MGT 407

International Management Practices

“একটি ঘোড়া কখনই দ্রুত দৌড়ায় না যতক্ষণ না তার সামনে ধরার বা ছাড়িয়ে যাওয়ার মতো অন্য ঘোড়া থাকে” - Ovid

অর্থ্যাৎ প্রতিযোগিতা বা চ্যালেঞ্জ মানুষের (বা প্রাণীর) সেরা প্রচেষ্টা এবং গতির সঞ্চারে প্রেরণা জোগায়।

Michael E. Porter - Faculty & Research - Harvard Business School

Porter's Five Forces

[ˈpȯr-tərs ˈfīv ˈfȯrs-es]

A model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths.

Investopedia

Porter's five forces analysis is a framework that attempts to analyze the level of competition within an industry and business strategy development.

It draws upon industrial organization (IO) economics to derive five forces that determine the competitive intensity and therefore attractiveness of an Industry.

Attractiveness in this context refers to the overall industry profitability. An "unattractive" industry is one in which the combination of these five forces acts to drive down overall profitability.

A very unattractive industry would be one approaching "pure competition", in which available profits for all firms are driven to normal profit. This analysis is associated with its principal innovator Michael E. Porter of Harvard University.


Threat of
New Entrants
Customer
Bargaining
Power
Porter's
Five
Forces
Supplier
Bargaining
Power
Threat of
Substitutes
Internal
Competition
(Rivalry)


Threat of New Entry
Threat of New Entry
Time and cost of entry
Specialist knowledge
Economies of scale
Cost advantages
Technology protection
Barries to entry
Competitive Rivalry
Number of competitors
Quality differences
Other differences
Switching costs
Customer loyalty
Supplier Power
COMPETITIVE RIVALRY
Buyer Power
Supplier Power
Number of suppliers
Size of suppliers
Uniqueness of service
Your ability to substitute
Cost of changing
Threat of Substitution
Substitute performance
Cost of change
Threat of Substitution
Buyer Power
Number of customers
Size of each order
Differences between competitors
Price sensitivity
Ability to substitute
Cost of changing

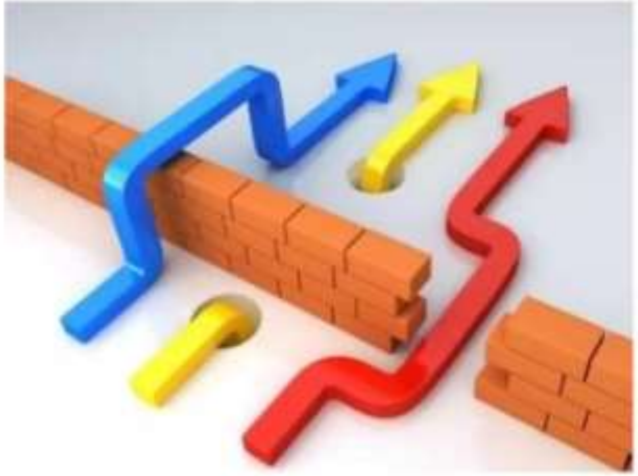
1. Threat of new entrants

The market is full of competition. Not only the existing firms pose threat to the business, but the arrival of new entrants is also a challenge.

As per the ideal scenario, the market is always open for entry and exits, resulting in comparable profits to all the firms.

But, this is not applicable in the real picture market.

In reality, all industries have some traits that protect their high profits and help them in warding off potential new entrants by erecting barriers



2. Threat of substitutes

The substitutes can be defined as the products of other industries that have the ability to satisfy similar needs.

Example: Coffee can be a substitute for tea, as it can be also used as a caffeine drink in the morning.

When price of a substitute product changes, the demand of a related product also gets affected.

When the number of substitute product increases, the competition also increases as the customers have more alternatives to select from. This forces the companies to raise or lower down the prices. Hence, it can be concluded that the competition created by the substitute firms is 'price competition'.

3. Bargaining power of buyers

This has an important effect on the manufacturing industry.

