BSVI - Sector & Strategy Guide

Mandatory Analysis:
- Business Model Analysis
- Competitive Structure of the Industry (5 Forces)
- PEST Analysis
- Strategic Grouping Analysis

Optional Analysis:
- Supply Chain Analysis
- Product-Market Matrix

BUSINESS MODEL ANALYSIS

Definition of Business Model

The term business model refers to a company's plan for making a profit. It identifies the products or services the business plans to sell, its identified target market, and any anticipated expenses.
Established businesses should regularly update their business model or they'll fail to anticipate trends and challenges ahead. Business models also help investors evaluate companies that interest them and employees understand the future of a company they may aspire to join.

What is a Business Model

A company isn't just an entity that sells goods. It's an ecosystem that must have a plan in plan on who to sell to, what to sell, what to charge, and what value it is creating. A business model describes what an organization does to systematically create long-term value for its customers.
Successful businesses have business models that allow them to fulfil client needs at a competitive price and a sustainable cost. Over time, many businesses revise their business models from time to time to reflect changing business environments and market demands.

Why is it relevant?

Understanding a business model is at the core of organizational strategy, competitiveness, and business sustainability.
When evaluating a company as a possible investment, the investor should find out exactly how it makes its money. This means looking through the company's business model. Admittedly, the business model may not tell you everything about a company's prospects. But the investor who understands the business model can make better sense of the financial data.

What is a Business Model Analysis?

A business model (BM) analysis explains how companies perform business through an articulated set of activities in order to create and deliver value to stakeholders.
The Activity System (AS) perspective offers a way to understand how value is created since it explains what companies actually do through their activities (link).
BM analysis helps to understand how competitors act in an industry. It is possible to compare BMs that compete in the same industry to understand the differences in how they create and deliver value.

TYPES OF BUSINESS MODELS: SOME EXAMPLES

There are as many types of business models as there are types of business. For instance, direct sales, franchising, advertising-based, and brick-and-mortar stores are all examples of traditional business models. There are hybrid models as well, such as businesses that combine internet retail with brick-and-mortar stores or with sporting organizations like the NBA.
Some companies can reside within multiple business model types at the same time for the same product. For example, Spotify (a subscription-based model) also offers free version and a premium version.

LIST OF TRADITIONAL BUSINESS MODELS

Retailer

A retailer is the last entity along a supply chain. They often buy finished goods from manufacturers or distributors and interface directly with customers. **Example:** Costco Wholesale

Manufacturer

A manufacturer is responsible for sourcing raw materials and producing finished products by leveraging internal labor, machinery, and equipment. A

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manufacturer may make custom goods or highly replicated, mass produced products. A manufacturer can also sell goods to distributors, retailers, or directly to customers. **Example:** Ford Motor Company

Fee-for-Service
Instead of selling products, fee-for-service business models are centered around labor and providing services. A fee-for-service business model may charge by an hourly rate or a fixed cost for a specific agreement. Fee-for-service companies are often specialized, offering insight that may not be common knowledge or may require specific training.
Example: DLA Piper LLP

Subscription
Subscription-based business models strive to attract clients in the hopes of luring them into long-time, loyal patrons. This is done by offering a product that requires ongoing payment, usually in return for a fixed duration of benefit. Though largely offered by digital companies for access to software, subscription business models are also popular for physical goods such as monthly reoccurring agriculture/produce subscription box deliveries.
Example: Spotify

Freemium
Freemium business models attract customers by introducing them to basic, limited-scope products. Then, with the client using their service, the company attempts to convert them to a more premium, advance product that requires payment. Although a customer may theoretically stay on freemium forever, a company tries to show the benefit of what becoming an upgraded member can hold.
Example: LinkedIn/LinkedIn Premium

Bundling
If a company is concerned about the cost of attracting a single customer, it may attempt to bundle products to sell multiple goods to a single client. Bundling capitalizes on existing customers by attempting to sell them different products. This can be incentivized by offering pricing discounts for buying multiple products.
Example: AT&T

Marketplace
Marketplaces are somewhat straight-forward: in exchange for hosting a platform for business to be conducted, the marketplace receives compensation. Although transactions could occur without a marketplace, this business models attempts to make transacting easier, safer, and faster.
Example: eBay

