CHAPTER FOUR

Market/Submarket Analysis

The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.
—Warren Buffett

Be where the world is going.
—Beth Comstock, Vice Chair, General Electric

Find a niche, not a nation.
—Seth Godin, Marketing Visionary

Market analysis builds on customer and competitor analyses to make strategic judgments about a market (and submarket) and its dynamics. Should a firm invest, and what should the level of commitment be? Or should it disinvest? One of the primary objectives of a market analysis is to determine the attractiveness of a market (or submarket) to current and potential participants. Market attractiveness, the market's profit potential as measured by the long-term return on investment achieved by its participants, will provide important input into the product-market investment decision. The frame of reference is all participants.

A second and related objective of market analysis is to understand the dynamics of the market. It informs the investment decision, but also sheds light on what it would take to be a winner in the space. The need is to identify emerging submarkets, key success factors, trends, threats, opportunities, and strategic uncertainties that can guide information gathering and analysis. A key success factor is an asset or competency that is needed to play the game. If a firm has a strategic weakness in a key success factor that isn't neutralized by a well-conceived strategy, its ability to compete will be limited.

DIMENSIONS OF A MARKET/SUBMARKET ANALYSIS

The nature and content of an analysis of a market and its submarkets will depend on context but will often include the following dimensions: