

# CHAPTER

## Industry Analysis & Trends

*A company must know both how it is like, and how it is unlike, other businesses.*

### Your Business and Industry

No company operates in a vacuum. Every business is part of a larger, overall industry; the forces that affect your industry as a whole will inevitably affect your business as well. Evaluating your industry increases your own knowledge of the factors that contribute to your company's success and shows potential investors that you understand external business conditions.

An industry consists of all companies supplying a similar product or service, other businesses closely related to that product or service, and supply and distribution systems supporting such companies. For example, the apparel industry comprises companies making finished clothing, including the fabric and notion suppliers, independent sales representatives and clothing marts, trade publications, and retail outlets.

In this chapter, you are given the tools to examine your industry. Most of the forms are for your internal planning use, and once you complete them, you will have the information necessary to prepare your Industry Analysis. In your plan, you want to focus on:

- A description of your industry;
- Trends in your industry; and
- Strategic opportunities that exist in your industry.

Naturally, you will need to do some research to get this information. For guidance in your research endeavors, see Chapter 2.

*If you want to be financed, you have to be realistic about how your product or service is going to be accepted. You'd be surprised at how many entrepreneurs believe that revenues are going to go through the roof, but they don't pay attention to the capital or accounting needs of the business.*

**Damon Doe**  
**Managing Partner,**  
**Montage Capital**

If you have been in your industry for a long time, and both you and the probable readers of your business plan are well aware of industry conditions, you may not need to spend much time on this section.

## Your Economic Sector

The broad category into which your industry or business falls is the economic sector. The four general sectors are 1) service, 2) manufacturing, 3) retail, and 4) distribution. Your business may belong to more than one sector; for example, you could both manufacture products for resale by others and sell them yourself at the retail level.

Economic sectors experience trends, and it's useful to note your sector's patterns. Because an economic sector is large and diverse, your business can vary dramatically from overall sector performance and trends. It is unnecessary to do a detailed analysis of your sector, but you should understand its past performance and growth projections. Study articles in business publications, and then fill in the worksheet below.

### Past and Future Growth of Your Business Sector

Business Sector	Past Growth (Low, Med., High)	Future Growth (Low, Med., High)
1. _____	_____	_____
2. _____	_____	_____
3. _____	_____	_____

## Your Industry

Your business may intersect two or more industries. For instance, you may produce electronic devices utilized in new and used automobiles. Thus, you are part of three industries: electronics, new automobiles, and the automobile after market. (The used car industry has many different issues than the new car industry.) If your business falls in more than one industry, research each of the applicable industries, giving particular weight to issues most relevant to your business. Below list the industry or industries in which your company operates.

### Your Company's Industries

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

## Size and Growth Rate of Your Industry

Pay particular attention to the rate at which your industry is expanding; this gives you insight into the opportunities available for your business. How does the growth rate for your industry compare with the growth of the gross domestic product (GDP), which measures the national economy? This comparison will give you an idea of the current health of your industry.

For example, if your industry is growing at 2% a year, and the GDP at 5% a year, your industry is losing ground, and opportunities will be few. However, if your industry is growing at 15% a year, while the GDP is at 5%, you are in an industry with far greater potential.

If information for your overall industry is difficult to find, you may be able to estimate its approximate size and growth by evaluating the largest companies in your field. Get copies of their annual reports or analyses from stock brokerages and read articles about them in trade and business publications.

After obtaining these basic facts about your industry, fill in the worksheet below, indicating the industry's past and projected future growth. Of course, your own company's development may differ greatly from industry averages—statistics may show that on a national scale, fewer people are dining out, yet your restaurant could be booming.

If your business plan's figures are far out of line with industry averages, you need to explain in your plan how you account for the variation.

“Look at annual reports of companies engaged in similar businesses and see what they're doing in the way of financials. Your numbers, of course, won't be the same, but the ratios should be similar. If your plan shows you doing much better than these big companies [in areas like profit margins], you won't be believable.”

