IBISWorld

WHERE KNOWLEDGE IS POWER

Special Report
February 2012

Highly Concentrated: Companies That Dominate Their Industries

By Andrea Alegria, Agata Kaczanowska and Lauren Setar

Through brand loyalty and mergers and acquisitions activity, these companies own commanding shares in their industries.

High start-up costs and competition have kept new, smaller companies at bay

Today, greater levels of industry concentration can be seen as a measure of superior economic performance, stronger competitiveness in the global market and increased profitability from economies of scale. IBISWorld has identified the 10 most concentrated industries in the United States, with the four largest companies in each industry generating at least 90 percent of revenue.

Search Engines

Top four market share: 98.5%
Major companies:
Google: 64.1%
Yahoo: 18.0%
Microsoft: 13.6%

This industry's concentration has increased steadily during the past five years, primarily driven by Google's growth while smaller search engines like Ask.com and AOL decline in prevalence. It may be difficult for new companies to enter the industry since they'll require access to skilled software programmers, IT professionals and systems engineers. Additionally, search engines need substantial computing resources for ongoing operation and sophisticated software algorithms to handle indexing and relevancy tasks. Unless an entrant chooses to license a competitor's technology, companies in this industry would need to develop their own algorithms. The Search Engines industry is continually investing in innovation by developing new features for their search results, new matching and relevancy algorithms, new tracking capabilities and new advertising performance measurement abilities. The high initial and continued investment costs provide a competitive advantage to the companies in the industry over new entrants because they have already invested significant funding in their products and they have a well-established track record of returns on investment. In 2012, the Search Engines industry is expected to grow 8.2% to $26.5 billion in revenue.

Arcade, Food & Entertainment Complexes

Top four market share: 96.2%
Major companies:
CEC Entertainment Inc.: 52.2%
Dave & Buster's: 35.0%

CEC Entertainment Inc., more commonly known as Chuck E. Cheese's, has about 540 locations across the United States, South and Central Americas and the Middle East. Dave & Buster's (D&B) operates 56 US arcade-restaurants and one franchise in Canada. Though not representing more than 5.0% of total industry revenue, Sega Entertainment

Highly Concentrated: Companies That Dominate Their Industries

USA Inc. and Namco Cybertainment Inc., a subsidiary of Japanese parent company Namco Bandai Holdings, are the third and fourth largest companies in this industry. The industry has become increasingly concentrated over recent years as large players seek cost advantages through higher volumes of sales. For instance, during the economic slowdown, stronger firms pursued financially challenged firms in order to expand market share. The Arcade, Food and Entertainment Complexes industry will generate about $1.5 billion in 2012, which represents a 1.1% revenue increase from 2011.

Sanitary Paper Product Manufacturing

Top four market share: 92.7 %
Major companies:
Kimberly-Clark Corporation: 35.5 %
Proctor & Gamble: 30.0 %
Georgia-Pacific: 27.2 %

The Sanitary Paper Product Manufacturing industry has a high level of market share concentration, with an estimated 92.5% of the market being held by the top three producers in 2012. The level of concentration differs among various product groups. For example, the disposable diapers market effectively has a duopoly, with Texas-based Kimberly-Clark and Cincinnati-based Procter & Gamble both holding more than 40.0% of the segment market share. A similar situation exists with tissue products: Atlanta's Georgia-Pacific is estimated to hold nearly half the market share for these products. This kind of product separation among the large companies intensifies the market power held by each player, making the industry effectively more concentrated. There is a higher degree of brand loyalty in this industry compared to other paper converting industries, and the industry has become increasingly competitive over the years. The Sanitary Paper Product Manufacturing industry is expected to grow 2.5% in 2012 to $11.7 billion in revenue.

Wireless Telecommunications Carriers

Top four market share: 94.7 %
Major companies:
Verizon Wireless: 36.5 %
AT&T Inc.: 32.1 %
Sprint Nextel Corporation: 15.4 %
T-Mobile USA: 10.7 %

There were two waves of mergers and acquisitions (M&As) in this industry over the past decade. First, there was a high level of M&A activity among the "baby bells" (the spin-offs of the former AT&T monopoly), which led to the creation of new number-one and number-two players. This event was then followed by a second wave of M&A activity that yielded a significant increase in concentration across the various telecommunications industries.

Major companies have pursued substantial M&A activity in this industry to acquire subscribers and expand coverage. A large subscriber base is critical to competitiveness because it delivers considerable scale economies, enabling a carrier to offer cheaper prices and realize higher margins. With a stronger cash flow, a carrier is able to invest more heavily in upgrading network infrastructure to deliver new and improved services. In 2012, industry revenue is expected to increase 3.1% to $20.2 billion.

