/opportunities of suppliers:

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The bargaining power of customers

Customers who have great bargaining power can reduce your profit margins to a minimum.

The customers will be in a strong bargaining position if:

- they are concentrated or purchase in large amounts, thus being able to get better terms
- the products purchased are standard and not differentiated. Thus customers are able to play suppliers against one another to get the best terms for them
- the products purchased form a significant part of the customer's product offering. The customer will then be more eager to get savings and a better overall deal than if the product only forms a small part of the their product offering
- they earn low profits and thus are eager to increase their profits at their supplier's cost
- the industry's product is of low importance to the quality of the customer's offering. This then leads to high price sensitivity, as the quality of the product is not important to the customer
- the industry product is not a cost saver. That is the product pays for itself many times over, so the buyer is not cost sensitive. Examples are of services that must be accurate, such as independent research and development. Thus the customer will demand a high quality result above all
- they may plausibly integrate backward into making your product, thus becoming a competitor to you. For example if publishers start printing, that is a threat.

Analysis

Look at your customers and your own experience of their effect on your business. Write down the major issues for your company.

Weak Customers

Strong Customers

Threat/opportunities of Customer

The threat of substitute products

Substitute products put a limit on the price that you can command for your products. They may also put a limit on the potential size of the market for your product.

A substitute product does the same thing as an existing product in a different way, but it will give the customer the same end result. Thus the bus is a substitute for a taxi. Both are means of travel and a customer will have to make a choice as to how they wish to travel. To analyse the threat of substitute products you will have to work out what the end customer is actually buying. Very often it is not the product you are selling, it is the need it fulfils for the customer. For example, to learn the latest news you can buy a newspaper, watch the TV, listen to a radio or buy a specialist magazine. All meet the need and careful analysis is needed to work out whether there is a substitute product and to what extent it is a substitute.

Substitutes for established products or ways of producing the product can appear. The printing industry is going through a period of rapid technological and cultural change. The change will bring new opportunities, as well as new threats.

Analysis

Carefully analyse your product offering and what your customer sells. See if there is now an alternative or whether one is emerging. Look at the final customer and see what it is that they are buying or consuming. Can that need be filled by another product? Write down the major issues for your company.

Weak substitutes:

Strong substitutes

Threat/opportunities of substitutes:

The challenge from current competitors

The challenge of your current competition may be in the form of price competition, new product introduction and product and service differentiation strategies.

The level and type of competition will be influenced by the:

- relative size and the number of competitors. The more equal in size and greater the number the fiercer the competition usually is.
- industry growth rates. If these are low then there will be greater competition for market share.
- level of standardisation of the product. If the product is completely standard then the competition will be basically on price. If it is differentiated then price will be less of an issue.
- relative level of fixed costs. The higher the level of fixed costs as part of the overall costs of the industry then the greater the temptation to cut prices to increase cash flow. Printers often have expensive machinery to pay off and so are frequently tempted to cut prices.
- size of production lots. Firms who have infrequent and large jobs typically have a problem with capacity planning. This leads to idle equipment or the need for overtime.
- size of exit barriers. Exit barriers are issues such as specialised equipment that is difficult to sell, or management loyalty that keeps companies in business even though they are not earning reasonable profits. Issues such as the real value of the firm, worked out in Tool 1, may mean that the firm stays in business as the owner cannot make enough money from a sale to afford to exit the industry. High exit barriers keep marginal firms in business and lead to an overcrowded market, thus lowering profits for everyone.
- diversity of strategies, origins and ways of competing. If there are many different modes and attitudes then competing strategies may lead to clashes between companies. If there is great similarity then there may be too many companies competing in the same way thus leading to an overcrowded market.

Analysis

Carefully analyse your competition to see how it affects your firm. Are there changes taking place in the way competition is being conducted in the Australian printing industries? Write down the major issues for your company. (Examples might be price cutting, new products, targeting of your customers etc. by competitors)

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SWOT (Strengths, Weaknesses, Opportunities and Threats)

Having worked through the five forces analysis, you are now in a position to write down your company's strengths (S), weaknesses (W), opportunities (O) and threats (T) - SWOT

For more on SWOT analysis for printers see Background Paper 2 of the PRINT21 Action Agenda.

