

## CHAPTER 4

### LEARNING AN INDUSTRY

#### Author's Note

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Know your industry or be buried by it. Every industry is distinct, has a different personality—a different culture, if you will. The way business is conducted varies by industry. Some industries offer more opportunities than others; some are more hostile than others. The industry in which an entrepreneur's business operates has such an impact on the potential success of the business that an entrepreneur would be foolish not to learn everything he or she can about the industry *before* entering it with a new venture concept.

This chapter looks at how an industry can be analyzed to reveal its risks and benefits. It discusses how to examine the characteristics of an industry, how to seek out competitive entry strategies, and how to deal with the competition. It also presents a benchmark “ideal industry” against which to measure any industry.

#### Learning Objectives

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This chapter will give students an understanding of:

- How to look at industries in terms of a framework
- How to study an industry
- How to conduct competitive analysis
- Competitive entry strategies
- Industry analysis

#### Supplementary Lecture Material

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##### ***Spying on the Competition***

Learning about your competitors is one of the most important tactics an entrepreneur can use to gather the market intelligence needed to successfully compete. In 1998, CEO and chairman of office-supply superstore Staples, Tom Sternberg, was spending at least one day every week dropping into one of his competitor's stores as well as one of his own. He even visited the stores of retailers that didn't compete with Staples because everywhere he went he learned something that would help him improve his operations.

It's important to understand that the purpose of “spying” on the competitors is not to simply validate what you're doing but to find out what they do better than you and learn from it. How does your competitor treat its customers? It is also important not to copy what your competitors do well, because their success is the result of more than what you can see on the surface. It's the result of a lot of tacit knowledge created over time. So you need to find a unique way to improve what you're doing. Focusing on what the customer wants is where visiting your own outlets helps because you want to see your company from the customer's point of view.

*Source: Sternberg, Tom and Stephanie L. Gruner, “Spies Like Us,” Inc. Magazine, August 1, 1998.*

## Films to Rent

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### *Amazon.com and the World of E-Commerce*

The first part of this program, filmed before the dot com bust, looks at Amazon.com and Drugstore.com to see how they developed their competitive strategies. The second part examines the rise of dot coms and their affect on society.

www.films.com  
29 minutes each  
Item: **BVL10069**  
Format: **VHS**  
List Price: **\$89.95**

### *Adaptation and Innovation: Japanese Technology*

This film explores how the Japanese have learned from the West and in many cases overtaken their teachers. It focuses on the semiconductor industry.

www.films.com  
30 minutes  
Item: **BVL2013**  
Format: **VHS**  
List Price: **\$89.95**

### *Achieving Competitive Advantage: Neutralizing Competition*

This film discusses core concepts in building a coherent strategy of competitive advantage in a volatile business environment.

Item: **BVL10805**  
Format: **VHS**  
List Price: **\$149.95**  
Rental Price: **\$75.00**

## Cases Relevant to This Chapter

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Mrs. Gooch's

Franchising a Dying Business

Beanos Ice Cream Shoppe

Highland Dragon

Roland International Freight Service

## Answers to Issues to Consider

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1. *Considering the framework presented in the chapter, what do you believe are the two most important industry factors, and why?*

Here students will have varying opinions on whether carrying capacity, uncertainty, complexity, or industry evolution has the more important impact on a new venture.

2. *Which primary and secondary information will tell you if the industry is growing and favorable to new entrants?*

Revenues, profit levels, number of employees, and volume of products are some measures of growth in an industry.

3. *What kind of information can suppliers and distributors give you?*

Suppliers and distributors can tell you about the industry and the customer—who they are, when they buy, and how much they buy. They can also help you understand how the distribution channel works.

4. *How will you decide on an entry strategy to an industry? What factors will you consider?*

Your entry strategy will depend on barriers to entry in the industry, such as economies of scale and brand loyalty as well as the five forces suggested by Porter: threat from substitute products, buyers' bargaining power, suppliers' bargaining power, rivalry among existing firms, and technology. It will also be a function of your competitive analysis.

## Suggestions for Experiencing Entrepreneurship

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1. *Choose an industry that interests you. Create a status report using the Internet, Lexis/Nexus, current periodicals, and interviews with people in the industry. In your estimation, is this an industry that has a great potential for new business opportunities? If so, where do those opportunities lie?*

Students should present their industry analysis in a logical format, building a case for industry support of new ventures. This exercise will help students understand the importance of knowing the industry and finding support for new business opportunities.

2. *Interview a producer, a supplier, and a retailer or wholesaler in an industry that interests you. What is their role in the industry? Compare and contrast how they view the status of the industry.*

You might want students to begin by graphically depicting the distribution channel for a specific product or service. Then have students identify a producer, supplier, and retailer along that distribution channel to interview.