



# Croeso | Welcome to ABS A Level Business Lecture Series



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# Porters 5 Forces (1979)

- Content to support Year 2 Business A' Level
- Dr Ian Harris – [ihh@aber.ac.uk](mailto:ihh@aber.ac.uk)

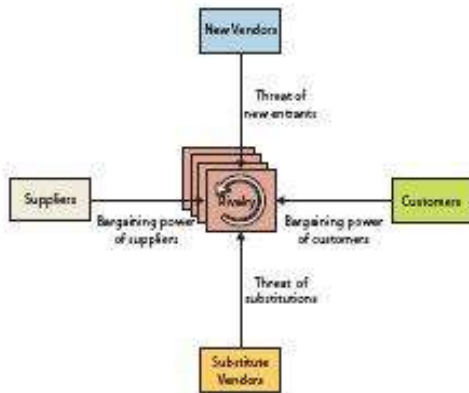
Michael E. Porter, *“How Competitive Forces Shape Strategy,”* Harvard Business Review, May 1979 (Vol 57, No. 2), pp. 137-145

# Learning Outcomes

- Describe the five components of Porters Competitive Forces Model (1979)
- Outline the development and change in the impact of the the five forces
- Explain how these help organisations create strategic and operational direction
- Detail the impact of the five forces on profitability

# Model Ecosystem

- Frameworks and tools used in conjunction with this model include:
  - SWOT
  - Balanced Scorecard
  - PESTEL analysis
  - Growth-Share Matrix
- Are you feeling inquisitive?
  - Major contributors to this area include Michael Porter, Gary Hamel, C.K. Prahalad and Henry Mintzberg



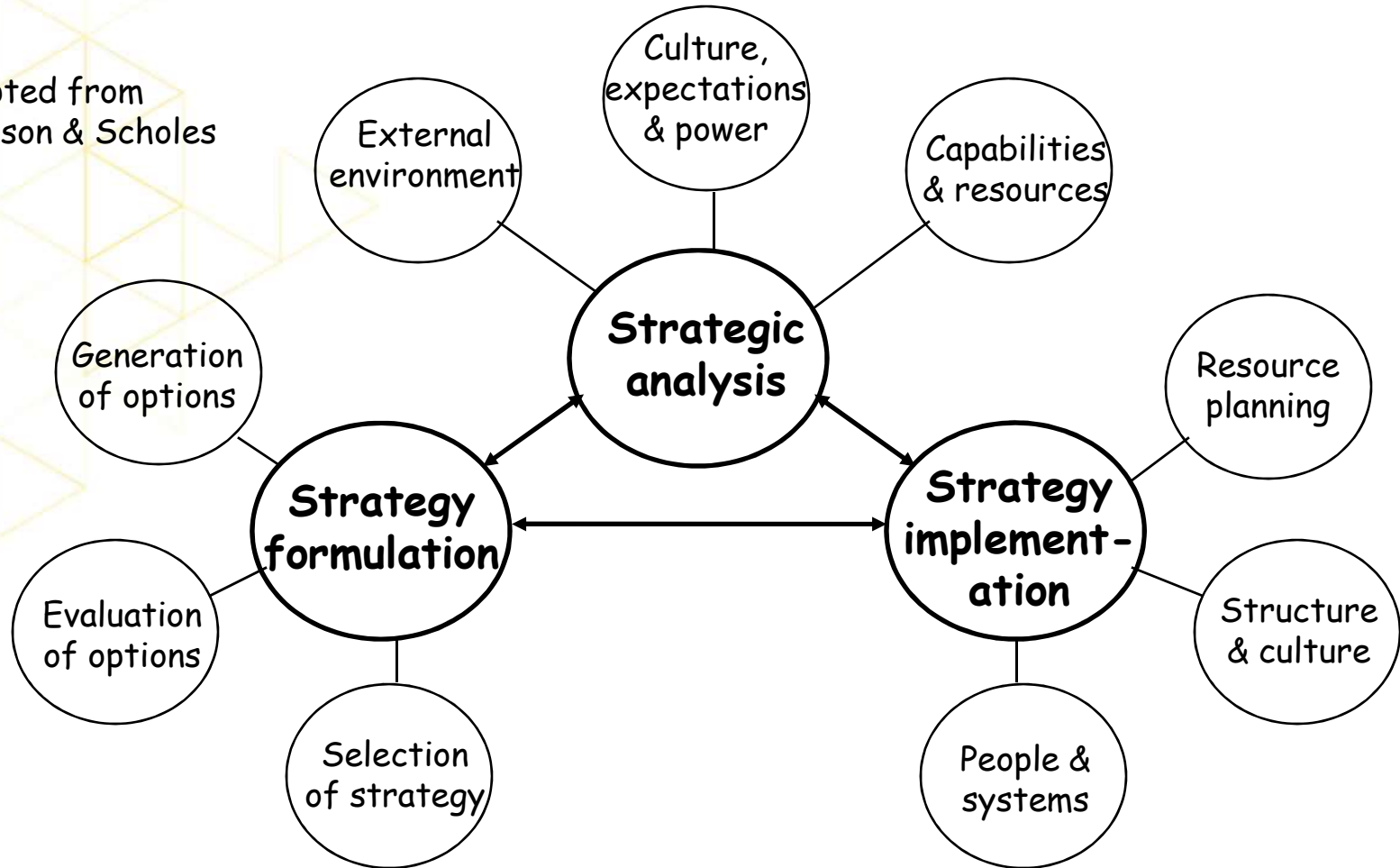
Lowest cost across the industry	Better product/service across the industry
Lowest cost within an industry segment	Better product/service within an industry segment



