



FIVE FORCES

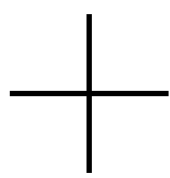


FIVE FORCES

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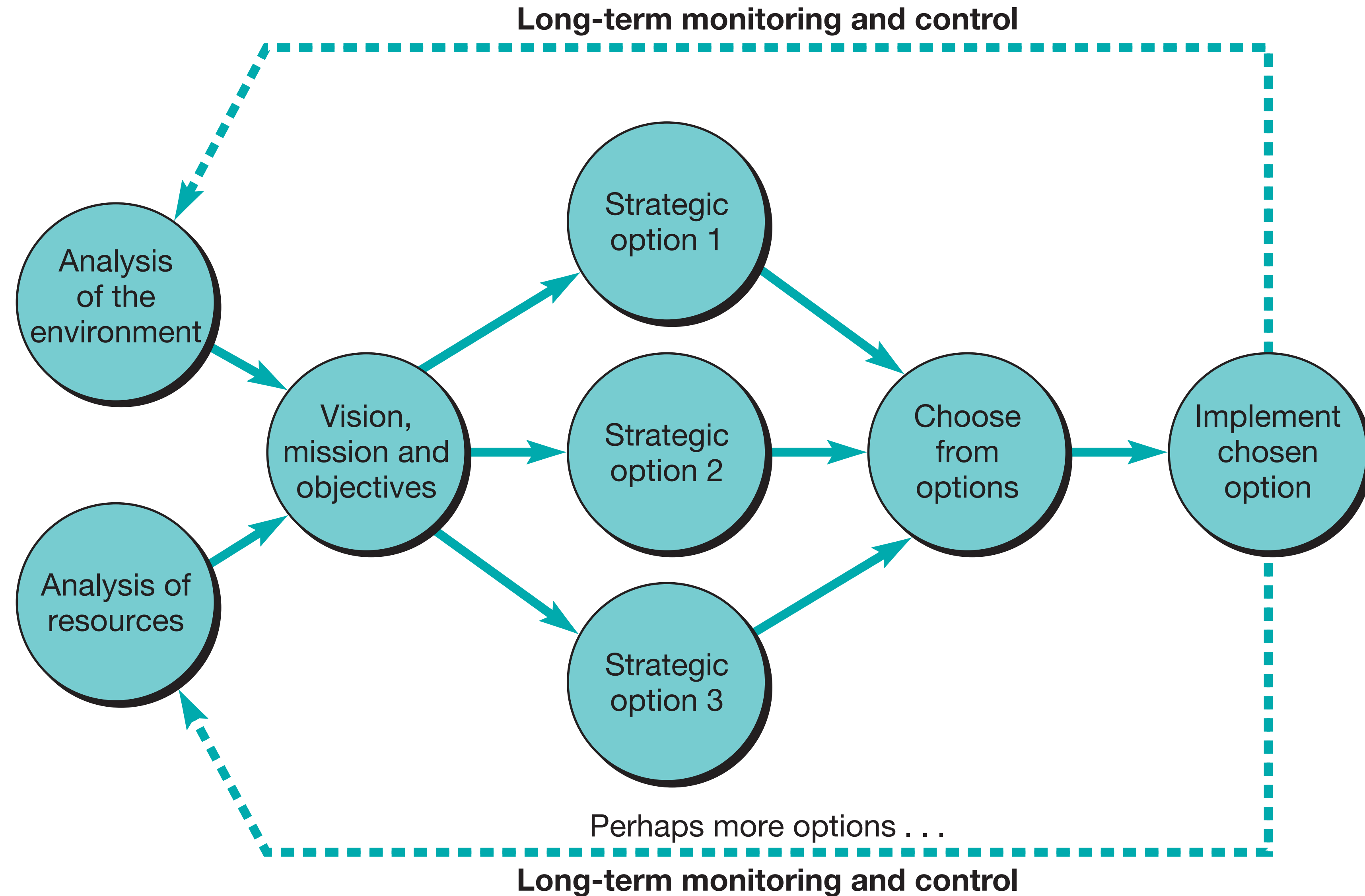
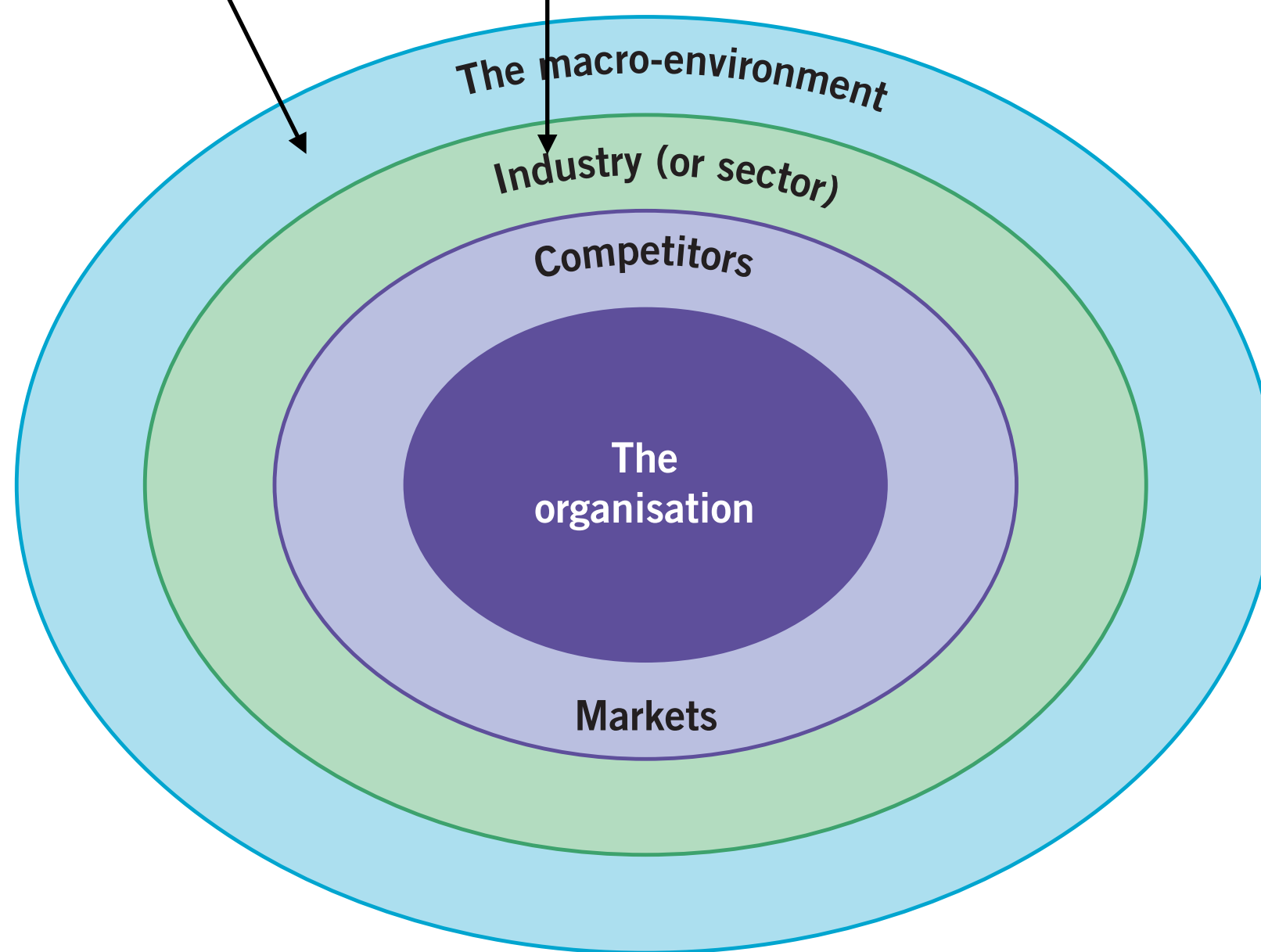
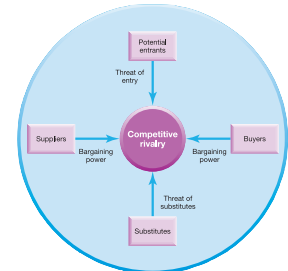


