

## Chapter 6

# Conduct the Industry Analysis



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### Objectives

- 6-1** Define industry analysis.
- 6-2** Discuss the influence of market size on business planning.
- 6-3** Analyze demographic issues and how they affect the business planning process.
- 6-4** Discuss the role of economic issues in an industry analysis.
- 6-5** Explain how industry trends are important to business planning.
- 6-6** Explain how laws and legal issues impact an industry.
- 6-7** Discuss the impact of ecological issues on an industry.
- 6-8** Discuss how technological issues impact an industry.
- 6-9** Describe barriers to entry into an industry and the factors that make an industry attractive.
- 6-10** Explain the importance of a thorough industry analysis.

## INDUSTRY ANALYSIS

**Industry analysis** is a form of exploratory business research that examines the overall condition of a particular industry. Your industry is made up of the companies providing products and services similar to yours.

It is essential that you, as an entrepreneur, complete an industry analysis as part of the business planning process. You should become an expert in your chosen industry. Understanding and anticipating the various conditions of your industry will form the foundation for success in the future.

### Sources of Information

An industry analysis is no better than the resources used to gather the information. Where does the entrepreneur start such a daunting process?

One of the authors maintains a comprehensive Internet site for use by entrepreneurs preparing a business plan. The site is accessible from the textbook web site and contains industry and company information under the Resource Links section.

Other sources of industry analysis include libraries and library web sites, investment firms, business and trade periodicals, trade associations, government agencies, and numerous others. Talk to people in the same business or industry. Read industry-specific publications. Attend trade fairs and seminars. Gather as much information as possible.

The following are a few major sources of industry information. Use an Internet search engine to locate current electronic addresses.

**Current Industrial Reports from the U.S. Census Bureau** The Census Bureau's Internet site contains a wealth of information. Since 1904, the Current Industrial Reports (CIR) program has provided monthly, quarterly, and annual measures of industrial activity. The primary objective of the CIR program is to produce timely, accurate data on the production and shipments of selected products. CIR surveys measure manufacturing activity in important commodity areas such as textiles and apparel, chemicals, primary metals, computer and electronic components, industrial equipment, aerospace equipment, and consumer goods. These data are used to help formulate economic policy and for market analysis, forecasting, and decision-making in the private sector.



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Table 6-1 is an example of the type of information available about the apparel industry, including business ventures at both the manufacturing and retail levels. The apparel industry was selected here because of its popularity with many entrepreneurs.

**TABLE 6-1 SUMMARY OF PRODUCTION AND VALUE OF SHIPMENTS FOR APPAREL**

Product Description	Year-to-date 2003	
	Quantity (in thousands of units)	Value (in millions of dollars)
Total	1,787,649	11,977.4
Men's and boys' apparel		
Suits	2,045	229.9
Coats	10,404	439.1
Tops	478,824	1,566.8
Bottoms	186,563	2,297.8
Underwear and nightwear	135,316	272.5
Other garments	30,267	382.5
Women's and girls' apparel		
Dresses	56,382	1,188.1
Coats	5,920	154.5
Tops	229,954	1,571.9
Bottoms	181,472	1,817.4
Underwear and nightwear	362,327	1,187.9
Other garments	54,897	670.1
Infants' apparel		
Dresses	1,287	14.3
Sets	1,607	10.1
Pants and shorts	8,179	30.4
Play clothing	6,763	28.7

**Business.com** This resource for entrepreneurial planning covers over 28 industries and provides a directory of industry web sites. Developed by a team of industry experts and library scientists, the directory contains more than 400,000 listings within 25,000 industry, product, and service subcategories. Its stated mission is “to help you, the business professional, find exactly what you’re looking for.”

**Hoover's Online** According to the company web site, Hoover's, Inc. delivers comprehensive company, industry, and market intelligence that drives business growth. Its database lists 12 million companies, with in-depth coverage of 40,000 of the world's top business enterprises. Many college libraries provide Hoover's free to students.

**Reuters Investor** The “Industry Overview” section of Reuters Investor describes key, up-to-date developments in the industry. Information includes industry statistics, price performance, company rankings, news, market capitalization, research reports, and risk alerts.

**Statistical Abstract of the United States** The Statistical Abstract is an excellent resource for the entrepreneur seeking basic statistics on an industry. The Census Bureau has compiled it every year since 1878. The latest edition

contains over 1,400 tables, charts, and graphics. Highlights include a “New Congressional Districts Profiles” section, which contains selected data for each congressional district, such as population, educational attainment, housing, and the newly defined boundaries of the 108th Congress.

Also new in this edition, Appendix II lists the names of new metropolitan and micropolitan areas, current-year population estimates, and trade and employment figures.

**Micropolitan** is a term used to designate areas with at least one urban cluster of 10,000 to 50,000 people, plus adjacent territory that has a high degree of social and economic integration with the core, as measured by commuting ties.

### Thomas Register of American Manufacturers

The Thomas Register has long been recognized as one of the most comprehensive online resources for finding companies and products manufactured in North America. Readers of *Design News* magazine rated the Thomas Register Internet site the number-one site for detailed product, pricing, and supplier information.

More than 173,000 companies, both American and Canadian, are found in Thomas Register in Print and on CD-ROM or DVD. Over 152,000 brand names are also listed in the Thomas Register database. There is no charge for accessing any of the Register information.

