

# Boat Building Industry Analysis

Prepared by Risky Business

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## I. Introduction and Executive Summary:

This industry analysis is the result of examining and researching the external environment of the boat building industry. The purpose of our research is to determine if these external factors have a significant impact on the boating industry. The analysis can be used as a supplement when deciding if engaging in this industry is a worthwhile business decision. The boat building industry is mainly comprised of firms and companies that manufacture boats. NAICS (North American Industry Classification System) has assigned this industry the NAICS code of 336612, and defines boats as "...watercraft not built in shipyards and typically of the type suitable or intended for personal use." While many materials can be used to make boats, NAICS makes the distinction that the industry also includes "establishments that manufacture heavy-duty inflatable rubber or inflatable plastic boats (RIBs)" (U.S. Census Bureau, 2017). This manufacturing industry produces many types of recreational boats, including dinghies (except inflatable rubber), heavy-duty plastic and inflatable boats, inboard or outboard motorboats, rigid inflatable boats (RIBs), rowboats, and sailboats or yachts not manufactured in shipyards.

In this analysis, several tools were used to help identify major factors to the external environment of the boat building industry. Tools such as Porter's Five Forces, and analysis techniques like the PESTEL Analysis coupled with trends and dominant features in the industry, a strategic grouping of firms in the industry, and a Key Success Factors analysis provides an in-depth view of the industry. The higher consumer expenditure, temperature, and increases in technological advancement along with decreased regulations has led the industry to have a very profitable year. The negative factors of rivals and threats to entry in the industry are not

significant enough to avoid the industry entirely. After our research, we have concluded that this industry is a very appealing industry to be in.

## II. Industry's Dominant Features

The boating industry has seen slow and steady growth over the last several years. With fuel prices along with interest rates remaining low, there is nothing negative happening to adversely affect boat sales in the coming years. While this may seem unmitigated to most retail companies, the upsurge of rivals begin to launch themselves into a considerably lucrative field. According to the boating industry's top stories of 2016, the historical levels of profitability suggest that over fifty percent of consumers sustain loyalty after their first purchase. Not only has this statistic endured a profitable learning curve for these particular boating companies, but it has also driven a great deal of competition away from the market. Research from the Harvard Business Review suggests that the learning curve is very similar to a bell shaped curve. What this implicates is displaying how inexperienced companies tend to begin with zero customers (Hirschmann, 2014). In this case, advertising is an extreme dominant feature for the veterans of the industry. By saving over fifty percent of that money just by having repeat customers, there is a massive amount of leverage to become much more profitable than the competitor.

The boating industry's survey respondents saw the overall economic conditions as having the most potential to impact their business this year, with 63 percent saying it will be very important to their success. Forty percent cited the weather as very important, while only 23 percent see government regulations as very important to their success or failure this year (Sweet, 2015). Some states have more dominance in the market because of weather, such as rain, sun, or even high level winds. Most states like Florida and Texas will see a spike in sales predominantly

during the Summer.. This is a huge advantage for companies with headquarters in the bordering states. Through research and development, along with testing and employing technology of the industry, propulsion systems are gaining more efficiency with time. Westmarine.com acknowledged that by installing electric or hybrid alternative engines, the market for this industry can see a tremendous spike from what it already has seen in the recent years. This company states that the benefits of electric propulsion are numerous. These include, but are not limited to: low maintenance, silent operation, and simplicity. By including this in a boating companies repertoire, they are simply bringing on additional consumers on board who support the environment.

According to Ibisworld, the boating industry is currently a \$10 Billion dollar industry, while over the last five years it has seen a growth rate of 5.2%. Trends, mentioned subsequently, suggest that this growth rate will continue to rise about one full percent every year due to the improvements in the overall economy (Mcnichol, 2017). These improvements encompass an increased disposable income as well as heightened consumer spending. All of these dominant components make for an extremely profitable industry.

