

Six Secrets to Identifying Industry Change

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What is Change?

- Two types of change
 - Evolutionary
Definition: Developing in small increments that accumulate to bring about significant change
 - Revolutionary
Definition: So new and different as to cause a major change in something



Understanding what causes change

- Evolutionary change

- Gradual improvements in product or service quality and other attributes
- Societal trends - which may influence political & economic trends and changes
- Competitor rivalry - leading to alliances and JVs, M&A activity, new entrants offering similar products, and business failures



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Understanding what causes change

- Revolutionary change

- Technological Innovation or Invention (“Disruptive” innovations)
- Lack of customer choice allied with customer dissatisfaction at current products, services or channels
- Acts of war (or equivalent)
- Stock market crash
- Major political revolution or change



Will Turkish entry into the EU be an evolutionary change or a revolutionary change for Turkish businesses?

What about the rest of the EU?

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Detecting evolutionary change in business

- Competitive Monitoring
- Competitor Comparisons
- Strategic Analysis - looking at current industry players
- Trend Analysis
- Current awareness, customer monitoring, sales analysis, supplier profiling, etc.

...And so on...

- **Potential pitfalls:**
 - May adapt to changes without looking adequately for innovative alternatives: *“That’s just the way things are in the industry”*
 - Analysis may misjudge the seriousness of a gradual change under-estimating the threats posed



Southwest Airlines founder Herb Kelleher

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Revolutionary change in business

- Problems in detection
 - New and different
 - Outside the industry or involving new technology
 - Unfamiliar
 - Not obviously linked to the past
- Risks of failing to detect industry change
 - Can transform an industry - changing old rules, customs and habits
 - May not be sufficient time or money to adapt and change
 - Often will result in business failure

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Detecting Revolutionary Change

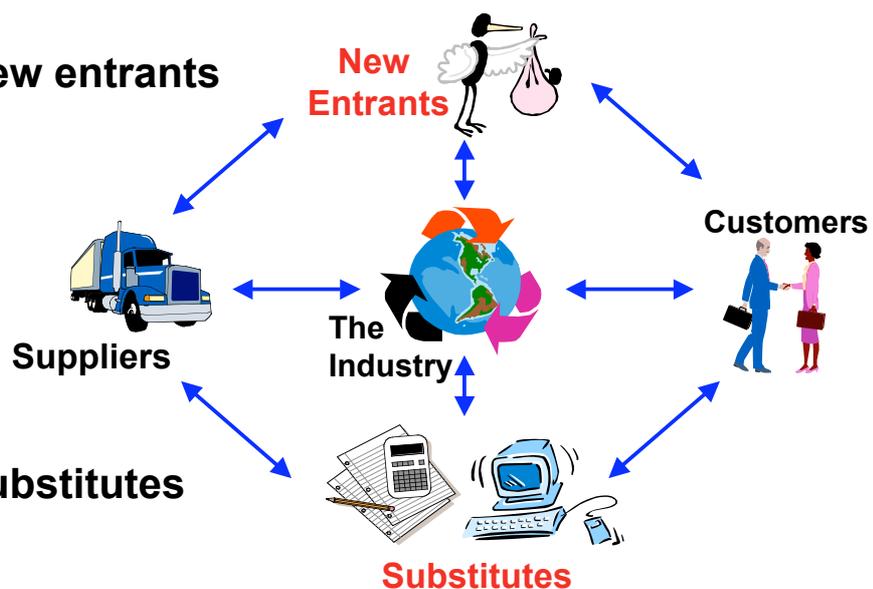
Six potential approaches

1. 5-Force analysis (Porter)
2. Business environmental analysis (PEST analysis)
3. Customer usage analysis
4. Product life cycle analysis
5. Technology life cycle analysis
6. Scenario planning

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1) Porter analysis and revolutionary change

- Threat of new entrants



- Threat of substitutes

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Problems with the 5 Forces model

- Assumes industry stability and does not anticipate the current flux
- Ignores the wider business environment
 - Political, Economic, Socio-cultural and Technological Factors
- Assumes that industries can be cleanly defined (e.g. ignores industry convergence)
- Ignores (almost) the impact and influence of governments and regulators
- Ignores the impact and influence of external financiers - are these just suppliers?
- Does not work well for new / fast growing industries
- Does not take into account the supplier's supplier, or the buyer's customer i.e. the customer value chain
- Product focused - does not view things from the perspective of the customer

