Porter Competitive Model?

- What is it?
  - A model to help understand the competitive environment in which a company operates.

- What are the “5 forces”?
  - Intra-Industry Competition
  - Bargaining power of Suppliers
  - Bargaining power of Customers
  - Substitutes
  - Threat of New Entrants.

DRC

If you qualify for classroom accommodations because of a disability,
- Contact DRC at 831-459-2089 or by email at drc@ucsc.edu
- Get "accommodation authorization"
- Submit your Accommodation Authorization to me
  - Office hours or after class
  - Preferably within the first two weeks of the quarter

Tutor Available

Tutor: Bowen Yi
- Monday 2:50pm - 3:50pm @ BE, Jack’s Lounge
- Tuesday 10:00am - 11:00am @ SE Library, (study area on Main level)
- Thursday 2:00pm - 3:00pm @ BE, Jack’s Lounge
- Email: boyi@ucsc.edu

Porter Competitive Model

Porter Competitive Model (Identify the Industry and the Specific Market Being Evaluated)

- Potential New Entrants
- Intra-Industry Rivalry
- Bargaining Power of Suppliers
- Strategic Business Unit
- Bargaining Power of Buyers
- Substitute Products and Services
Porter Model

- Example:
  - AT&T in the US Mobile Telephony Industry

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Porter Competitive Model
US Mobile Telephony Industry

- Intra-Industry Rivalry
  - SBU: AT&T Rivals: Verizon, Sprint-Nextel, T-Mobile

- Bargaining Power of Buyers
  - Retail Customers
  - Corporate Customers

- Bargaining Power of Suppliers
  - Handset makers
  - Equipment Manufacturers
  - Employers

- Substitute Products and Services
  - VoIP services, VoIP over wifi
  - Messaging, social-networks over wifi

- Potential New Entrants
  - Foreign Telcos
  - Change of strategy from player in another industry

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Porter Model – Defining the industry

- Defining the industry is CRUCIAL
  - What is the product? Who are the buyers? Who are the natural competitors? Companies often are in several industries!

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Defining the industry

- Are these right?:
  - Southwest Airlines is in the Transportation industry. So is BART. Therefore BART and Southwest are competitors.
  - Southwest is in the Airline industry, therefore Southwest and Emirates are competitors.

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Defining the industry

- Are these right? (cont’d):
  - Southwest Airlines is in the North American Airline Industry.
    - American, Delta, Jet Blue and United are competitors
    - Driving is a substitute for many Southwest routes. It limits Southwest’s pricing power in many cases
    - Amtrak is a substitute for a small set of routes (mainly NE corridor)
  - Walmart is in the Retail industry. So is Saks Fifth Avenue. Walmart and Saks are competitors.
    - Walmart is in the discount retail industry
      - Target and Costco are competitors
Porter Model in Business Paper

- You must include a Porter Model in your Business Paper
  - Figure
    - Make it look nice!
  - Narrative analysis of the five forces
    - Identify the industry.
    - Identify the major buyers, suppliers, potential new entrants, substitutes, and intra-industry rivals.
    - Discuss if and why these players put strong or weak competitive pressures on your business.

Example: Usefulness of Porter Model

- Suppose Alice, who is a dentist, opens an office

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Bob’s Dentist Office</th>
<th>Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Staff</td>
<td>• Dentists moving in from other regions</td>
<td></td>
</tr>
<tr>
<td>• Hygienists</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Entrants</th>
<th>Substitutes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dentist (Alice)</td>
<td>• Alternative Medicine?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Bob’s Dentist Office</th>
<th>Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• New Entrants</td>
<td>• Other local dentist offices</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Public in general</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Insurance companies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Those wanting cosmetic dentistry</td>
<td></td>
</tr>
</tbody>
</table>

Porter Model Tips (cont’d)

- Substitutes
  - Put yourself in the shoes of a customer...
  - What alternatives would you actually take seriously?
  - Thought experiments...
    - I need to get from Manchester, UK to Bangalore. I will consider driving if Emirates is too expensive...
    - I need to get from San Jose to Orange County. I will consider driving if Southwest is too expensive...

Porter Model Tips

- Analyzing power implications
  - The more numerous there are of a buyer/supplier, the weaker they are.
  - The more alternative options a player has, the stronger they are.
  - If a player has a credible threat of making supply’s themselves (backward integration) or taking over buyer/distributor’s role (forward integration), they are more powerful.
Porter Model Tips

• Power (cont’d)
  ■ Barriers to entry strengthen a player’s position vs. new entrant threats

Porter Model in paper

• Analyze all the forces and their power relationships
• Write text describing your reasoning. (Not enough to just say “strong” or “weak.”)
• Make an overall conclusion of competitive landscape
  ■ Can be subjective if some strong and weak forces…

“Primary” Porter Strategies

Differentiation—customer values the differences that you provide in products, services or capabilities.

Cost—become the lowest cost provider. If this is the only primary strategy in the industry, over time there will only one ultimate winner.

“Primary” Porter Strategies

In economics you will learn a market where
■ Product is a commodity
■ Firms all have the same production costs
■ New firms can enter market at no cost (“free entry”)
  ■ profits are driven to zero.
■ Consequently Firms need to
  ■ Differentiate and/or
  ■ Achieve Cost leadership

Porter Supporting Strategies

■ Innovation
  ■ Can reduce costs and or differentiate
■ Growth
  ■ Help offset fixed costs
  ■ Establish reputable brand (differentiate)
■ Alliances
  ■ Achieve more complete solution (differentiate)
  ■ Integration of each others technology may reduce costs
**Rules Regarding Strategies**

- Must pick *at least* one of the two primary strategies.

- Can pick any combination of supporting strategies.

Let’s test the logic of this using Dell and Wal-Mart Stores.

**Apple (Computer Industry)**

- **Primary Strategy:**
  - Differentiation

- **Supporting Strategies:**
  - Innovation
  - Growth

**Wal-Mart Strategies**

- **Primary Strategy:**
  - Least Cost
  - Differentiation

- **Supporting Strategies:**
  - Innovation
  - Growth
  - Alliances

**Porter Model Tips**

5. Be sure to address the *power implications* of both customers and suppliers. Power gets them what?

6. Identify buyers and suppliers by categories and mention major ones by names.

7. **Summarize** your Porter Model analysis.

**Porter Model and Information Systems:**

1. Build *barriers* to prevent a company from entering an industry

2. Build in costs that would make it difficult for a customer to **switch** to another supplier

3. Change the basis for competition within the industry

4. Change the balance of power between a company and its customers or suppliers

5. Provide the basis for new products and services

**What do Porter Models Have to do with IT?**

Any ideas?