### III. Porter's Five Forces

#### A. Competitive Rivalry/Intensity

The boating industry has started to become more competitive over the years. There was a boom in 2015 for the boating industry and now in 2017, General NMMA News expects an increase in sales because interest rates are going to be even lower and consumers disposable income is increasing. This leads us to believe there is a high competition for the companies from

2015 to sell their boats at the best price because people are willing to buy boats for the right price. Since there is such a broad category of different boats, many can find a niche and become more dominant in their field.

The main competitors we are looking at are MCBC Holdings, Sea Ray Boats Inc, Jupiter Marine International Holdings Inc., Marine Products Corp., Malibu Boats LLC, and Maverick Boat Group. In the strategic map in the below sections, you can see that Marine Products Corp. has many different types of boats but sells them for less, whereas Sea Ray boats has fewer boat models at higher prices. Malibu Boats, Sea Ray Boats, and Marine Products all hold a significant market share as shown by the map.

The nature of competition in this industry is based around luxury for cheaper prices. Boaters will want the best materials for their boat for reasonable prices due to the main consumer being in the middle class (General NMMA News, 2017) . Buyers are also attached to certain brands. If the technology on one boat seems to be greater than another this company would have an edge in that departments for sales.

Brand loyalty is important because consumers will switch if another brand is offering what their current brand is not. For the boating industry, this would be easy for consumers to switch because there are not switching costs by not buying from the company you previously purchased from. On the other hand, if the consumer is looking for a certain style, it might limit their choices depending on who offers the quality products that meet their needs.

Boating is not a low cost by any means; it is both expensive to own boats as well as to sell boats. It would be difficult for someone to go from buying boats to being able to sell boats. Boats are a luxury item, so this does not make them a necessity compared to other items.

B. Potential Entrants: Threat of Entry

The boating industry is not an easy market to just jump into. There are high immediate costs upon entrance. High tech machinery and materials ranging from steels to plastic would need to be on hand from the time of firm's inception. This industry requires a long lead time, usually around 1-3 years, which means that the company will not be generating profits within the first few years of business. Significant knowledge of the industry and highly skilled employee would also be necessary in order to enter this industry.

Getting the materials for this industry is going to be difficult because it is not convenient to attain these large and specialized materials for boat building. You must have the right contacts to obtain the necessary products that will be used for your company. Boats are, for the most part, not small (Thread: Average Boat Size, n.d.). This means you will need a large space which will require backup capital.

When thinking about the distribution or selling of cars, a common avenue may be the traditional car lots or dealerships. Having efficient and cost-effective distribution channels is another threat of entry. If you do not have a way to extend to all customers, your business will not be able to grow.

Because competition is increasing and sales are being distributed throughout these different companies, incumbents would most likely not be excited for a new entrant (General

NMMA News, 2017). Current companies are stable in their positioning within the market and would not want more competition because they would have to lower prices to maintain their advantage. Although current companies have seen favorable numbers in the past few years, new entrants could take away enough of their profitability that may slow growth. This could also shift the interest and brand strength of the select boating companies that already exist.

Another aspect to look at is looking down the road when the new entrant does enter. New entrants might try to one up the current companies to get their name out there. This will cause the research and development costs of the entire industry to rise because the competitors may try to keep up with the new technology arising. This process will also impact the activity cost chain because the companies will try to have better prices without losing too much money along the way.

#### C. Power of Buyers/Customers:

Buyers in this industry fluctuate. There are always first-time buyers which are mostly young men and people who are new to the boating industry (Barrett, 2017). Water weekenders/event boaters are crucial buyers because they want to have the best boat when they go out, so appealing to these consumers is very important.

Customers, who will ultimately be the end users can also buy directly from boat manufacturers which would include them in this category. Customers can be considered indirect buyers if they buy from retailers. Other companies can also be buyers if that is part of the service they provide, or if requiring aquatic transportation is necessary for their job.

