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| **Porter 5 Force Analysis** |
| Mindful Measures Environment |
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| This profile of SIC Industry #39999910 attempts to illustrate the threat levels of Porter’s Five Forces for the industry that includes teaching aides.  |
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| **Fradenburg** |
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# Objective:

The Executive Team at Mindful Measures is considering repositioning their *Boost Your Brain-Power* CD as a teaching aide used throughout the public school system. If the industry that includes teaching aides is favorable, then Mindful Measures will develop a marketing strategy that will enable them to increase the research and development, distribution of their products into the public school system.

The Education Aids, Devices and Supplies Industry is represented by SIC code 39999910. In 2010, the industry sales were approximately $183M amongst 312 companies[[1]](#footnote-1). The industry includes many companies that manufacture teaching aids for students with special needs, such as autistic, blind or deaf children. Other educational supplies produced by the industry include flash cards, art supplies, electronic learning devices, educational software, lab aids, and puzzles. [[2]](#footnote-2) This industry covers a broad array of products, each with their unique sets of suppliers, buyers, rivalry conditions, barriers to entry, and substitutes. Throughout the analysis, I will be using the term “industry.” This term will be used to represent the portion of The Education Aids, Devices and Supplies Industry that is most similar to the Mindful Measures product category (*Boost Your Brain-Power*). Hence when addressing Buyer Power, this report will be addressing the power of the school districts as buyers of any educational items for the public school system. That would be the principle buyer for many of the product lines in this industry. However, when looking at Supplier Power, the providers of licensed music distribution rights present a different set of threats to controlling costs than educational software engineers. Thus the focus will be on allowing for a large enough scope to get an accurate analysis of the important resources and organizational competencies.

This report is to help the Mindful Measures Executive Team to assess the internal strengths and weaknesses of their company’s resources and organizational. This report identifies important resources and organizational competencies Mindful Measures has developed or is developing.

# Industry Analysis – Porter’s Five Forces:

## Rivalry Strength of Force: 1.7

The Education Aids, Devices and Supplies Industry is diverse. The four largest companies capture only 29.3% of the industry market.[[3]](#footnote-3) Many of the companies specialize in very niche markets, such as serving the needs of blind, deaf, or autistic children. For the sake of this analysis, severely specialized firms have been omitted. Many companies in the industry are also servicing very specialized fields of academia, such as lab equipment for science classes.

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| **Name** | **Location** | **Sales (M)** | **Market Share** |
| Trend Enterprises | MN | 28.00  | 19.9% |
| Attainment Company, Inc. | WI | 4.50  | 3.2% |
| Rm Education, Inc. | MA | 4.50  | 3.2% |
| Aims Education Foundation | CA | 4.22  | 3.0% |

Although state budget constraints pose restrictions to the purchases that public school districts can make in the industry, there is intrinsic demand for new products that can improve the learning experience.[[4]](#footnote-4) Since “No Child Left Behind” has forced many schools to take drastic action, or face reductions in funding, many school boards are venturing from traditional teaching techniques. Especially popular are software and technology-based products. Growth in demand can be easily managed as a result of the industries flexibility in adding capacity.

There are no Exit Barriers worth noting.It is worth noting thatmost executives and business owners in the industry have chosen to work in it because of emotional reasons. The sense of worth and satisfaction that they derive from being involved in educating children can compel them to remain in the industry, even if profitability is minimal. This can lead to stronger threats of rivalry, ultimately resulting in over-production and price-cutting. This poses a mild danger to industry profits.

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| **Rivalry** | **Score** | **Weight** | **Weighted Score** |
| Industry Concentration Ratio | 1 | 20% | 0.2 |
| Demand Growth/Industry Growth Rate | 2 | 5% | 0.1 |
| Exit Barriers | 2 | 0% | 0 |
| High Commitment by Rivals | 4 | 15% | 0.6 |
| Diversity of Competitors | 1 | 15% | 0.15 |
| Product Differentiation | 2 | 20% | 0.4 |
| Fixed Cost/Variable Cost Ratio | 1 | 20% | 0.2 |
| Capacity Expansion in Large Increments | 1 | 5% | 0.05 |
| **Totals** |  | 100% | 1.7 |
| **Strength of Force** | **1.7** | **15%** | **0.255** |

## Barriers to Entry Strength of Force: 2.3

Low Barriers to Entry represent a threat to profits of an industry, as new entrants flood the industry market. Generally speaking, the Education Aids, Devices and Supplies Industry has really low Barriers to Entry. In some cases such as Trend Enterprises, there are some set-up costs when creating products. Other companies however, such as Mindful Measures would experience very little in the way of Barriers to Entry, due to low product development costs. Other factors that make this force threatening are low customer switching costs and capital requirements.

When scholastic institutions switch from one product to another, there are very little costs for them to do so. There are generally costs associated with learning the new product. Teacher service days are dedicated throughout the year so teachers may become familiar with new teaching aids and devices.

Capital requirements for the industry vary depending on what type of product the companies are making. They range anywhere from a couple hundred dollars (in the case of on-demand publishing), to thousands of dollars for manufacturing set-up. For the most part capital requirements are low. In the cases where they are higher, financial institutions are willing to finance the capital needed to fill contractual obligations, since the state boards of education are deemed reliable customers.

Although access to school boards is relatively open at the local levels, decisions to bring on new products are still greatly facilitated by established relationships between education policy makers, and company executives. Knowing members of the district boards may prove helpful in getting the district to make purchases, but it is more crucial when securing larger contracts at the state level. Generally speaking there are no rules restricting businesses from seeking the government contracts, barring immoral actions of the executives. In the case of school boards, products must be appropriate for school children. Otherwise, no preferential treatment is given to one company over another. That is not to say that Incumbent advantages independent of scale do not exist. Incumbent firms already know how the school boards do business. They are familiar with the beaurocracy and have relationships developed with the appropriate government decision makers.

There exist economies of scale within the Education Aids, Devices and Supplies Industry that serve as Barriers to Entry. Manufacturing features variable costs that lower as production increases. Variable input costs exist for manufacturing materials, labor, and distribution. Firms in the industry that required licensed material as an input, will also benefit from economies of scale. As music licensing increases, the cost-per-end-user drops significantly. This gives some leverage to large firms already in the space that protect profits from new firms entering the market.

There are no Network Effects associated with the industry.

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| **Barriers to Entry** | **Score** | **Weight** | **Weighted Score** |
| Economies of Scale | 3 | 5% | 0.15 |
| Network Effects | 1 | 5% | 0.05 |
| Customer Switching Costs | 1 | 20% | 0.2 |
| Capital Requirements | 3 | 15% | 0.45 |
| Incumbent Advantages Independent of Scale | 2 | 15% | 0.3 |
| Unequal access to distribution channels | 3 | 25% | 0.75 |
| Restrictive Government Policies | 3 | 10% | 0.3 |
| Expected Retaliation | 2 | 5% | 0.1 |
| **Totals** |   | 100% | 2.3 |
| **Strength of Force** | **2.3** | **25%** | **0.575** |

## Buyer Power Strength of Force: 3.1

Buyers for the industry of Education Aids, Devices and Supplies include private and public schools. Purchasing decisions are made by principals, school boards, and the states’ Departments of Education. Being under constant budget cuts, the public school sector is very price sensitive. As schools receive their funding from various levels of government, they must appeal to the guidelines set by various government institutions. This gives them bargaining power, endangering the Education Aids, Devices and Supplies industry profits.

The public school sector, being run by the government, is a non-profit sector. Private education institutions may be set up for profit, but they are still highly price sensitive. As this information is well-known to suppliers of the education industry, there is significant pressure on undifferentiated products within the Educational Aid, Devices and Supplies Industry. This poses a threat that is slightly offset by the fact that the industry does not constitute a significant portion of the states’ education budget. The purchase of Educational Aids, Devices and Supplies helps reduce education costs by addressing remedial education needs. By raising the quality of education, fewer students will require remedial education services.