# Background

- The model determines competitive intensity (from an industrial organisation economic perspective)
- It works at the “industry” level, not at the corporate level - The microenvironment
- Marketplaces are dynamic, overall industry information changes
- It attempts to define attractive and unattractive industry in terms of “profitability”
- Firms apply their core competencies, business model, or network to achieve profit above industry average

Adapted from  
Johnson & Scholes





## How is it used?

- Consultants and Senior Managers use it qualitatively evaluate a firms strategic position
- It's the starting point and later analysis might include
  - Value Chain analysis
- It functions best at “line-of-business” industry level or in *clear English*
  - “a market in which similar or closely related products and/or services are sold to buyers”

*“The actors and forces **external** to the marketing management function of the firm that **impinge** on the marketing management’s ability to **develop and maintain** successful transactions with its customers.”*

Kotler, 1994



[https://www.youtube.com/  
watch?v=tT4LPOY1DFs](https://www.youtube.com/watch?v=tT4LPOY1DFs)

# This is content that we test in the...

- *Aberystwyth University Entrance Exam*
- Successfully complete an exam (there are multiple points in the year and you can take it in the subject you are best at) and earn yourself an unconditional or reduced offer for the Business School
  - More details here (use short link):  
<https://www.aber.ac.uk/en/undergrad/before-you-apply/scholarships/entrance-scholarships-merit-awards/>

## Competitive Dynamics examples

- A similar strategy of cannibalizing their own products was used by Apple<sup>®</sup> and Gillette<sup>™</sup>.
  - Apple introduced the iPhone<sup>®</sup> while iPod<sup>®</sup> sales were brisk, and the iPad<sup>®</sup> while its Macintosh sales were strong
  - Introduced Apple Music whilst iTunes sales were still strong
  - Apple continues to exhibit this strategy with subsequent releases of new models of all of its products. What is the revenue model based upon..?
    - **LOYALTY**

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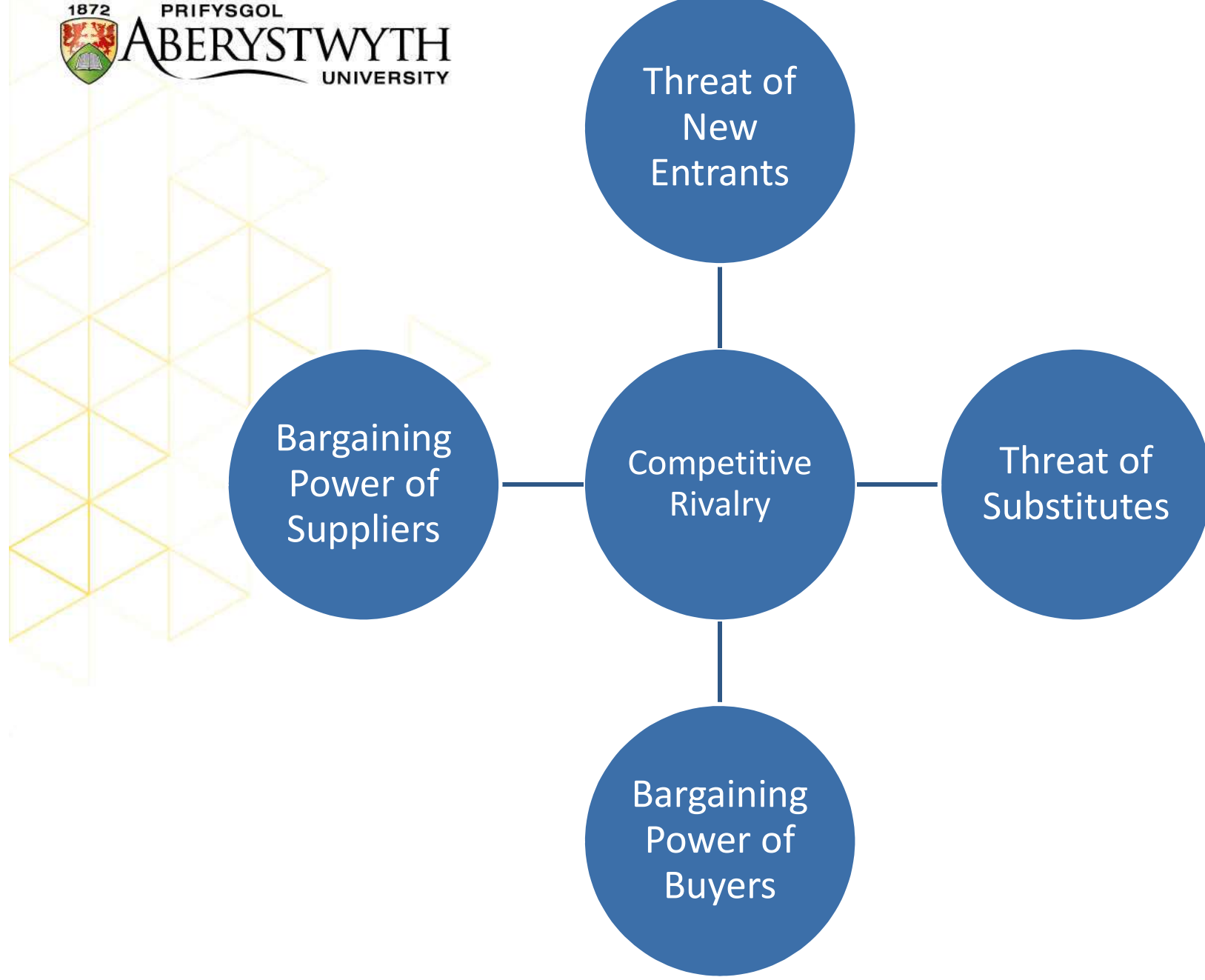
Threat of  
New  
Entrants