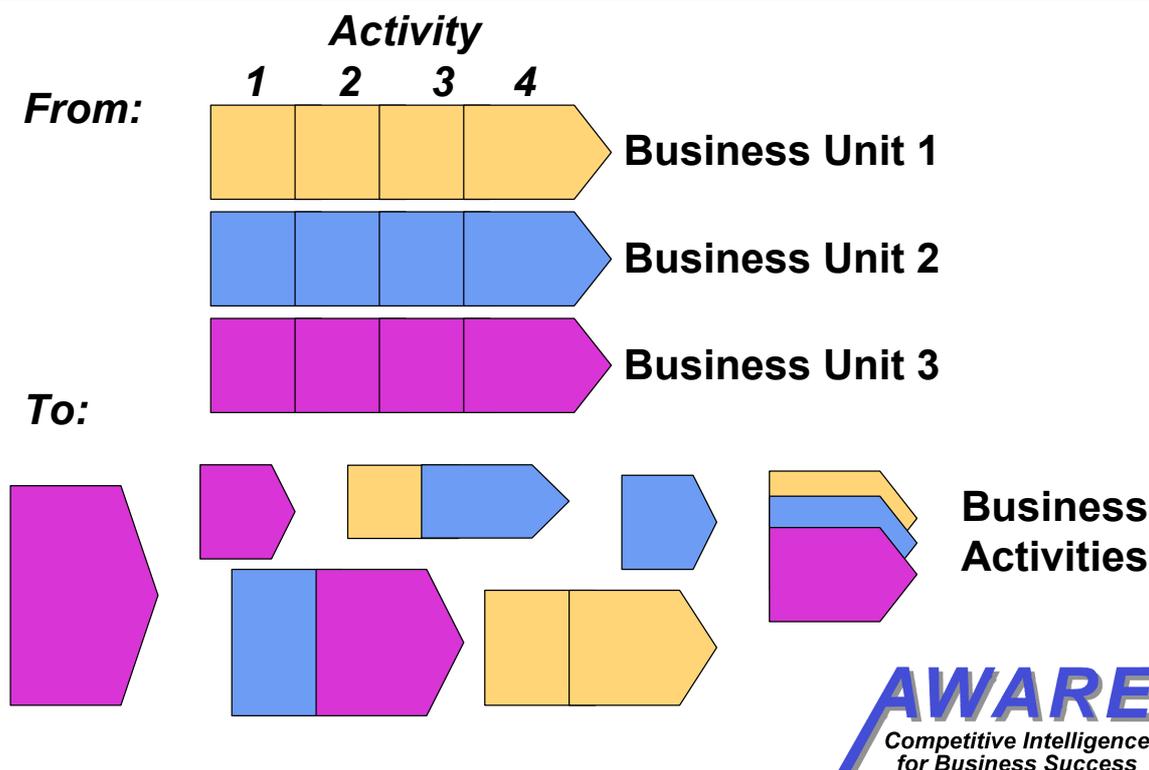


How to resolve

- Need to understand how value is created for the customer
- Need to take into account business changes such as
 - the growth in outsourcing,
 - the blurring of industry boundaries,
 - the separation of the information involved in production and the production itself,etc.

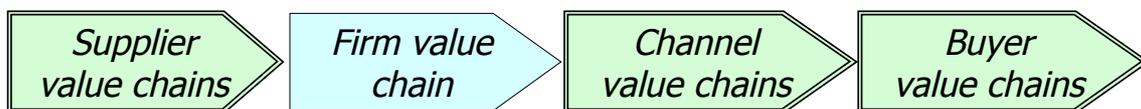


The unbundling of activities

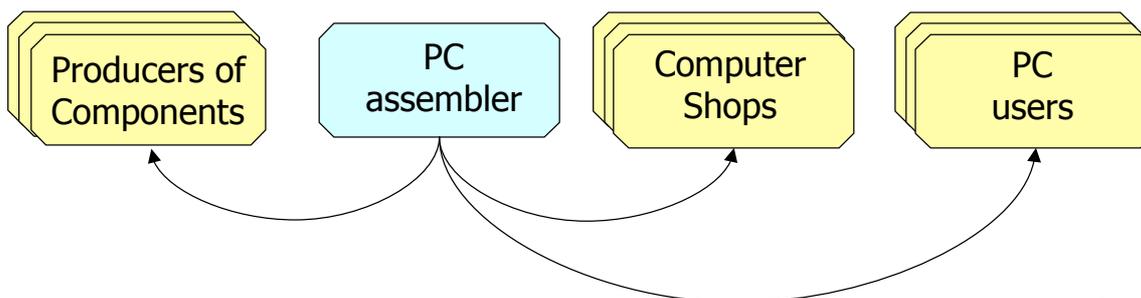


Value creating systems

- Value systems - for example, the traditional view, for a PC assembler showing relationships between chain members