Affiliate
Affiliate business models are based on marketing and the broad reach of a specific entity or person's platform. Companies pay an entity to promote a good, and that entity often receives compensation in exchange for their promotion. That compensation may be a fixed payment, a percentage of sales derived from their promotion, or both.
Example: social media influencers

Razor Blade
Aptly named after the product that invented the model, this business model aims to sell a durable product below cost to then generate high-margin sales of a disposable component of that product. Also referred to as the "razor and blade model", razor blade companies may give away expensive blade handles with the premise that consumers need to continually buy razor blades in the long run.
Example: HP (printers and ink)

Reverse Razor Blade
Instead of relying on high-margin companion products, a reverse razor blade business model tries to sell a high-margin product upfront. Then, to use the product, low or free companion products are provided. This model aims to promote that upfront sale, as further use of the product is not highly profitable.
Example: Apple (iPhones + applications)

Franchise
The franchise business model leverages existing business plans to expand and reproduce a company at a different location. Often food, hardware, or fitness companies, franchisers work with incoming franchisees to finance the business, promote the new location, and oversee operations. In return, the franchisor receives a percentage of earnings from the franchisee.
Example: Domino's Pizza

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Pay-As-You-Go

Instead of charging a fixed fee, some companies may implement a pay-as-you-go business model where the amount charged depends on how much of the product or service was used. The company may charge a fixed fee for offering the service in addition to an amount that changes each month based on what was consumed.

Example: Utility companies

Brokerage

A brokerage business model connects buyers and sellers without directly selling a good themselves. Brokerage companies often receive a percentage of the amount paid when a deal is finalized. Most common in real estate, brokers are also prominent in construction/development or freight.

Example: ReMax

A Single Company can Implement Different Business Models: an example

Consider the vast portfolio of **Microsoft**. Over the past several decades, the company has expanded its product line across digital services, software, gaming, and more. Various business models, all within Microsoft, include but are not limited to:

- **Productivity and Business Processes:** Microsoft offers subscriptions to Office products and LinkedIn. These subscriptions may be based off product usage (i.e., the amount of data being uploaded to SharePoint).
- **Intelligent Cloud:** Microsoft offers server products and cloud services for a subscription. This also provide services and consulting.
- **More Personal Computing:** Microsoft sells physically manufactured products such as Surface, PC components, and Xbox hardware. Residual Xbox sales include content, services, subscriptions, royalties, and advertising revenue.

A practical guide for Business Model Analysis

https://www.redalyc.org/journal/841/84163124005/html/#f3:~:text=Results%3A A Prescriptive Method for Business Model Analysis

The proposed artefact is a method for business model analysis. It has **three pillars**: **dimension analysis**, **representation of BM**, and **competitive analysis**. First, the dimension analysis examines how a company creates value through its AS.

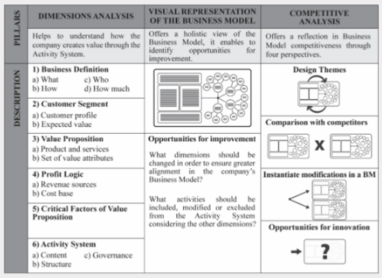

Figure 3
The method proposed

First pillar: dimension analysis

link —> descriptions of the practical questions on the bottom

Dimension analysis may be guided by multiple aspects (see Table 6). We propose some memorable and simple sentences in order to guide the description and characterization of each dimension so it can be used in the visual representation of the BM later (the Second Pillar).