**Census Bureau States Initiative** The Census Bureau has an ongoing effort to make economic data and statistics more widely available at the state and local levels.

A good example is the Business and Industry Data Center (BIDC) program for the state of Texas. This program is a cooperative effort between the Census Bureau, the Office of the Governor’s Economic Development and Tourism (ED&T), and the State Data Center at Texas A&M University. State participation in the program requires no direct outlay of state funds. The Census Bureau and the Bureau of Economic Analysis provide data to participants at no cost. Under state law, ED&T is required to share and exchange data and statistics with other agencies and organizations in order to facilitate access by the general public. All the organizations affiliated with the BIDC program maintain a depository of economic data (in print and electronic formats) from the Census Bureau and the Bureau of Economic Analysis.

Check with your state government to determine if it is cooperating with the Census Bureau to provide economic data and statistics for entrepreneurial use. If it is, the site could prove a valuable resource when completing an industry analysis.



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## Components of an Industry Analysis

A comprehensive industry analysis consists of ten components.

### FUN FACTS

The weight of all the plastic bags used by dry cleaners and disposed of annually in New York City is almost 3 million pounds. Great market if you're selling disposable plastic garment bags!

1. market size
2. competitive analysis
3. demographic issues
4. economic issues
5. industry trends
6. laws or legal issues
7. ecological issues
8. technology issues
9. barriers to entry in the industry
10. factors that make the industry attractive

If the list above seems intimidating, do not let that bother you. Starting a business *should* be intimidating. Consider your potential investment of time and money. But time invested now in an industry analysis will save you time and money in the future. Most small business experts point out that the better you know your industry, the better your company's chance of success.

The competitive analysis is that component of the industry analysis in which you quantify and qualify the competition. The competitive analysis occupies such an important place in planning a new business that the next chapter is devoted entirely to that activity.

## MARKET SIZE

What is the size of your industry in terms of revenue and number of firms? You should gather information about the local market, state market, and national market. If the market is small, it is less likely that you will attract big new competitors. A large market, on the other hand, often draws the attention of major national competitors.

Market growth rate at the local, state, and national levels is also of interest to entrepreneurs. A rapid growth rate encourages new business entrants. If the growth rate is slow, competition will be much stronger and weak companies will fall by the wayside.

Where does the entrepreneur start the search for information? Start with the wine industry as an example. Go to a major Internet search engine and type in "wine statistics." It will likely bring up over 20 pages of potential information links. If you enter the name of any one of hundreds of industries, the results will no doubt be similar.

Continuing with the wine industry example, click on a site that seems interesting. The site should also appear to have official or other legitimate status. Beware of sites created and maintained by individuals with no association to the industry other than personal interest.



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It quickly becomes evident that the state of California is the largest producer of wine in the U.S. Perhaps, then, a California Internet site would be a good place to start. Further research yields the “Wine Institute” site, which bills itself as “The Voice of California Wine” and yields some interesting market size data.

Table 6-2 lists the total wine consumption per U.S. resident from 1982 to 2002. It also shows the total gallons of wine consumed during the same time period and its retail sales value.

What does the table tell you about market size? First, if you know the amount of wine consumed nationally per person, you can use that information to compute the wine consumption in your state and community. When you factor in the data showing wine sales, you can determine the revenue value of consumption and the market revenue growth rate. For example, in 1999 wine consumption per person in the U.S. was 2.02 gallons. The market growth rate between 1999 (\$18.1 billion) and 2002 (\$21.1 billion) was 16.57 percent. That represents an average yearly growth rate of over 5 percent in sales. The industry is obviously growing.

As you work your way through your industry analysis, make sure to record all the information you discover. It is also a good idea to make a note of or “bookmark” Internet sites of interest. You may need to revisit them later to answer questions about your chosen industry.

**TABLE 6-2 WINE CONSUMPTION & SALES IN THE U.S. 1982–2002**

Year	Wine Consumption per Person	Total Gallons Consumed	Retail Sales
2002	—	595 million	\$21.1 billion
2001	—	561 million	\$19.8 billion
2000	—	558 million	\$19.0 billion
1999	2.02 gals.	551 million	\$18.1 billion
1998	1.95 gals.	526 million	\$17.0 billion
1997	1.94 gals.	520 million	\$16.1 billion
1996	1.89 gals.	500 million	\$14.3 billion
1995	1.77 gals.	464 million	\$12.2 billion
1994	1.77 gals.	459 million	\$11.5 billion
1993	1.74 gals.	449 million	\$11.0 billion
1992	1.87 gals.	476 million	\$11.4 billion
1991	1.85 gals.	466 million	\$10.9 billion
1990	2.05 gals.	509 million	\$11.7 billion
1989	2.11 gals.	524 million	\$11.3 billion
1988	2.24 gals.	551 million	\$11.0 billion
1987	2.39 gals.	581 million	\$11.2 billion
1986	2.43 gals.	587 million	\$11.4 billion
1985	2.43 gals.	580 million	\$10.8 billion
1984	2.34 gals.	555 million	\$9.7 billion
1983	2.25 gals.	528 million	\$9.1 billion
1982	2.22 gals.	514 million	\$7.3 billion

## DEMOGRAPHIC ISSUES

The entrepreneur should pay careful attention to the targeted population and demographic issues affecting it. **Demographics** are defined as characteristics of a population as classified by age, sex, income, and other factors for market and other forms of research.