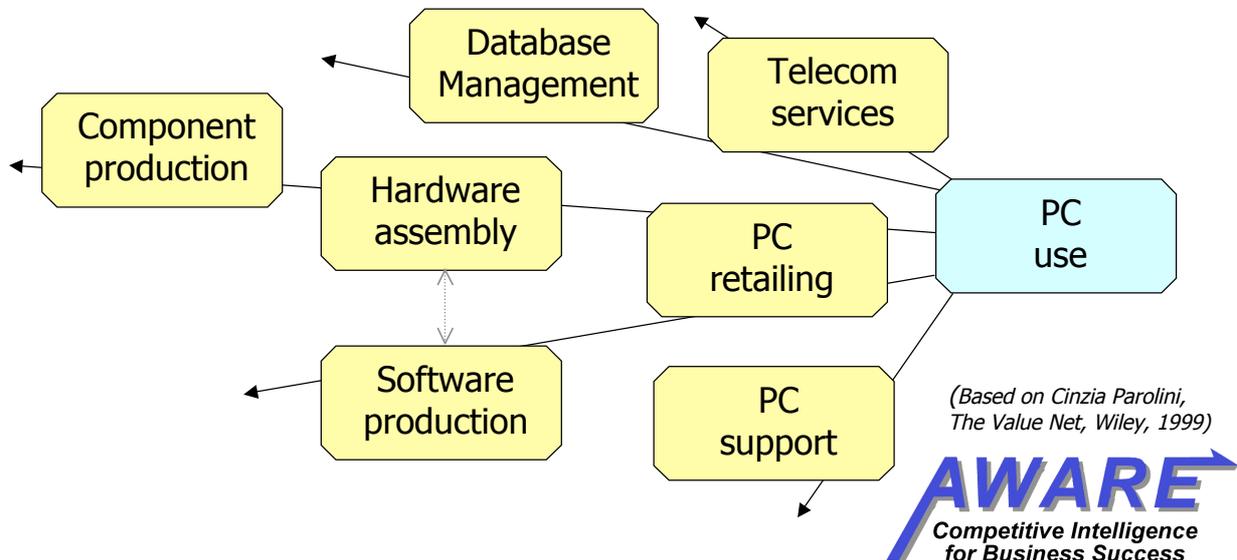


The value system (Porter, 1985)



Value creating systems

- Value creating systems - a view from the end-user's perspective, looking at value creation as a **set of activity nodes** defined by the final customer's point of view



Value Creating Systems - Apple

- Apple computers set standards for quality, design and ease of use BUT refused to license the software to other hardware manufacturers
 - Apple defined itself as a hardware manufacturer and ignored the customer's requirement for low-cost software that would work on competitor computers - keeping its technology to itself
 - Essentially, Apple refused to unbundle the hardware from the software
- Microsoft designed for IBM-compatible computers was less advanced than Apple software BUT could be used on any computer following the IBM standard.
- Intel produced chips for multiple manufacturers

Value Creating Systems - Apple

- From the perspective of the customer, Apple users are limited in their choice of
 - Software,
 - Compatible hardware such as printers and modems
 - Computer maintenance & support
 - Computer training
- Apple's VCS thus becomes a factor in its loss of market share.
 - In the short-term the quality gave Apple an advantage
 - In the long-term the lack of choice for the customer has meant that Apple computers have a minimal market share
- IF Apple had unbundled the software from the hardware, it may now have been the dominant computer company.



Value Creating Systems - Coffee Roasting

- What makes an excellent cup of *espresso* coffee
 - Top quality raw materials - the coffee beans
 - System to remove spoiled beans
 - Coffee-making machine to ensure correct water temperature, etc.
 - Coffee-machine maintained so that works as required
 - Person making coffee needs to know how long to brew coffee, etc.
 - The “aesthetics” of the delivery to the customer - a good looking cup rather than a cheap or plastic cup