It is also important for us to address the issue of the government as a buyer. Although the buyer market breaks up into the public and private school sectors, a large majority of students attend public schools. In 2010, only approximately 11% of students attended private schools (including parochial schools).[[5]](#footnote-5)

Another important factor that affects the Buyers Power is the level of differentiation amongst products within the Educational Aids, Devices and Supplies Industry. The industry includes flash cards, art supplies, electronic learning devices, educational software, lab aids, puzzles and more. With such a diverse product line to fill the needs of the school boards, their buyer power is dampened. Also retarding the Buyer Power is a strong lack of potential for Backwards Integration. The public school system avoids production of materials for teaching. Instead, the beaurocratic environment tends to lend itself more aptly capable of purchasing products already on the market.

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| **Buyer Power** | **Score** | **Weight** | **Weighted Score** |
| Concentration Ratio | 5 | 20% | 1 |
| Product Differentiation | 2 | 5% | 0.1 |
| Buyer Switching Costs | 5 | 10% | 0.5 |
| Backwards Integration Threat | 1 | 20% | 0.2 |
| Portion of Buyers Costs | 2 | 10% | 0.2 |
| Buyer Profits | 5 | 15% | 0.75 |
| Industry affects on Buyer Product Quality | 1 | 5% | 0.05 |
| Industry affect on Buyers other costs | 2 | 15% | 0.3 |
| **Totals** |  | 100% | 3.1 |
| **Strength of Force** | **3.1** | **20%** | **0.62** |

## Supplier Power Strength of Force: 1.9

The overall threat to Education Aids, Devices and Supplies Industry profits from Supplier Power is really low. The overall diversity of the industry means that there is also diversity among the products in the industry. Hence, no supplier controls a significant share of the supply chain for the industry. Furthermore, even within companies, there is rarely a single supplier that dominates the inputs for the products created. Therefore, suppliers are not able to exert additional pressure to raise input costs against the firms in the industry. This allows the firms in the industry to capture a larger portion of the value from the value chain. It is also worth noting that if a firm in the industry switches suppliers, there are rarely switching costs for them to do so. These factors bode well for industry profits.

There are two threats inherent in the Education Aids, Devices and Supplies Industry. Most significant is the threat of forward integration. It is plausible that suppliers could decide to expand their business down the supply chain. This is particularly the case with any products involving licensing rights. The other threat stems from the strategic importance of the industry to its suppliers. For most input suppliers, their distribution in not limited to the Education Sector of the economy. For instance flash card printing companies also print other items such as calendars, books, and magazines. Companies who supply parts for electronic learning devices often supply parts for electronic devices in other industries. As a result, suppliers are less dependent on profits earned from this industry. Hence, the industry firms are able to negotiate better input prices, allowing them to capture a larger portion of the suppliers’ value add to the value chain. This bodes well for firms in the Education Aids, Devices and Supplies Industry.

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| **Supplier Power** | **Score** | **Weight** | **Weighted Score** |
| Concentration Ratio | 1 | 20% | 0.2 |
| Strategic Importance of Industry to Supplier Group | 5 | 10% | 0.5 |
| Switching Costs | 1 | 20% | 0.2 |
| Are Supplier products/services differentiated | 1 | 30% | 0.3 |
| Substitutes for Supplier's product/services | 2 | 10% | 0.2 |
| Forward integration threat | 5 | 10% | 0.5 |
| **Totals** |   | 100% | 1.9 |
| **Strength of Force** | **1.9** | **15%** | **0.285** |

## Threat of Substitutes Strength of Force: 2.2

Threats of Substitutes for the Education Aids, Devices and Supplies Industry are low to moderate. The primary substitute would be additional teaching hours. The education system, being heavily populated by teachers, would likely consider hiring more teachers as additional funds become available. Mindful Measures is well positioned to offset this threat due to the efficiency of learning per dollar spent among alternatives.