Changes and/or trends in demographics can have dramatic effects on business. For planning purposes, the entrepreneur should research (at a minimum) changes in age, gender, income, educational levels, race, marital status, and other trends. If other demographics are relevant to a particular industry, they should also be investigated.

### Age

Age is an important demographic issue. For instance, consider the largest age group in the U.S. today. Baby boomers (the 77 million Americans born between 1946 and 1964) are radically changing the age mix. In the late 1990s, the baby-boom group defined the United States' age configuration. Each year the population gets older, primarily because of the aging of this huge group.



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Over the next three decades, most baby boomers will reach retirement age, causing rapid growth of the population over age 65. According to the Census Bureau, by 2025 the age structure of the population will change noticeably. As a result of declining birth rates and increasing longevity, the percentage of those 65 years or older in the U.S. rose from approximately 8.2 percent in 1950 to approximately 12.6 percent today.

By 2025, according to

“Government Spending in an Older America” (Population Reference Bureau), some 20 percent of Americans will be over the age of 65.

According to the United Nations, one out of every 10 persons in the world is now 60 years or older. By 2050, one out of five will be 60 years or older, and by 2150, one out of three. In 2000 there were an estimated three women for every two men age 65 or older, according to “Elderly Americans,” a new publication of the Population Reference Bureau. The gender ratio is even more skewed among the oldest-old. At ages 85 and older, the ratio is 41 men to 100 women. The preponderance of women among the elderly reflects the higher death rates for men than women at every age.

The aging of the U.S. population should be closely monitored by entrepreneurs with an eye to its potential impact on business. Few businesses will escape this impact. Some will cease to exist because they ignore the trend. Others will prosper because they are paying attention.

## Gender

Women's spending power and pressure on the marketplace have grown considerably. As a result, women have become more influential, better-educated consumers. They have different buying habits than men, and they view and process advertisements differently. In many important ways, women are different consumers than men and must be treated so.

Regardless of what you are selling, keep women in mind. You need to understand and take advantage of this significant market sector. Here are some useful facts about women consumers.

- More than 80 percent of women aged 25 to 44 work at full- or part-time jobs.
- Roughly 22 percent of working wives earn higher incomes than their husbands, and women make up nearly half of all adults with a net worth of \$50,000 or more.
- Approximately 50 percent of business travelers are now female. This has made a significant difference to the travel industry as it adapts to the change.
- Women buy 80 percent of household goods and are increasingly responsible for buying bigger items such as houses and cars.
- Women purchase or influence the purchase of 80 percent of all consumer goods, including stocks and computers.
- Women instigate the decision to buy cable in 74 percent of households and sign up for pay channels in 78 percent.
- Women aged 45 to 64 spend more than \$21 billion annually on clothes and more than \$5 billion on beauty products.
- By 2010, women are expected to control \$1 trillion, or 60 percent of the country's wealth, according to research conducted by *Business Week* and Gallup.
- Almost three-fourths of women in the labor force are concerned about the conflicts between work and home. Implications for marketers of consumer products are enormous.

Business from both an ownership and consumer perspective is no longer the exclusive domain of men. Take Dallas, Texas, for example. According to the Center for Women's Business Research, there are almost 90,000 majority-owned, privately held firms owned by women in Dallas. These firms represent approximately 28 percent of all privately held firms in the metropolitan area. They employ over 144,000 people and account for over \$19.9 billion in sales.

When it comes to women entrepreneurs, not all states are created equal. The top states for women are all in the western U.S.



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According to a new study by the Center for Women's Business Research, the top five states in the nation for growth and expansion of women-owned businesses are Idaho and Wyoming (tied for first place), Utah, Nevada, and Arizona. Between 1997 and 2002, on average, the number of women-owned businesses in these five states grew at more than twice the rate of the rest of the country, an average of 28.8 percent, compared to 14.0 percent for all other states.

The Small Business Administration has developed a special online site for women, the *SBA Online Women's Business Center*. According to the site, "America's 9.1 million women-owned businesses employ 27.5 million people and contribute \$3.6 trillion to the economy—yet women continue to face unique obstacles in the world of business. The U.S. Small Business Administration is doing more than ever to help level the playing field for women entrepreneurs, and the SBA's Office of Women's Business Ownership is leading the way."

## Income

Research on the income level of your target market—per capita income, average family income, and so on—is critical to the planning of your new business.

As an example, take an entrepreneur who would like to start a franchised car repair service in Grand County, Utah. The area is full of beautiful terrain visited by hikers and tourists from all over the world. In addition to the other



## The Global ENTREPRENEUR

According to the U.S. Department of Commerce's International Trade Administration, U.S. exports of goods and services rose \$2.2 billion to \$88 billion in October 2003 and imports increased \$2.7 billion to \$129.7 billion. Business in the world marketplace is growing.

Global entrepreneurs wanting a piece of the world's business pie should be extremely careful. They are not exempt from the industry analysis process. If anything, they should pay even more attention to their research.

Just as there are sources of information about U.S. industries, there is also information about internationally based industries.

The *Encyclopedia of Global Industries* presents the history, development, and current conditions of "125 business sectors of global significance." It profiles industry leaders and lists the major countries involved in an industry.

