



Industry Analysis

A Path to Informed Investment Decisions

What is Industry

Analysis

What is Industry Analysis

Industry analysis involves examining the economic, competitive, and structural factors that affect the performance and future prospects of a particular industry

Informed
Investment
Decisions

Assessing
Industry
Health

Understanding
Competitive
Dynamics

Identifying
Key Drivers
of Success

Under-
standing risk

How Industry Analysis help in evaluating Companies

Understanding the Broader Context

- Industry vs. Company Performance
- Macro vs. Micro Analysis

Evaluating Competitive Position

- Benchmarking
- Competitive Advantage

Predicting Future Performance

- Growth Prospects
- Risk Assessment

Strategic Decision-Making

- Investment Strategies
- Company Valuation

Industry Life Cycle

Industry Life Cycle

Startup



Growth



Maturity



Decline



Start-up /

Introduction Stage

Start-up / Introduction Stage

- High innovation and experimentation.
- Low competition and small market size.
- High costs due to **R&D and marketing** efforts.
- **Examples:** Electric Vehicles (EVs) in their early stages, where companies are focusing on establishing technology and consumer awareness.
- **Investment Implications:** High risk with potentially high rewards. Investors should look for companies with strong innovation capabilities and first-mover advantages.

Growth Stage

Growth Stage

- ⦿ Rapid market expansion and increasing demand.
- ⦿ Growing competition as new players enter the market.
- ⦿ Economies of scale begin to reduce costs.
- ⦿ **Examples:** Quick-commerce, characterized by rapid adoption and expansion of dark stores.
- ⦿ **Investment Implications:** Attractive for growth-focused investors. Companies in this stage often show strong revenue and profit growth, making them prime candidates for investment.

Maturity Stage

Maturity Stage

- Slower growth as the market reaches saturation.
- Intense competition, leading to price wars and consolidation.
- Focus shifts to **efficiency and cost management**.
- **Examples:** Indian FMCG Industry, where market penetration is high, and companies focus on maintaining market share and improving operational efficiency.
- **Investment Implications:** Stable returns with lower risk. Companies in this stage may provide consistent dividends and are often considered reliable investments for conservative investors.

Decline Stage

Decline Stage

- Decreasing demand and shrinking market size.
- Companies may exit the market or diversify into other areas.
- High competition on price, often leading to reduced margins.
- **Examples:** Traditional Print Media, facing declining readership as digital media grows in prominence. Old-gen power generation companies are also a good example.
- **Investment Implications:** High risk with declining returns. Investors may consider exiting or looking for companies that are successfully diversifying or reinventing themselves.

Templates for Industry Analysis

Porter 5 Forces

Porter 5 Forces

RIVALRY AMONG EXISTING COMPETITORS:

- Number of competitors
- Diversity of competitors
- Industry concentration
- Industry growth
- Quality differences
- Brand loyalty
- Barriers to exit
- Switching costs

BARGAINING POWER OF SUPPLIERS

BARGAINING POWER OF SUPPLIERS:

- Number and size of suppliers
- Uniqueness of each supplier's product
- Focal company's ability to substitute

THREAT OF SUBSTITUTE PRODUCTS:

- Number of substitute products available
- Buyer propensity to substitute
- Relative price performance of substitute
- Perceived level of product differentiation
- Switching costs

THREAT OF NEW ENTRANTS



THREAT OF SUBSTITUTE PRODUCTS

THREAT OF NEW ENTRANTS:

- Barriers to entry
- Economies of scale
- Brand loyalty
- Capital requirements
- Cumulative experience
- Government policies
- Access to distribution channels
- Switching costs

BARGAINING POWER OF BUYERS

BARGAINING POWER OF BUYERS:

- Number of customers
- Size of each customer order
- Differences between competitors
- Price sensitivity
- Buyer's ability to substitute
- Buyer's information availability
- Switching costs

**What's in a SWOT
analysis?**

What's in a SWOT analysis?

The good

The not-so-good

What we've got

Strengths

What resources can we deploy?
What are our advantages?
What's working well?

Weaknesses

What abilities are we lacking?
Where are we starting to struggle?
How can we overcome these?

What's out there

Opportunities

What abilities are we lacking?
Where are we starting to struggle?
How can we overcome these?

Threats

What headwinds do we face?
Who might challenge us?
What could go wrong?