**Eugene Kleiner**  
Venture Capitalist

### Past and Future Growth of Your Industry

Factor	2 Years Ago	Past Year	This Year	Next Year	Next 5 Yrs (Avg.)
Total Revenue					
Total Units Sold/Volume					
Total Employment					
Industry Growth Rate					
GDP Growth Rate					
Rate Compared to GDP (+ or %)					

### Maturity Characteristics of Your Industry and Associated Opportunities/Risks

**Growth Rate:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

**Competition:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

**Market Leaders/Standards:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

**Marketing Goals:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

**Market Share Strategy:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

**Product Range:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

**Customer Loyalty:** \_\_\_\_\_

Opportunities/Risks: \_\_\_\_\_

### Industry Maturity

Industries don't remain static; they may change dramatically over time. Generally, the life cycle of an industry comprises four phases: 1) new, 2) expanding, 3) stable, and 4) declining. The last phase, decline, is not inevitable; many long-standing, stable industries show no sign of decline.

Industries have distinct attributes in different stages of maturity. Even industries that seem closely related are quite dissimilar based on development stage. For instance, the soft drink industry is relatively stable, and a few major companies dominate the field. Little room exists for newcomers, and it would be extremely expensive to try to compete. On the other hand, bottled water is a developing industry with lots of competition and variation.

The Industry Maturity Chart on page 87 describes characteristics of industries in the four different stages. Examine the chart and the descriptions of the growth stages, then list the maturity characteristics of your industry and the opportunities and risks they represent on the worksheet above.



### Industry Maturity Chart

CHARACTERISTIC	DEVELOPMENT STAGE			
	New	Expanding	Stable	Declining
<b>Growth Rate</b>	Very High	Very High	Plateau	Minimal/None
<b>Competition</b>	Increasing	Shakeout	Entrenched	Decreasing
<b>Market Leaders/Standards</b>	None	In Flux/Emerging	Fixed	Contracting
<b>Marketing Goals</b>	Exposure and Credibility	Differentiate from Competition	Industry Leadership	Survive
<b>Market Share Strategy</b>	Gain Foothold	Build Market Share	Maintain Share	Cannibalize Weakened Competitors
<b>Product Range</b>	Limited	Expanding	Wide	Reduced
<b>Customer Loyalty</b>	None	Hardening	Strong	Weakening

*The four stages of an industry's life cycle are described below.*

**New industries** provide excellent entrepreneurial opportunities. Smaller companies are well-suited to respond to rapid changes, and larger companies have not yet recognized the field's potential. The market, however, is limited because customers are not yet comfortable with the product or service.

**Expanding industries** enjoy rapidly growing markets as customers begin to recognize the need for the product or service. Competition is brisk as well-funded companies begin to enter the field. All companies are vulnerable, even those that looked strong when the industry was new.

**Stable industries** have arrived at a plateau with markets leveled off at a reasonably high level. The rate of growth is slow, and customers maintain strong brand loyalty. It is relatively difficult to enter these industries.

**Declining industries** result from technological, demographic, and sociological changes, and from overwhelming foreign competition. Corporations leave the field or go bankrupt, and the few major companies fight to survive by stealing remaining customers from weakened competitors.

### Sensitivity to Economic Cycles

Some industries are heavily dependent on strong economies, either nationally or internationally, and it is crucial to understand how vulnerable your industry is to economic conditions.

“With a \$100 million company, it is vital that I’m tuned in to what’s happening in our industry and with national and global economic trends, so I can take steps both in marketing and pricing that will lead my competitors. I look at least six months ahead. To deal with economic downturns, you must be less aggressive with pricing. You plan for these times by marshalling your resources and building up liquidity to take care of the rainy day. The trick is to accurately predict what is happening out there, and to decide whether to scale back on capital expenditures or new acquisitions. Knowing when to pull back differentiates the successes from the potential disasters. And when you can see the bottom of the downturn, resume a more aggressive approach.”

**Andre Tatibouet**  
**Founder, Aston Hotels**

Construction, large consumer items (autos, furniture), and tourism all prosper when the economy is healthy. Industries dependent on new business formation or business expansion, such as office and technical equipment, also perform far better in good times.

Industries such as discount department stores and used-car dealerships are counter-cyclical, doing relatively better in poor economies than in strong ones. And some industries, such as personal care products and low-cost entertainment, are fairly immune to economic cycles.