The *Handbook of North American Industry: NAFTA and the Economy of Its Member Nations* presents data provided by the Canadian, Mexican, and American governments. Part II provides detailed, 10- to 15-page descriptions of 31 industries, including statistical data.

### Think Critically

What country is the top trading partner of the U.S.? Can you name at least one difference between the two countries in the way they do business?

components of the industry analysis, income is very important. What is the median household income in the area? What are the retail sales per capita? Sample information for Grand County, Utah, is presented in Table 6-3. By examining income demographics, the entrepreneur gathers information that will affect such factors as merchandising and pricing for the new business.

## Educational Level

Should the entrepreneur be concerned with the educational level of targeted consumers? The wise entrepreneur is.

Educational levels have changed considerably in the past 30 years. According to the Census Bureau, the percentage of the population aged 25 and over with less than a high school diploma declined from 44 percent in 1970 to 17 percent in 1998. Within the same period, the percentage of adults who completed at least some college has more than doubled, from 22 percent to 58 percent. The number of Americans 25-plus with a bachelor's degree or higher is now estimated at slightly less than 25 percent. Although the trend has slowed somewhat in recent years, the change in America's literacy level has been exciting to follow.

By examining the educational demographics in Table 6-3, the entrepreneur can gain information useful for such things as promotional activities and customer service.

**TABLE 6-3 SELECTED DEMOGRAPHICS FROM THE U.S. CENSUS BUREAU FOR GRAND COUNTY, UTAH**

Population	8,633
Percent persons 65 years and older	12.5%
Percent female persons	50.9%
Percent white persons	92.6%
Percent American Indian persons	3.9%
Percent Hispanic or Latino origin persons	5.6%
Percent high school graduates 25+	82.5%
Percent bachelor's degree or higher 25+	22.9%
Housing units	4,062
Home ownership rate	71%
Median value of owner-occupied housing units	\$112,700
Persons per household	2.44
Median household money income	\$32,387
Per capita money income	\$17,356
Persons below poverty level	14.8%
Retail sales per capita	\$9,506
Persons per square mile	2.3

## Race

Many believe that racially based marketing is a fad. But most experts agree that, as the racial makeup of the country changes, so should marketing strategy. Entrepreneurs should determine for themselves if race is a demographic with potential business implications.

Other facts may further reveal the way Americans view race. For the first time, the 2000 census made it possible for people to identify with more than one race. The Census Bureau provided this option because of the rising rates

of interracial marriage and the growing number of people who view themselves as members of multiple races. Children and people from minority groups are more inclined to do so.

Of the 281.4 million people included in the 2000 census, approximately 6.8 million identified with multiple races. About 4 percent of children were identified as multiracial, compared with 2 percent of adults.



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Some specific racial changes reported by the Census Bureau are worthy of note. For instance, the Hispanic population in the U.S. gained about 13 million people between 1990 and 2000. That 58 percent increase makes the Hispanic population more or less equal in size to the black population.

More recent research reveals that 193,000 Hispanic households have an annual income over \$100,000. Between 2000 and 2003, Hispanic Americans increased spending by 15.5 percent. The annual buying power of Hispanics is \$270 billion, a 150 percent growth since 1996.

Are racial demographics important to entrepreneurs? You bet they are. To ignore the business implications of the changing statistics is to ignore very important consumer purchasing trends.

## Marital Status

For many entrepreneurs marital status is an important demographic. Consider some of the facts revealed by cursory research.

Americans are less inclined to marry today. Between 1975 and 2002, the percentage of Americans who had never married increased from about 24 percent to approximately 29 percent. There are an estimated 86 million single adults in the U.S. today, and unmarried adults head nearly half the nation's households.

According to the National Marriage Project at Rutgers University, whites and Asians are most likely to be married. Black men and women are least likely to be married. The Northeast has the lowest percentage of married people (52.7 percent) and the highest percentage of those never married (29.3 percent).

Views of what most consider the traditional family are changing, despite television commercials and magazine ads to the contrary. By 2002, only 7 percent of all U.S. households consisted of married couples with children and with the husband working and the wife staying home. Two-income families with children were more the norm.

Many consumer products are marketed to married couples. Many are marketed to singles. It is important to understand marriage demographics.

## Demographic Trends

The entrepreneur researching demographics will no doubt uncover numerous trends. For instance, the size of American homes has been changing. Between 1970 and 2000 the average size of a new single-family home increased from 1,500 square feet to over 2,200 square feet. During the same period, the average household size declined from 3.1 to 2.6 people per household.

**Cocooning** is the tendency of people to create a home retreat and then stay there. The home is designed as a stress-free zone, a safe haven from the outside world. Consumer purchases associated with cocooning include elaborate homes, big-screen televisions, saunas, gourmet kitchens, and extensive landscaping.

**Hiving** involves people without children who seek an in-city environment. This urban trend puts people in the center of activities with city amenities just out the front door. In a recent market research survey, about two-thirds of the respondents identified themselves as “hivers” and one-third as “cocooners.”

In another trend, Census Bureau statistics show that Houston, Seattle, Chicago, Denver, Portland (OR), Atlanta, Memphis, and San Diego all experienced greater increases in their downtown populations than in their entire urban areas over the past decade. Other major cities are also reporting growth in their downtown areas.

