

Assess the attractiveness of the Skod light bulb industry.

(12 marks)

Professional skills marks are available for demonstrating evaluation skills in assessing the attractiveness of the Skod light bulb industry.

(4 marks)

Man Lal

The attractiveness of Skod light bulb industry to Ling is when it is able to give Ling growth in profitability and cash flows that will allow them to declare a high dividend. The attractiveness can be assessed from several factors;

Bargaining power of customer

Majority of customer in the light bulb industry of Skod comprised those customers that buy in large volume such as supermarket, superstores and electrical chain that made up 90% of the sales. Besides that, the light bulb is an insignificant product to these customers as its only 0.1% of the supermarket sales. The government requirement where all light bulb is similar also resulted in customer having no switching cost if they decide to buy from another supplier.

Therefore, it can be concluded that the customer has a high bargaining power, and as a result entering the market is not attractive for Ling because the profit margin is limited as the customer buy in large volume thus can demand for lower price and better quality and the customer can easily switch between supplier as the product is undifferentiated.

Bargaining Power of Supplier

Production of light bulb uses material such as metal and glass sourced from large supplier dominating the market. The material is used mainly in automobiles and construction industry. As our purchases are low 0.5% of the country's glass production and 0.1% of OmniMetal's production compared to other industry the supplier has a high bargaining power.

The material used in the production of light bulb such as glass and metal is likely to remain the same in the foreseeable future thus it increases the bargaining power of the supplier as there is no substitute available for the light bulb industry. Although there is a low switching cost to change supplier, but because light bulb manufacturers are viewed as insignificant customer it doesn't change the bargaining power of the supplier.

Thus, entering the market present a risk to Ling in the form of a potential increase in material price as the supplier holds a high bargaining power and potential shortage of materials as the buyer from the light bulb market is seen as insignificant.

Threats of new entrants

Threats is based on the barrier to new entrants. Access to distribution channel (supermarket, large stores) is one of the barrier as the local prefer to buy local product. Thus, new entrants will need to get the supermarket or large stores to sell their product. This may require them to offer further discount which makes entering the market tougher. However, Ling would not have to worry on this as they intend to acquire Flick.

The market is also dominated by 5 large companies who are currently enjoying economies of scale thus any new entrant may not be able to be competitive compared to them. Again, for Ling it's a non-issue as they are currently enjoying large scale production.

Finally, the production of light bulb takes place in factories which require substantial initial investment with no alternative use, this is a deterrent to any potential new entrants.

Therefore, it can be concluded that if Ling is successful in entering the market then in the long-run its good because of low threat of new entrants which will allow them to maintain their profitability.

Threats of substitute

Ling produces LED lights which save energy and with the government encouraging energy saving, the threat is low as LED would be the preferred choice. However, the government policy of turning off street lightings from 2300 to 0500 hours may reduce the consumption of light bulb but it is unlikely that the consumer would follow the policy and stay in the dark.

The only serious consideration in terms of threat of substitute that Ling has to consider is the tubular daylight lighting as it aims to reduce the need for electric lighting.

Competitive rivalry

There are 5 equally size competitor and undifferentiated product resulted in each of them to cut price and invest in aggressive marketing. Further the market for light bulb grow by 2% over 5 years period, thus without much growth, the market will be very competitive as company trying to out-do each other.

Ling would not find the market attractive as its not growing and highly competitive.

How well has the candidate demonstrated Professional skills as follows:	Not at all	Not so well	Quite Well	Very Well
1(a) Evaluation skills in assessing the attractiveness of light bulb market in Skod	<i>The candidate has demonstrated no awareness of factors that affects the awareness of Light Bulb market in Skod.</i>	<i>The candidate has demonstrated some awareness of factors affecting the attractiveness of Light Bulb market in Skod. Able to provide some evidence of what makes the market attractive and not.</i>	<i>The candidate has demonstrated awareness of the Light Bulb market in Skod. Able to provide majority of evidence in assessing the attractiveness to Ling. Candidate able to demonstrate evaluation skills on whether the factors are significant and its impact on attractiveness.</i>	<i>The candidate has demonstrated excellent evaluation skills in identifying most if not all the relevant factors affecting the attractiveness. Able to assess their relative strength and impact on the attractiveness and grouping different evidence on similar heading.</i>
	0	1	2	4