Satellite TV Providers

Top four market share: 94.5 %
Major companies:
DirecTV: 57.6 %
Dish Network: 36.9 %

For the past decade, high-definition (HD) programming has been the focus of the Satellite TV Providers industry (as well as cable networks). Since delivering HD services to customers in 2002,

Highly Concentrated: Companies That Dominate Their Industries

deployment has been on an upward arc, with constant investment in technology from the top two providers. As a result, it is difficult for smaller players to compete in terms of quality and the level of services they can offer to consumers at a reasonable price. In addition to the intense competition, high start-up costs and regulation have prohibited small producers from developing niche markets. To remain relevant against larger operators, such companies typically vie for specific target audiences by providing channels specific to their audiences' interests or culture. In 2012, industry revenue is anticipated to grow 4.1% to $39.8 billion.

Soda Production

Top four market share: 93.7%
Major companies:
The Coca-Cola Company: 41.2%
PepsiCo: 33.6%
Dr Pepper Snapple Group: 15.4%

The major companies in the industry, particularly Coca-Cola and PepsiCo, engage in significant marketing and brand promotion to generate brand loyalty, which translates to a larger market share for these carbonated soft drink (CSD) manufacturers. Additionally, Coca-Cola and PepsiCo are currently undergoing major structural changes: Previously, they licensed a number of bottlers to produce finished beverages under the Coca-Cola and Pepsi brand names, but they are now incorporating these operations into their company structure. As these top two players merge with their major bottlers and streamline operations, IBISWorld expects them to withhold license renewals from producers in certain market segments and bring operations in house. Despite the top companies' efforts, consumers have been increasingly switching away from CSDs, so this $16.2-billion industry is expected to decline 4.5% in 2012.

Food Service Contractors

Top four market share: 93.2%
Major companies:
Compass Group: 32.8%
Aramark: 28.3%
Sodexo: 25.6%
Delaware North: 6.5%

This industry has also experienced a great deal of mergers and acquisitions recently, culminating in this high market share concentration for the Food Service Contractors industry. Driving the consolidation has been the trend toward full-service contractors. Major industry clients are increasingly looking for food-service contractors that can handle catering, property maintenance, security and other services. This trend favors larger operators because smaller ones may not have the capital and infrastructure that is required to fill all of these roles for clients. Additionally, new entrants are discouraged from entering the market because the large operators have higher marketing budgets, bargaining power in contract negotiations, better brand recognition and existing contacts. Industry revenue is expected to grow 3.1% in 2012 to $32.6 billion.

Lighting & Bulb Manufacturing

Top four market share: 91.9%
Major companies:
General Electric Company: 32.9%
Koninklijke Philips Electronics NV: 31.7%
Siemens AG: 27.3%

Global brand recognition, along with established relationships with major customers, has allowed this industry to be dominated by a few key players. Well-known brands include GE, Osram Sylvania and Philips. Industry concentration has been on the rise due to mergers and acquisitions in the past five years. In addition to the dominance of existing players, many other factors make it difficult for any new companies

Highly Concentrated: Companies That Dominate Their Industries

to enter the industry, including: significant government regulation, resource constraints, technological changes and the industry's declining life cycle. New entrants must have the resources to stock high inventories and have a strong knowledge of niche markets to survive the high levels of internal competition. In 2012, the Lighting and Bulb Manufacturing industry is expected to grow 3.6% to $2.5 billion.

Tire Manufacturing

Top four market share: 91.3%
Major companies:
The Goodyear Tire & Rubber Company: 39%
Michelin North America: 28.2%
Copper Tire & Rubber Company: 12.5%
Bridgestone: 11.6%

The Tire Manufacturing industry experienced a wave of mergers and acquisitions since the 1980s, largely driven by an increase in cross-border production and trade by automobile manufacturers. As a result, most tire manufacturers were taken over and control transferred to foreign owners. Today, there is a relatively stable number of players in the industry and most are outsourcing production to low-cost countries. Over the next five years, market share concentration is expected to decline as global manufacturers concentrate on providing tires for emerging economies. This industry is anticipated to grow an estimated 2.1% to $19.4 billion in 2012.

Major Household Appliance Manufacturing

Top four market share: 90.0%
Major companies:
Whirpool Corporation: 43.8%
AB Electrolux: 20.7%
General Electric Company: 17.1%
LG Electronics: 9.2%

Market concentration in the Major Household Appliance Manufacturing industry has increased over the past five years. During the economic recession, some smaller firms left the industry because they were unable to weather the rapid revenue decline. Larger players gained market share as the smaller companies exited. The industry is expected to become even more concentrated in the next five years. Firms such as Whirlpool and Electrolux are expected to acquire more companies, further reducing the number of enterprises. These acquisitions will add to the companies' economies of scale, lowering production costs and enabling firms to broaden their product ranges. The industry is expected to grow 2.2% in 2012 to $17.6 billion.

Contact:
Savannah Haspel
VP, Public Relations
IBISWorld

Phone: 1-310-866-5044
savannahh@ibisworld.com
www.ibisworld.com

www.ibisworld.com | 1-800-330-3772 | info@ibisworld.com

Disclaimer