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## ECONOMIC ISSUES

Entrepreneurs should research the local economy in which their new business will be located. What is the unemployment rate? Unemployment is important for several reasons. A low level of unemployment, such as 5 percent, may have a positive impact on the new business. It could mean a healthy economy and potentially high sales of the entrepreneur’s product.

A low level of unemployment could also have a negative impact if the entrepreneur must hire employees for the new business. An unemployment rate such as 5 percent could mean a higher pay scale and difficulty finding qualified employees.

Other local issues of economic interest to the entrepreneur include the cost of living index, income levels, and overall economic health of the area. Table 6-4 is an example of economic information available online for a major city in South Carolina.

**TABLE 6-4 ECONOMIC FACTS ABOUT GREENVILLE, SC**

Gross sales	\$78,617,121,000
Cost of living index rate	98.3
Business failure rate	52 per 10,000 concerns
Percent union members in manufacturing	2.9
Right-to-work law	Yes
Leading agricultural products	forestry, poultry, tobacco, cotton, soybeans
Average hourly earnings, manufacturing	\$10.55
Average hourly earnings, all jobs	\$12.53
Median household income	\$26,256 (35th in state ranking)
Number of residents per physician	513
Largest foreign investor country	Germany
Median value of owner-occupied homes	\$61,000
Percent homes owner-occupied	69.8
Average monthly contract rent	\$276

## INDUSTRY TRENDS

A major part of becoming an expert in a given industry is recognizing and even predicting trends. Industry trends can encompass product design, new target markets, new ways of promoting, offshore competition, and numerous other things.



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As an example, the following are some recent trends in the wine industry.

- One of the newest trends is “organic wines,” which are produced using organically grown grapes. No pesticides, herbicides, fungicides, chemical fertilizers, or synthetic chemicals of any kind are allowed on the vines or in the soil. Strict rules govern the winemaking process and storage conditions of all imported and domestic wines that acquire certification. Moreover, organic winemakers often avoid many of the chemical substances used to stabilize conventional wines.
- Another wine trend has to do with corks. Many in the industry think alternative closures should be found for wine bottles, such as screw-top caps and synthetic corks.
- Inexpensive table wine is a popular new trend. One wine creating a new urban legend is Charles Shaw’s \$1.99 table wine, known in local California circles as “Two-Buck Chuck.”
- Because of an overabundance of grapes flooding the wine market from places like Chile, Australia, and New Zealand, the price of grape juice is very low. This allows wineries like Charles Shaw to produce inexpensive wine—an estimated 5 million cases so far. It’s easily outselling more famous brands in California.
- Mead wine is another growing trend in the industry. Mead is honey wine and was the first alcoholic drink that humans learned to brew, earlier than wine or beer. It is once again growing in popularity.

## LAWS AND LEGAL ISSUES

What laws and legal issues may affect your entrepreneurial venture? Do you have a working knowledge of the major laws influencing your industry? Are there any laws on the horizon that might impact your business, either positively or negatively?

Table 6-5 lists and explains many federal laws common to all types of businesses. Not all laws are included here. If in doubt about your specific legal obligations, consult your lawyer.

**TABLE 6-5 COMMON BUSINESS LAWS**

Fair Labor Standards Act (FLSA)	Addresses minimum wage and overtime.
Social Security	Establishes a number of social programs that provide for the material needs of individuals and families.
Federal Insurance Contributions Act (FICA)	Includes two separate taxes: social security and Medicare. Taxes are paid by both employer and employee (withheld from wages).
Equal Pay Act (EPA)	Prohibits discrimination in pay on the basis of sex where jobs are performed under similar conditions and require equal skill, effort, and responsibility.
Immigration Reform and Control Act (IRCA)	Requires employers to verify that applicants for employment are authorized to work in the U.S.
Federal Unemployment Tax Act (FUTA)	Provides workers payments for a given period of time or until they find a new job, if job was terminated through no fault of their own.
Occupational Safety & Health Administration Act (OSHA)	Requires all employers to provide a workplace free from recognized hazards that cause, or are likely to cause, death or serious physical harm to employees.
Title VII Civil Rights Act	Prohibits discrimination in hiring, firing, promoting, compensation, or terms, conditions, or privileges of employment on the basis of race, color, sex, religion, or national origin.
Americans with Disabilities Act (ADA)	Prohibits discrimination in employment on the basis of physical or mental impairments that limit one or more major life activities.
Pregnancy Discrimination Act	Prohibits discrimination in employment based on pregnancy, childbirth, or related medical condition.
Age Discrimination in Employment Act (ADEA)	Prohibits discrimination against individuals over 40 with respect to hiring, compensation, terms, conditions and privileges of employment on the basis of age.
Older Worker Benefit Protection Act (OWBPA)	Amendment to the Age Discrimination in Employment Act that prohibits discrimination with respect to employee benefits on the basis of age.
Regulatory Flexibility Act (RFA)	Requires federal agencies to review regulations for their impact on small businesses and consider less burdensome alternatives.
Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996	Provides new avenues for small businesses to participate in and have access to the federal regulatory arena.
Paperwork Reduction Act of 1980	Requires that all proposed regulations be analyzed for the paperwork they require and that paperwork be reduced to a minimum.
Small Business Paperwork Relief Act of 2002	Institutes a process to make paperwork reduction a serious, on-going effort and make it easier for small businesses to comply with the law.
Consumer Protection Laws	Ensure safety, fair labeling, privacy, and other matters.

