The Importance of Industry Life Cycles

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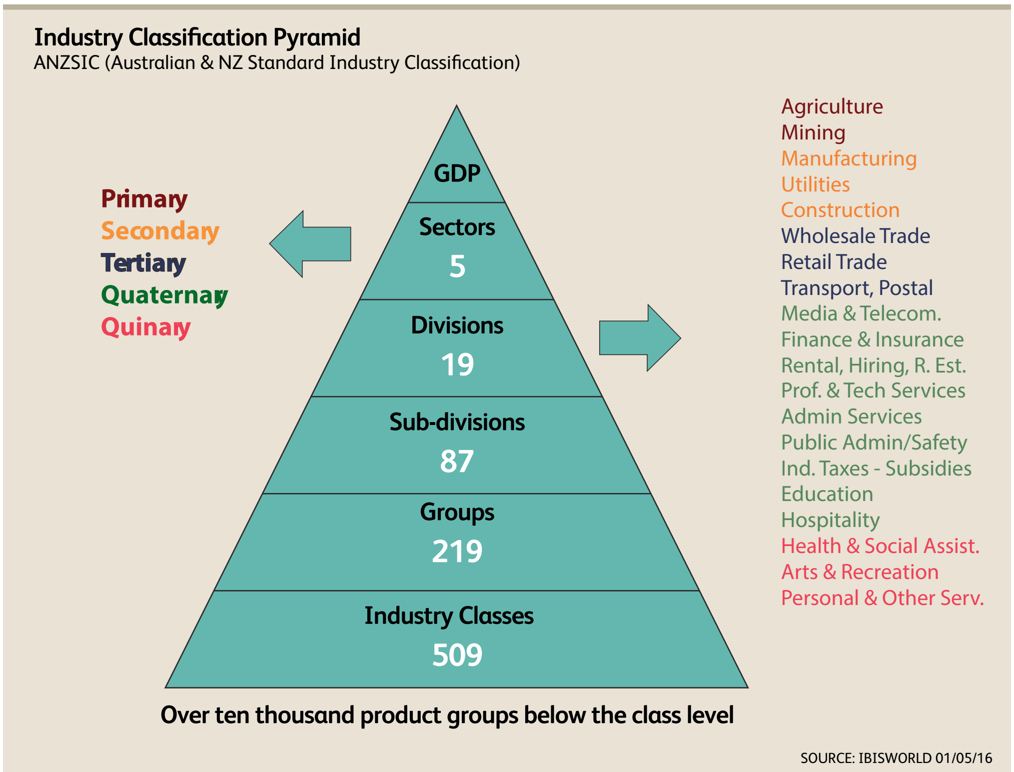
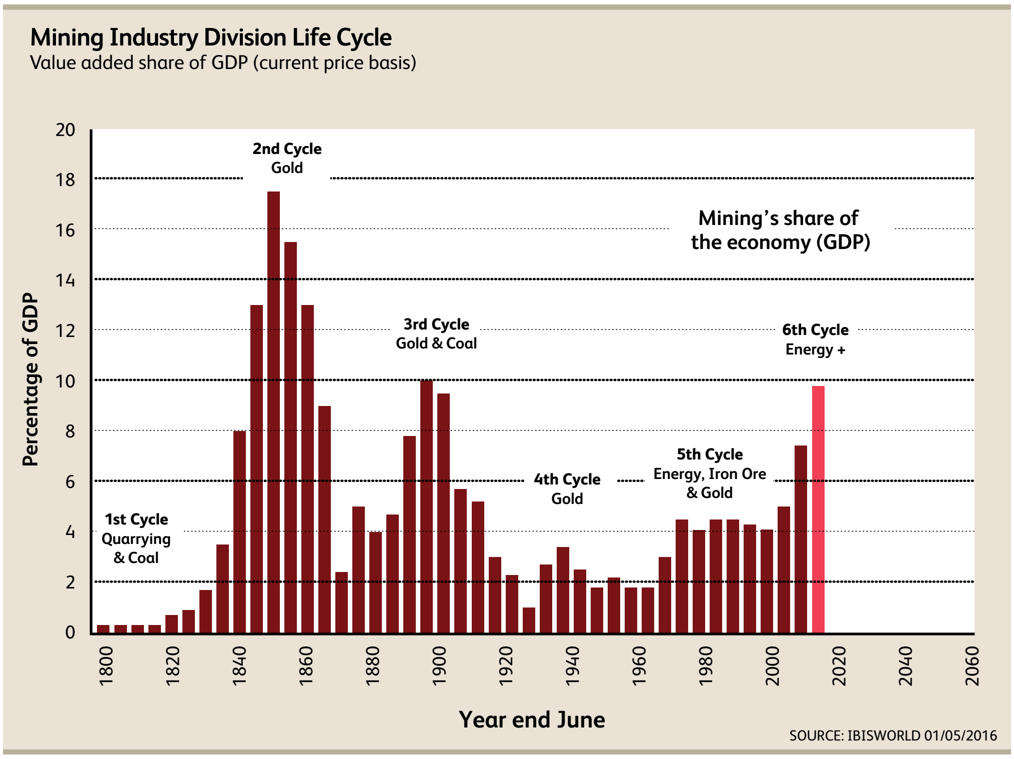
Industries run in long cycles, whether they are measured at the aggregate level (industry division) or the enterprise level (industry class). Surprisingly, the length of these cycles remains much the same over hundreds of years.

