Announcements

- Read
  - Otis Case
    - Assignment about reading due Tuesday.
    - (On ecommons)
  - Begin Laudon & Laudon Ch 9
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?

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

Potential New Entrants

Bargaining Power of Suppliers

Intra-Industry Rivalry
Strategic Business Unit

Bargaining Power of Buyers

Substitute Products and Services
Porter Model

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

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

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

Bargaining Power of Suppliers
• Handset makers
• Equipment Manufacturers
• Employees

Bargaining Power of Buyers
• Retail Customers
• Corporate Customers

Substitute Products and Services
• VoIP services; VoIP over wifi
• messaging, social-networks over wifi

VoIP services; VoIP over wifi
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!
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.
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)
Defining the industry

- Are these right?:
  - 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
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 inta-industry rivals.
  - Discuss if and why these players put strong or weak competitive pressures on your business.
Example: Usefulness of Porter Model

Bob wants to start a dentist office
- However, Bob did not go to dental school
- Bob will hire the dentist and other staff
- Is this a good model?

No! Dentist has too much bargaining power, she could always go into business for herself.
Example: Usefulness of Porter Model

Suppose Alice, who is a dentist, opens an office

New Entrants
- Dental School Graduates
- Dentists moving in from other regions

Suppliers
- Staff
- Hygienists

Intra-industry rivals
- SBU: Alice’s Dentist Office
- Other local dentist offices

Substitutes
- Alternative Medicine?

Buyers
- Public in general
- Insurance companies
- Those wanting cosmetic dentistry
Porter Model Tips

• **Buyers and Suppliers**
  - Mention biggest by name, smaller ones by category
  - (e.g. mention Lowe’s by name as a competitor to Home Depot..)
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 Tips

- Thought experiments...
  - McDonald’s employees vs. McDonald’s
  - Airline pilot union vs. United Airlines
  - United Airlines vs. Travel agents
  - Apple vs. contract manufacturers
  - eBay vs. possible new entrants to online auction market
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

- 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
“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.
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.
What do Porter Models Have to do with IT?

Any ideas?
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