Table 6
Dimensions, aspects, and sentences for descriptions

Dimensions	Aspects	Sentences for descriptions
Business definition	How	How does the business deliver value?
	What	What are the products or services offered?
	Who	Who are the target segments?
	How much	How much will it gain for its products and services?
Customer segment	Customer profile	Age, gender, social class? In case of a company: branch, size, market?
	Expected value	Which are the benefits or problems that customers intend to address or solve with products or services?
Value proposition	Products and services	Which are the set of products or services provided to the customers (i.e., manufactured goods, digital products, financial services)?
	Set of value attributes	Which are the essential characteristics for the construction of the value proposition specific of that company?
Profit logic	Revenue sources	How does the business generate revenue?
	Cost base	How does the structure of cost constitute? What are the most significant costs? Are they variable or fixed? How does cost influence value creation in the business?
Critical Factors of Value Proposition (CFVP)	CFVP through value proposition reflection	What are the critical factors that enable the BM to create and deliver its value proposition?
	CFVP through Activity System perspective	What does make the BM Activity System singular? Considering the activities performed, which are the essential factors for the BM?
Activity system	Content	What are Primary Activities? What are Secondary Activities? How are these activities performed? What are the main resources of the activities? What activities are not included in the BM analysis and why?
	Structure	Which activities have a high degree of interdependence and interrelation? What activities are related to different CFVP? How is the synergy among activities or resource sharing?
	Governance	What are the activities performed by customers or partners? If the activities are carried out by partner companies, what is the degree of their relationship and dependence? If the activities are executed by the customers, what are the gains? What are the risks of disappointing the customers?

Second pillar: visual representation of the BM

link

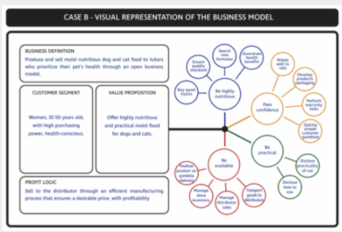

Figure 4
BM of case B

Third pillar: competitive analysis

link —> The Third Pillar offers opportunities to explore strategic issues related to the companies' BM.

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Table 7
Design themes and elements guidelines

Design themes and design elements	Novelty	Lock-in	Complementarities	Efficiency
Content	Are there any new activities in this system of activities?	Are there activities that retain customers?	Are there activities that participate in the AS specially to generate more value?	Are there activities that help reduce costs?
Structure	Is there a differentiated way of articulating activities?	Are arrangements conducive to customer retention?	Are there activities that complement each other to generate more value?	Are there any cost-saving arrangements?
Governance	Are there new ways of governing activities?	Is there an influence on who performs the activity in lock-in generation?	Is there any influence on who performs the activity in the generation of complementarity?	Are there activities in which the role of implementing agents reduces costs?

THE COMPETITIVE STRUCTURE OF AN INDUSTRY (5 FORCES)

The competitive system: the model of expanded competition

A fundamental part of the economic environment of enterprises is the competitive system, that is, the economic space populated by customers, suppliers, and competitors and in which the enterprise presents itself with the product systems resulting from its characteristic activity. The issue of the structure and dynamics of competitive systems is relevant to our analysis, as we go to assess what is the present value of the results that will be produced in the future. It is precisely the choice of the competitive system in which to operate that constitutes a business decision, or rather a set of fundamental decisions; in fact, decisions are made on geographic reach, customer groups, direct competitors, etc.

The model of expanded competition (or Porter's 5 forces model) is one of the best known references for representing the structure of competitive systems. The basic theory is as follows: in each industry, competition involves not only the firms belonging to the industry itself (the competitors in the narrow sense), but is "enlarged" to include **four other classes of players**, namely:

- **Customers**: distribution firms and/or end-users; the end-users may be manufacturing firms or public compounders who, in turn, employ the commodity or service in their own economic combinations, or family consumer firms.
- **Suppliers** of raw materials, components, services, etc.; and
- **Potential entrants**: enterprises that could enter the industry because they already carry out similar economic combinations but operate in different markets, or because they carry out different but related economic activities, or because they intend to diversify, i.e., increase their horizontal scope;
- **Producers of substitute goods**, i.e., firms that offer substitute goods to those offered by the reference firm.

It should be noted that, in this model, the term "competition" has a very broad meaning; it, in fact, stands for the pressures, i.e., the "forces" exerted on firms in an industry by each of the five classes of actors, and thus not only by the firms themselves in their competitive relationships.

Such forces are:

1. Rivalry among **competitors**;
2. The bargaining power of **suppliers**;
3. The bargaining power of **customers**;
4. The threats of **entry**;
5. Threats of **substitution**.

The configuration of the five forces determines the average profitability achievable in an industry and, consequently, its attractiveness. The greater the intensity of the forces, the more difficult it is to achieve satisfactory levels of profitability because of the pressures that different players can exert on both prices and costs. The forces may act with varying intensity depending on the sector or industry segment; each firm must find a position in which it can defend itself against these forces or be able to influence them in its favor; in general, firms tend to position themselves in sectors or segments characterized by lower competitive pressures.