More power is being given to buyers and customers as more companies enter this market. Companies are getting more and more heated to get customers through the door and turn them into buyers. This is giving customers the upper hand in buying because companies have more competition. More buying power does not mean all of the power; some buying power still lies in the company's hands. New companies are entering the market which gives customers more of a selection, however there are still more buyers than there are suppliers. The buying group does not have the power to integrate backwards which overall decreases the power of the buyer.

#### D. Power of Suppliers:

There are many forms of suppliers in this industry. Suppliers could include those who supply the materials to the boat building companies to make the boats. This list would include engine producers, plastic suppliers, fiberglass suppliers, fabric/pleather producers, entertainment system suppliers, fish finder and depth finder suppliers, and computer/technology manufacturers. If one only sells boats, then the supplier could also be the company who assembles the boats for a company.

Suppliers can also mean companies who supply the boats to the consumers. Stores such as Boater's World and Bass Pro Shops supply boats to consumers, while Boats.com is another supplier where private sellers can sell online to other people as well as companies sell their boats through this online website. Local and well known marinas around the United States also provide boats for those who live in the area.

From the manufacturing side, the most powerful suppliers within this industry would be the engine producers (Staff, 2016). Motors are one of the most expensive and important items to

go on a boat. There are little to no substitutes and these suppliers can easily vertically integrate these products to produce boats under their own brand if they wished to do so. For instance, fueling right now is very powerful due to the recent storms (Zargham, 2017). Also, the steel work needed for boats requires skilled labor, which in turn gives them more power.

On the supplier side from a consumer's point of view, places like Bass Pro Shops and Boater's World would be relatively powerful since they have physical locations where people can go and look at their boat inventory. This also gives them an upper hand in selling the boats because they can appeal to and have with contact their customers more easily.

#### E. Substitute Products:

There are numerous products that can be considered substitutes for boats. Since boats can be used for both leisure activities and transportation needs, the potential substitutes will be classified by these two dimensions. Substitutes within the leisure group include jet skis, motorcycles, dirt bikes, and four-wheelers. When individuals choose to use boats for a day of fun they could easily choose one of these substitutes to fulfill their need for adventure. All of these leisure substitutes allow the user to be on/in a motorized vehicle that can potentially move at high speeds in the outdoors. Unfortunately, only the jet ski allows customers to enjoy a day on the water. These substitutes provide internal satisfaction but they can not all physically provide the same external benefits as a boat.

Transportation qualities of boats can be fulfilled by substitutes including cars, airplanes, trains, and bikes. All of these substitutes allow users to move from one area to another, which is

the basic purpose of a boat. Substitutes in this category are all very similar in terms of purpose, but again, boats are the only mode of transportation that allow individuals to utilize waterways.

Overall, the threat of these substitutes on the boating industry is low. Individuals can accomplish basic transportation through any of these methods, yet none of them are similar enough to the unique aspects of boating to be considered a serious threat. As these items do not provide the same internal satisfaction that comes with being on a boat, it is predicted that consumers will not be willing to purchase any of these other items to substitute boats.

#### IV: Trends in the General Environment:

After thoroughly reviewing and analyzing the external environment, it has been determined that there are three major trends impacting the boating industry. These trends include: positive economic growth, increases in technology, and changes in customer preference. These trends are the direct cause of processes restructuring and design improvements throughout the industry.