Bargaining  
Power of  
Suppliers

Competitive  
Rivalry

Threat of  
Substitutes

Bargaining  
Power of  
Buyers



# Threat of New Entrants

- Profitable industries, especially with high yields will perpetually attract new entrants
- Any entrant will reduce profitability, effective entry can decimate profits
- A competitor defence strategy will be to make market entry more difficult
- There are a range of activities an incumbent firm may take to protect from threat of New Entrants
- Some industry has naturally low, or high barriers to entry

- Attractive segments have
  - High entry barriers
  - Low exit barriers
- Ideally firms wish to be able to leave a market with little difficulty, but to create environments that mean its difficult to enter
  - Think Mobile Phone operating systems
    - iOS, Android, Windows, BBS (Blackberry), ColorOS, EMUI
    - Harmony OS (Huawei)



# Factors impacting market entry

- **Government Policy**
  - The supplier of Cable and Fibre to BT has “One” customer, and “No” competitors
  - A sanctioned monopoly (a non-government example is DeBeers and diamonds)
- **Capital Requirements**
  - Tata Steel is still open in Port Talbot because if it were closed the capital requirement to build a steel works would be enormous
  - New entrants to Steel are few and government sponsored

- Brand Equity
  - It took 12 years for iPhone brand equity to diminish sufficiently for proper competition
- Product Differentiation
  - Think of a fast food delivery company...
- Switching Costs
  - Even though iOS and Android are very similar, it still takes time to become effective when changing OS, and even more time if you are over the age of 25!

- Access to distribution
  - Mobile operator Three had poor access to 4G networks. It had to give huge bundles of data away to offset poor mobile performance
  - For 5G, Three is MUCH better placed
- Customer Loyalty (Sodexo Exchange)
  1. Samsung
  2. Apple
  3. Marmite
  4. Dyson

# Threat of Substitutes

- Substitutes may use a different technology
  - Think Tesla vs VAG
  - Ryanair vs British Rail
  - iTunes vs Spotify
- Monster Energy is a substitute for Coke, Water is a substitute for Monster Energy...
  - Single Use Plastic issues?

- Are current customers disloyal? Are they likely to switch
  - Hands up, who prefers Coke to Pepsi
  - Again hands up, who won't drink either (think about how this is different to 30 years ago)
- (Switching cost) Using an Uber instead of local taxi firm
  - App download, and good to go
    - Local authorities reigning in Uber licenses after pressure from local firms

- Product differentiation
  - Realistically, what is the fundamental difference between Android and iPhone?
    - Social Media
    - Apps
    - Calls
    - Streaming
    - Web Browsing
    - Shopping
  - Ease of substitution, are there many substitutes in the market

# Bargaining Power of Customers

- Can the customer put the firm under pressure?
  - Have you noted that most coffee chains charge the same of their coffees?
  - Reduces the markets "sensitivity" to price changes/variance
- BOPIS and BOWIS – web comparison
- Do you have the Costa App? The Starbucks or Café Nero App? – they are a response to "reduce" your bargaining power...

- How many buyers in the market, and how many firms?
- Who owns the distribution mechanisms?
- Buyer switching costs (time, energy, money, stress...)
  - iOS to Android = low
  - Windows to OSX = medium
  - VAG to Tesla = High
- Buyer price sensitivity
  - iPhone contracts 2016 vs 2019



# Bargaining Power of Suppliers

- Labour, raw materials, components, services are all needed
  - Machine Learning (AI) and Mobile Development are currently most in demand, thus human resources for this input are more expensive
  - You want to sell UK sourced [Quinoa](#)
- iPhones legally must now use Qualcomm modems...a result of apple unsuccessfully suing for “illegal patent licensing practices”
- Sometimes impacted by PESTEL
  - E.g. HDD, Thailand, and flooding

- Potential factors include:
  - Supplier switching costs
  - Impact of inputs on differentiation (Leica and Huawei)
  - Presence of substitutes (mediatek modems for iPhones)
  - Employer solidarity (think Ryanair Pilot Strikes) or Air France traffic controller strikes

# Competitive Rivalry

- Most Business Degree's spend a great deal of time (00's of hours) in this realm
- The intensity of competitive rivalry is the major determinant
  - When you open your student bank account there will be dozen's of choices, however, some are differentiated to better meet your needs
- Positioning is important here, you want to position to the biggest market and best meet their needs...tricky

- Continuous innovation (think iPhones, but innovation has been minimal for 3 years)
- Blue ocean thinkers (Halo Top ice cream)
- Level of advertising expenditure (Sky spent £23 million in print in 2018; Virgin spent £4.3 million)
- Can you reduce costs or differentiate in other ways (Porters Competitive Advantage model)

