

Appendix A: Checklist for Assessing Value Creation

Overview

- In what stage of the competitive life cycle is the company?
- Is the company currently earning a return above its cost of capital?
- Are returns on invested capital increasing, decreasing, or stable? Why?
- What is the trend in the company's investment spending, including mergers and acquisitions?

Lay of the Land

- What percentage of the industry does each player represent?
- What is each player's level of profitability?
- What have the historical trends in market share been?
- How stable is the industry?
 - How stable is market share?
 - What do pricing trends look like?
- What class does the industry fall into—fragmented, emerging, mature, declining, international, network, or hypercompetitive?

The First Three of the Five Forces

- How much leverage do suppliers have?
- Can companies pass price increases from their suppliers on to their customers?
- Are there substitute products available?
- Are there switching costs?
- How much leverage do buyers have?
- How informed are the buyers?

Barriers to Entry

- What are the rates of entry and exit in the industry?
- How will the incumbents react to the threat of new entrants?
- What is the reputation of incumbents?
- How specific are the assets?
- What is the minimum efficient production scale?
- Does the industry have excess capacity?
- Is there a way to differentiate the product?
- What is the anticipated payoff for a new entrant?
- Do incumbents have precommitment contracts?
- Do incumbents have costly licenses or patents?
- Are there benefits from the learning curve?

Rivalry

- Is there pricing coordination?
- What is the industry concentration?
- What is the size distribution of firms?
- How similar are the firms in incentives, corporate philosophy, and ownership structure?
- Is there demand variability?
- Are there high fixed costs?
- Is the industry growing?

Disruption and Disintegration

- Is the industry vulnerable to disruptive innovation?
- Do new innovations foster product improvements?
- Is the innovation progressing faster than the market's needs?
 - Have established players passed the performance threshold?
 - Is the industry organized vertically, or has there been a shift to horizontal markets?

Firm Specific

- Does analysis of the value chain reveal what activities a company does differently than its rivals?
- Does the firm have production advantages?
 - Is there instability in the business structure?
 - Is there complexity requiring know-how or coordination capabilities?
 - How quickly are the process costs changing?
- Does the firm have any patents, copyrights, trademarks, etc.?
- Are there economies of scale?
 - What does the firm's distribution scale look like?
 - Are assets and revenue clustered geographically?
 - Are there purchasing advantages with size?
 - Are there economies of scope?
 - Are there diverse research profiles?
- Are there consumer advantages?
 - Is there habit or horizontal differentiation?
 - Do people prefer the product to competing products?
 - Are there lots of product attributes that customers weigh?
 - Can customers only assess the product through trial?
 - Is there customer lock-in? Are there high switching costs?
- Is the network radial or interactive?
- What is the source and longevity of added value?
- Are there external sources of added value (subsidies, tariffs, quotas, and competitive or environmental regulations)?

Firm Interaction—Competition and Coordination

- Does the industry include complementors?
- Is the value of the pie growing because of companies that are not competitors? Or, are new companies taking share from a pie with fixed value?

Brands

- Do customers want to "hire" the brand for the job to be done?
- Does the brand increase willingness to pay?
- Do customers have an emotional connection to the brand?
- Do customers trust the product because of the name?
- Does the brand imply social status?
- Can you reduce supplier operating cost with your name?