If your business is located in a smaller community that is heavily dependent on one industry or one major employer, take into account the effect of the economy on that industry or company and, thus, your own business.

Considering the economic conditions or cycles that affect your business helps you anticipate and plan for growth in good times and belt-tightening in difficult times. On the worksheet below, describe the effect, if any, of each of the listed factors on your industry.

### Effects of Economic Conditions on Your Industry and Business

High Business Expansion/Formation: \_\_\_\_\_

Low Business Expansion/Formation: \_\_\_\_\_

High Unemployment/Low Unemployment: \_\_\_\_\_

Low Interest Rates: \_\_\_\_\_

High Interest Rates: \_\_\_\_\_

Low Inflation: \_\_\_\_\_

High Inflation: \_\_\_\_\_

Strong Dollar/Weak Dollar: \_\_\_\_\_

High/Low New Home Construction: \_\_\_\_\_

## Seasonality

For many industries, certain times of the year produce higher revenues than others. For example, toy companies are dependent on Christmas sales, while summer is the big season for bathing suit manufacturers.

Many industries fluctuate based on holidays. Most retail businesses and consumer products are affected by the Christmas season, which may account for one-third to one-half of all sales. Non-essential products and services may actually suffer during the Christmas season, as consumers reduce nongift expenses. Halloween is now the second largest holiday in the U.S. in terms of retail sales.

Spring is an important season for any wedding-associated industry. Tourism-related businesses usually depend heavily on the summer. Construction-related industries may experience slowdowns in winter months, especially in colder climates. When preparing your financial forms, particularly cash-flow projections, it is imperative that you understand and account for the seasonal factors that have an impact on your income and expenses. Your product may be sold in December, but you may have to pay for raw materials in June.

On the worksheet below, describe the impact, if any, that the various seasons or holidays have on the economic health of your industry.

How Seasonal Factors Affect Your Industry	
Christmas/Holiday:	_____
	_____
	_____
Summer:	_____
	_____
	_____
Winter:	_____
	_____
	_____
Other:	_____
	_____
	_____

## Technological Change

Technological advances affect every industry. Technology changes the way products are made and sold, how information and communication is managed, and how costs are reduced. The Internet has dramatically affected

“The hardest part about starting a business is knowing that you don't know.”

**Pauline Lewis**  
Owner, oovoo design

many aspects of even the most traditional industries, including sales and distribution channels, customer service, and relationships with suppliers.

It is, of course, impossible to imagine all the technological developments that may affect your industry in the next five years. But it is useful to take note of the trends of the last five or 10 years. If yours is an industry in which technology changes rapidly, assume that you will need to be positioned to respond to change, and indicate in your business plan your strategy to do so and the financing required. Some technological developments in your industry provide you with strategic opportunities that you want to emphasize when writing your plan.

On the checklist below, indicate the rate of technological change each area of your industry has experienced over the last five years.

<b>Technological Change in Your Industry Over the Last Five Years</b>				
<b>Product/Service Features</b>	<b>High</b>	<b>Moderate</b>	<b>Low</b>	<b>None</b>
Manufacturing/Production	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Billing/Administration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Information Management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Inventory Control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Delivery Time/Method	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Marketing/Communication	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sales Channels	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Customer Service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

## Regulation/Certification

Certain industries are particularly affected by the actions of governmental authorities. While all businesses are influenced by regulation to some degree, regulation, licensing, and certification can dictate in large part how certain industries conduct business. Take time to think about how, if at all, your business and industry are influenced by governmental regulations.

Consider the actions of governmental entities at all levels—national, state, county, municipal, or special regional bodies—when analyzing the regulatory trends in your industry. Some regulatory measures actually create strategic opportunities. In the environmental field, for instance, increased governmental regulation over pollution has led to whole new industries dealing with waste management and energy conservation.

You may also find your business is subject to certification, by either a governmental body or an industry association. You may be required to take state tests to qualify to conduct your business. If your company benefits from regulatory actions, in your plan emphasize how you intend to capitalize on these opportunities.

Indicate your industry's sensitivity to regulation and certification on the checklist below.