The first exhibit below shows the ABS classification system (ANZSIC) for Australia's industries, and the second chart shows the life cycle behaviour of our Mining division, one of the 19 divisions in our economy.



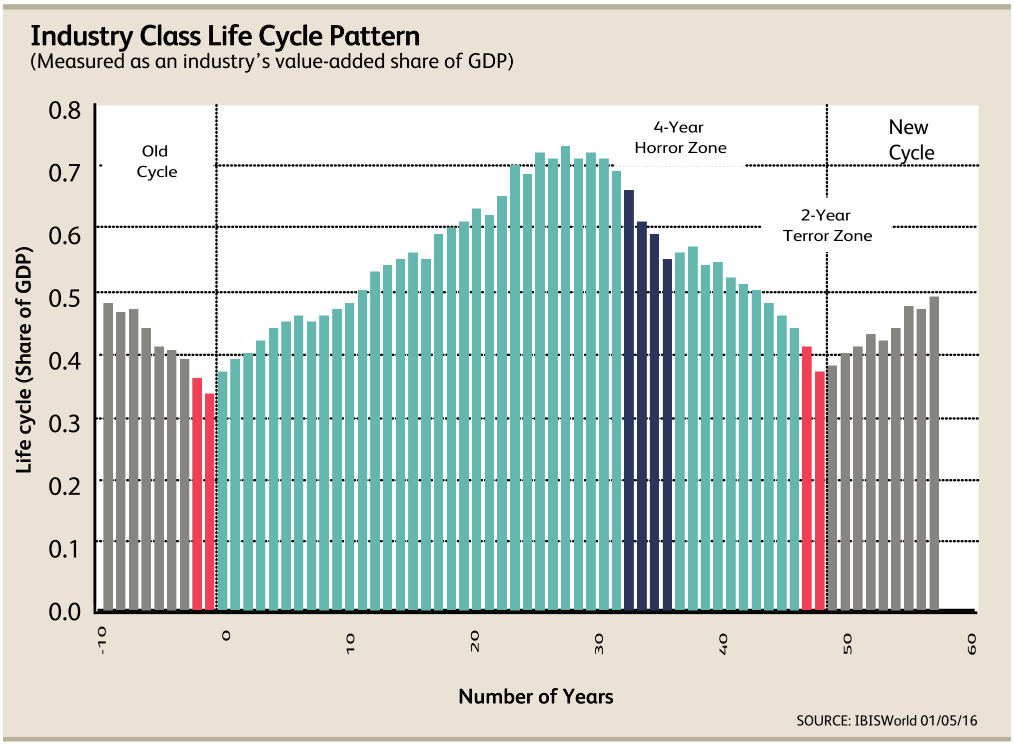


The Mining division has an average life cycle of around 42 years. We are now over 10 years into the industry's sixth cycle since English settlement in 1788, when mining commenced with stone quarrying and coal mining shortly afterwards. Incidentally, this became Australia's first export. This current cycle differs from previous cycles with its emerging energy dominance based on oil, natural gas, uranium and, of course, black coal. Energy minerals may well account for 80% of the industry's revenue by the end of the cycle near the middle of this century.