When there many producers and there is a single customer in the market, then that situation is called as 'monopsony'.

In these markets, the position of the buyer is very strong and he sets the price. In reality, only a few monopsony markets exists.

The bargaining power of the buyers compels the firms to reduce the prices and may also demand a product or service of higher quality at low price.

4. Bargaining power of suppliers

Since the company needs raw material for producing, therefore the producers have to build a relationship with its suppliers.

When suppliers have the power in their hands, they can exert influence on the producing firms by selling them raw materials at higher prices.

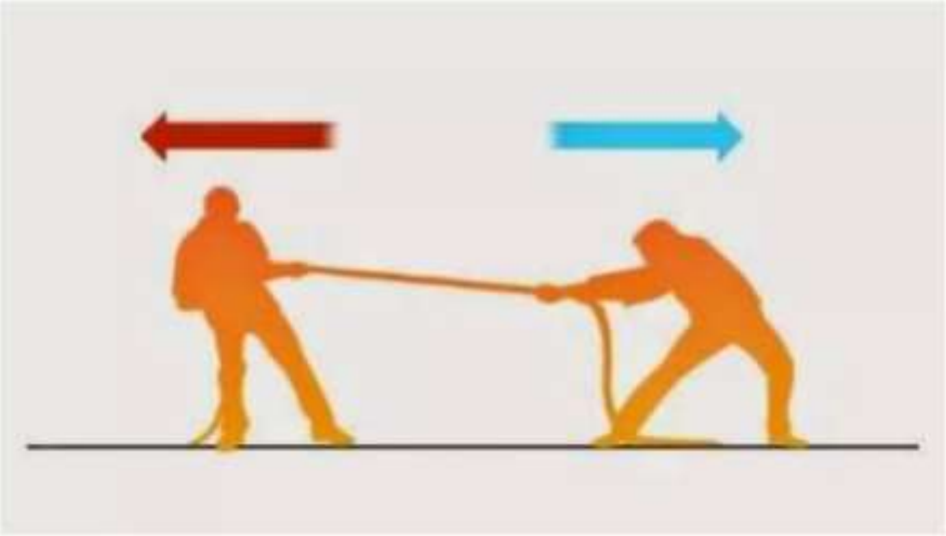
Example: Wal-Mart as an organization thrives on the basis of its relationship with its suppliers.

5. Rivalry inside the industry

For most industries the intensity of competitive rivalry is the major determinant of the competitiveness of the industry.

Potential factors:

- Sustainable competitive advantage through innovation
- Competition between online and offline companies
- Level of advertising expense
- Powerful competitive strategy
- Firm concentration ratio
- Degree of transparency



Is Porter's Five Forces Framework Still Relevant? A study of the capital/labour intensity continuum via mining and IT industries

Diane Isabelle, Kevin Horak, Sarah McKinnon, Chiara Palumbo

"A horse never runs so fast as when he has other horses to catch up and outpace."

- Ovid

Porter's Five Forces (P5F) framework, published in 1979, helps us to understand the attractiveness of an industry. The five competitive forces are: the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products of services, and the rivalry among existing competitors. This framework has recently come under scrutiny and been called into question. To contribute to the debate, this paper investigates the relevance of Porter's framework by contrasting vastly different industries. The use cases consist of a resource-based, capital-intensive industry, the mining industry, and a knowledge-based, labor-intensive industry, the information technology industry. Drawing from research on Porter's Five Forces framework, and through an internationalization lens, the paper proposes a modified framework augmented with four additional forces. These additional forces are: the competitor's level of innovativeness, exposure to globalization, threat of digitalization, and industry exposure to de/regulation activities. These forces were added to capture the increased interconnectivity and complexity of businesses operating in the 21st century. The paper contributes to this body of knowledge by augmenting a popular framework and applying it to vital industrial sectors. The findings aim to incite researchers, managers, entrepreneurs and policymakers to go beyond the traditional five forces as a way to help monitor their business environment and enhance decision-making processes, particularly in a post-COVID-19 world.