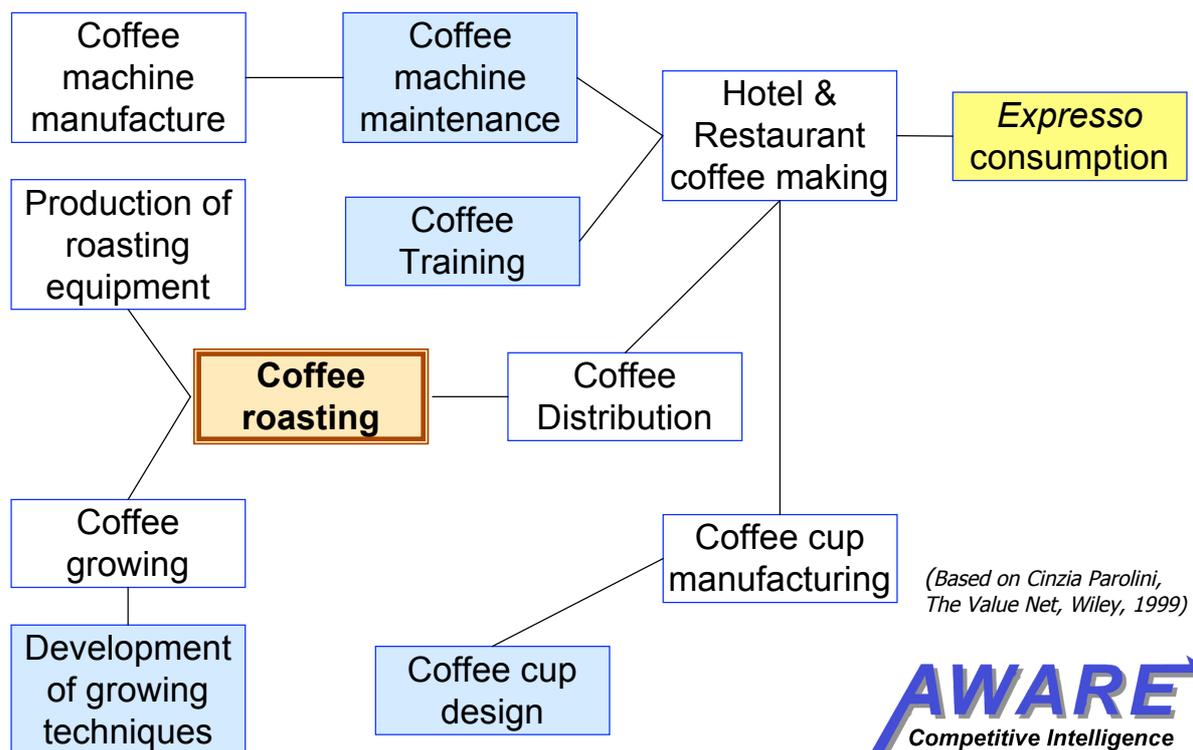


Value Creating Systems - Illycaffè Coffee

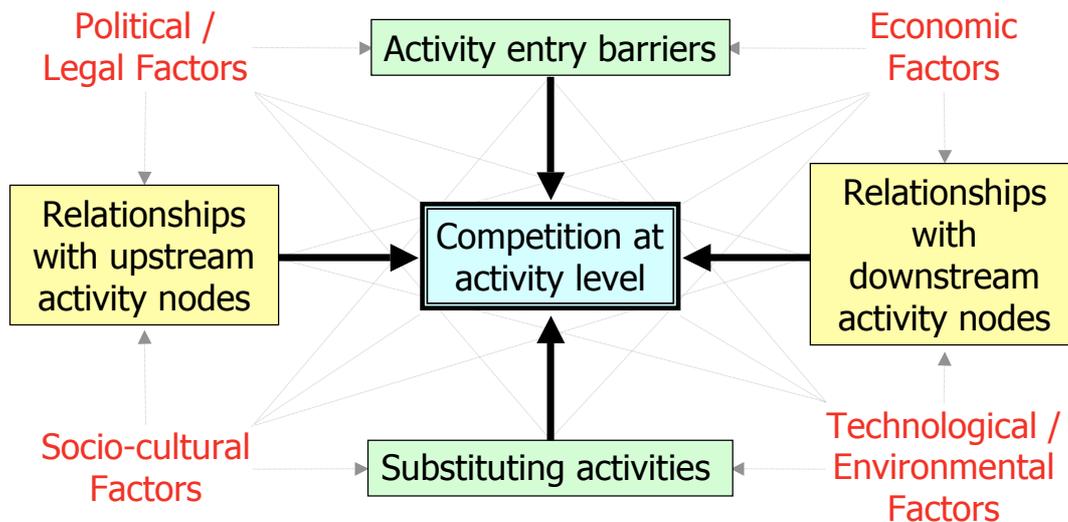
- Illycaffè are a small Italian coffee roasting company.
 - Illycaffè’s mission is to “*delight espresso consumers throughout the world with a cup of excellent coffee*”
 - In the US, Illycaffè now have a 30% market share of the high-class hotel, restaurant and catering *espresso* market.
 - They have doubled sales between 1993 and 1997 - even though the coffee is twice the average competitor price
- Success has come by:
 - Bypassing intermediaries - dealing directly with producers
 - Supporting producers through R&D to help them improve cultivation methods
 - Development of sorting methods to eliminate bad beans
 - Collaborate with coffee machine manufacturers - including offering repair and maintenance services
 - Training courses on coffee and its preparation
 - The “*Illy Collection*” of designer coffee cups.