Over the past five years, from 2012 to 2017, real GDP has steadily increased by an average of 2% each year (Statista, 2017). As mentioned previously, the boating industry during these same years experienced a 5.2% annual growth rate and expects growth of 1.3% between 2017 and 2022 (IBIS World, 2017). These statistics indicate that there will be a positive effect on the boating industry. The economy is continuously becoming stronger, with a predicted decrease in unemployment rates from 4.3% in 2017 to 4.1% in 2018 (U.S Bureau of Labor Statistics, 2017). With the increase in the overall number of employed individuals, there will be more disposable income to spend on luxury and recreational goods including boats. This positive trend has already benefitted numerous manufacturing companies, including Brunswick Boat

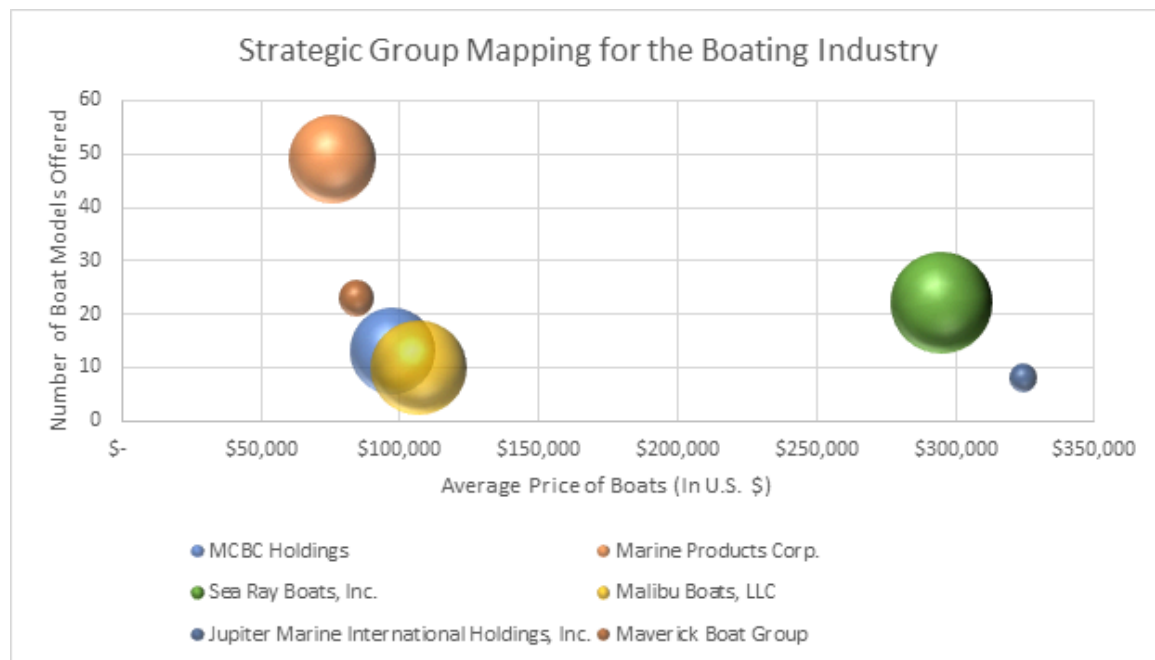
Group, who has seen an increase in customer spending and has chosen to reinvest its earnings to create larger, more expensive boats (IBIS World, 2017).

Technology is also having a noticeable impact on both the manufacturing process and the output of this process, vessels. Improvements in technology, including computer programming, updated machinery, and 3D printing has allowed the manufacturing process to become more streamlined and efficient. Greg Meloon, President of Nautique Boating, stated that their manufacturers have adapted technology that allows their supply chain members to be notified of the exact product needs every time a boat is ordered (personal communication, October 5, 2017). This has allowed them to remove extraneous steps within their manufacturing process and has improved the speed at which their boats make it to the market. This increase in technology has also had an impact on customer preferences, which in turn is creating a need for new boat designs and features. GPS, digital dashboards, and digital shifters and throttle are standard features on new vessels. Raymarine has responded to this market trend by creating an autopilot system for vessels (Raymarine, 2017).

