

Announcements

- BBA exam for bonus 5% (tentative):
- On Oct. 19: see an additional course in Blackboard that will include "BBA BCAT" in the title
- After Oct 19: see general information about the tests, steps to take if they need to request accommodations, directions on installing Respondus Lockdown Browser, and a practice test to try out the use of the integrated calculator and spreadsheet
- On Nov. 6: actual tests will become available until Nov. 23 at 11:59 pm

Announcements

- Final presentation slides due 5 pm on 11/25 (instead of 11/26)
- Pop quiz trial: Please check emails regularly. (6/9 IDs not respond)
- 09/09: Last day to Drop without a grade from a course. Group assigned randomly in this class.
- Syllabus & course content (slides) updated in blackboard

Industry Analysis

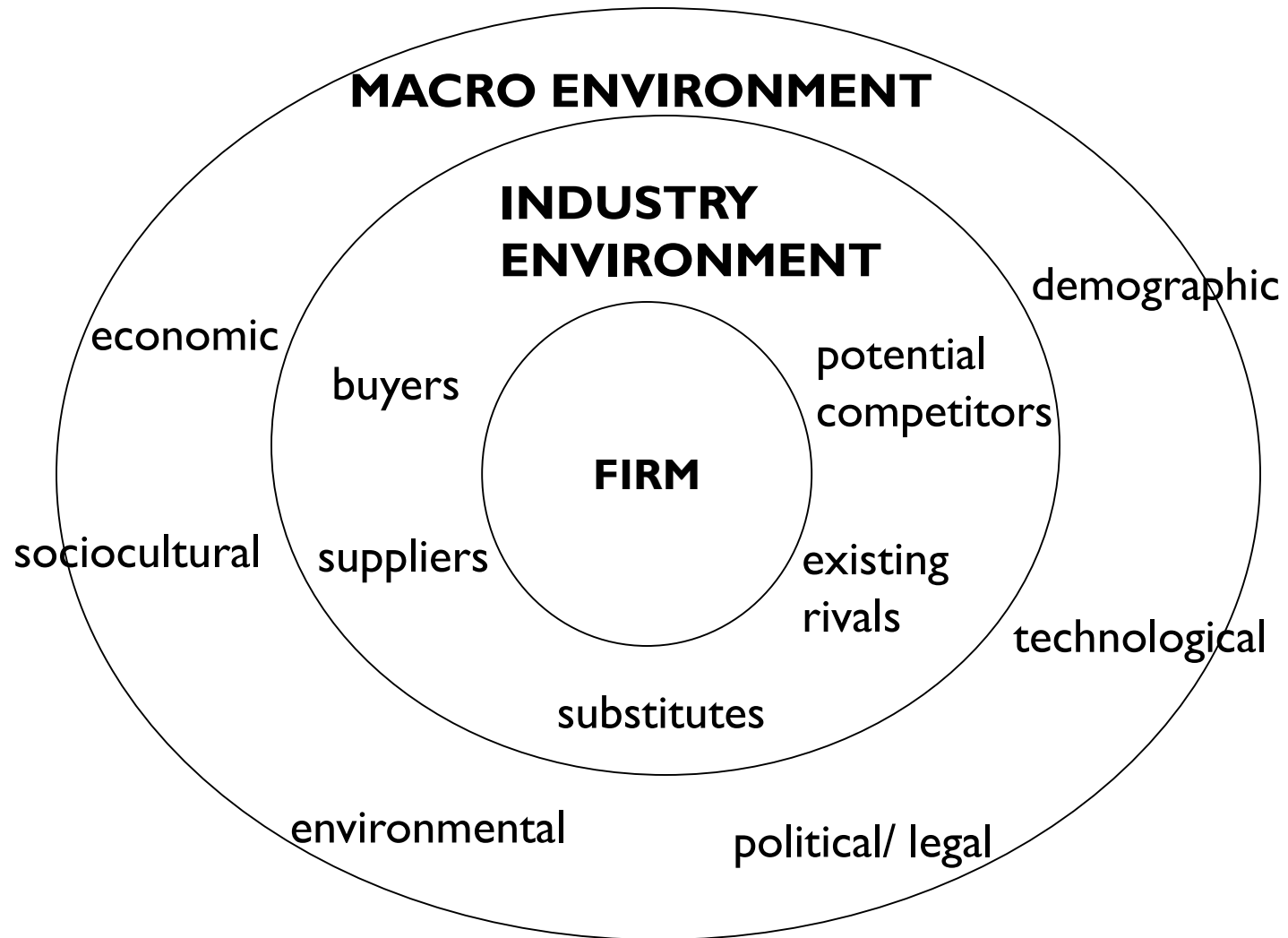
Yajing Li

Agenda for today

- **External environment**
- **Industry analysis**
- **Cola wars case**

What is a firm's external environment?