Value Creating Systems - Illycaffè Coffee



A revised model



Note: This model also includes complementors as at an activity level they can be viewed as one component setting the level of competition



2) Business environmental analysis

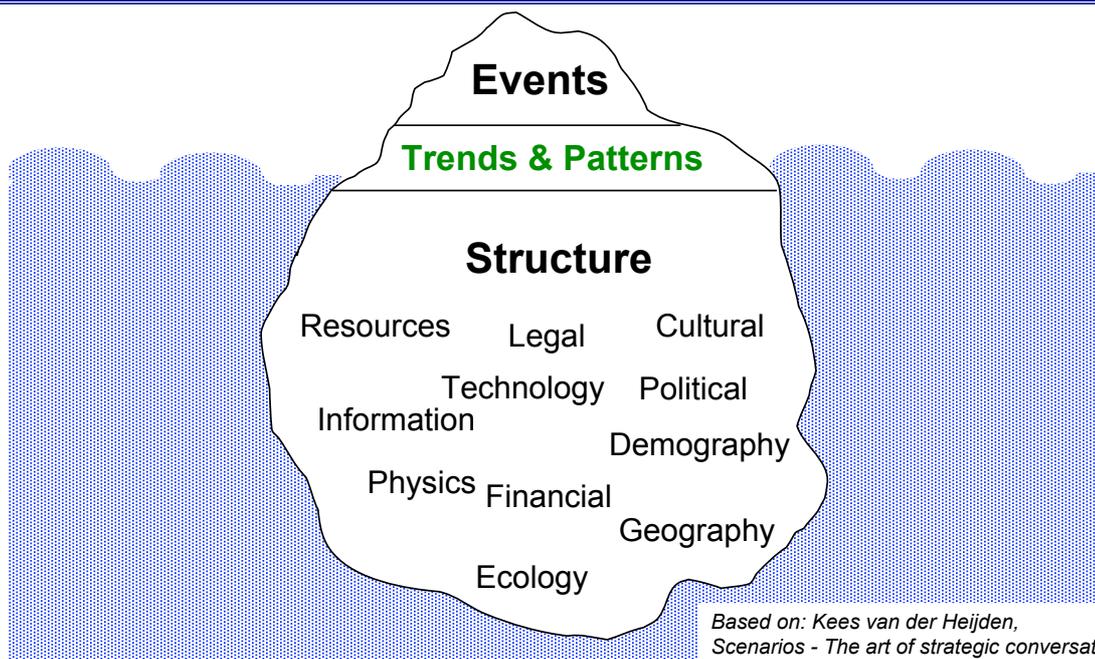
- How is the business environment changing?
- How are the various PEST factors inter-related?
- Who or what is driving the changes?
- How could these changes impact the business?

Business Environmental Analysis

- Looks for trends and evaluates the impact of the wider environment on the business and industry
 - Political / Legal factors
 - e.g. change in government or legislation; impact of entry or non-entry of Turkey into the EU
 - Economic factors
 - e.g. impact of the Euro, changes in interest rates, etc.
 - Socio-cultural factors
 - e.g. impact of women choosing to delay childbirth on purchase behaviours; impact of increasing leisure expenditure; impact of stronger or weaker religious beliefs
 - Technological / Environmental
 - e.g. impact of new technology, changing climate, etc.