THE 5 FORCES

Rivalry among competitors

Rivalry among competitors is all the more heated the more fragmented the industry is; the growth rate of product demand is low; products are undifferentiated (commodities); fixed costs are high or there is excess capacity; there are high barriers to exit, i.e., it is difficult to change industries because of the specificity of investments made, the cost of divesting facilities, the cost of labor agreements, etc. In evidence, a heated rivalry for even some of the reasons given implies strong pressures on earnings performance and particularly on prices.

Customer Power

Customer power is a function of two elements, which are bargaining strength and price sensitivity. Price structure depends on the differentiation, and hence substitutability, of the goods they purchase, the impact of those goods on the cost or quality of their products,

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and the intensity of competition within their specific industry.

Suppliers

Specularly, **suppliers** tend to have strong power if their industry is more concentrated than that of their competitors; if they threaten to integrate downstream and thus represent potential entrants; and if the goods they offer are specific, i.e., hardly or not conveniently substitutable, insignificant in terms of their impact on competitors' costs.

New competitors entry

Threats of **entry by new competitors** act as a brake on the profitability of the industry by acting as deterrents, in particular, to the prices charged by the industry's competitors. They depend on the strength of entry barriers, i.e., barriers to entry. Barriers to entry have various determinants, such as:

1. **capital requirements**: these are the sum total of investments, in current assets and fixed assets, needed to carry out operations; these requirements can vary considerably from one sector to another and, if particularly high, can constitute a significant barrier to entry;
2. **economies of scale**: there are sectors, particularly those that are capital-intensive, in which production technologies make it possible to achieve particularly high economies of scale. In these cases, those wishing to enter the sector must do so with large-scale facilities, enduring diseconomies of volume at least in the early days, otherwise they run the risk of finding themselves operating from the outset with uncompetitive costs;
3. **absolute cost advantages** independent of economies of scale and resulting from, for example, favorable location of facilities relative to suppliers or customers, privileged access to raw materials, economies of experience;
4. **product differentiation**: in sectors where products are characterized by well-known and established brands among customers, and especially among end users, the potential entrant must build its image and win customer loyalty and thus incur higher costs and investments in advertising, promotion, technical assistance, pre-sales and after-sales services;
5. **access to distribution channels**: the more competitors enjoy an established position with distributor customers, the more, for example, it is necessary to invest in point-of-sale promotion, or to grant discounts, if a relationship with distributors is to be built from scratch. The barrier is even higher if competitors have their own distribution structures;
6. **public regulatory and control policies** in cases where, for example, licenses or special authorizations are required to carry out certain economic activities, or the possibility of patent coverage exists;
7. **the risks of retaliation by industry competitors**, in various forms such as price reductions, advertising and promotional investments.

Note that barriers are often mutually interdependent: for example, an established brand name with the end customer may allow privileged access to distribution channels.

Threats of substitution

Threats of substitution. Like potential entrants, producers of substitute goods place limits on the profitability of the industry, since the presence of such goods implies greater price sensitivity of demand. At the same time they produce stimuli for improvement or differentiation of "threatened" goods. The latter are all the more endangered the greater the propensity of customers to replace purchased goods with others; a propensity that depends, in turn, on the price/performance ratio of substitutes and the so-called switching costs (costs required to switch from one product/service to another). For example, consider how the price/performance ratio has grown over time in the case of rail transportation via high-speed trains as substitutes for air transportation on some routes.

To the above five forces must be added the other relationships that can decisively influence the behavior and performance of competing firms, such as cooperative relationships among competitors and cooperative relationships with suppliers and customers. Such relationships typically give rise to business aggregates.

In the model under consideration, a "sector" (in the narrow sense) is defined as the set of firms directly competing in the same sales market, while a "competitive system" is defined as the enlarged sector. The model proposes a relatively simple generalization of very complex and varied realities; for some firms it may be particularly important to represent the competitive system by making explicit different subsets of the five general classes of actors. This is the case for sectors that are strongly configured as a "supply chain" of firms variously specialized in the component stages of the production process of a good from raw material to finished product. Again, depending on the "point of observation," i.e., the class of reference enterprises, the competitive system can take on different configurations and the same class of enterprises can play different roles.