If mineral prices were superimposed on this chart, it would reveal this industry's current dilemma and financial pain as volumes have held up or increased, but prices have plummeted. Such is life in our two resource divisions, agriculture and mining.

At the industry class level, where individual enterprises can call one (or more) of the 509 classes home, cyclical behaviour is not only present, but also reasonably predictable. This cyclical behaviour is critical to strategic planning, structuring and operations.

At this level it is critical to be aware of the various phases and danger zones in each cycle. The third chart shows the patterns that appear in all the industry class life cycles.



Industries usually have life cycle lengths of 40 to 45 years, although some are as short as 28 to 30 years, and a handful can be as long as 100 to 125 years. The first cycle in almost all industries is usually very short (17 to 19 years), followed by an inflexion rather than a pronounced dip. Industries then settle down to a series of cycles, some with a greater or lesser share of the economy than the previous cycle.

Each cycle has five phases, punctuated by two severe shake-out zones. The five phases and shake-out zones are:

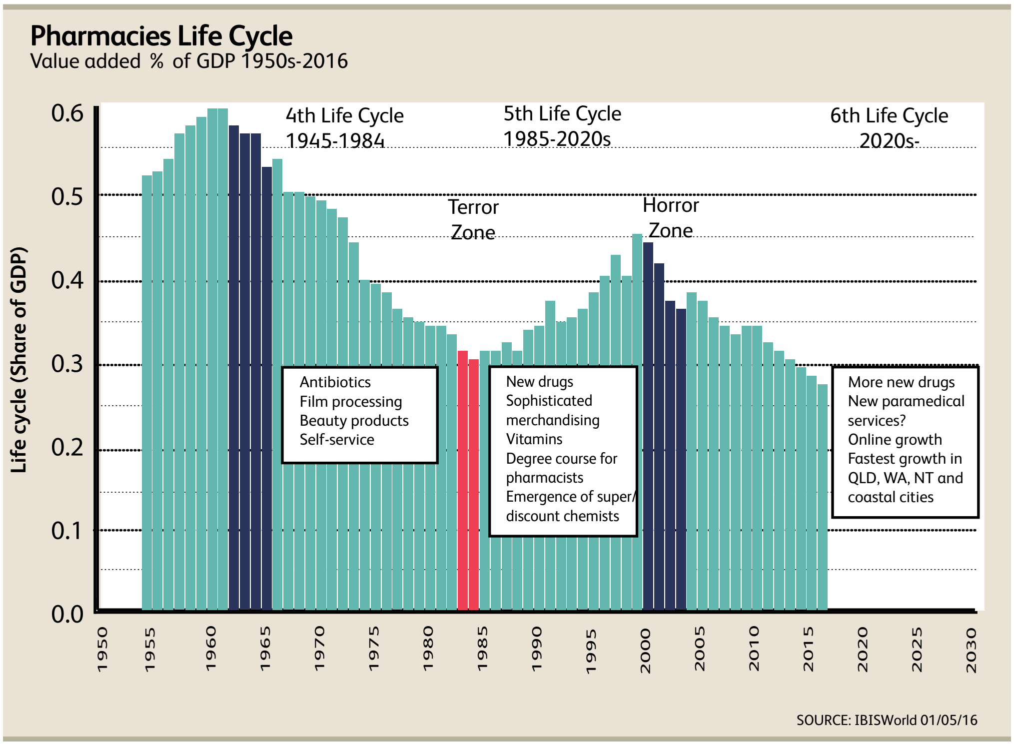
Phase I:	New Innovation Phase
Phase II:	Fast Growth Phase
Phase III:	Maturing Phase
Horror Zone:	Rationalisation (of participants and products)
Phase IV:	Slow Growth Phase
Phase V:	Dormant Phase
Terror Zone:	Rationalisation ('last shoot-out at the O.K. Corral')

Then a new life cycle begins.