The Business Environment



3) Customer usage analysis

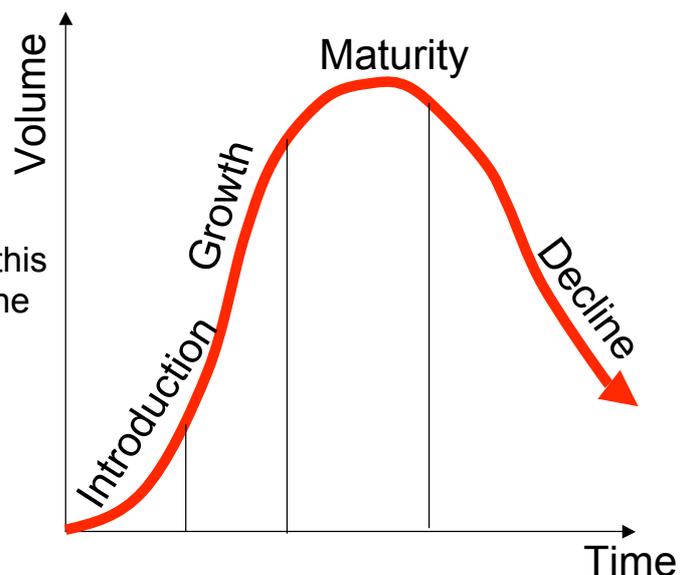
- What are customers buying?
- Who is the customer?
- Is the customer “*satisficed*” (and is this enough)?
 - Products & Services must both match customer needs and be viewed as an acceptable solution for the customer i.e. they must be (a) sufficient for their needs (b) satisfactory in what they offer. “*Satisficing*” is a combination of these two concepts. If the customer is “*satisficed*” then they have satisfied their need.
 - Most people, when presented with multiple choices will select the first reasonable option, rather than the best option available.

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4) Product (Market) life cycle analysis

- Where are you on the product life cycle
 - Introductory stage
 - Growth stage
 - Maturity stage
 - Decline stage
- How long have you been in this stage - and how long were the previous stages.
- What is normal for similar industries
- What are customers purchasing?



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5) Technology life cycles

- What patents have been filed recently?
 - Do these focus on process enhancements or new features?
- How much R&D is done within the industry – and how does this relate to the past?
 - What is the focus of R&D?
- Do new technologies exist that could offer customers an alternative?

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6) Scenario Planning

- Stories of a possible future
 - Integrate the previous approaches and use to create stories of the future
 - Are the stories internally consistent and believable
 - Do any of these stories suggest significant change?
 - What?
 - Why?
 - How?
 - Have current assumptions been challenged? (If not, why not?)

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The role of CI

- CI is not just Competitor Intelligence - it also needs to be Competitive Intelligence
 - i.e. look at what enables the company to compete
 - Need to carry out each of the preceding analysis approaches on a regular basis
 - If not the CI analyst then who?

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An early warning system

- Understand customers through on-going and regular research
 - Market research to identify whether the industry is delighting customers or just *satisficing* them
 - Identify what else could *satisfice* them?
 - Identify potential customers and market gaps
 - Identify what else customers need to gain maximum benefit from the product or service - what is the VCS?
 - Consider alternative channels and approaches - and look for parallels in different markets
 - Monitor total industry sales trends

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An early warning system

- Identify & understand barriers to entry
 - What creates the barrier? What could destroy it?
- Research patents & new technologies
 - What is new?
 - What is reported as new in the press?
- Network - both inside and outside the industry
 - What are people boasting about?
 - What are teenagers getting excited about?
- Keep up-to-date - current awareness

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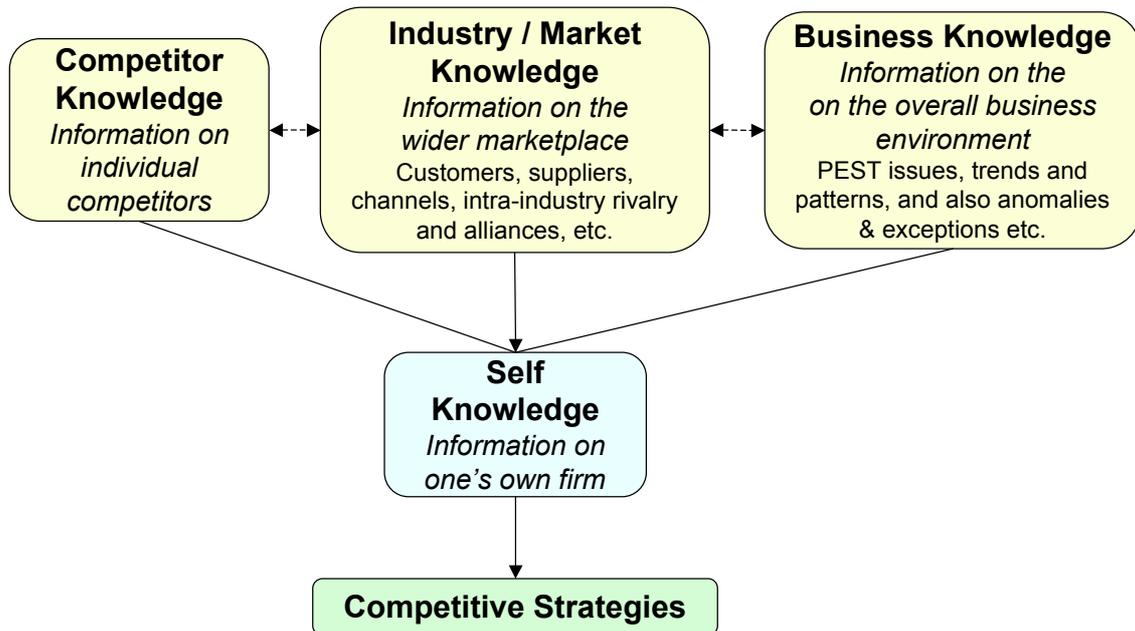
An early warning system