Finally, each sector can be segmented by strategic groupings, that is, by sets of competing firms characterized by similar strategies to which correspond competitive environments that are even more specific than the extended reference sector. In the soft drinks production and sales sector, to continue with the example, one can distinguish large producers operating in the world market with established brands (Coca-Cola and Pepsi Cola) and various classes of local producers with also local reach and little-known brands.

The Dynamics Of The Competitive System

The changes that can occur in a competitive system are many and varied in nature; depending on the intensity and content of the change, one can distinguish:

1. conjunctural dynamics: these are changes that are generally reversible in the short term, such as changes in product prices resulting from fluctuations in exchange rates in buying or selling markets;
2. structural dynamics internal to a competitive system: these are changes of a permanent nature, such as to modify the economic combinations of players and their interrelationships;
3. dynamics of recomposition of several competitive systems: in these cases, there is the emergence of new competitive systems.

The structural dynamics within a competitive system can be analyzed through the following variables:

- the life cycle;
- the degree of concentration and fragmentation;
- the degree of internalization and outsourcing;
- the degree of internationalization;
- the substitution cycle.

The life cycle model represents the evolution of sales of a product or industry over time. In this evolution, a number of typical phases can be recognized, each characterized by different behaviors of competing firms among themselves and in relation to other actors in the al-largate system: introduction, development, maturity and decline. Phases which, however, do not always necessarily occur in this sequence; periods of introduction or maturity may be extremely long, decline may be followed by revival. Whatever the shape of the curve, in general, the advance of an industry's competing firms along the life cycle affects the structure of the competitive system of which the industry is a part; in particular, the relationships between competitors and other players tend to stabilize.

Concentration and fragmentation can affect each of the classes of actors that make up the competitive system. Concentration processes are said to occur when several firms competing in the same market join together and, as a result, the number and size of the competitors themselves decreases; fragmentation processes represent the opposite phenomenon.

Within a competitive system, firms, through internalization choices, may integrate vertically upstream or downstream, that is, carry out internally stages of the economic production process previously carried out by suppliers or customers. Suppliers and customers can thus also become competitors of a given set of firms. Conversely, firms may reduce vertical extension by outsourcing activities; in the same competitive system, the alternation of the two dynamics is often observed.

The degree of internationalization increases as firms expand their geographic reach. In a competitive system with a national radius, new competitors from other national contexts may enter; the system may integrate with others giving rise to a global system.

The substitution of one good by another can greatly reduce the operating space of competitors in a competitive system to the point of causing the decline of the system itself with reconversion needs that may involve competitors as well as customers and suppliers.

Recomposition dynamics typically originate from technological innovations, new applications of existing technologies, or the integration of competencies of firms from different competitive backgrounds.

The change in consumption (B2C) or purchasing (B2B) habits has various determinants such as: technological progress and consequent innovations in terms of production, distribution, communication and

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transportation systems, etc.; changes in the political-institutional environment; cultural changes; and changes in government decisions and consequent business behavior. As noted above, the structure and dynamics of a competitive system as a whole influence the structure and dynamics of firms; conversely, firms often do not take the competitive environment as given and enact choices that change it even profoundly.

As far as our analysis is concerned, it is more crucial than ever, to know the forces at play and to understand what the analyzed firms' room for maneuver may be. It is also true that the strategic success of firms is not guaranteed by merely operating in a competitive system that exerts relatively weak pressures; strategic success depends in at least equal measure on the distinctive competencies possessed by the firm and the firm's ability to use and renew them to solicit customer demand and to distinguish itself from competitors.

PEST ANALYSIS

What is PEST Analysis?

PEST Analysis is a management tool whereby an organization can assess major **external factors** (political, economical, social and technological) that influence its operation and could affect its profitability in order to become more competitive in the market. It is a useful strategic method for interpreting the growth or decline of the market, the position of firms, the potential and direction of operations. Generally, it is more effective with larger organizations that are more likely to experience the effects of macro events.

