Even it is much harder for a

Business, Industries

Even though both companies are in thebusiness of selling food and beverages, McDonald and Starbucks are not in thesame industry. From a customer’s perspective, McDonald is a representative ofthe fast food industry which also sells beverages.

Starbucks, on the otherhand, mainly offers beverages and some food items. In addition, McDonaldcompetes in a “ lower price” industry whereas Starbucks sells more expensiveproducts and attracts more health conscientious customers. Furthermore, McDonald is in the real estate business where it owns more than thirty billiondollars in real estate assets.

It purchases property for the restaurants andleases them to its franchise owners. However, both companies are substitutes toone another. For example, even though customers associate McDonald with a fastfood they can also purchase less expensive coffee beverages at McCafe. On theother hand, a coffee giant like Starbucks offers sandwiches and desserts.

Therefore, itcan be a substitute to McDonald’s food for some customers. Industry analysishelps business owners to understand the business environment they operate in and consequently figure outhow to position their products and services in order to be profitable. By performingbusiness analysis, companies are able to identify all market participants and, moreover, competitors relevant to a particular business. In this case, industryanalysis helps a company to add value and to stay ahead of the competition.

Asa result, a company can devise an appropriate business strategy which is veryimportant for a business to increase its profits and continue to prosper for along period of time. Profitability varies by industry becausefive forces that influence the amount of profit a business can make are more prevalentin those industries where businesses are less profitable. Furthermore, thereare some forces that create a greater threat to profits than others. Forexample, the threat of new entrants greatly reduces the profit opportunity fora business because when companies enter the industry the competition intensifies. Therefore, the prices drop and profits decrease.

However, the ability for acompany to enter any industry depends on the existence of the barriers toentry. If such barriers do exist, it is much harder for a competition toincrease, thus, the negative impact on profitability becomes much lower. In addition, there is another force which creates a significant threat to profits: therivalry between competitors. When companies compete for the same customers, thegreatest threat to profit is a competition on price. For example, companieswith undifferentiated products and low switching costs as well as those withhigh fixed costs and low margin costs have a big incentive to lower theirprices. It is evident that new entrants present a threat to incumbents' profitability. However, there are several advantages incumbents possess that help them toneutralize this threat. Incumbents may cut prices, offer discounts, andintroduce expensive advertisement campaigns.

They are able to do it by maintaininga strong brand and by having substantial resources compared to newcomers. Substitutesare products or services that are provided by the firms competing for theprofits from outside the industry. Consequently, they present a threat tocompany's profitability.

Therefore, it is important for a company to assesssubstitutes with its strengths and weaknesses from a customer's perspective. When a company knows how a customer views a substitute and, more importantly, why a customer may choose it instead of the company's product/service, it iseasier to form an appropriate strategy to deal with the threat of substitutes.

Therefore, by identifying a customer's needs and their price sensitivity acompany is able to provide a service/product which is valuable enough for a customernot to choose a substitute. As a result, the company's profitability cansignificantly improve. Complements are products that areconsumed together with another product and whose demand increases along withthat of the other one. Complements enhance a company by helping to attract and keepcustomers where they provide a service which is very valuable to customers.

Complements become more powerful when they are concentrated, when they makerelative switching costs higher, when it is hard to unbundle them from aproduct, and when they exert influence on the demand. In all of those instancescomplements enhance a company and help to position it to acquire more profits. Before performing an industryanalysis the issue needs to be identified and the hypotheses about the answermust be developed. In order to test the hypotheses, the industry analysis isperformed. There are six steps to perform an industry analysis.

The first stepis to define the industry (in what industry a company competes). The secondstep is to identify the players in the industry (the organizations that impacta company's profitability: competitors, suppliers, customers, producers ofsubstitutes). The third step is to analyze the players' influence onprofitability (the forces that influence profitability). The forth step is to testthe analysis (by comparing the hypotheses with the actual profitability). Thefifth step is to develop a way to deal with the industry environment (byidentifying profit opportunities and creating a strategy to exploit them and byrecognizing the threats to profits and devising a strategy to counter them). The final step is to figure out how to exploit a change in the environment(change as a result of new regulations or technological change; changes in thenew threats to entry, in bargaining power of suppliers, in bargaining power ofbuyers, in threats of substitutes, in industry rivalry, and in the influence ofcomplements).

Therefore, by conducting the industry analysis a company cancreate additional value to customers resulting in the increase of profits. Positioning is the process bywhich a firm establishes a unique position in a market segment relative tocompeting firms. The main idea is to position a business in the industry sothat there is a minimal threat from the competitors and there is the ability toexploit different profitable opportunities for a business. If a business seeksto tend to a market segment where customers are not price-sensitive and value aunique product, for example, positioning can be achieved by differentiating aproduct and creating a powerful brand.

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