Identifying Key

Industry Metrics

Market size

Market size

- **Market size refers to the total revenue or sales volume generated by all companies within an industry. It is a fundamental metric that indicates the scale and economic importance of an industry.**
- **Larger market size often signals a well-established industry with significant opportunities for revenue generation.**
- **Investors use market size to gauge the potential for growth and profitability within the industry.**

Growth Rate

Growth Rate

- Growth rate measures the percentage increase in market size over a specific period. It is a key indicator of an industry's expansion or contraction.
- High growth rates attract investment by indicating expanding demand and potential for future profits.
- Conversely, a declining growth rate may signal market saturation or emerging challenges within the industry.

Cost Structure

Cost Structure

- **Cost structure refers to the distribution of fixed and variable costs that companies incur in producing goods or services. It plays a crucial role in determining profitability and pricing strategies.**
- **Analyzing the cost structure helps investors understand the financial resilience of companies during economic fluctuations, as industries with high fixed costs may struggle during downturns.**
- **It also highlights potential areas for cost optimization within the industry.**

Margins

Margins

- Profit margins represent the percentage of revenue that a company retains as profit after all expenses are deducted. Industry-wide profit margins provide insight into the overall profitability of the sector.
- Industries with high average profit margins typically offer attractive investment opportunities due to their ability to generate strong returns on sales.
- Understanding industry profit margins helps investors assess the financial health of companies within the sector.

Combining Industry Analysis

with Company Analysis

**Understanding the Relationship
Between Industry and Company
Performance**

Understanding the Relationship Between Industry and Company Performance

- Industry analysis helps identify key success factors within the industry, such as cost efficiency, innovation, or brand strength. By understanding these factors, investors can assess whether a company has a sustainable competitive advantage.
- **Example:** In the Indian FMCG industry, companies like ITC and HUL have leveraged their extensive distribution networks as a competitive advantage. Analyzing these networks in the context of industry norms can help determine the strength of these advantages.

Synergizing Industry Trends

with Company Strategy

Synergizing Industry Trends with Company Strategy

- **Successful companies often align their strategies with key industry growth drivers, such as technological innovation, consumer behavior shifts, or regulatory changes.**
- **Nestle India's strategy to focus on health and wellness aligns with the growing consumer demand for healthier food options in the FMCG industry. By integrating this industry trend into its product development and marketing strategies, Nestle enhances its competitive positioning.**

Synergizing Industry Trends with Company Strategy

- Industry analysis can highlight risks such as regulatory changes, economic downturns, or shifts in consumer preferences. Companies that proactively diversify their operations to mitigate these risks are often better positioned for long-term success.
- ITC's diversification into FMCG from its traditional tobacco business was driven by the understanding that the FMCG industry offers more sustainable growth opportunities in the long term, given increasing regulatory pressures on tobacco products.

Evaluating Financial Health in Industry Context

Evaluating Financial Health in Industry Context

- Financial ratios like **ROE, debt-to-equity, and profit margins** are more informative when compared against industry averages. This benchmarking helps investors assess whether a company is underperforming, performing on par, or outperforming its peers.
- **Example:** An FMCG company with a higher-than-average ROE compared to the industry indicates efficient use of equity and strong management performance.

Evaluating Financial Health in Industry Context

- Industry trends influence valuation multiples like Price-to-Earnings (P/E) ratios. A company's P/E ratio should be evaluated in the context of the industry's average to determine if it is overvalued or undervalued.
- **Example:** A high P/E ratio in the FMCG industry might be justified if the industry is in a growth phase and investors expect continued robust performance. Conversely, a lower P/E might reflect industry maturity or challenges.

Integrating Qualitative and Quantitative Analysis

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- **Effective analysis** involves integrating qualitative insights from industry trends with quantitative financial data from company reports. This holistic approach provides a clearer picture of a company's future prospects.
- **Example:** A qualitative analysis might reveal a growing consumer preference for organic products in the FMCG sector, while quantitative analysis shows a company's investment in this segment. Together, these insights suggest potential for strong future growth.

Integrating Qualitative and Quantitative Analysis

- Scenario planning involves assessing how different industry scenarios—such as economic downturns, regulatory changes, or technological disruptions—might impact a company's performance. Sensitivity analysis helps quantify these impacts.
- **Example:** In the context of the Indian FMCG industry, scenario planning might involve evaluating how a sharp increase in raw material costs would impact company margins and pricing strategies. Sensitivity analysis could then measure the financial impact under different cost increase scenarios.

Recap & Key Takeaways

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- Importance of Industry Analysis
- Industry Life Cycle Stages
- Key Industry Drivers
- Templates for Industry Research
- Integrating Industry and Company Analysis