# Criticisms

- Porter uses inconsistent logical argument
- Porter does not have sufficient empirical support and used selective case studies
- Others have argued Porter's firm-level analysis is widely misunderstood and mis-taught

# Criticisms/Summary

- Porter's model is useful for diagnostics, or understanding how a business seeks to profit in its chosen marketplace, and for prescriptions, or building new opportunities for advantage
- Porter's model was developed at a time where the rate of change in any given industry was relatively slow and manageable
- Newer models were developed to take into account the increasing turbulence and velocity of the marketplace



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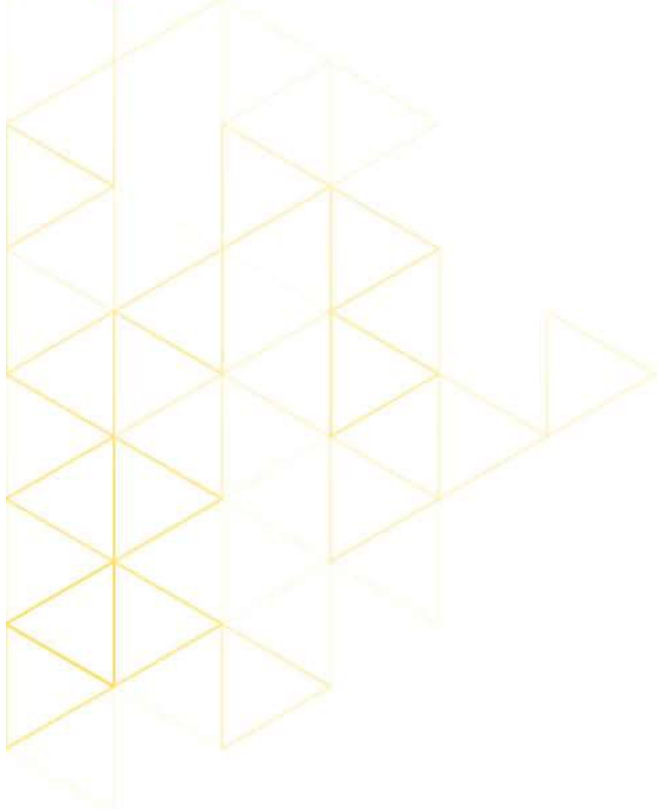
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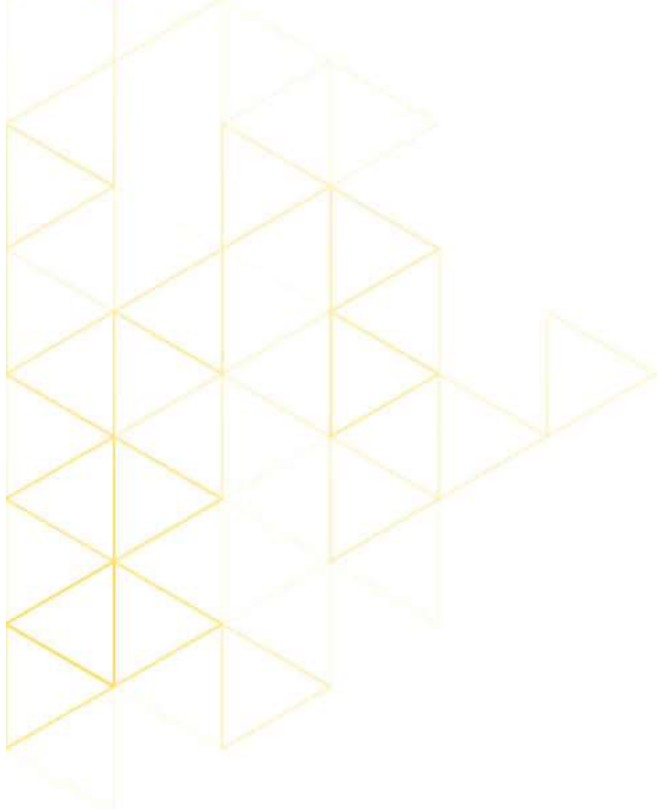


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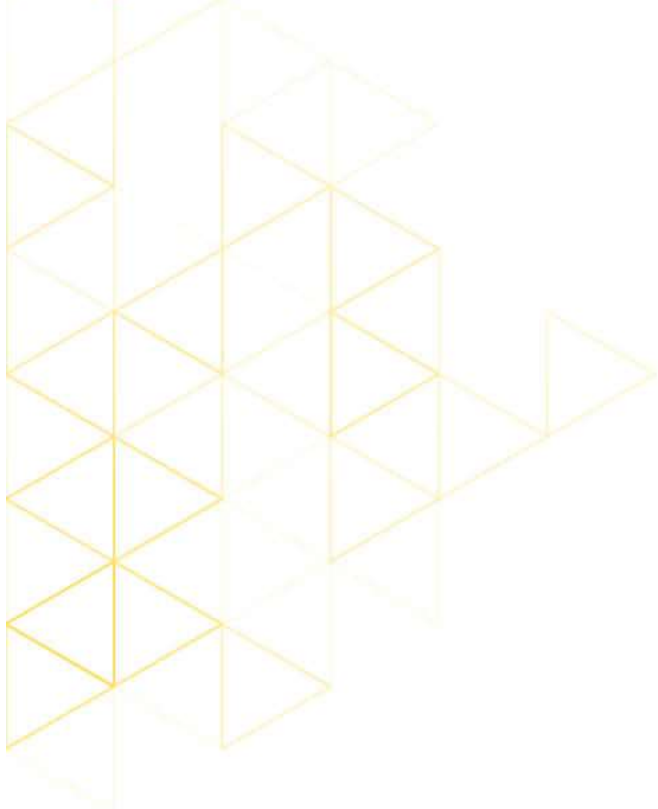


