NPTEL

Course Name: Security Analysis and Portfolio Management

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Session # 16 Industry Analysis – II

Q.1: What are the different stages of industry cycle and the main features of such stages?

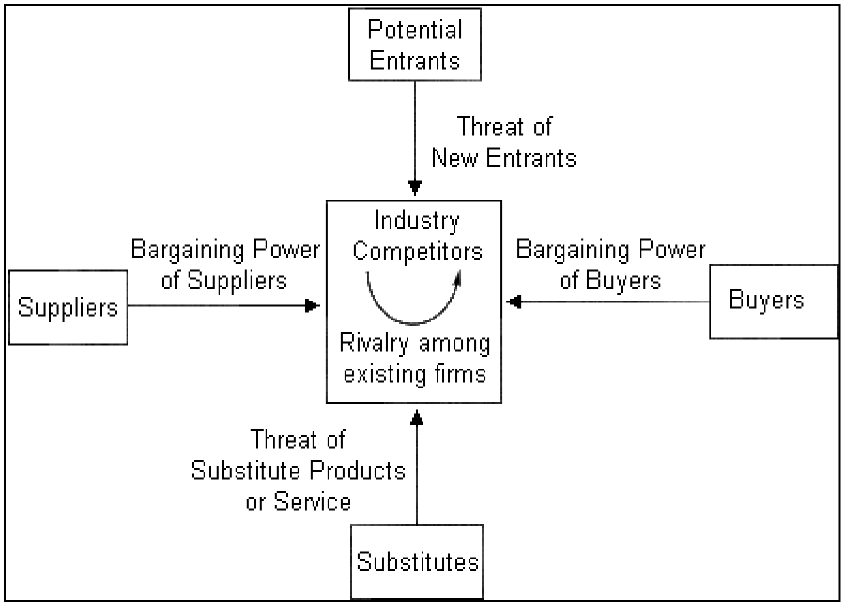
Ans.: The various stages of industry cycle are broadly divided into four: Start-up; Consolidation; Maturity and Relative Decline. An alternate framework of industry life cycle and the salient features of each stage is given below:

Stages of Industry Life Cycle	**Salient Features**
Pioneering Development	✓ Modest Sales ✓ Low or negative profit margin ✓ Major Development Costs
Rapid Accelerating Growth	✓ High sales growth ✓ Limited number of competitors ✓ Very high profit margin
Mature Growth	✓ Higher than normal sales growth ✓ More number of competitors ✓ High but declining profit margin
Stabilization and Market Maturity	✓ Longest phase ✓ Normal sales growth ✓ Lower profit margin
Deceleration of Growth and Decline	✓ Declining sales growth ✓ Low or negative profit margin ✓ Very low rate of return on capital

Q.2: What is five-force analysis and its utility for industry analysis?

Ans.; As per Michael E. Porter, average profitability of an industry is influenced by the "five forces" (as shown in the following figure). According to this framework, the intensity of competition determines the potential for creating abnormal profits by the firms in an industry. Whether or not the potential profits are kept by the industry is determined by the relative bargaining power of the firms in the industry and their customers and suppliers.

Forces Driving Industry Competition (Michael E. Porter)



Q.3: State the different attributes of the five competitive forces identified by Michael E Porter.

Ans.:

I. Rivalry among existing competitors:
    a. Concentration and balance of competitors
    b. Diversity of competitors
    c. Product differentiation and switching costs for customers
    d. Excess capacity and exit barriers
    e. Cost conditions i.e. ratio of fixed to variable costs.

II. Threat of new entrants:
    a. Economies of scale
    b. Absolute cost advantages
    c. Capital requirements
    d. Product differentiation
    e. Access to distribution channels
    f. Government and legal barriers
    g. Retaliation by established producers

III. Pressure from substitute products

a. Buyer propensity to substitute
b. Relative prices and performance of substitutes

IV. Bargaining power of buyers
a. Size and concentration of buyers relative to producers
b. Undifferentiated products
c. Buyers' switching costs
d. Buyers' information
e. Buyers' ability to backward integrate

V. Bargaining power of suppliers
a. Few large supplier dominates market
b. No substitute for input
c. Switching cost from one supplier to another high
d. Possibility of supplier's integrating forward- to get higher margin
Buying industry low barrier to entry