- Understand the drivers for change, as identified in the business environmental analysis
- Create scenarios every few years (1-3 years depending on level of change)
- Use scenarios to identify indicators to change – and monitor these throughout the organisation

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Competitive Knowledge



Self knowledge: SWOT Analysis

An examination of an organization's

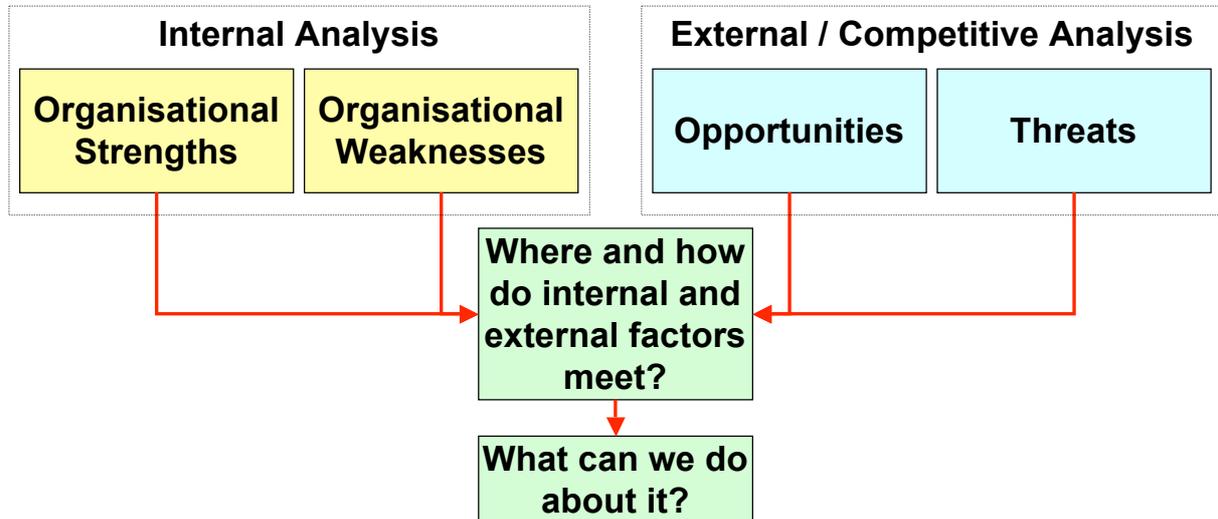
- **S**trengths and **W**eaknesses, matched to its
- **O**pportunities and **T**hreats

SWOT analysis should give a structured assessment of the fit between what an organization can (*strengths*) and cannot (*weaknesses*) presently do, and the environmental conditions working for (*opportunities*) and against it (*threats*).



The objective behind SWOT Analysis

- To establish a realistic starting point for objective setting and strategy development