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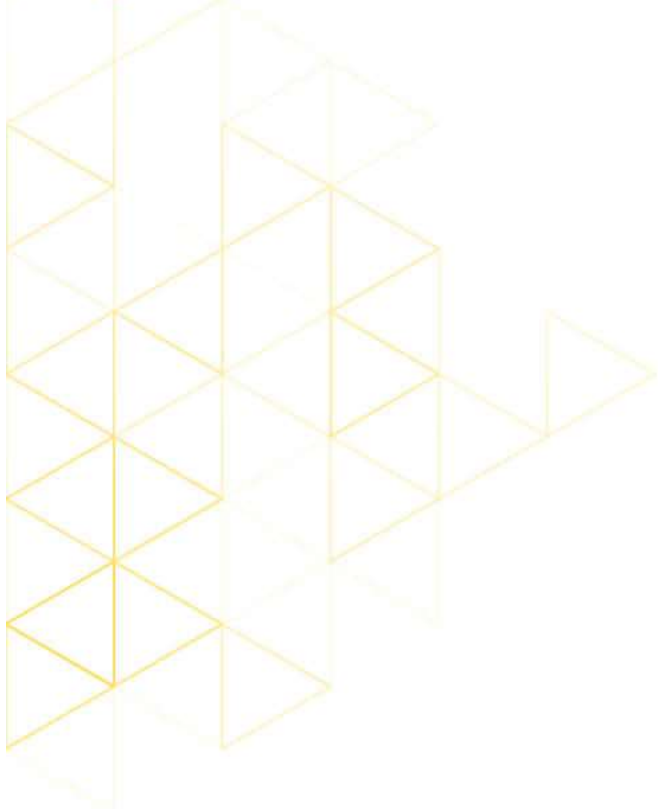


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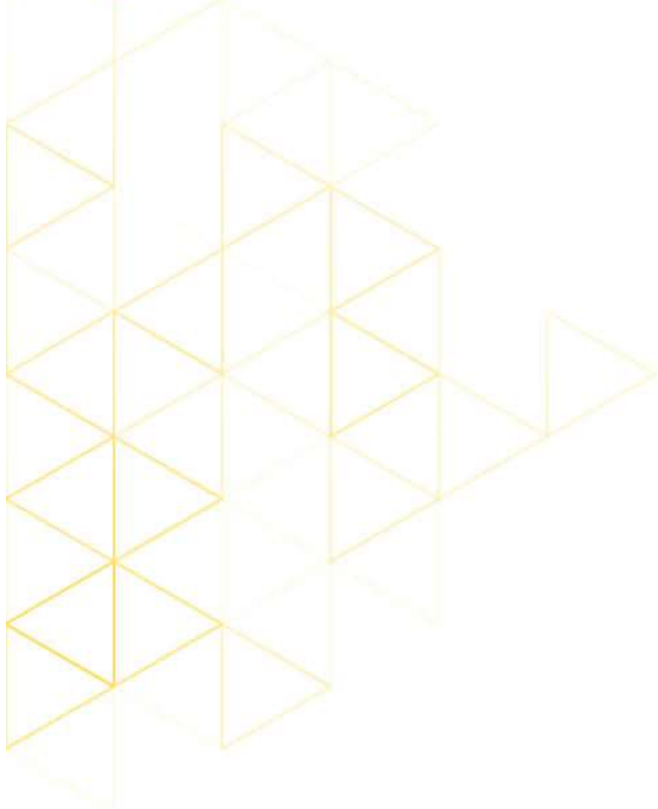


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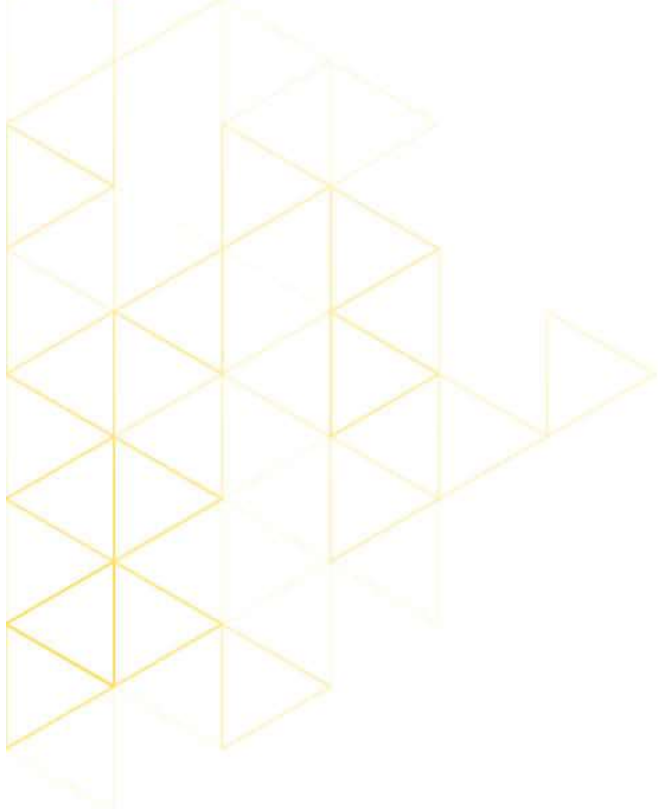