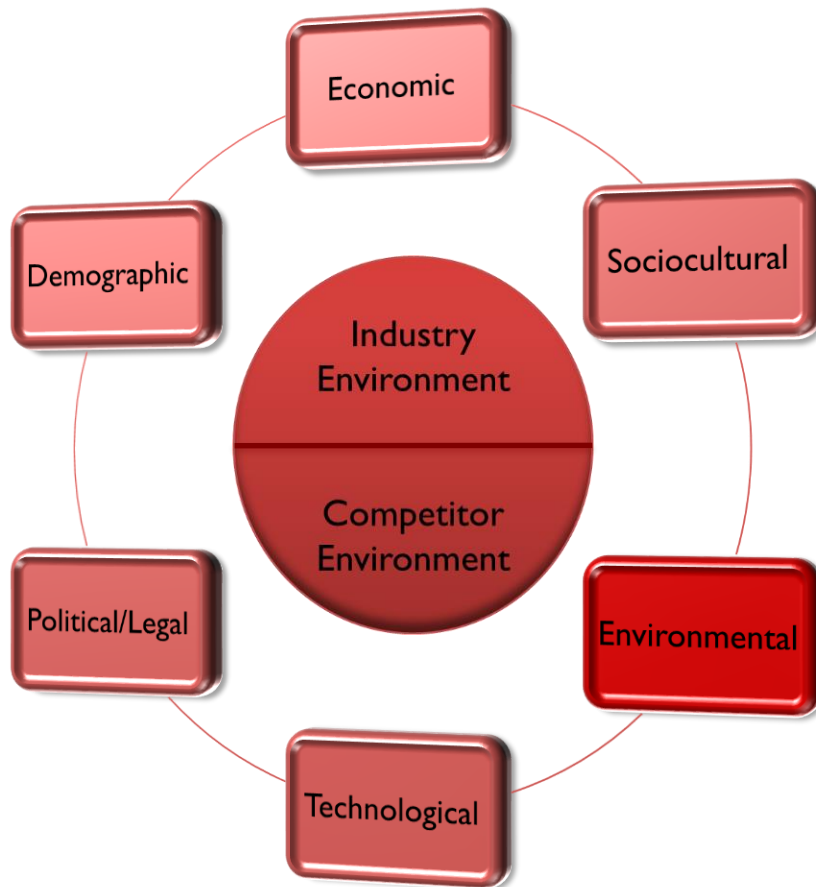
Macro environment



Macro-environment

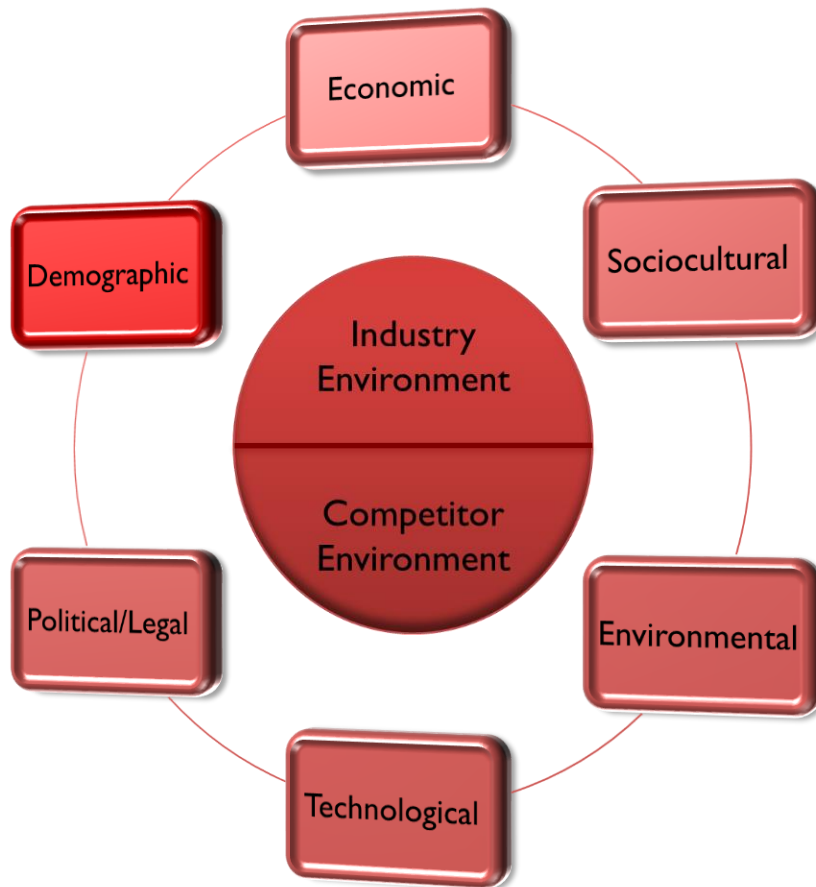
- Demographic factors
- Economic factors
- Political/legal factors
- Sociocultural factors
- Technological factors
- Environmental factors

The environmental segment



- Weather
- Climate change
- Water shortage
- Natural resources
- Industries influenced?
- (insurance, farming, energy production, tourism)