How Sensitive Is Your Industry to Government Regulation?				
Area of Sensitivity	High	Moderate	Low	None
Environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Health and Safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
International Trade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance Standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Licensing/Certification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fair Trade/Deregulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product Claims	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
_____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

“We started with the technology; we didn’t really know what we were going to make. We could have used our process to produce low-alcohol wine, non-alcoholic wine, bottled water, or a soft drink. In taste tests, we got a very high response to the soft drink, but it would have been beyond our resources to get distribution for a soft drink. We had contacts and experience in distribution in the wine industry, and an excellent response to our non-alcoholic wine, so we went with the plan we could execute. I would hate to start a product in a distribution system I didn’t know.”

**Larry Leigon**  
**Founder, Ariel Vineyards**

## Supply and Distribution Channels

The supply and distribution channels in your industry can be crucial in determining your company's success. In some industries it is notoriously difficult to gain access to distribution, and in others there are few reliable sources of supply. In industries with a large number of suppliers and distributors, costs remain lower and entry is relatively easy.

Be cautious when entering industries with extremely limited supply or distribution systems. Imagine, for instance, that you are considering starting a new magazine. While the lines of supply present little or no problem (many sources of paper, printing plants, writers), distribution may be problematic. One or two companies may control all magazine newsstand distribution in your area, making costs extremely high, if they are willing to carry your magazine at all.

In some industries or businesses, the company itself can control its supply or distribution channels. Many companies distribute their products online, directly to their customers without intermediaries. However, this may not necessarily be the most advantageous business choice.

Below, indicate the relative numbers of supply and distribution channels in your industry.

Supply and Distribution Channels in Your Industry				
Number of Channels	High	Moderate	Low	Self-Control
Supply	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Distribution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

“This is a capital-intensive industry; inventories are expensive to maintain. You get a low asset turnover because your inventory has to sit around in barrels for a long time. Profit margins are not good. You must determine what are the key ratios in the business, even if the formal financials don’t follow for six months. Stay on top of the payables and receivables turnover, the gross profit margin, the inventory turnover ratio.”

**Larry Leigon**

**Founder, Ariel Vineyards**

## Financial Characteristics

No area of your Industry Analysis is more important than an evaluation of the financial patterns characterizing your industry, especially if you are new to the field. Knowing the standards of such aspects as markups, commissions, and returns on sales will substantially help your own budgeting process.

Much of this information may seem difficult to locate if you are just entering the industry. Perhaps the best way to get this information is to interview those already in the industry, especially those who are not your direct competitors. Just make certain the information is industry-specific; knowing the retail markup on apparel won’t tell you the markup on food, consumer electronics, or fashion accessories.

The Financial Patterns worksheet on page 95 helps you keep crucial financial specifics handy when preparing budgets. Established businesses should complete this worksheet with actual company data.

## Global Industry Concerns

Because of the global nature of business today, you need to consider not only industry trends in your own country, but industry trends worldwide. This is particularly true if you hope to sell your products or services internationally, but it is even true if you are sourcing materials/inventory worldwide, are using labor across national borders, or are hoping to take advantage of global industry advances to improve your own company’s performance.

Use the worksheet on the following page to identify the global trends that may affect your company.

## Preparing the Industry Analysis for Your Business Plan

Once you have analyzed your industry for your internal planning purposes, coordinate that information and incorporate the highlights in the Plan Preparation Form on page 96. This form, when completed, will contain the information that will serve as the basis for the Industry Analysis segment of your business plan.

**Globalization: Industry Concerns**

Which global industries are you a part of? \_\_\_\_\_

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What are the size and growth rates of your industry in countries where you hope to do business? \_\_\_\_\_

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In which countries is your industry new or rapidly developing? \_\_\_\_\_

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In which countries is your industry experiencing high growth rates? \_\_\_\_\_

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Are there seasonality concerns in the countries in which you'll be operating or sourcing supplies or labor? \_\_\_\_\_

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Are other countries introducing technological improvements in your industry? \_\_\_\_\_

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Are government regulations a substantial factor for your industry in countries where you'll be doing business? \_\_\_\_\_

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What other trends or changes are affecting your industry globally? \_\_\_\_\_

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Are international suppliers a significant source of your raw materials or inventory? \_\_\_\_\_

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If you are selling internationally, are there established distribution channels to enable you to reach your market? \_\_\_\_\_

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### Chapter Summary

Evaluating the standards, trends, and characteristics of your industry helps you ensure your own company's success and assists you in planning your budgets. Although each company is unique, no business completely escapes the realities and constraints of the industry in which it operates. Anticipating changes in your industry can help you position your company for future developments. You need to understand the larger environment before you can successfully differentiate your own business.