According to IBIS World, consumer preferences have evolved and individuals are prioritizing efficiency and quality over boat length. Current customers are seeking smaller boats, under 20 feet, that have improved safety features, updated technology, and are eco-friendly. Manufacturers, including Malibu and Nautique have responded to this trend by prioritizing vessel customization. Both companies, on average, offer only 8-10 standard boat options (Malibu Boats, 2017). This allows customers to design specific elements themselves, and the company has focused more energy on its best selling products. Greg Meloon stated that, more than half of Nautique Boating's sales are customized orders (personal conversation, October 5, 2017). In

order to respond to the need for eco-friendly, fuel-efficient boats, Hinckley Company has produced Dasher, the world's first electric yacht that will become available in 2018. The company powers this vessel with waterproof lithium-ion batteries that are supplied by BMW and shows the world that it is possible to have boats that are eco-friendly (Yachts, 2017).

#### V: Strategic Map Analysis



Through our research, we have selected a core group of power players within the boating industry to include on our strategic group map of the industry. This exclusive group includes the following companies: MCBC Holdings, Marine Products Corp., Sea Ray Boats, Inc., Malibu Boats, LLC, Jupiter Marine International Holdings, Inc., and Maverick Boat Group. This broad range of boat manufactures depicts a well-rounded view of the boating industry. There were many metrics to asses our industry with, but we felt that there were two factors that determined the true defining segments in our industry. The two that give a clearer insight of the different markets within the boating industry are the average price at which a company sells their boats at,

and the number of boat models that they offer. Pricing plays a large part of what niche you are in, who you compete with, and who your customer base is. We have found a high correlation of the price of the boats to the number of features offered and the quality of products offered. The higher priced boats come with more conveniences, comforts, and technology. Each strategic group provides very unique benefits and attempts to meet the needs of that target market. Therefore, the price range of the different boating companies displays their marketing target, and the number of models could exemplify their efforts to meet the customer's needs within it.

The range of boat models offered is also a key component in determining which market segment you belong in. The higher number of boat models offered helps to ensure that the client's more specific needs are met. The more products you have available, the wider your customer base may be as well. If you sell a wide breadth of boat types, you may consider yourself a one-stop shop in the boating industry. The companies with higher technological capabilities may offer customizable boats online and in-store (G. Meloon, personal communication, October 5, 2017). This would in turn give you company the ability to meet some of the most specific needs for boats as these can be met with customization. On the other hand, your company may want to be known for being the best builder of one particular type of boat or hull type. That way when customers are in the market for that model or hull type, your company will come to mind first with proper branding. If you specialize in a popular boating type, this strategy could be very lucrative. One final factor we use to just compare the companies is their revenue. This is to gauge each company's relative size and share of the market within the boating industry and how many boats or products they sell a year.

As you can see from our formulated strategic map, there are two distinct groups that have formed. The majority of the companies tend to group around the segment that offers roughly ten to twenty boat types at an average of \$100,000 per boat. Maverick Boat Group, Malibu Boats LLC, and MCBC Holdings would be in the same competitive market grouping with each other, while Sea Ray and Jupiter Marine would compete in their own grouping. Since three of the six companies follow this strategy, this is the most competitive market. If you follow this tactic, keep in mind that consumers have more options to go to. However, because it is a popular strategy, it's perhaps the easiest market to capture or start in. This could mean that other companies looking to get into the boating industry may have to enter here before trying to corner another niche. However after becoming well established in the industry, you may want to look into either increasing prices, or offering more products as the map shows opportunities with those strategies. Only MCBC Holdings and Sea Ray Boats, Inc. are focusing on a relatively small product line, but pricing at a little over \$300,000 per boat. They are targeting the more affluent buyers who have specific needs and can identify them. As seen on our map, this market has less direct competition than the grouping with lower priced options. Marine Products Corp. is the only company within the boating industry that focuses on lower prices, but offers close to fifty different types of boats. From our strategic map, it appears that they have little competition, and getting into this strategy could be very beneficial after the company has its brand established.

#### VI: Key Success Factors

**What are the 3-4 key success factors that have the strongest relationship with success and profitability?**

*Growth in the economy-* As disposable income increases, consumer confidence begins to rise and increased spending will occur.