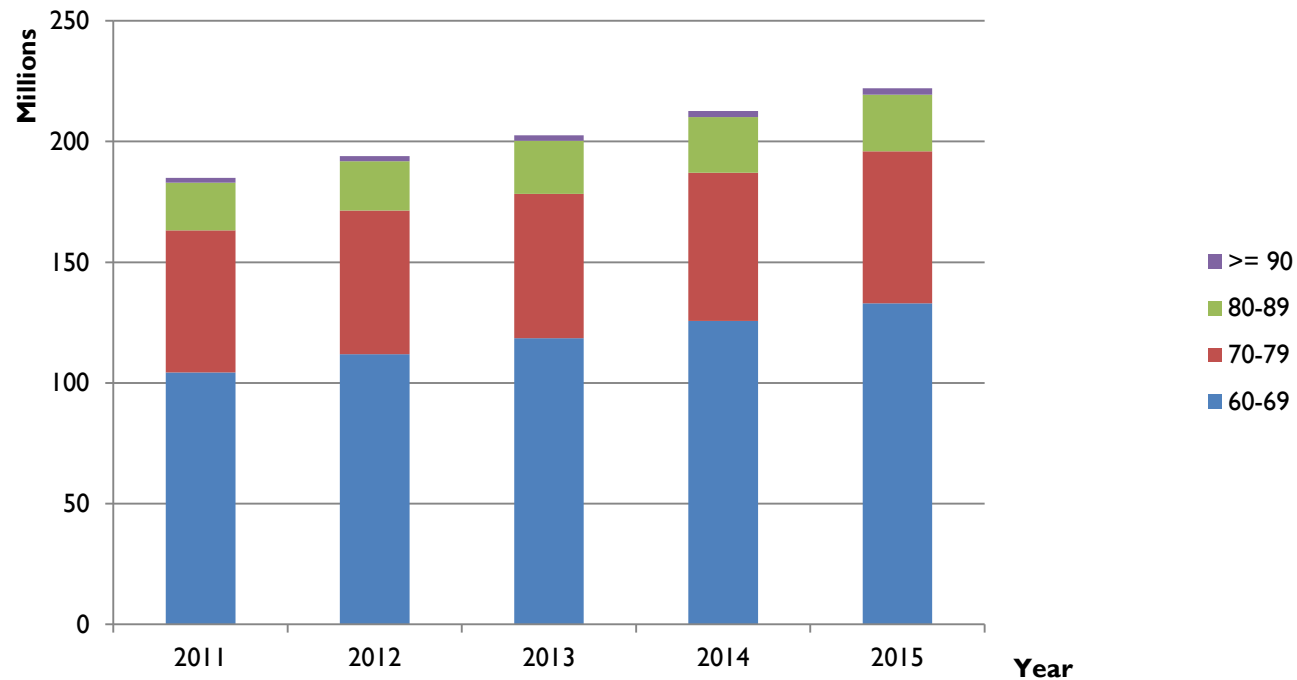
The demographic segment



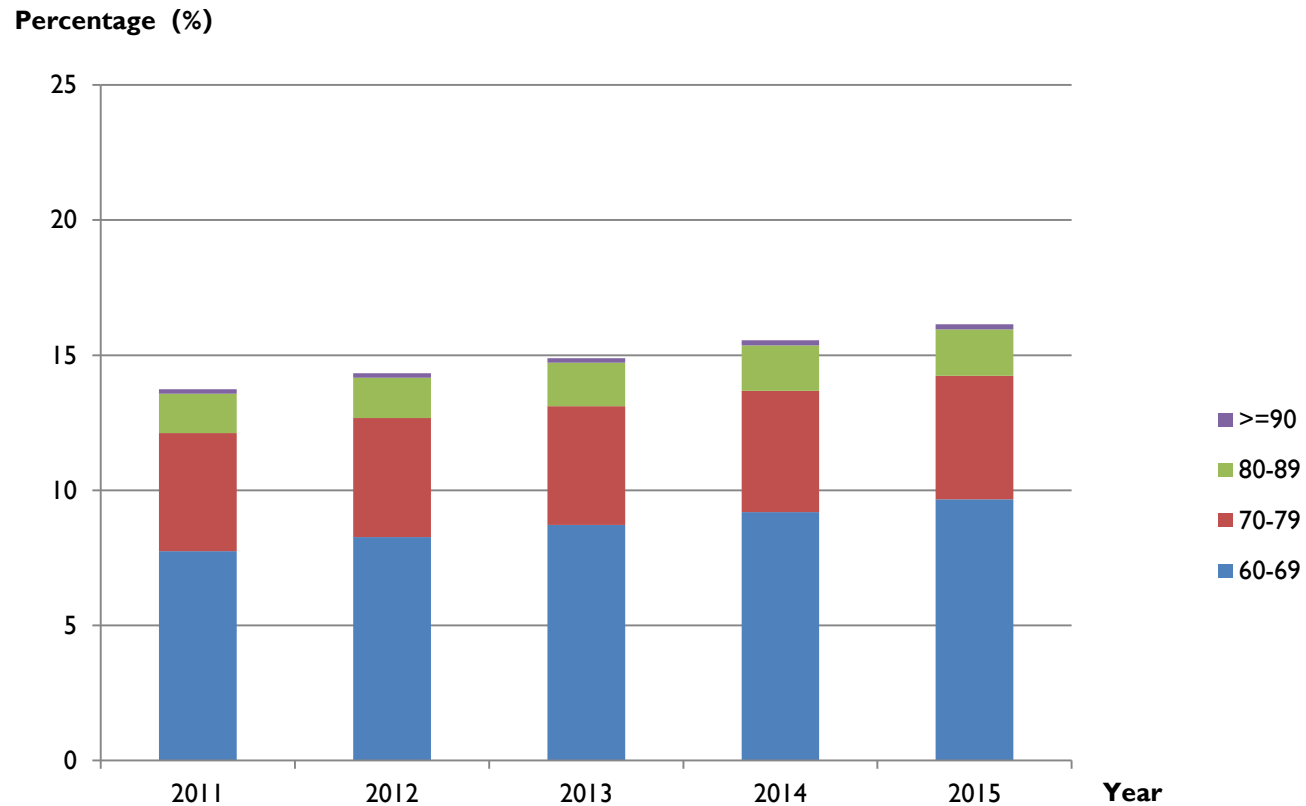
- Population size/density
- Income distribution
- Ethnic mix
- Geographic distribution
- Age structure