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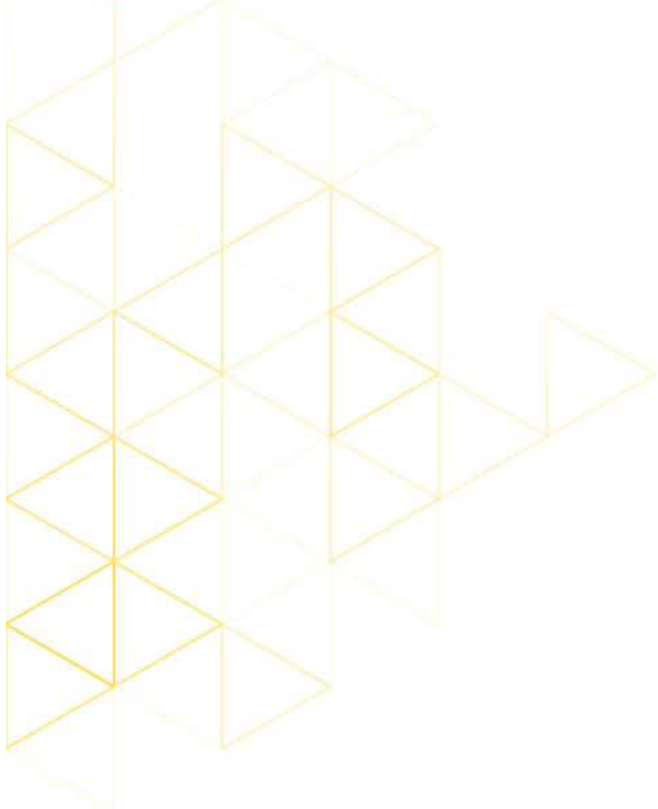


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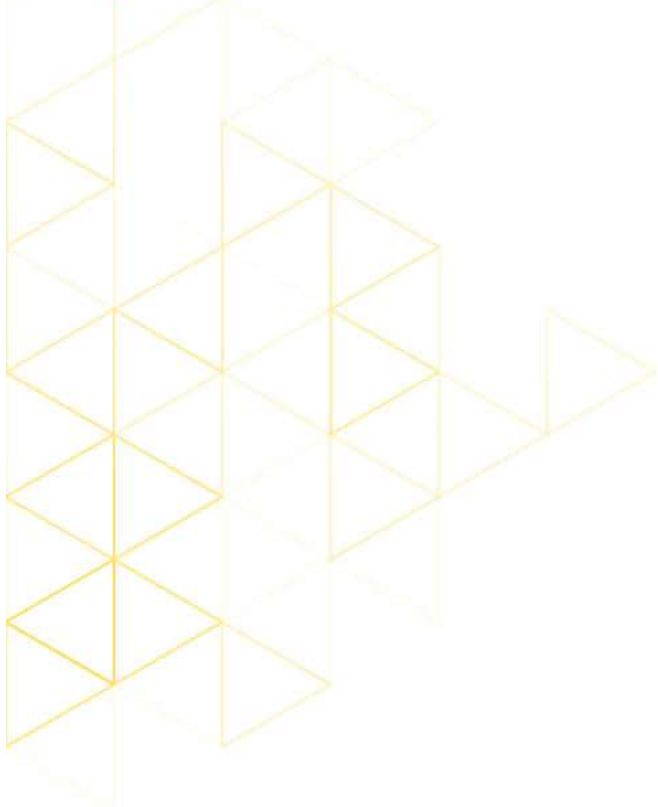


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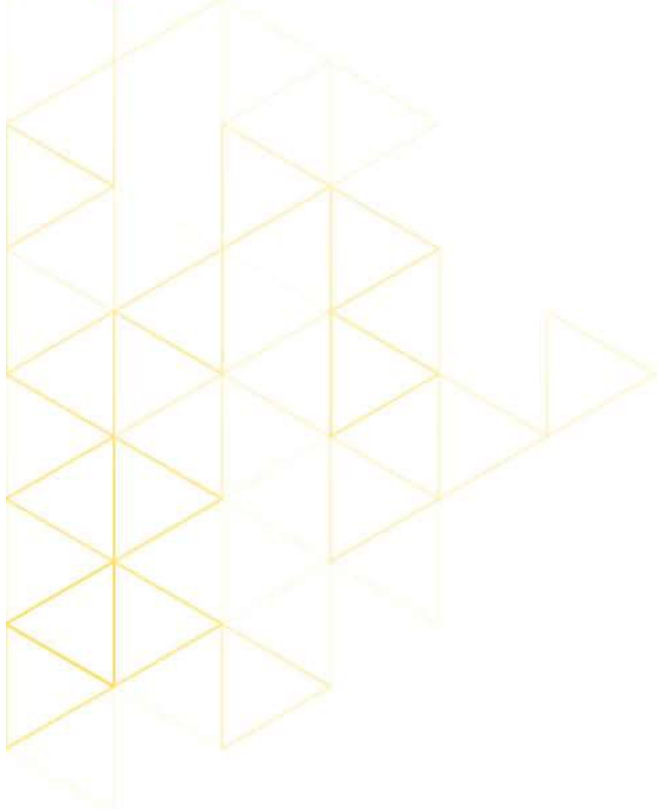