*Weather-* Depending on the different climates throughout the state's, higher temperatures being ideal for boating conditions, boat sales can show a distinctive difference in profit. USA Today shows Broward County as having \$1,516,358,220 in boat-related sales, leading the Nation with Texas coming in a close second (Treasure Coast, 2016).

*Government regulations-* A decrease in the price of unleaded fuel has led to an increase in the overall sales of boats. Also, with less restriction to water access, these states or counties will experience higher levels of sales.

*Technological advancement-* The boating industry has embraced new technology from docking a boat with a joystick reminiscent of video games to supporting the supply chain and efficiency of operations. All of which has sparked an increase in consumer attention leading to heightened boat purchases.

### **Do these KSFs vary by segment?**

After our research, it is evident with segment identification, that the key success factors vary from segment to segment. Boating is predominantly “middle-class” with 72 percent of boat owners having a household income of less than \$100,000 according to National Marine Association (Treasure Coast, 2016). By comparing a standard sport fishing boat with a luxurious yacht, the difference in price is clear and expected. As the disposable income in America rises, the higher the possibility that a household may purchase a boat in the high end boat producer segment, like Sea Ray or Jupiter Marine. Other segments such as weather, consumer confidence, and government regulations will all vary dependent on location.

### **How are these KSFs likely to vary over time?**

The economic and government regulation Key Success Factors are likely to change over time much like the cycles in the market or the economy. The economy is monitored and controlled partially by monetary policy, but recessions or bad quarters can happen at any time along with policies. The metrics like the consumer spending amount, jobs reports, and overall economy health are snapshots of a particular time. Because of this, it is rather unpredictable and harder to gauge. The technological innovation and weather patterns factors trend seems to constantly move in one positive direction. Over the past twenty years, there have been significant increases in the uses, complexity, and innovations in the technological world along with hotter climates due to global warming. The changes from warmer weather and technology for boats in the future will only have a positive impact on all segments as more studies are conducted and discoveries are made.

### **What are the implications of this evolution?**

There are a few implications to the evolution of these Key Success Factors, such as the profits of boat builders being subject to the unpredictable nature of the economy and government policies, global warming will continue to raise temperatures, and that technology will only improve with time. Unfortunately consumer expenditure and household income are included in the economic outlook, and turn out to be important factors to boat builders making profits. A similar implication is made with the technological improvements and weather. These factors are also unpredictable in that it changes every day but for them it is with stronger, more powerful, and complex technology and outlooks than users had previously.

### **VI. Analysis - Industry's Prospects for Long-Term Profitability**

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Overall, we have come to the conclusion that the boating industry has a positive future outlook. As stated previously, this sector has grown 5.2% annually in the past five years and is expected to continue to expand in the following five as well. Along with that, the optimistic look on the future economy bodes well for the boating industry. New technological advances also mark the positive long-term profitability. As advancements of fuel alternatives, the boating industry is becoming less dependent on oil companies. This leads to more power over suppliers, reducing the overall prices of acquiring boats.

Another huge factor that drew us to our conclusion is the difficult entrance into this industry. Astronomical fixed costs are obtained when beginning to enter into this sector. While it may take a few years to start making a profit, once you have accomplished this feat you have a golden opportunity of making substantial long-term profit. It's hard for companies to reach this point, therefore you do not to have massive amounts of competition. Not only is there not a lot of internal rivalry within the industry, externally there aren't very many substitutes. If you want to be on or travel through a body of water, a boat is your best option. Also, boats provide a unique quality; they don't just have one particular purpose. We mentioned it briefly in the text above, but boats are used for transportation and leisurely activities. This dual purpose greatly impacts the value and distinction of boats.

It is with all of these factors in mind, that we have come to the conclusion of the boat building industry having such a positive outlook for long-term profitability.

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