Size of Population That is 60 Years or Older

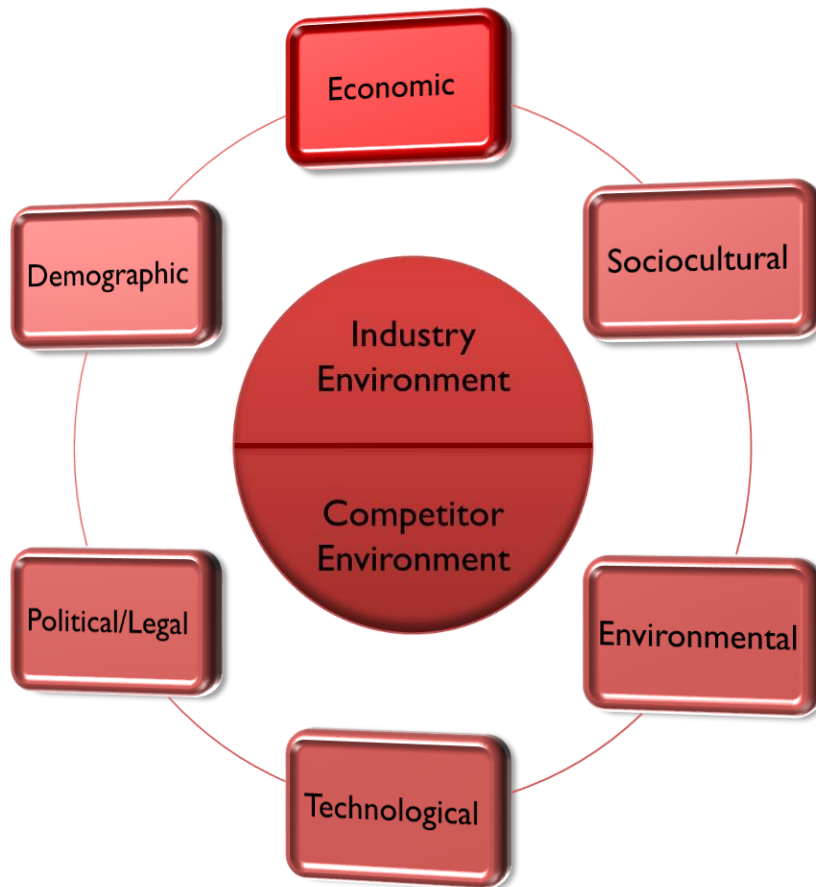
Number of people



Percentage of Population That is 60 Years or Older



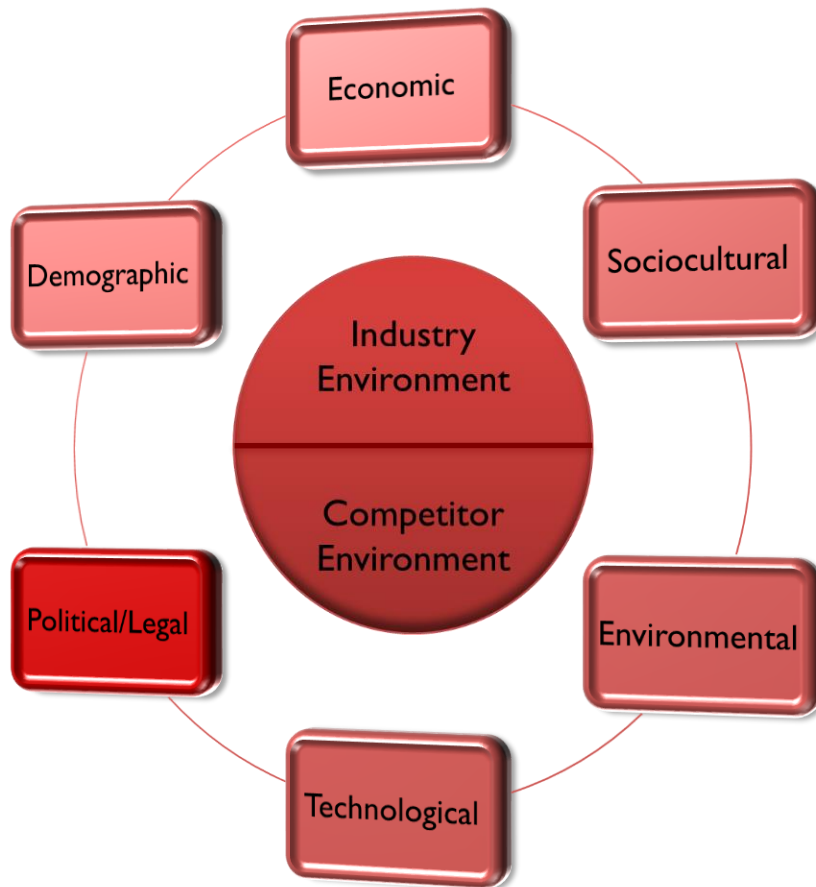
The economic segment



- Interest rates
- Exchange rates
- The inflation rates
- The unemployment rate
- The rate of economic growth (recession?)

Recession Resistant Industries

- Grocery stores & retailers
- Alcoholic beverage manufacturing
- Death and funeral services



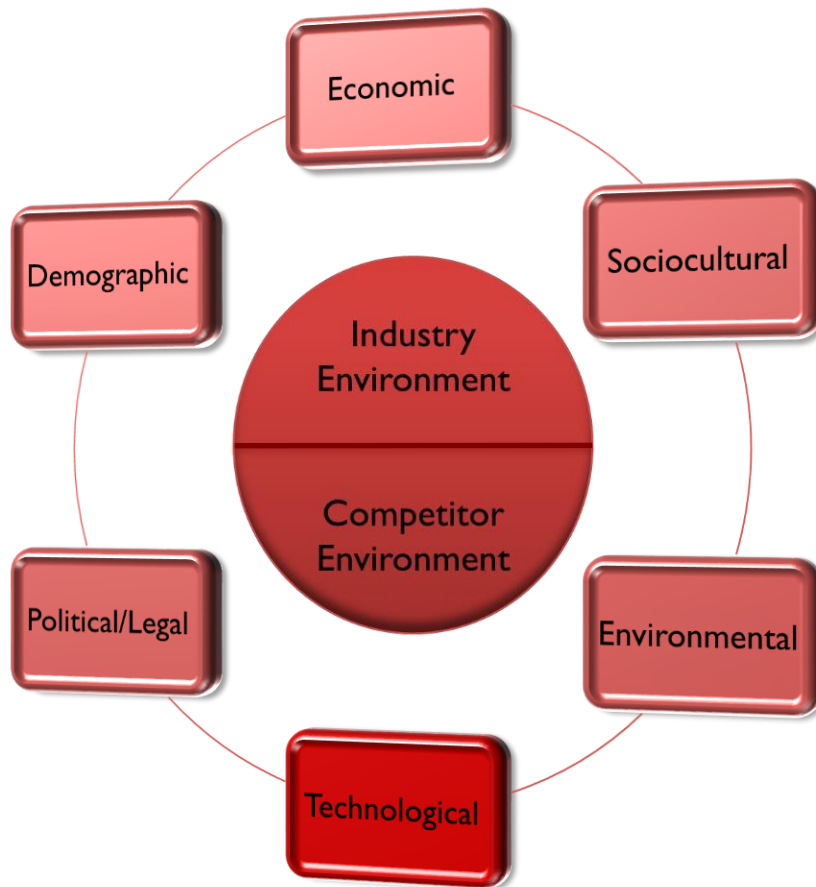
The political/legal segments

- Policies (tax, fiscal, tariffs, etc.)
- Institutions (IP protection, banking systems, etc.)
- Laws (antitrust laws, labor laws, etc.)
- Deregulation philosophies

Political/legal segments

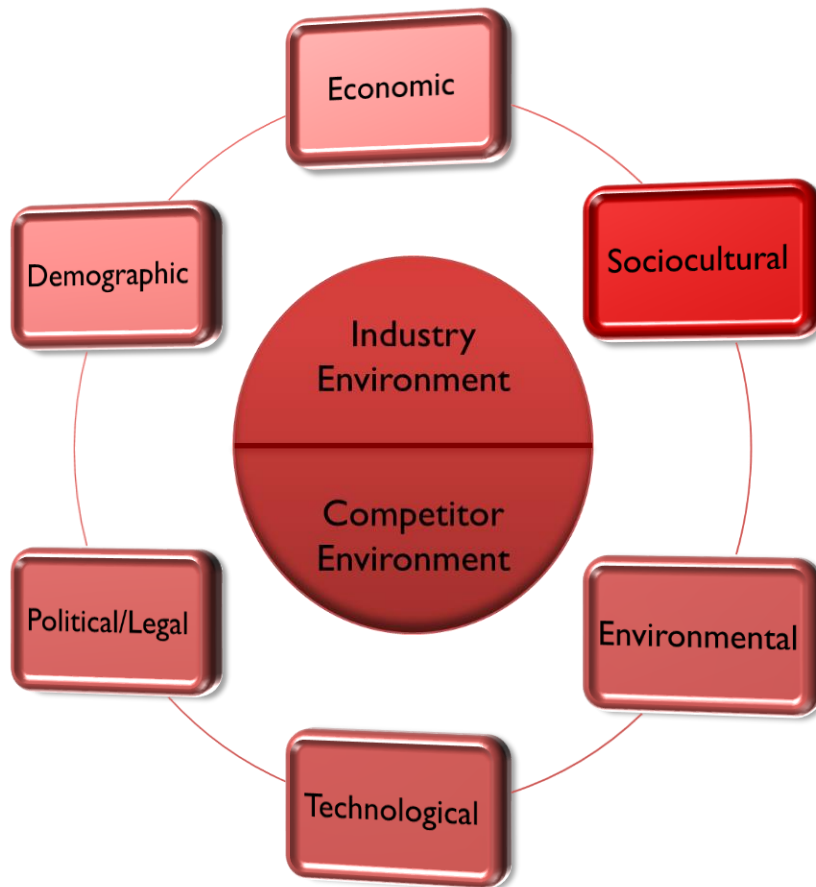
Who can influence policies?