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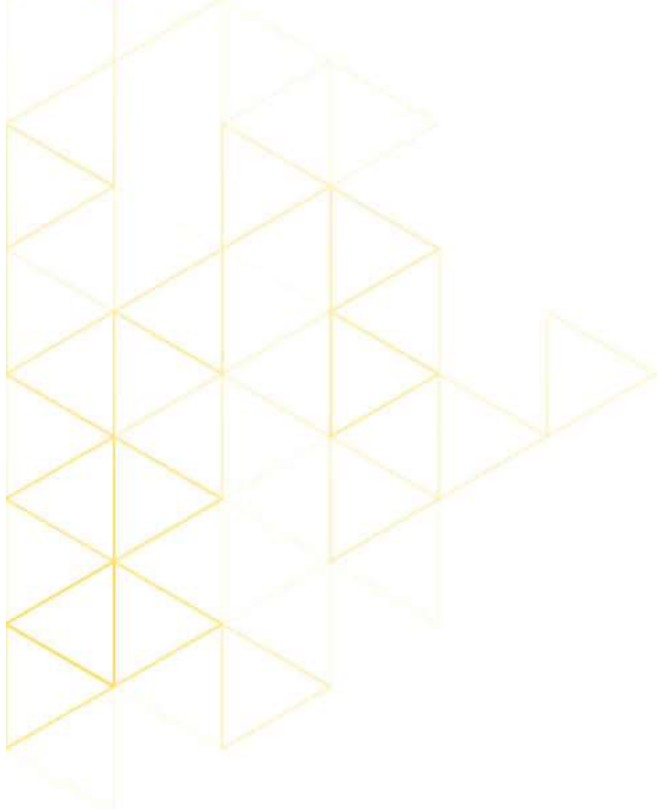


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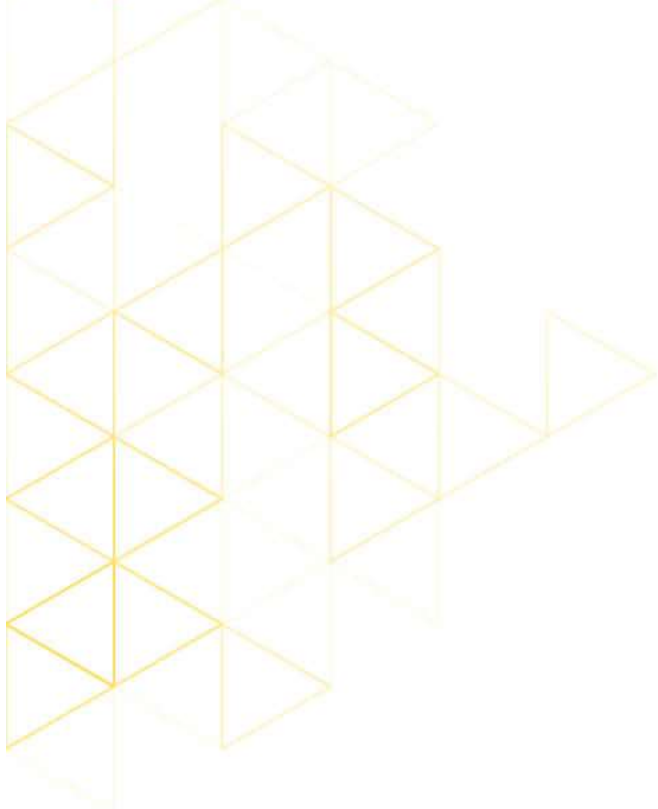


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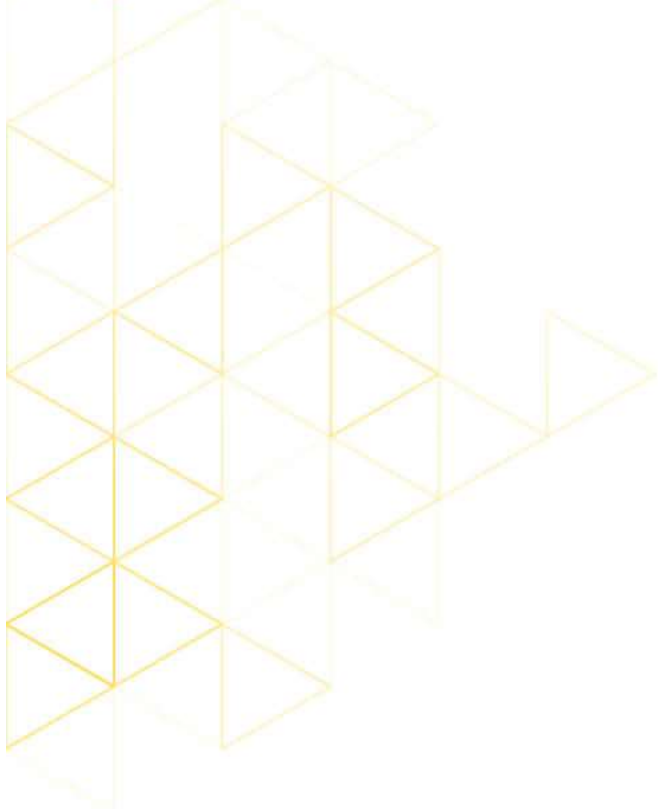