After years of cut-backs in teaching staffs, it is hard to imagine school districts cutting back on teaching salaries any more. To this point, more pressure is placed upon cutting Education Aids, Devices and Supplies with future budget cuts. This poses a significant threat to the industry’s profits; especially given the readily available statistics on the academic benefits that result from lower Teacher/Student ratios. Industry firms should focus on communicating the efficiencies of their products and savings potential for schools who adopt their products. This is something Mindful Measures will need to address as they enter the industry.

There is also a similar dynamic with art and athletic programs. Since school boards could also substitute budget allocations from the Education Aids, Devices and Supplies Industry, to pay for art and physical education teachers. This factor is not as dramatic as for general teachers, particularly because some of the losses due to reallocation of funds to teaching salaries will be offset by increased sales for supplies for those classes. Those supplies fall under our industry of focus.

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| **Threat of Substitutes** | **Score** | **Weight** | **Weighted Score** |
| Buyers Propensity to Substitute with additional instruction | 4 | 35% | 1.4 |
| Price/Performance of additional instruction | 1 | 35% | 0.35 |
| Buyers Propensity to Substitute with art and athletics programs | 1 | 15% | 0.15 |
| Price/Performance of art and athletics programs | 2 | 15% | 0.3 |
| **Totals** |  | 100% | 2.2 |
| **Strength of Force** | **2.2** | **25%** | **0.55** |

## Overall Industry Attractiveness Attractiveness Score: 2.285

The Education Aids, Devices and Supplies Industry is mildly attractive. The most significant forces that threaten industry profits are the *Buyer Power* and *Threat of Substitutes*, though they are only in the mid-range threat level. They are significant because dealing with the public education system poses concerns often found when serving a government sector. Since state governments service over 89% of the schooling of American children[[6]](#footnote-6), they represent a very concentrated buyer scenario. They also incur only mild switching costs when changing from product to product, enabling them to negotiate harder to capture a larger portion of the value.

Ultimately the significant threats are balanced out by other opportunities. For instance *Threat from Rivalry* and the *Supplier Power*, are weighted lower and received lower threat scores. This is primarily due to the diversity of products and strategic positioning that is found within the Education Aids, Devices and Supplies Industry.

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| **Industry Analysis** | **Score** | **Weight** | **Weighted Score** |
| Barriers to Entry | 2.3 | 25% | 0.575 |
| Supplier Power | 1.9 | 15% | 0.285 |
| Buyer Power | 3.1 | 20% | 0.62 |
| Rivalry | 1.7 | 15% | 0.255 |
| Threat of Substitutes | 2.2 | 25% | 0.55 |
| **Total Industry Threat** |   | 100% | **2.285** |

1. Hoovers website, *http://0-subscriber.hoovers.com.sculib.scu.edu/H/search/buildAList.html?\_page=3*, October 21, 2011. [↑](#footnote-ref-1)
2. Hoovers website, *http://0-subscriber.hoovers.com.sculib.scu.edu/H/search/buildAList.html?\_page=3*, October 21, 2011. [↑](#footnote-ref-2)
3. Hoovers website, *http://0-subscriber.hoovers.com.sculib.scu.edu/H/search/buildAList.html?\_page=3*, October 21, 2011. [↑](#footnote-ref-3)
4. Anecdotal support received through informal interviews with teachers. [↑](#footnote-ref-4)
5. National Center for Education Statistics website: http://nces.ed.gov/fastfacts/display.asp?id=65, October 21, 2011. [↑](#footnote-ref-5)
6. Institute of Educational Services, The National Center for Educational Research. http://nces.ed.gov/fastfacts/display.asp?id=372, December 9, 2011. [↑](#footnote-ref-6)