“A president from Democratic Party versus Republican Party”



Technological segments

- Institutions (clusters, incubators, etc.)
- Have differentiated effects on different industries
- Can be either a challenge or an opportunity



Sociocultural segments

- Societal values
- Attitudes
- Cultural factors
- Lifestyle

Covid-19

- In 6 factors, does covid-19 have a influence? If yes, how and why?
- Breakout rooms for 12 mins
- 3 persons: anyone can take notes and share later

Covid-19

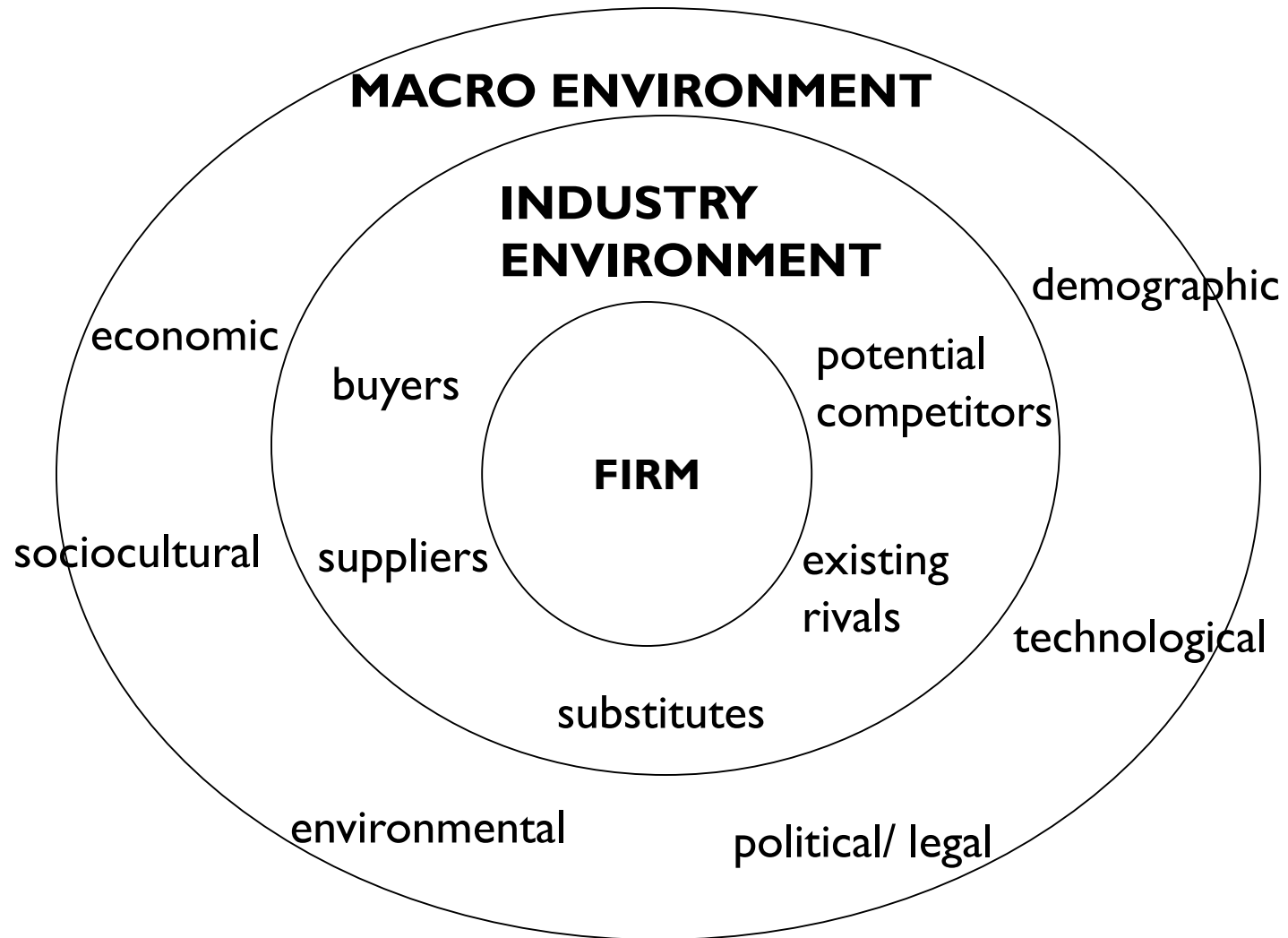
- Demographic factors
- Economic factors
- Political/legal factors
- Sociocultural factors
- Technological factors
- Environmental factors

- Framework
- Any questions or comments?

Attendance

- Please find your ID number:
- 6 or 7 digits, all numbers.
- E.g. 900325448 or 900401189 is not correct
- Ask me if you do not know
- http://uhd.col.qualtrics.com/jfe/form/SV_cNPS5LQtX9RFzpP

Industry environment



Industry analysis

- Critical elements
 - Define industry
 - Where is or who has the power in the industry?
 - How do we compete?