THE VARIABLES

Political Factors

Political factors: the political context can significantly affect a specific sector through **legislative measures** aimed at regulating its functioning. Specifically, political factors include areas such as **fiscal policy, labor law, environmental law, trade restrictions, tariffs** and **political stability**. Just think of the British Prime Minister's decision to hold a referendum on exiting the European Union or the fact that Google had to pull out from China due to censorship.

Economic Factors

Economic factors: these include **economic growth, interest rates, exchange rates** and **inflation rates**. These factors have a big impact on how businesses operate and how they take decisions. For example, the exchange rates affect the costs of producing goods because they change the price of imported goods in an economy (**Exchange rate risk** is a type of market risk relating to the possibility that changes in exchange rates between two currencies lead to a loss of the purchasing power of the currency held and the consequent loss in value of receivables). The trend of economic factors can influence company decisions also as a result of the conditioning of consumption behaviors put in place by demand. The most popular indicator of economic performance for a specific sector is the **Gross Domestic Product (GDP) per capita**. It is a particularly useful indicator especially for those industries which are highly income elastic (jewelry, construction, entertainment, tourism, betting, cosmetics, and various luxury items amongst others). In some other industries, demand remains more resilient to fluctuations in GDP. These would typically include staple foods, health services, and basic commodities. **Inflation** not only erodes the purchasing power of consumer but it also has an adverse impact on the prices of raw materials and other inputs that need to be used by a firm in providing products or services. **Higher taxes** have a negative impact on the disposable income of consumers. A **high unemployment rate** from an investor’s perspective is a double-edged sword as on the one hand, it erodes disposable income of families but on the other hand, it provides access to a cheaper labor market. Moreover, **increases in bank interest rates** have an impact on both consumers and investors alike. Consumers are more likely to save part of their discretionary income than to spend it on consumer goods. Investors are also likely to borrow less and redirect part of their speculative income into guilt-edged securities rather than in further growth of their firm. This is mainly because of an increase in their cost of capital.

Social Factors

Social factors: the dynamics of social factors can produce **significant effects** on the size and characteristics of a company's real and potential **demand**. The social factors that may be included in a PEST Analysis are **demographics** and **age distribution**, **cultural attitudes**, **workplace** and **lifestyle trends**. Population aging for example can lead to less willingness to work (and therefore an increase in labor costs).

Technological Factors

Technological factors: technological factors include technological aspects like R&D activity, automation, technology incentives and the rate of technological change. These can determine barriers to entry, minimum efficient production level and influence the outsourcing decisions. Furthermore, technological shifts would affect costs, quality, and lead to innovation. As new frontiers are broken, technology becomes obsolete and any competitive advantage is short-lived. Technological breakthroughs can either spell the demise of some industries or create opportunities for new ones.

How to Conduct the Analysis

- First of all **brainstorm** on external factors that could have a significant impact on the sector (in addition to the 4 factors mentioned above: **environmental** and **legal factors** could be relevant)
- Once you have identified possible changes in external factors, try to identify **opportunities** for the business (for example, allocation of European funds to inecentivize R&D, could it lead to growth opportunities?)
- Identify the **threats** arising from these external factors (for example, inflation and cost of energy, the sector in which the company operates would be affected?)

	Factor	Opportunity	Threat
Political			
Economic			
Socio-Cultural			
Technological			

STRATEGIC GROUPING ANALYSIS

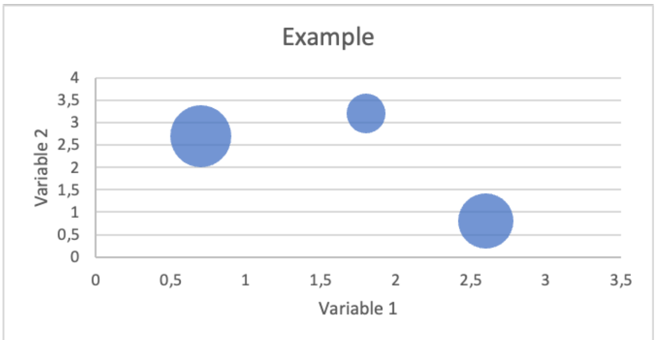
Definition: "Groups of companies showing a homogeneous exposure to the 5 competitive forces"