What about laws that are not common? Even though the entrepreneur must be aware of the common body of business law, there are laws specific to all industries that are not common knowledge. How do you determine those?

A comprehensive industry analysis is never complete until you have researched the idiosyncratic laws of your own industry. Take the wine industry example. Table 6-6 lists some laws peculiar to that industry. There are many others.

**TABLE 6-6 EXAMPLES OF LAWS AFFECTING THE WINE INDUSTRY**

The body of law concerning interstate shipment of wine varies widely from state to state. For example, it is a felony for wineries to direct-ship wine to the following states:

Florida  
 Georgia (except in compliance with limited direct provision)  
 Kentucky  
 Maryland (except in compliance with special order provision)  
 Tennessee  
 Utah

In these states direct shipments via common carrier is prohibited:

Alabama	New Jersey
Arkansas	New York
Delaware	Ohio
Kansas	Oklahoma
Maine	South Dakota
Massachusetts	Vermont
Michigan	

State laws vary in regard to labeling requirements. (Laws are subject to change and may not be current as of your reading.)

Ignorance of the law is no defense for breaking it. Research all the legal aspects of your proposed industry.

### **FUN FACTS**

Did you coffee drinkers know it takes approximately 4,000 hand-picked Arabica coffee beans to make one pound of roasted coffee? A mature coffee tree produces one pound of coffee per growing season.

## **ECOLOGICAL ISSUES**

During the planning stage, entrepreneurs must determine if there are ecological issues facing the business. Take, for example, an entrepreneur considering opening a retail mountain bike store. The attitude of the general public and/or government entities toward the off-road impact of mountain bikes in wilderness areas could have a significant impact on business. The entrepreneur should keep a close eye on prevailing attitudes. A turn in the wrong direction could spell disaster for the new business.

Ecological issues may be more direct. For an entrepreneur planning to open a restaurant, they might include concerns such as the disposal of used cooking oil.

If ecological issues are overlooked during the planning stage, serious problems may occur. Areas of concern should be identified through research during the industry analysis, not later by a local health official or other government employee.

## TECHNOLOGY ISSUES

Entrepreneurs also need to carefully research any technological issues facing the industry. Is there a product innovation on the horizon that will make your product obsolete? Is a new manufacturing technology being developed that will make your way of doing things less cost-effective?

Take the example of the mountain bike industry. What are some of the technological issues impacting it? A cursory examination of industry information reveals new technology in suspension frame design. Other advances involve cantilever brakes, use of titanium in frames, carbon fiber “shock-absorbing” seat posts, more gears (some bikes have as many as 27), advances in sprocket technology that make changing gears easier, shift levers that automatically go up or down one gear at a time, and new brakes, including hydraulic disc brakes. If you were starting a mountain bike retail store, would you be interested in these advances? How about the latest developments in folding bike technology?

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As you can see, if the mountain bike entrepreneur does not keep up with technology changes, the store might end up with an inventory of antiquated, old-tech bikes.

Investigate technological changes in your industry. You will never be perceived as an expert without this very important piece of product knowledge.

## INDUSTRY BARRIERS AND ATTRACTIONS

When considering a new business venture, entrepreneurs should examine any factors that may make it difficult to enter an industry as well as factors that make the industry particularly attractive.

### Barriers to Entry into the Industry

Are there barriers that may stand in your way, and are those barriers insurmountable? For example, what is the level of competition? Who are your competitors, and how are they likely to respond to another entrant? If they are well established, well funded, and have high visibility, their reaction to your entry into the industry could be a very aggressive opposition. Careful planning will be required to offset it.

Is the industry too crowded already? For instance, if you are planning to start a health food store in a small city of 40,000 people, you need to know how many health food stores already exist. Your research should include the approximate number of people it takes to keep a health food store in business. You should then compare the size of the city to the number of stores already in business, including your planned one.

What start-up costs are required to open a new business and compete in the industry? Some businesses are a lot more expensive to start than others. If you intend to start a small consulting business, you may do it from the extra





## Small Business Technology

When doing any business research, try the indexes and databases available online through most libraries. One good example is *Business Source® Premier*. Designed specifically for business schools and libraries, it contains full-text articles from over 3,500 scholarly journals and business periodicals. Topics include management, economics, finance, accounting, international business, and many others.

bedroom in your home for very little up-front capital. If, however, you plan to start a small company to manufacture snowshoes, the initial capital requirements can be considerable.

Is the required equipment available? For a consulting business, basic office equipment is available from any number of sources and obtainable on short notice. A snowshoe manufacturer, though, may require a complex plastic injection-molding machine that has to be specially built and cannot be delivered for months. The wait and the expense could present a formidable barrier to entry.

Are the necessary product vendors available, and will they do business with a new company? This is one area of planning often overlooked by entrepreneurs, especially those opening retail stores. For instance, just because you plan to sell snow skis and accessories does not mean snow ski manufacturers will be willing to do business with you. Your business skills are probably limited and you have no proven track record in sales. How can they be sure you will pay your bills? Many are not willing to risk new retail customers. Checking out and contacting potential product vendors during the industry analysis is a good idea.