Industry environment

- Industry defined
 - A group of firms producing products that are closely similar
 - Different levels

Range of SIC Codes ↕	Division ↕
0100-0999	Agriculture, Forestry and Fishing
1000-1499	Mining
1500-1799	Construction
1800-1999	not used
2000-3999	Manufacturing
4000-4999	Transportation, Communications, Electric, Gas and Sanitary service
5000-5199	Wholesale Trade
5200-5999	Retail Trade
6000-6799	Finance, Insurance and Real Estate
7000-8999	Services
9100-9729	Public Administration
9900-9999	Nonclassifiable

- Source: https://en.wikipedia.org/wiki/Standard_Industrial_Classification

- **1500-1799 Construction**

1520	General Bldg Contractors - Residential Bldgs
1531	Operative Builders
1540	General Bldg Contractors - Nonresidential Bldgs
1600	Heavy Construction Other Than Bldg Const - Contractors
1623	Water, Sewer, Pipeline, Comm & Power Line Construction
1629	Heavy Construction, Not Elsewhere Classified ^[9]
1700	Construction - Special Trade Contractors
1731	Electrical Work

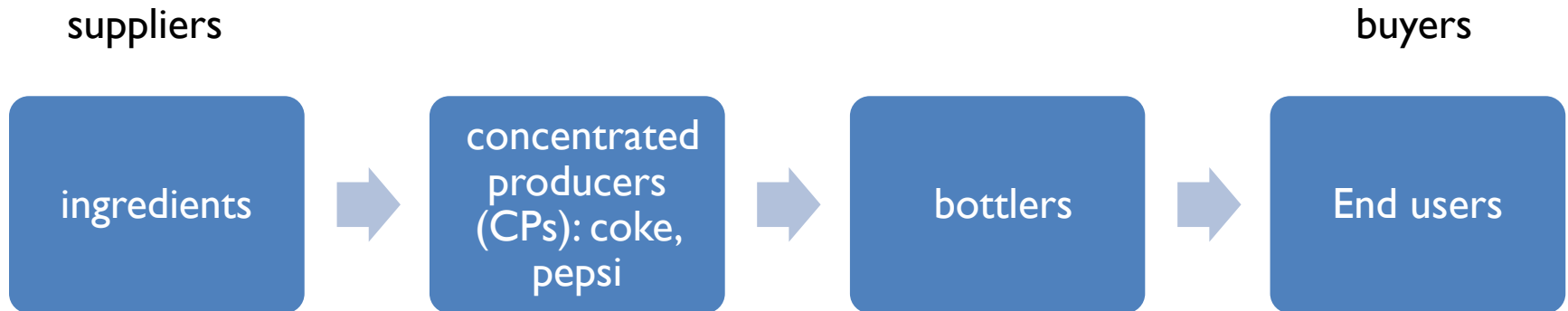
- Source: https://en.wikipedia.org/wiki/Standard_Industrial_Classification

Industry analysis: Porter's five competitive forces



Value chain

- US soft drink industry



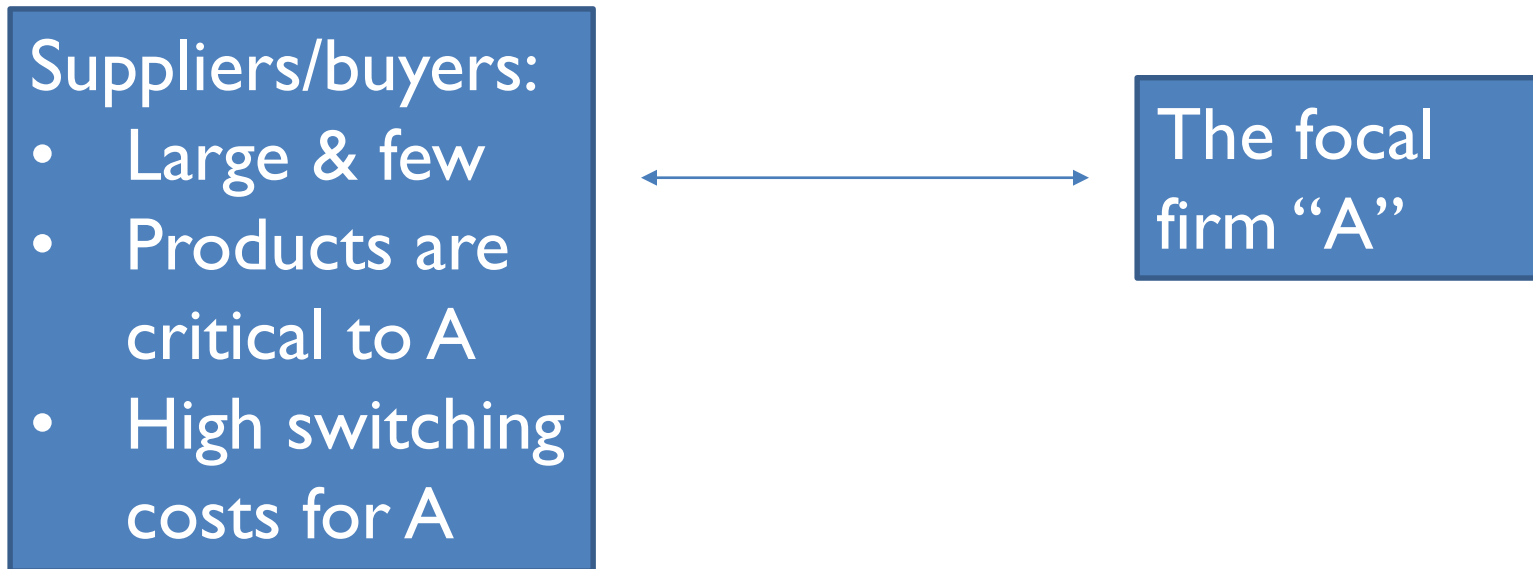
Bargaining power

- Ability to favorably change the terms of agreements for the focal firm

Bargaining power

High

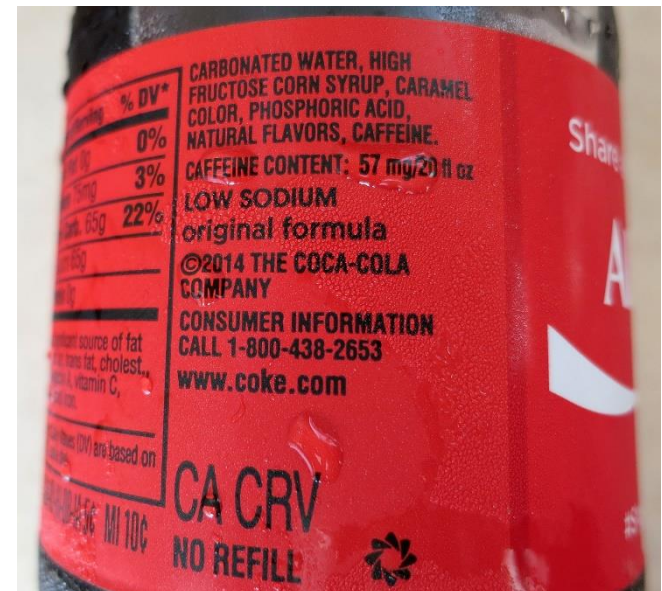
Low



A relies/depends on suppliers/buyers

Power of Suppliers: low

- Not sweetener...added by the bottler.
- Not water...added by the bottler.
- But most likely: caramel coloring, caffeine, phosphoric acid, and natural flavors
- **How much can all this cost?**



Power of Buyers

- What about the buyers? How much power do they have?



Power of Bottlers: low

- High switching costs for bottlers
- Franchise agreements locked deals



Power of End Users: low

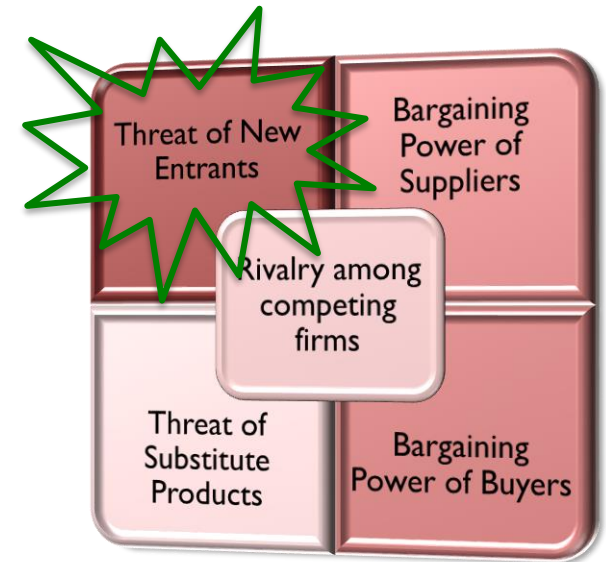


- Fragmented
 - Billions of customers
- Susceptible to advertising, brand loyalty

Threat of new entrants

Barriers to entry

- Capital requirements
- Product innovations
- Access to distribution channels
- Government policy
- Decision to enter and succeed



Barriers to Entry: high

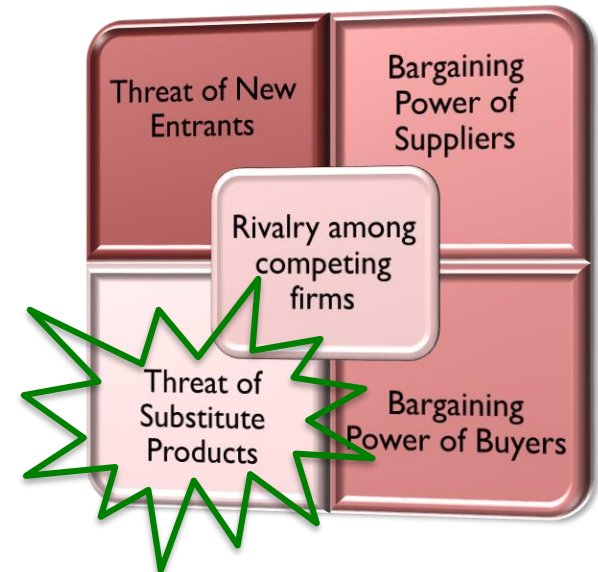
- Brand equity, scale economies and cumulative spending on advertising
- Limited shelf space, vending slots, and fountains
- The franchise system with bottlers

Exhibit 8 Advertising Spending for Selected Refreshment Beverage Brands (in \$ thousands)

	Market share ^a		Advertising spending ^b		Per 2009 share point ^c
	2009	2008	2009	2008	
Coca-Cola	15.3%	15.2%	234,000	254,000	\$15,294
Pepsi-Cola	8.8%	9.0%	136,000	145,000	\$15,456
Mountain Dew	4.6%	4.5%	24,000	31,000	\$5,217
Dr Pepper	4.1%	3.9%	76,000	64,000	\$18,537
Gatorade	3.1%	3.6%	119,000	162,000	\$38,387

Threat of substitute products

- Substitutes of cola: water, coffee, tea
- High threat of substitute products when:
 - Buyers face few switching costs
 - The substitute product's price is lower
 - Substitute product's quality and performance are equal to or greater than the existing product



Threat of substitutes: low

- Not always conveniently available
 - Coke and Pepsi have made CSDs ubiquitously available
- Soft drinks are an *impulse buy*
 - Must be “within arm’s reach of desire”
- Lifestyle choices
 - It’s about how you live, not just about how you quench your thirst!
- Addiction
 - Half the consumption of Coke is by people who drink 8+ cans a day

Intensity of rivalry among competitors

- Industry rivalry increases when:
 - There are numerous or equally balanced competitors
 - Lack of differentiation or low switching costs
- Low rivalry: concentration and monopoly