Strengths

What are the strengths of your firm as identified by the five forces analysis?

Weaknesses

What are the weaknesses of your firm as identified by the five forces analysis?

Opportunities

What are the opportunities for your firm that the five forces analysis shows?

Threats

What are the threats for your firm that the five forces analysis shows?

Where do you stand ?

Have you got something to worry about?

How do the fundamentals look - positive or negative?

Is there an opportunity cost to you in continuing printing operations - should you stay in this business or should you do something else?

Have you got prospects to think about?

Do you have new or growing markets?

Can you reposition your business so that it is more competitive?

Are you betwixt and between?

Do you have some worries and some prospects?

How is your business travelling?

What is your overall assessment of the issues identified through the five forces analysis?

What can you do to better position your company in the industry?

When you have completed Tool 8 you will be in a position to respond to these competitive pressures. You will work out strategies that you feel will enable you to counter any identified negatives and take advantage of the positives you have found through this analysis.

Your Business Purpose

There are two potential purposes for your business.

- 1) The purpose that the business is pursuing.
- 2) The purpose that you as the owner/s have in owning the business, discussed in the final section of this Tool. Please complete this section if you are the owner of the print business.

The purpose of the business

If your company does not already have a business purpose in place the following questions are designed to assist you articulate your business purpose. At the end of this section, you will find background notes to help you address the questions.

Work to be done

What customer needs can you identify? (See the background notes later in this Tool)

• Rational

• Emotional

• Social/ Political

What customer needs should your company aim to satisfy and why?

RATIONAL NEEDS	EMOTIONAL NEEDS	SOCIAL/ POLITICAL NEEDS

Which products or services can you offer to satisfy customers' needs?

For Product Offerings

PRODUCT OFFERING	BENEFIT TO CUSTOMER	TECHNOLOGY TO ACHIEVE FEATURE	FORM USED TO ACHIEVE FEATURE (EG PHYSICAL OR ELECTRONIC)

For Service Offerings

SERVICE OFFERING	CORE SERVICE	FACILITATING SERVICES	SUPPORTING SERVICES	TYPE OF INTERACTION	CUSTOMER PARTICIPATION	SERVICE ACCESSIBILITY

Which products or services are you currently offering to satisfy customers' needs and why?

Note: This question involves an assessment of how well your product or service offerings satisfy customers needs. In the interactive version on CD you will see that product or service offerings with ratings below a specified level (say a rating 3) should be replaced. Those with ratings above the specified rating are satisfactory.

PRODUCT OFFERING	BENEFIT TO CUSTOMER	TECHNOLOGY TO ACHIEVE FEATURE	FORM USED TO ACHIEVE FEATURE

Or

SERVICE OFFERING	CORE SERVICE	FACILITATING SERVICES	SUPPORTING SERVICES	TYPE OF INTERACTION	CUSTOMER PARTICIPATION	SERVICE ACCESSIBILITY

To whom are you offering your products or services, in what market segments do they belong and why to these selected customers?

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What are the company's competitive advantages? (Why should customers buy from you and not from your competitors?)

For example, because you have...

- expert staff
- unique machinery
- wide range of materials
- personalised sales
- personalised product development

Overall, how would you describe your business as it exists today?

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What can your business be like in the future in both a positive sense and a negative sense?

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Which of these scenarios is most likely?

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What would you like your business to be in the future?

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Consider - how do I change the course on which my business is heading to the one I would like it to be on?

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Background notes on questions

What Customer needs can you identify?

The key to developing competitive advantages that will sustain your business is to understand that your customers will have a variety of needs they wish to satisfy through product or service offerings.