Many factors can make entry into a specific industry difficult or undesirable. Those described above are only a few of the barriers. Spend some time brainstorming those specific to your chosen industry.



## Ethics for ENTREPRENEURS

Madison Reeder is planning to buy a vineyard and open a winery. She has done extensive research and has chosen to locate her business in the Grand Valley area of western Colorado.

Colorado is a nationally recognized wine region. Currently, it has an estimated 400 acres of vineyards and 40-plus licensed commercial wineries with more than \$5 million in sales. The quality of the grapes that can be grown in Colorado meets Madison's requirements for producing a high-quality product. She has a dilemma, though.

Madison wants to label her wine "organic." Only one other Colorado winery is producing organic wine, so she feels she can use the designation to create a competitive advantage. Organic wine is made with grapes grown without chemical fertilizers, weed killers, insecticides, or other synthetic chemicals. Wine labeled 100 percent organic cannot have added sulfites, typically used as a preservative.

Madison is aware of the controversy about what "organic" means. The Department of Agriculture has several categories for the term: "100 percent organic," "organic," and "made with organic ingredients." If she decides to go with the third designation, her wine can consist of up to 30 percent non-organically-produced ingredients. An advisor from the California wine industry tells her that the average wine consumer does not know the difference between the three categories.

### Think Critically

1. What marketing advice would you give Madison?
2. Do you think she should rely on the consultant's advice? If she does, do you think the approach is ethical?

## Factors that Make the Industry Attractive

While researching the industry, you should discover several compelling reasons for going ahead with the planned start-up of your new business. If you do not, you may need to revisit your decision.

Starting a business from scratch can be both expensive and time consuming. Typical small-scale entrepreneurs invest their life savings in businesses that require 60 to 80 hours a week of their time. Their reasons for doing so must be obvious and compelling. They may not seem so important before the doors of the new business are opened, but after about six months of 80-hour weeks, they become an absolute necessity.

Also, putting in writing the factors that make the industry attractive can be a powerful motivator to complete the planning process and get the business under way. These factors perform the same function as the carrot does for the donkey. They keep you putting one foot in front of the other until the job is done.

## IMPORTANCE OF THE INDUSTRY ANALYSIS

As an entrepreneur, you can demonstrate expertise in your chosen industry with the amount of detail you provide in each component of your industry analysis. Take your time and do the required research. The more you know about the intended industry, the stronger your business plan will be.

If you use your business plan to secure traditional bank financing or to convince people to invest, keep in mind that it will be read by any number of outsiders. As they read this section of the business plan, they will make judgments regarding your expertise. Make sure they have adequate information on which to base those judgments.

Ideally, all ten components should be addressed in the industry analysis. In reality, however, time may be at a premium and that may not be possible. In that case, try your best to include the first five. These components are absolutely critical to all entrepreneurial ventures. Then, as time allows, choose components from the second five that are most important to the new business venture.

Whatever happens, do not skip over this section of the business plan. The industry analysis is your best chance at proving you are a knowledgeable entrepreneur who has done the required research to ensure future business success.



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# Chapter Review

## Ship in a BOTTLE

### The Industry



Fred knew the best place to research an industry was at trade shows. In addition to setting up an exhibit in Atlanta to test his product, he did some research. The general gift industry was huge. The Atlanta Gift Mart had 650 permanent and almost 500 temporary exhibitors, representing about 3,000 manufacturers. Most exhibitors also exhibited in other

regional shows. Nationally over 1 million visitors shopped these shows each year. To Fred these were mind-boggling statistics. He knew he had to narrow his research to a more manageable target.

He defined his industry as two segments of the general gift industry: nautical gifts and collectible gifts. At the Atlanta show 114 exhibitors offered nautical gifts, and over 150 showed collectible gifts. Fred visited each exhibitor and learned that many sold inexpensive souvenirs, many represented the same manufacturers, and a few extended the term “nautical” to include anything with a fish or seashell design. The collectible gifts ranged from hand-painted porcelain to imported dolls.

Fred’s final tally was 55 true nautical gift sellers who offered quality products to nautical gift stores, including ship models, lighthouses, brass items, plaques, stationery, and other decorative items for the home. Thirteen collectible exhibitors sold one-of-a-kind nautical pieces, primarily to museum stores. The only sellers of ships in bottles were a few souvenir companies offering very inexpensive models.

This was a good start, but further research lay ahead. Fred exhibited in a smaller, more regional show in Miami. Many, but not all, of the Atlanta true nautical exhibitors were present. There was also a large contingent of Far East importers who had missed the Atlanta show. Several were showing in the U.S. for the first time and exhibited good ship models and brass pieces. Fred was still the only exhibitor of ships in bottles. The Miami show was not as successful for Fred as the Atlanta show because of its smaller size and the low-priced imports.

Fred attended an East Coast museum-store trade show next. Over 60 museum stores were in attendance, 12 of which had a nautical theme. Fred opened six accounts at that show.

Fred’s research was giving him a good conceptual view. Nautical gift stores bought from about 50 distributors. Museum gift stores were more particular and bought from collectible sellers and higher-end nautical gift distributors. Importers would play a larger competitive role in the industry as trade barriers were eliminated. The industry had few entry barriers, many sellers, and only a handful of large manufacturers.

