available, and when the customer can integrate backward and make all or part of the product. Thus, tire manufacturers face powerful customers in the automobile firms. Soft-drink firms sell to fast-food restaurant chains that have strong bargaining power. Walmart has enormous power over its suppliers. It can dictate prices and product specifications; if companies resist, there is an Asian supplier that will comply. Walmart is the leading seller of practically all appliances. Because approximately 15 percent of all Procter & Gamble sales go through Walmart (a proportion that approaches 30 percent for some categories), even P&G is subject to customer power.

Supplier Power

When the supplier industry is concentrated and sells to a variety of customers in diverse markets, it will have relative power that can be used to influence prices. Power will also be enhanced when the costs to customers of switching suppliers are high. Thus, the highly concentrated oil industry is often powerful enough to influence profits in customer industries that find it expensive to convert from oil. However, the potential for regeneration whereby industries can create their own energy supplies, perhaps by recycling waste, may have changed the balance of power in some contexts.

COST STRUCTURE

An understanding of the cost structure of a market can provide insights into present and future key success factors. The first step is to conduct an analysis of the value chain, presented in Figure 4.4, which shows the steps in the production and delivery of an offering that add value. As suggested in Figure 4.4, the proportion of value added attributed to one value chain stage can become so important that a key success factor is associated with that stage. It may be possible to develop control over a resource or technology, as did the OPEC oil cartel. More likely, competitors will aim to be the lowest-cost competitor in a high value-added stage of the value chain. Advantages in lower value-added stages will simply have less leverage. Thus, in the metal can business, transportation costs are relatively high, and a competitor that can locate plants near customers will have a significant cost advantage.

It may not be possible to gain an advantage at high value-added stages. For example, a raw material, such as flour for bakery firms, may represent a high value added, but because the raw material is widely available at commodity prices, it will not be a key success factor. Nevertheless, it is often useful to look first at the highest value-added stages, especially if changes are occurring. For example, the cement market was very regional when it was restricted to rail or truck transportation. With the development of specialized ships, however, waterborne transportation costs dropped dramatically. Key success factors changed from local ground transportation to production scale and access to the specialized ships.

Production Stage	Markets That Have Key Success Factors Associated with the Production Stage
• Raw material procurement	• Gold mining, winemaking
• Raw material processing	• Steel, paper
• Production fabricating	• Integrated circuits, tires
• Assembly	• Apparel, instrumentation
• Physical distribution	• Bottled water, metal cans
• Marketing	• Branded cosmetics, liquor
• Service backup	• Software, automobiles
• Technology development	• Razors, medical systems

Figure 4.4 Value-Added and Key Success Factors

DISTRIBUTION SYSTEMS

An analysis of distribution systems should include three types of questions:

- What are the alternative distribution channels?
- What are the trends? What channels are growing in importance? What new channels have emerged or are likely to emerge?
- Who has the power in the channel, and how is that likely to shift?

Sometimes the creation of a new channel of distribution can lead to a sustainable competitive advantage. The growth of regional airports in Europe allowed discount airlines such as Ryan Airlines and Easyjet to exploit deregulation to create cheap flights across the continent. Amazon has radically changed many categories and has recently decided to disrupt the furniture category.

An analysis of likely or emerging changes within distribution channels can be important in understanding a market and its key success factors. The increased sale of wine in supermarkets made it much more important for winemakers to focus on packaging and advertising. The consolidation of department stores meant that clothing brands had fewer retailers through which to sell their products

MARKET TRENDS

Often one of the most useful elements of external analysis comes from addressing the question, what are the market trends? The question has two important attributes: it focuses on change and it tends to identify what is important. Strategically useful insights almost always result. A discussion of market trends can serve as a useful summary of customer, competitor, and market analyses. It is thus helpful to identify trends near the end of market analysis.

While the soft-drink market stagnated in the United States, sales of noncarbonated beverages grew sharply and sales of herb- and vitamin-fortified beverages exploded. Not surprisingly, the major soft-drink companies sought to obtain a position in these trendy categories. Reports that dark chocolate is heart-healthy has increased sales in the confectionary market and spawned new products involving dipped fruits and nuts. Chocolate makers scrambled to redo their lines and create novel and value-creating new products.

Trends versus Fads

It is crucial to distinguish between trends that will drive growth and reward those who develop differentiated strategies and fads that will only last long enough to attract investment (which is subsequently underemployed or lost forever). Schwinn, the classic name in bicycles, proclaimed mountain biking a fad in 1985 with disastrous results to its market position and, ultimately, its