There are three categories of customer needs:

- 1) rational needs e.g. repair of leather bound books
- 2) emotional needs e.g. access to the best expertise
- 3) social/ political or business competitive needs e.g. increase in perceived status through the look of the book.

How will you know when you have competitive advantage? Only a small number of other firms will be able to provide the same offering; the offering is unique to your firm. Your customers want to stay with you and you are providing the offering in a cost-competitive manner. Some of the competitive advantages your firm may have include, for example:

- expert employees
- unique machinery
- huge stock of rare leather (for book binding)
- personalised sales process
- personalised product development process
- cash on order payment system.

Any of these and others may form the basis of a competitive advantage and a competitive advantage is the reason why a customer will want to buy from you instead of somebody else. The intangible aspects of this will be analysed in Tool 7. For the moment you can note what you think these resources could be and then compare the answer with what we find later on.

Overall, what is your business like today?

The five forces analysis provides you with an effective method to characterise your business. Your analysis will be given much added strength if through the process you have ensured the active participation of your staff. For example, Mary in Production is likely to understand the parts of your company that are operational in nature and give you a better understanding of your products and services. Similarly, Bruce in Sales can give you some tips on how customers see your firm and offer you valuable input on customer segments. This is particularly true if they have been working with your company for a number of years.

What could your business be like in the future in both a positive sense and a negative sense?

To understand future possibilities it is important that you understand the environment in which your company presently operates as well as understand the likely changes that could take place. Changes may be dramatic and sudden. They may be slow, gradual and perhaps even difficult to perceive.

Changes may be positive. The shifts in your operating environment may well present you with opportunities on which you can capitalise. Changes may also be negative of course. The environment may change in such a way that you will need to develop contingencies to overcome the threats you may encounter.

In thinking about future possibilities it is best to consider your operating environment in a two to five year time span. If there is a balance to be struck here and you take a short term view you may not see the development of events that are strategic in nature. If you take a longer-term view you are unlikely to be able to factor in enough meaningful information for the exercise to make sense.

Which scenarios are the most likely?

Based on your understanding of your company and the industry in which it operates, which of the above scenarios is most likely, positive or negative?

After you have had an opportunity to discuss your business with your colleagues you will have generated a range of scenarios. It is important that you then commit resources to actioning preferred positive scenarios and ameliorating the likely effects of negative scenarios.

Your collective organisational expertise and experience will be vital to determine the likelihood of each scenario. It is also important to encourage creative thinking in order to minimise the risk of perpetuating a limited view of the future.

What would you like your business to be in the future? - Challenge the future!

What you believe shapes the destiny of your company. As a senior manager do you believe that the future of the company is in your hands? Or do you believe that you do not have control over the company's future?

Make no mistake, articulating a vision for your enterprise is vital to framing business strategies and to motivating staff.

When you contemplate the important question... what would you like your business to be in the future? ..be bold! Free your mind of the constraints and restraints you feel limit your ability to act. What could this unbounded future be for your company? That's the question, that's the basis of future success!

How could you change the present course of your business?

Once you have articulated a new vision, changing the direction of your company is not easy. It will involve taking risks. It will require carefully articulated transition strategies, finance and advice from accredited business consultants may also be helpful.

A well articulated business plan is essential. It is also essential that your staff understands and is committed to the change in direction.

Reasons for owning the business

Why do you own this business?

- income
- job satisfaction
- asset building
- locked in.

Assess these reasons and any other issues you feel impact on the purpose for your ownership of the company. Write down your purpose for being in business?

Review your Tool 1 analysis and determine whether you are achieving what you want from the business.

Review your five forces analysis and determine whether the company is likely to fulfil the desired purpose and outcomes.

Consider, is it worth staying in the business?

Yes. No.

This is now between you and what you see of the present and the future. An accountant, business adviser, the industry association, peers, friends and family may help.

The next several Tools will help you to get a better handle on the issues from this Tool. The Tools that follow will help you explore in greater depth the business development issues covered in this Tool. Please feel free to refer backwards and forwards as you work through the Tools. Remember, this is an iterative process.