

Assignment #1: Understanding & Applying the Five Forces Framework

PLEASE READ THE ASSIGNMENT COMPLETELY & CAREFULLY BEFORE YOU BEGIN!

Purpose: The primary goals of this assignment are: (a) to perform a thoughtful of Five Forces analysis, (b) to link the analysis to recent historical Industry profitability data, and (c) to explain your analysis and conclusions in a concise 1-page memo. Feel free to use bullet points on the slides, but be sure to write your memo carefully in professional business English, and to check grammar & word usage!

Timing: The assignment will be **due Thursday (Sep-27-2016)**.

Content: To complete the assignment, please complete the following steps:

- (1) Choose a public company and think carefully about how to define its industry.**
 - a. *Three sources of information may be helpful as you choose your company & industry:* (a) the data on firm profits available in the Assignment #1 folder, (b) industry reports available from the “Industry Information” link on the SI422 Pardee Library website (<http://www.bu.edu/library/guide/strategy/>); (c) firm reports available from the “Company Information” link on the same website.
 - b. *Defining your firm’s industry requires careful consideration.* For example, both the 1-800-Flowers.com and Zappos could be classified under the NAICS code for “Retailers.” However, we would not consider them as competitors in the same industry. Please define the industry, not using SIC or NAICS code, but based on the heuristic we use in si422, i.e., as firms that sell similar products and are exposed to similar buyers and suppliers.
 - c. Choose a company that has at least 3 rivals that are for-profit companies with public financial data.
- (2) Perform a Five Forces analysis for your firm’s industry on Exhibit A.** Exhibit A1 provides a template for reporting the Five Forces analysis & Exhibit A2 lists some of the key factors for each force. Feel free to use either Exhibit A1 or A2 as the template for the exhibit you submit. Please take care to (a) identify each key factor for each force and note whether that factor helps industry profits or hurts industry profits, (b) draw a conclusion for each force about how & why it affects industry profitability, and (b) draw a conclusion about whether, overall, the forces suppress (or support) industry profitability. **Be sure to rely on the background research you have done using the industry & firm resources above when doing your analysis.**
- (3) Next, gather and report data on industry average profits and report these on Exhibit B.**
 - a. *Please download “Assignment #1 - firm data.xlsx,” from the QuestromTools Assignment #1 folder.*
 - b. Based on your industry definition, use these data to report on the recent historical profitability of your firm and 4-5 of its rivals. Compute the profitability of these firms over the number of years you consider appropriate for assessing industry performance. In order to do this, you will need to decide which measure of profitability is most appropriate for your industry (use either ROA, ROS, ROE, each of which can be computed from the data in the spreadsheet).
 - c. Next, draw a graph that compares the average industry profitability with the average for the economy overall over the past 3-5 years. (For the purposes of the assignment, please assume that the economy-wide average ROA = 4%, ROS = 4%, & ROE = 10%).
- (4) Suppose that you are a junior consultant and that your manager asked you to complete this assignment by writing no more than one page memo that achieves the following:**
 - a. Explains the purpose of the memo in the subject heading and very first sentence of the memo
 - b. Defines your industry precisely (*clearly applying the si422 approach to industry definition – i.e., taking care to identify the similar product, buyers, & suppliers*)
 - c. Summarizes your Five Forces analysis, taking care to identify which key forces are the ones that have the strongest influence on profitability in your firm’s industry and the key factors that most strongly influence the strength of these forces.
 - d. Explain whether you believe that your firm is in an industry whose conditions are, on average, very favorable, somewhat favorable, ambiguous, somewhat unfavorable, or very unfavorable. Be sure to note whether the Five Forces analysis match with the data you report in Exhibit B and to offer an explanation for their not matching if they do not match.

Feel free to structure your memo around issues (4a)-(4d) above, treating each issue as a separate mini-section

Administrative Details:

- Please use 1.5 or double-spacing on the memo, along with 12 point font & 1 inch margins on top/bottom/sides
- No electronic papers will be accepted. Papers will be considered late if not turned in at the beginning of class.

*** NOTE: This is an *individual* assignment. All analysis and writing should be yours alone. If you use any outside sources (beside the Porter article or our class discussions), please cite them.**