Aggregate Market Factors:

Size:
Market size, measured in both units and dollars, is clearly an important criterion as it relates to the likelihood of a product producing revenues to support a given investment. Large markets also offer more opportunities for segmentation that small ones. Therefore, both large firms and entrepreneurial organisations might find large markets attractive. Large markets however tend to draw competitors with considerable resources, often making them unattractive for small firms, as in the soft drink industry. Thus absolute size is not by itself sufficient to warrant new or continuing investment.

In assessing the size of the market, it is also useful to describe the size of its major sub-nits. For example, the soft drink divides into subcategories based upon calories (diet versus no diet) flavour (cola, lemon lime etc.), and whether real juice is included. In addition, various markets that compete with soft drink category, such as bottled water and fruit juices, also can be tracked. This provides information and focus on the impact of substitutes (generic competition) on the product category.

Growth:
Not only is current growth important, but, because of the product life cycle, growth projections over the horizon of the plan are critical. Fast growing markets are almost universally desired because they support high margins and sustain profits into future years. However, they also attract competitors. For example, while Sony developed the U.S. market for the video cassette recorders, the projected high market growth rate supported the entry of other firms’ marketing systems with competing recording format (VHS), which now dominates Sony's Beta format.

A major factor relating to industry growth is the rate at which products become absolute (i.e. are replaced by new products). Whether product replacement is attractive or not depends heavily on a company's ability to design and market new products of good quality in a short time.
Life Cycle Stage

Two factors, market size and growth, are often portrayed simultaneously in the form of the product life cycle. This curve breaks down the sales of a product into four segments: introduction, growth, maturity and decline. The introduction and growth phases are the early phases of the lifecycle while sales are still growing, maturity represents a levelling – off in the sales, while in the decline phase the trend shows a downward drift of the curve representing the end of the life cycle.

![Product Life Cycle Curve]

The attractiveness of products in each of the phases of the life cycle is not always clear. Products in the growth phase, such as personal computers in the 1980’s are generally thought to be attractive. However, at Osborne, Commodore, and others found out, high rates of market growth do not ensure success. Although mature markets are often disdained, clever marketers often find new ways to segment them, which suggests opportunities. Witness the success of Miller’s Lite beer and Reebok in the leisure footwear market. Finally, brands in declining product categories are also in an unfavourable position the corporation, even though Harrigan (1980) gives several examples of strategies to turn these businesses around.

Cyclicity

Since many firms attempt to develop products and acquire companies to eliminate interyear sales cyclicity, this is s clearly not an attractive characteristic of an industry unless it balances out cycles in other components of a firm’s business. Capital-intensive business, such automobiles, steel, and chemicals, are often dependent on general business conditions and therefore suffer through peaks and valleys of sales and gross domestic product (GDP) and /or interest rates vary.

Seasonality
As with sales cyclicity, seasonality (intra year cycles in sales) is generally not viewed positively. Most industries are seasonal to some event, but some are extremely so (e.g., ice cream, travel services, turkey etc.) The toy industry has tried to reduce its reliance on the Christmas period to generate most of its sales. Seasonal businesses tend to generate price wars since there may be little other chance to obtain sales revenue.

**Marking Mix**

The general trend in terms of distribution, pricing, and promotion provide useful background for competitive and customer analysis as well as strategy formulation. For example the trend toward direct marketing of PCs has major implications for the computer market.

**Profits**

While there is certainly variability in profits, margins and cash flows, across products in an industry, there are also inter-industry differences.

Differences in profitability can be due to a number of factors of production including labour versus capital intensity, raw materials, manufacturing technology, and competitive rivalry. Suffice to say the industries that are chronically low in profitability are less attractive than those that offer higher returns.

A second aspect of profitability is to consider its variability over time. Variance in profitability is often used as a measure of industry risk; Food related businesses produce steady profits.

**Performance Ratios**

Like profits, financial ratios vary substantially across competitors in an industry and hence are considered separately in a competitive analysis. Most ratios are expressed as returns (e.g., return on assets (ROA), return on equity (ROE), return on capital (ROC) and return on annual marketing expenditures) These ratios provide indications of both the rewards for successful performance and the requirements for participation e.g., capital intensity).