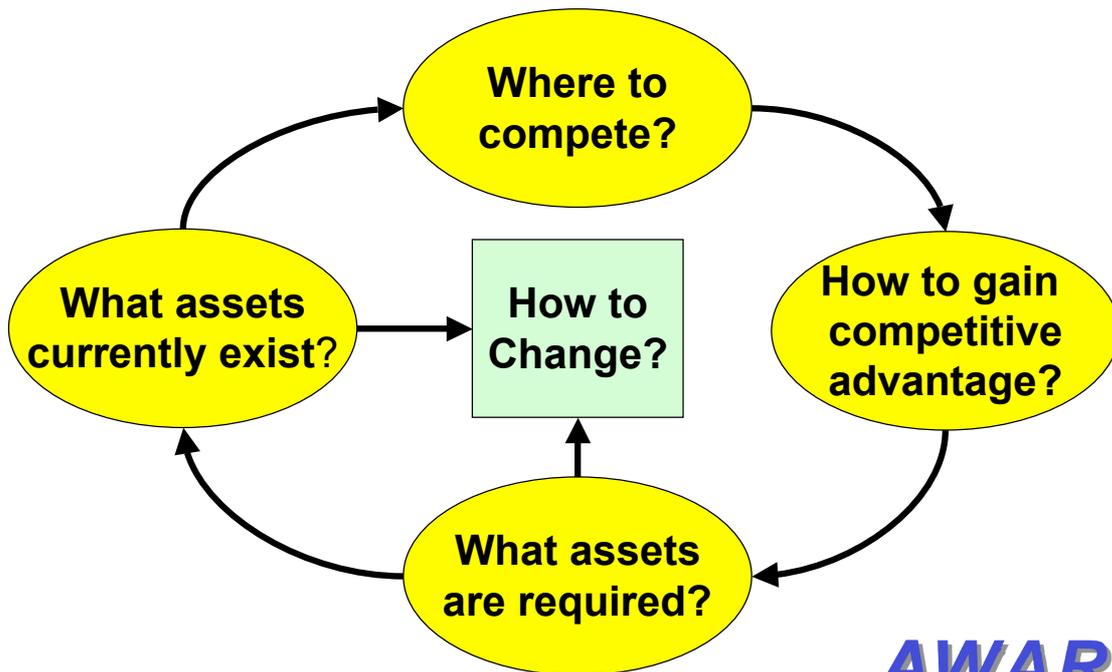


SWOT Analysis - A different approach

- Ensure that the criteria are broken down into into the key operational elements
 - e.g. Marketing aspects include customer loyalty, customer segmentation, customer base size, etc
- For each element compare
 - Relative to expected performance
 - Relative to prior year performance
 - Relative to key competitor's performance
 - Relative to industry performance
- Give scores of 1-5 for performance
 - e.g. 5 if better in all categories, or 1 if worse

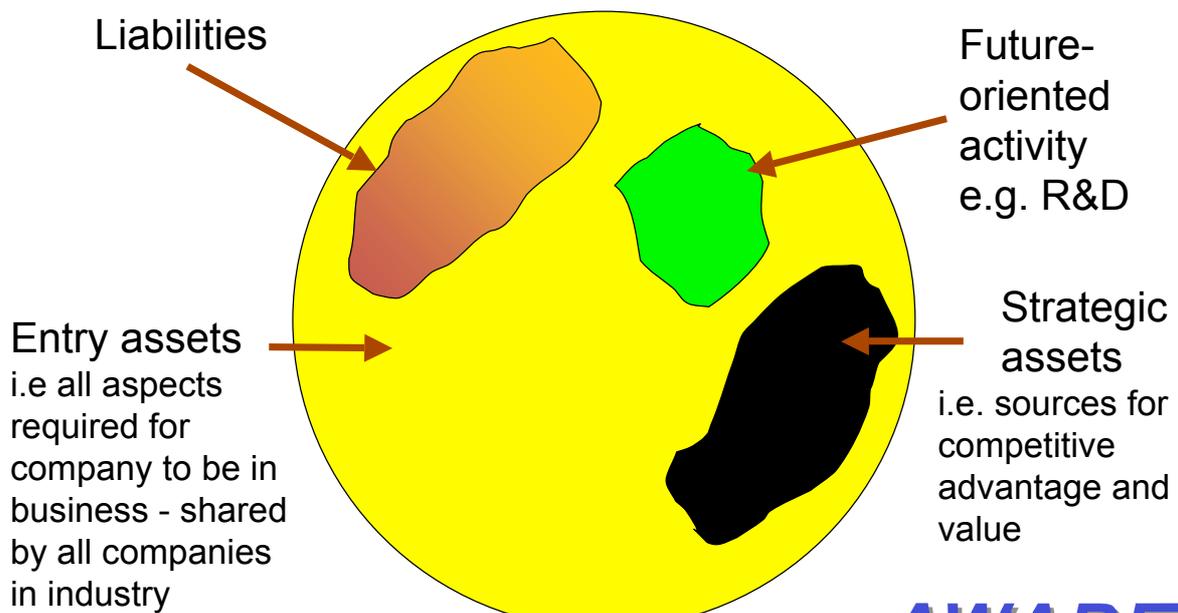


Assessing capabilities



A map of company assets

Where is value created?



Responding to change

- Frogs & Butterflies
 - “Indicator species” - can be used to monitor change in the natural environment
 - Frogs & hot water: Frogs are poor at identifying gradual change
- Businesses need to
 - Establish “indicators” that enable change to identified
 - Establish processes to monitor gradual change and adapt business practices accordingly
 - Understand their own capabilities, and what they need to do to be able to win customers i.e. to compete successfully



Responding to change



"It's not the strongest species that survive, nor the most intelligent, but the ones most responsive to change"

Charles Darwin



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