### Think Critically

1. What other sources of information can Fred research to learn more about the industry? What demographics should he study?
2. Is there anything the gift industry should be doing to protect itself against the rising number of low-price imports?

## Summary

Industry analysis is a form of exploratory business research that examines the overall condition of a particular industry. Your industry is made up of the companies providing products and services similar to yours.

A typical analysis includes the following components.

1. Market size: revenue and number of firms; information on local, state, and national markets
2. Competitive analysis: quantifying and qualifying the competition
3. Demographic issues: targeted population and demographic issues that affect it, such as age, gender, income, educational levels, race, marital status, and others
4. Economic Issues: local economy (unemployment rate, cost of living index, income levels, overall economic health)
5. Industry trends: product design, promotion, target markets, offshore competition, and others
6. Laws or legal issues: current and potential laws that may affect the business positively or negatively
7. Ecological issues: aspects of the business that may have an environmental impact
8. Technology issues: product innovations, new manufacturing technologies
9. Barriers to entry in the industry: level of competition, start-up costs, equipment availability, lining up product vendors
10. Factors that make the industry attractive: compelling reasons for starting up the new business

There are many sources of industry analysis, including library sites, investment firms, business and trade periodicals, trade associations, government agencies, and numerous others. Talk to people in the same business or industry. Research industry-specific publications. Attend trade fairs and seminars. Gather as much information as possible to enhance your image as an expert.

What is the market size? What is the size of your industry in terms of revenue and number of firms? The competitive analysis is that part of the industry analysis in which you quantify and qualify the competition.

Pay careful attention to the targeted population and any demographic issues affecting it. Demographic issues ultimately have an impact on most businesses.

Researching the local economy is another crucial task. What is the unemployment rate? Other local issues you need to explore are the cost of living index, income levels, and the overall economic health of the area.

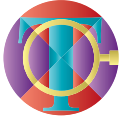
A major part of becoming an expert in a given industry is learning to recognize and even predict trends. Industry trends can include product design, new target markets, new ways of promoting, offshore competition, and many other things.

What laws and legal issues may affect your business venture? Do you have a working knowledge of the major laws that impact your industry, both currently and in the future?

Are there any ecological and technological issues facing the industry? Do any other barriers stand in the way of the success of your business? As you do your research, you should discover several compelling reasons to go ahead with your plans and start your new business.

# Chapter Review

## A Case in POINT



Charles and Melissa Taft, both in their mid-fifties, have enjoyed long and successful careers as restaurant entrepreneurs. They have just sold their nationwide chain of restaurants and for the first time in their lives don't have to worry about money.

Over the years, whenever they felt stressed with the day-to-day pressures of running the business, the Tafts would spend a long weekend at some small bed-and-breakfast inn. After years of staying at different B&Bs, the couple feels they have a good knowledge of the business.

Now that money is no object, they have decided to start a B&B of their own, in a small scenic community on the coast. They want the business to be a size they can manage themselves. It will be more of a hobby than a business. They do, however, want it to be profitable and competitive.

After exhaustive research, they have located a B&B for sale near Pawley's Island, South Carolina, and one on the Georgia coast near Savannah. Now they must do more targeted research on the two locations. Having purchased options on both properties, they have 30 days to make a final decision.

### Think Critically

1. How would you advise the Tafts to start their analysis of the bed-and-breakfast industry?
2. Should the Tafts be concerned with the number of other B&Bs in the two areas? Which of the two locations has the most B&B competition?
3. Should the Tafts be concerned with trends in the B&B industry? Can you identify at least one trend?

## Vocabulary Builder

Write a brief definition of each word or phrase.

1. Business.com
2. Census Bureau States Initiative
3. cocooning
4. Current Industrial Reports
5. demographics
6. hiving
7. Hoover's Online
8. industry analysis
9. micropolitan
10. Reuters Investor
11. Statistical Abstract of the United States
12. Thomas Register of American Manufacturers

## Review the Concepts

13. Why is industry analysis important to the planning process?
14. What is the primary objective of the Census Bureau's Current Industrial Reports?
15. How can an entrepreneur research market size and growth?
16. Which major demographics should be researched during the industry analysis process?
17. How has the education level in the U.S. changed over the past 30 years?
18. How did the reporting of race change during the 2000 census?
19. What is the importance of unemployment trends to entrepreneurs?
20. Describe at least five laws that may affect an industry.
21. Why are ecological issues important to entrepreneurs?
22. Why are technological issues important to entrepreneurs?
23. What are some of the barriers to entry in industries?
24. Summarize the importance of an industry analysis in business planning.

## Critical Thinking

25. In your opinion, why should global entrepreneurs pay even more attention to their industry analysis than domestic entrepreneurs do?
26. In Table 6-2, what basic fact is evident concerning the wine industry?
27. How do age demographics affect entrepreneurial decisions?
28. Compare the demographic trends of cocooning and hiving.
29. What are the likely consequences of skipping the industry analysis when planning a business?

## Project

### Build Your Business Plan



As an aspiring entrepreneur, you should give thought to the need to be perceived as an expert in your chosen industry. Remember, a well-done industry analysis is the first step in becoming an expert.

1. Choose at least 7 of the 10 industry analysis components and start the research process. As you uncover information relevant to your particular business, record the highlights for use in completing your business plan.
2. File the information according to the major headings of the business plan laid out in Chapter 2.