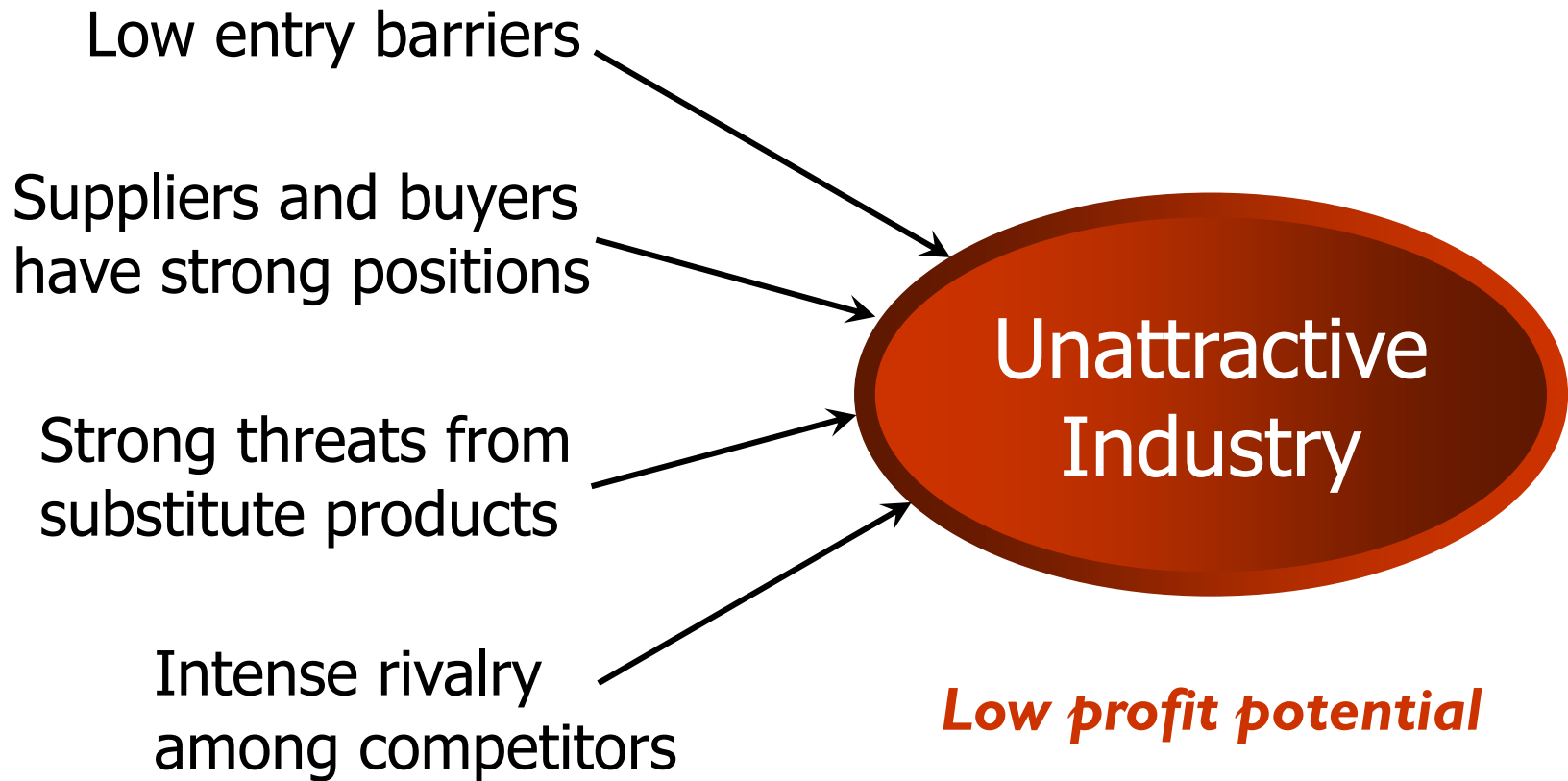


- Competition is good news for customers and society
- Competition is bad news for firms and their shareholders/top executives

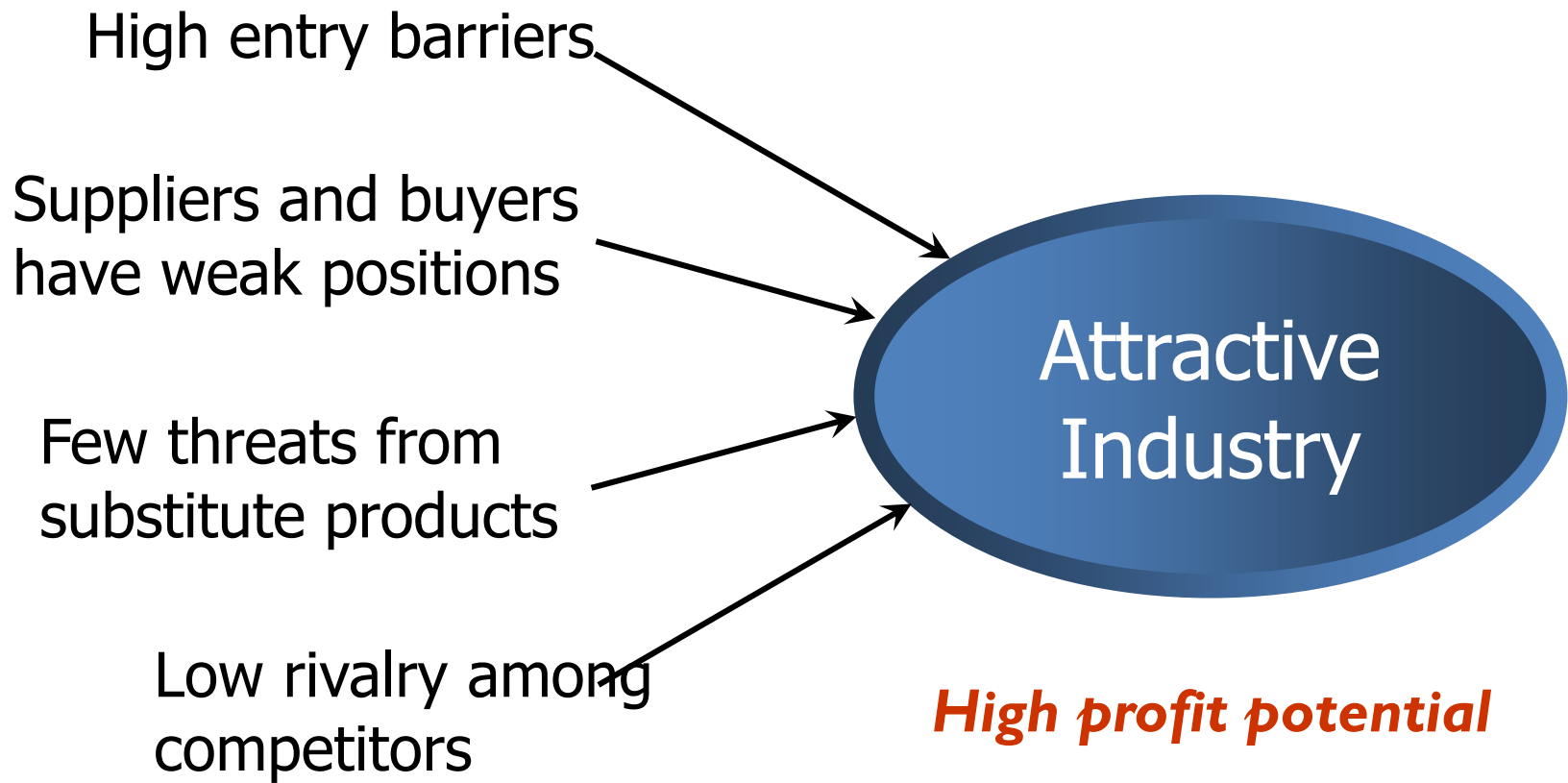
Rivalry: Low

- **Structural characteristics**
 - Almost a duopoly. Two players, with a long history of interaction, dominate 72% of the market
 - Perceived differentiation (lifestyle as well as taste)
- A constrained “war”
 - Concentrate prices have not been affected since the late 1980s
 - Competition largely on: shelf space; brand name, lifestyle advertising, selective discounting on downstream products

Interpreting industry analyses



Interpreting industry analyses



Concentrate Producers - Summary

- Competition: constrained
- Entry barriers: very high
- Buyers power: low
- Suppliers power: low
- Threat of substitutes: low

- A great business for coke & pepsi!

**As a general rule, the collective strengths of
the five competitive forces determines
industry profitability**