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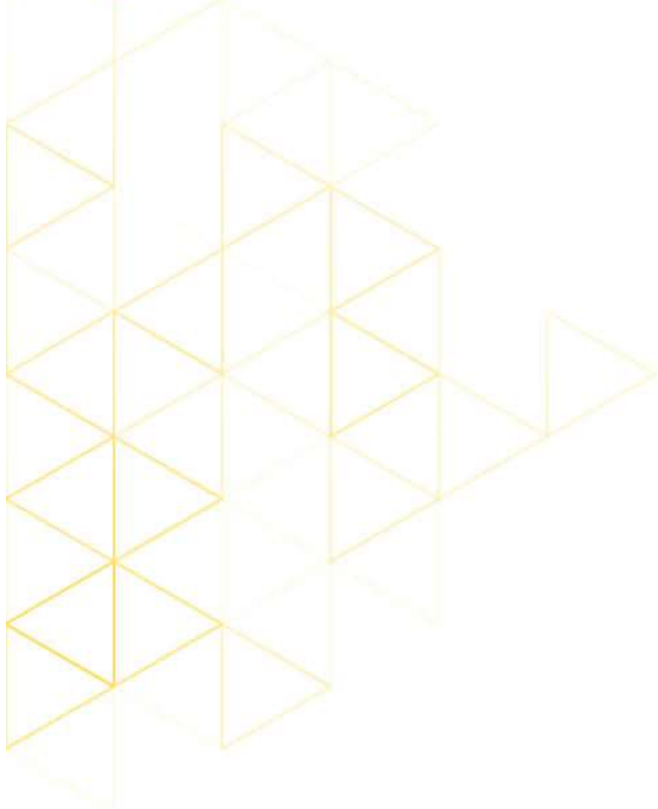


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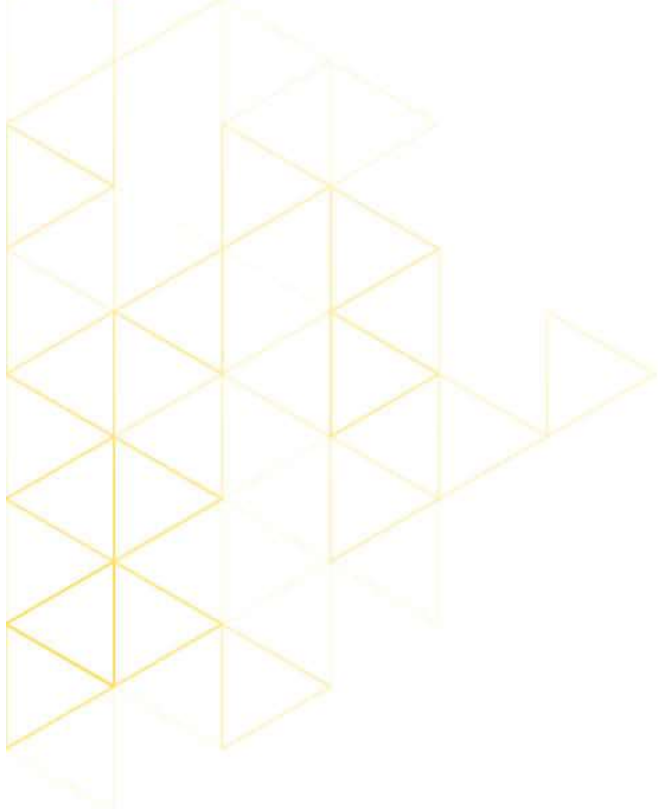


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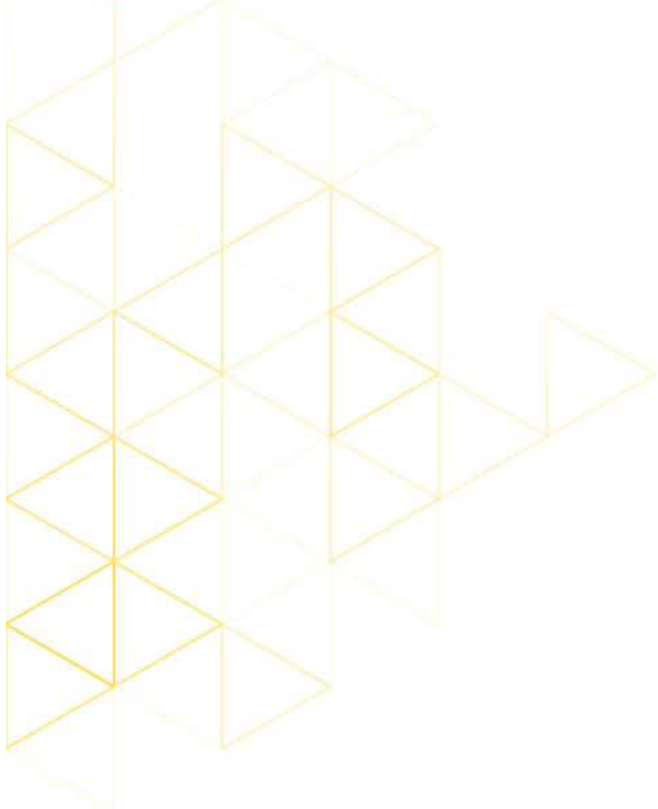


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