ACCT3583

Course Summary

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Seminar 1

ANALYSING THE MACRO-ENVIRONMENT

Includes the general influences that affect an industry.

- **Political-** can be influenced by government debt levels, specific legislation, free trade agreements etc.
- **Economic-** can include gross national product and personal disposable income growth rates, inflation and unemployment etc.
- **Social/cultural-** spotting trends and understanding new attitudes is important for future success
- **Technological-** cloud computing wi-fi etc
- **Environment-** lack of water, water quality and salinity, increasing greenhouse gas emissions, deforestation, global warming and decreasing non-renewable resources are a few of the major problems facing businesses
- **Legal-** food contamination, tobacco and asbestos health suits, chemical leaching etc.
- **International-** suppliers have become increasingly overseas based, due to the reductions of trade barriers, changing foreign exchange rates, differential labour rates and the increased speed and availability of international communicaton of new ideas.
- **Demographic-** key drivers are population growth, plus inflation, plus some real increase in performance

SUMMARISING THE ANALYSIS OF THE MACRO-ENVIRONMENT

The purpose of analyzing the macro-environment is to form a view about the likely future growth rate of the industry and to identify key drivers of that growth:

- Assess each issue identified as having a significant positive or significant negative effect on the growth of the industry, compared with the average growth of industries in general
- Summarise the positives and negatives of all the trends identified, having regard to the relative importance of each factor
- Identify the key opportunities and threats arising
- Write down the summary, listing the major reasons for your conclusion

INDUSTRY ANALYSIS- FIVE FORCES ANALYSIS

An analysis of the impact of the threat of new entrants, suppliers, buyers, substitutes and rivals on profitability in an industry.

- **Threat of new entrants**

Factors that influence the threat of new entrants to the industry include:

- Economies of scale- need for large-scale production in order to be cost-efficient
- Proprietary product differences- where existing products are unique and cannot be replicated, it is difficult to enter the industry
- Brand identity- if existing producers have established their brands, this can be an effective barrier to entry
- Buyer/customer switching costs- difficulties in switching can be a significant barrier to new entrants
- Capital requirements- high capital requirements limit the number of potential new entrants
- Access to distribution- inability to distribute the product can kill even the best products
- Absolute cost advantages- if existing organisations have absolute cost advantages over new entrants, new entry is difficult
- Government policy- remains a barrier in small economy or developing countries
- Expected retaliation- one of the most important barriers to entry in our view is retaliation from existing competitors

- **Bargaining power of suppliers**

Factors that influence the power of suppliers to the industry include:

- Differentiation of inputs- if a suppliers input is crucial to the final product, that supplier will have power
- Switching costs of suppliers and firms in the industry
- Supplier concentration relative to industry concentration- a small no. of suppliers means that the suppliers will have power
- Importance of volume to suppliers- if volume is important, suppliers will be willing to bargain
- Cost relative to total purchases in the industry- if the suppliers cost is a small part of the total cost of supplies, the industry will not be too concerned about it, thus giving suppliers the power to raise prices and increase margins
- Information about suppliers product- if the suppliers product is complex, the industry may have difficulty understanding what they are buying and be wary of substitutes
- Supplier profitability- if suppliers are unprofitable, they will be unable to bargain and are likely to close their best offer at the first opportunity
- Decision makers incentives- gives power to the supplier over the decision makers, regardless of the relative merits of the individual suppliers product
- Threat of forward integration- if suppliers are large organisations then they will have considerable power