Each new life cycle brings gradual changes to the industry. It takes until the top of the new cycle for 60.0% of the industry's revenue to reflect these changes, and the end of the life cycle for 80% to reflect the new changes. So it is a slow process. The five-way changes are:

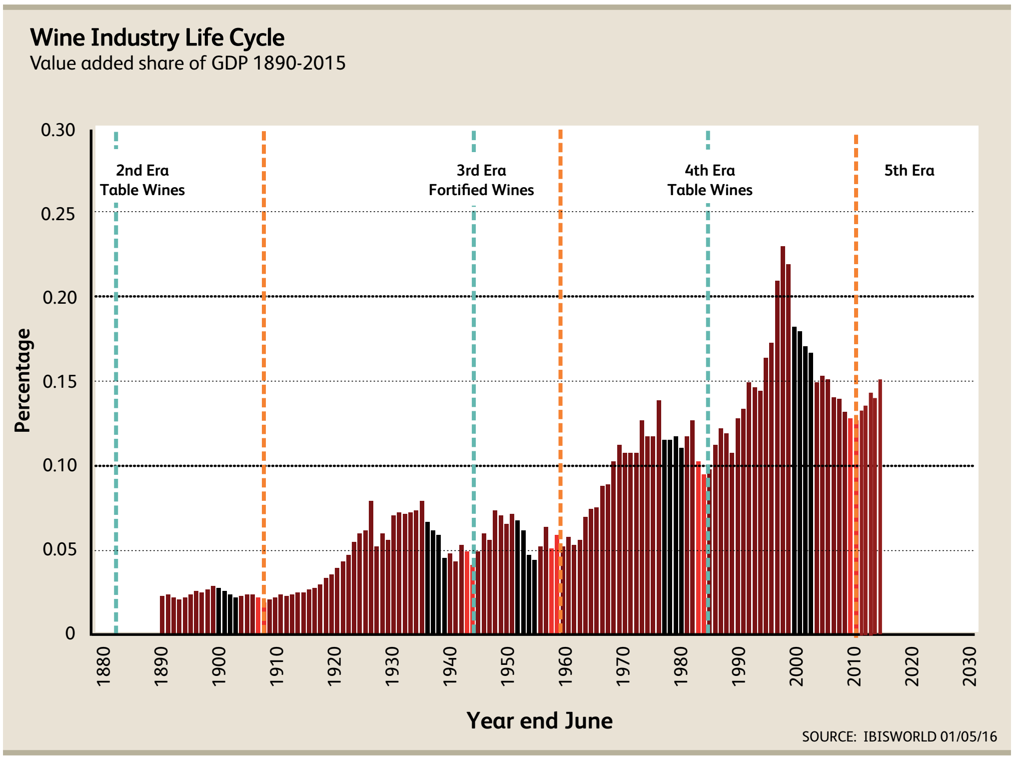
- Products
- Customers
- Geographic location
- Systems and technology
- Ownership (industry enterprises)

The following exhibit is the actual life cycle of one of the nation's 509 classes. In this case, pharmacies, which have been around for almost 200 years.



The pharmacies industry is now in a very competitive part of its down-cycle, heading for a terror zone in the early 2020s as super-chemists and discount chemists lay waste to smaller outlets in many suburbs. The chart notes some of the salient features of the past, current and next life cycle.

A particularly fascinating industry class is wine manufacturing. It has two life cycles in longish eras, as shown in the final chart.



This industry class is now into its fifth era since the industry was born (not very successfully) with the arrival of the First Fleet 228 years ago. These eras have lengths averaging some 55-56 years.

The traumas in this industry when the four-year horror zone arrived in the early part of this new century are legendary. Companies are still trying to come to grips with the five-way changes mentioned earlier, but some have figured out what they are and are flourishing. Cider makers are among them and successful exporters to China are too.

So yes, industry life cycles are important. Success is built on knowing where you are on your own industry class cycle and reacting accordingly with a winnable strategy, structure and operational implementation.