**Financial Patterns****\$ > \$ \$ > \$ \$ \$***Fill in this worksheet with figures representative of the financial standards in your industry.*

Normal Retail Markup of Goods: \_\_\_\_\_

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Normal Distributor Markup of Goods: \_\_\_\_\_

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Typical Sales Commission Percentage: \_\_\_\_\_

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Standard Credit Terms: \_\_\_\_\_

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Days of Inventory Maintained: \_\_\_\_\_

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Average Percentage of Return on Sales: \_\_\_\_\_

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Other Financial Patterns of Note: \_\_\_\_\_

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Percentage of Merchandise Price due to

Cost of Labor: \_\_\_\_\_

Fixed Costs: \_\_\_\_\_

Cost of Materials: \_\_\_\_\_

Shipping: \_\_\_\_\_

Energy: \_\_\_\_\_

Other: \_\_\_\_\_

**Industry Analysis Plan Preparation Form**

*Using this form as a guide, summarize the main points you wish to convey in your Industry Analysis.*

Industry Description: \_\_\_\_\_

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Industry Trends: \_\_\_\_\_

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Strategic Opportunities: \_\_\_\_\_

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***Use this information as the basis of your plan's Industry Analysis.***

## SAMPLE PLAN: INDUSTRY ANALYSIS AND TRENDS

**INDUSTRY ANALYSIS**

ComputerEase is well-positioned to take advantage of the significant opportunities presented by the rapidly expanding industry of computer-related business services.

**Computer-Related Services on the Rise**

Service industries represent the fastest growing sector of the national economy, and computer-related business services reflect that continued growth. These services as a whole grew in excess of 125% over the five years from 2005 to 2009, compared to an overall GDP of approximately 9% during that period.

*Cites statistics, showing real knowledge of industry.*

**Rapidly Evolving Industry**

Computer software training is a rapidly evolving industry, as technologies advance and develop. The industry is in a state of flux, with no market leaders, nationally known providers, or widely recognized accreditation programs. Individual software manufacturers do offer certification as trainers for their products, but this certification is yet to be standardized, and such certification is not always a key issue for consumers.

The key to success in the industry is to develop a regionally recognized brand in conjunction with online services, as is currently the case with other business services, such as accounting or human resources. Regionally dominant training companies are able to earn revenues and build market share sufficient to sustain continued development of online courses and support the high overhead cost of equipment, skilled trainers and subject matter experts, and materials.

**Open Competitive Environment**

Currently, the level of service is broadly uneven, and providers enter and leave the field rapidly. Some in-person training is marketed through direct mail and email newsletters by national companies generally offering one- or two-day sessions by traveling trainers in physical locations. Online training companies market online, through email, and through the purchase of keywords from search engine companies. Training companies do not maintain an ongoing local profile or relationship with customers. Other software training is offered by individual consultants.

*Shows market opportunity.*

Generally, these competing training companies are not presented or marketed in any continuing, professional manner. They are not perceived in the marketplace as “businesses,” and quality and pricing are widely uneven.

**Long-Term Opportunities**

Thus, the long-term outlook for the industry is to develop regionally or nationally known companies, as is currently the case with other business services, such as accounting or employment services. These companies will be able to develop revenues and market share sufficient to sustain the high overhead. National franchises or affiliations will make it possible to share training materials and other resources.

**SAMPLE PLAN: INDUSTRY ANALYSIS AND TRENDS (continued)****ComputerEase Can Develop Strong Position in Region**

The current lack of industry leaders represents an exceptional opportunity for ComputerEase to develop a dominant presence in the software training field both in the Greater Vespucci area and online. The company will then be well-situated to take advantage of national affiliations, with franchisors, national associations, or software providers.