- Show similar ROI change waves

Discovery process

1. **Identification of the most relevant competitive forces** (based on Porter model)
2. **Identification of 2 variables that most affect the exposure to the relevant forces**
   They must be:
   - unrelated
   - discrete
   - decision variables (not result)

   Examples:
   - Price position -> avg price
   - Range width -> N° Brands or segments
   - Size -> turnover/volumes/market share
   - Geographical coverage -> N° countries or % foreign turnover
   - Degree of diversification
   - Brand strength -> value of the Brand or average price
   - Degree of vertical integration -> N° phases
   - Distribution amplitude -> N°/type of channels
   - Group membership -> Yes/No
3. **Map construction**



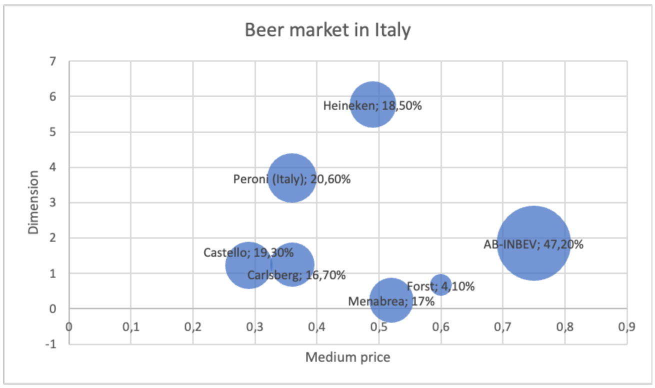
Example: the beer sector in Italy

1. **The main forces are represented by high price competition and a particularly strong bargaining power of customers** (HO.RE.CA and large-scale distribution).

2. **The main determinants are** (see graph in next page):
   1. Price position -> affects exposure to large-scale distribution and internal rivalry
   2. Size -> conditions exposure to internal rivalry and outlet markets

Company	*Roi*	*Dimension (Ml Hl)*	*Medium price €/Hl*	*Price €/33cl*
Heineken	18,5%	5,771	147,6	0,49
Peroni (Italy)	20,6%	3,699	108,12	0,36
AB-INBEV	47,2%	1,852	226,27	0,75
Carlsberg	16,2%	1,249	107,75	0,36
Castello	19,3%	1,229	85,64	0,29
Forst	4,1%	0.674	179,63	0.6
Menabrea	17%	0,250	156,89	0,52
Microbreweries	?	0.000467	-	-

3. Beer market in Italy



Now it is necessary to motivate why these differences in ROI exist between different companies in the same sector through the analysis of individual business models.

In this case, for example, AB-INBEV does not produce in Italy and has mainly fixed costs.

SUPPLY CHAIN ANALYSIS

Company's ROI is conditioned by the success of the supply chain in which it is inserted. The distribution of profit is not necessarily homogeneous.

Example: *Soft drinks* market

PRODUCT-MARKET MATRIX ANALYSIS

What is a Product-Market Matrix?

To identify the possible businesses in which the company operates, it is useful to build a market/product matrix able to identify the similarities that characterize each combination. In this way, the elements that define the business strategy are identified.

1. Building the product/market matrix

- List possible product and market classification criteria,
  only if they are significant
- Sort the different criteria according to their importance
- Building the matrix
- Provide percentage distribution of turnover between different combinations ()
  not always easy/possible

2. Identify the similarities that characterize these combinations

- Structure of the offer
- Characteristics of the demand
- Competitive dynamics
- Critical success factors ()
  the most important
- Cost structure and composition of net cash flow

3. Assess the importance of these businesses and define similarities or diversity

If the result brings out consistent differences between the different product/market combinations, then it is a multi-business enterprise. Conversely, if the differences are not so evident and there is a certain degree of similarity, it will be a mono-business enterprise.

	Product/market combinations				
Features	1	2	3	...	n
Structure of the offer					
Characteristics of the demand					
Competitive dynamics					
Critical success factors					
Cost structure					

Example: LVMH – Watches & Jewelry:

Market/product	*Clocks*	*Jewelry*
EU	1	2
Asia	3	4

	Product/market combinations			
Features	EU Watches	Asia Watches	EU Jewelry	Asia Jewelry
Structure of the offer				
Characteristics of the demand				
Competitive dynamics				
Critical success factors				

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