

External Scanning – Industry Analysis

An industry is a group of firms or businesses that produce the same or similar products. The term can be used broadly to include an entire class of products such as the food industry or the energy industry. Or it can be used more narrowly as the cattle industry or the hog industry. This would include the production, processing and marketing aspects of the industry and may be called the beef industry or the pork industry. We may describe the industry even more narrowly as the beef processing industry. Or we may select an aspect of the beef industry such as the grass-fed beef industry or the organic beef industry. The outline below can be used for most agricultural related industries. However, the outline should be modified to fit the unique characteristics of a specific industry.

Background and Current Status of the Industry

1. Carefully define the industry. Are you describing an industry such as the cattle industry or a segment such as the organic beef industry? Or are you defining just a stage such as the beef processing industry?
2. Describe the size of the industry in dollars of sales per year. What has been the trend in the size of the industry in recent years?
3. What is the growth forecast for the industry?
4. Describe the historic profitability of the industry. Also, the historic profitability of the industry segments (i.e. production, processing, manufacturing, etc.).
5. Describe the stage of the product life cycle of the industry's product(s) (rapid growth, mature, etc.).
6. For processing and manufacturing industries, list the total processing capacity and the amount of processing capacity being utilized. Show this for the current period and previous years.
7. List and describe inventory (unsold product) levels in the industry. Do this for the current period and previous years.
8. Is the industry stable or going through a period of restructuring?
9. Describe any developments or problems the industry is currently experiencing.
10. Is the industry dominated by supply chains or open markets?
 - Which parts of the supply chain are commodities and which are differentiated products?
 - Describe the supply chain relationships that may exist in this industry and describe the role of your business within the supply chain.
 - How do participants create or extract value at different points in the supply chain?
11. Describe how distribution works in the industry (i.e. direct sales to customers or sales force, retail, wholesale)?
12. If you are targeting a niche market, identify the relevant industry segments and how they are defined.

Product(s) and Product Usage

1. Describe the product(s) being produced by the industry.
2. What are the overall consumption trends of the product(s)?
3. Describe consumption trends by consumer group such as milk consumption of teenagers.
4. Describe the per capita (per person) consumption trends (i.e. pounds of pork consumed per person).
5. Usage rates – i.e. annual usage of ethanol (not annual production of ethanol – i.e. when production of a product (supply) is larger than usage (demand), inventories increase and prices fall – and vice versa).
6. Describe usage by specific markets (e.g. ethanol usage in the Denver market).
7. Trends in usage or consumption – i.e. per capita beef consumption over the last ten years.

Prices

Provide data on the current price levels in the industry and price levels over previous years. This includes prices for final products, intermediate products in the supply chain and raw materials.

Provide data on the profit margins for the various segments of the industry.

Competitiveness

1. Industry concentration –

This is a measure of the number of firms in an industry and the size of the predominant firms in the industry. It provides an indication of who you are up against.

- Identify the most important players in the industry.
- What percent of the market is controlled by the largest companies (i.e. four largest firms)?
- What is the market share of each major firm?
- What is the number of firms over a certain size (e.g. number of egg producers over one million birds)?
- Is there a dominant industry leader?
Who is it?

2. Competition from other products –

The more similar a competitive product is to your product, the more competitive it will be (i.e. beef competes with pork, natural gas competes with ethanol). Branding is an effort to differentiate your product from competitive products in the eyes of the consumer.

3. Barriers to entry/ease of entry –

Is the industry easy to enter or difficult to enter? If entry is easy, competitors enter the market during periods of high profitability and expand production capacity. This drives down prices and profit margins. Barriers to entry make it more difficult for competitors to enter so profit margins remain favorable.

Barriers to entry include:

- Limited access to markets – If the market is dominated by well-established branded products, a new entrant will need to spend the time, money and effort to establish a successful branded product.
 - Large-scale production – If large scale production requires substantial financial investment, the financial requirements will be to limit entry.
 - Limited access to technology or production processes – Patented technology and other intellectual property will limit entry.
4. **Concentration within the supply chain –**
When many firms buy from or sell to a few firms, the segment with the highest concentration (fewest firms) usually has an advantage. What is the relative concentration of input suppliers, producers, processors, etc.?
 5. **Industry Rivalry –**
Describe the intensity of the rivalry among industry participants.

Industry Drivers

Outline the factors that are currently driving the industry and expected to drive it in the future.

Examples of potential agricultural industry drivers are described below.

1. **Consumer tastes and preferences –**
Consumer preferences for food.
2. **Population and age distribution –**
A growing population will drive demand upward. An aging population will affect the types of food demanded.
3. **Dietary recommendations –**
Emerging dietary recommendations (low carbohydrate, low fat) will change consumers' buying habits for food products.

4. **Package labeling requirements –**
For example, the mandated labeling for trans-fats on food products has the potential to change consumer preferences.
5. **Food safety issues –**
For example the organic food market has its basis in the issue of food safety.
6. **Functional foods –**
Scientists are discovering certain health aspects of different types of foods. For example, isoflavones in soybeans may prevent cancer.
7. **Legislation designed to stimulate demand –**
For example the mandated use of renewable fuels drives that industry. Tax incentives will affect the price.
8. **New regulations –**
Is there new or pending legislation on regulations at the state or national level that will impact the industry?
9. **Environmental concerns –**
For example, global warming will have a significant impact on the energy industry.
10. **International trade tariffs and barriers –**
For example, does the industry have access to foreign markets?
11. **Emerging technologies –**
For example, new technologies in the production of renewable fuels will impact the ethanol industry.
12. **Other factors that affect the development of the industry.**

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