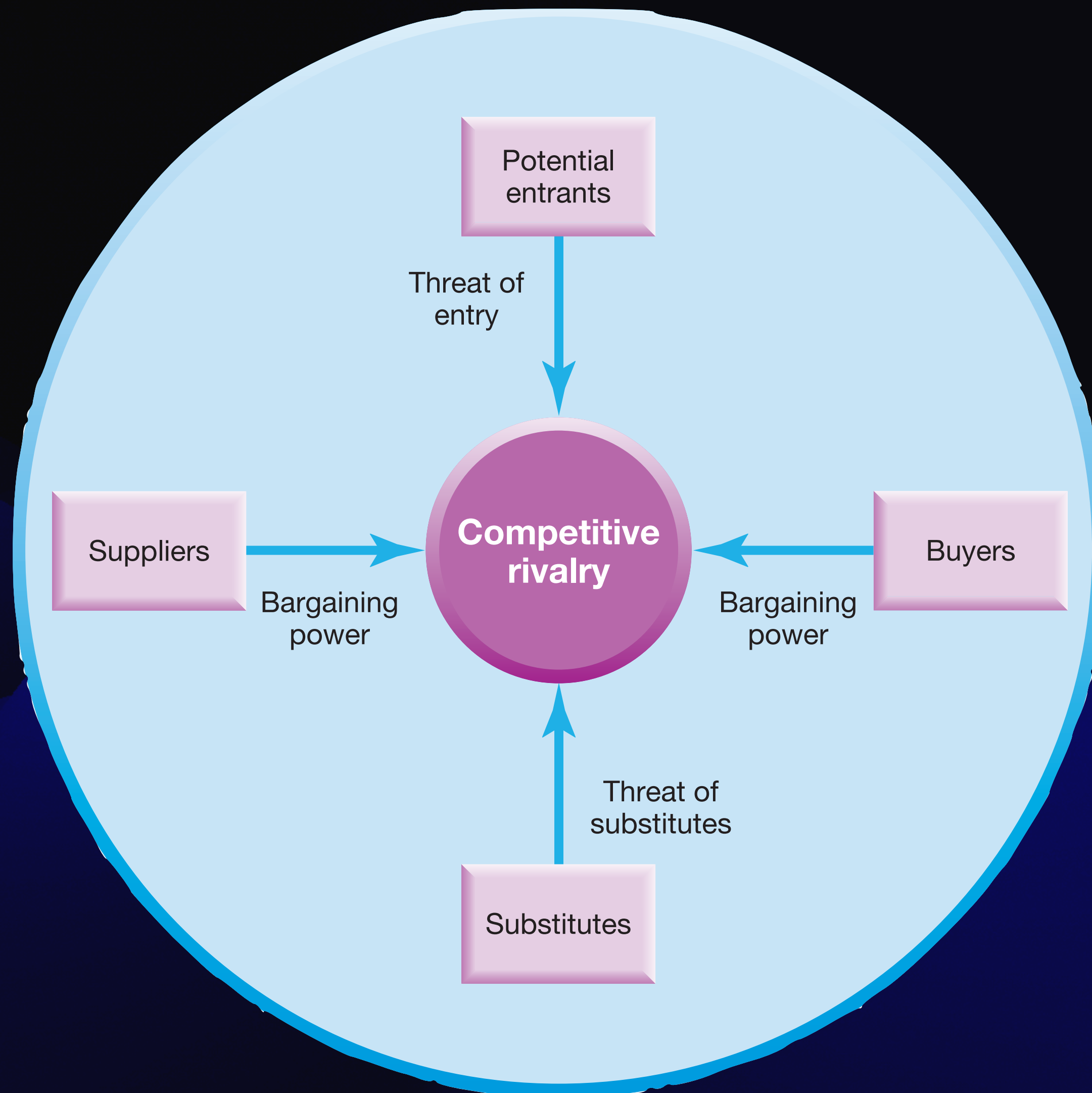
The **prescriptive** strategic purpose

SCENARIO ANALYSIS



PESTLE

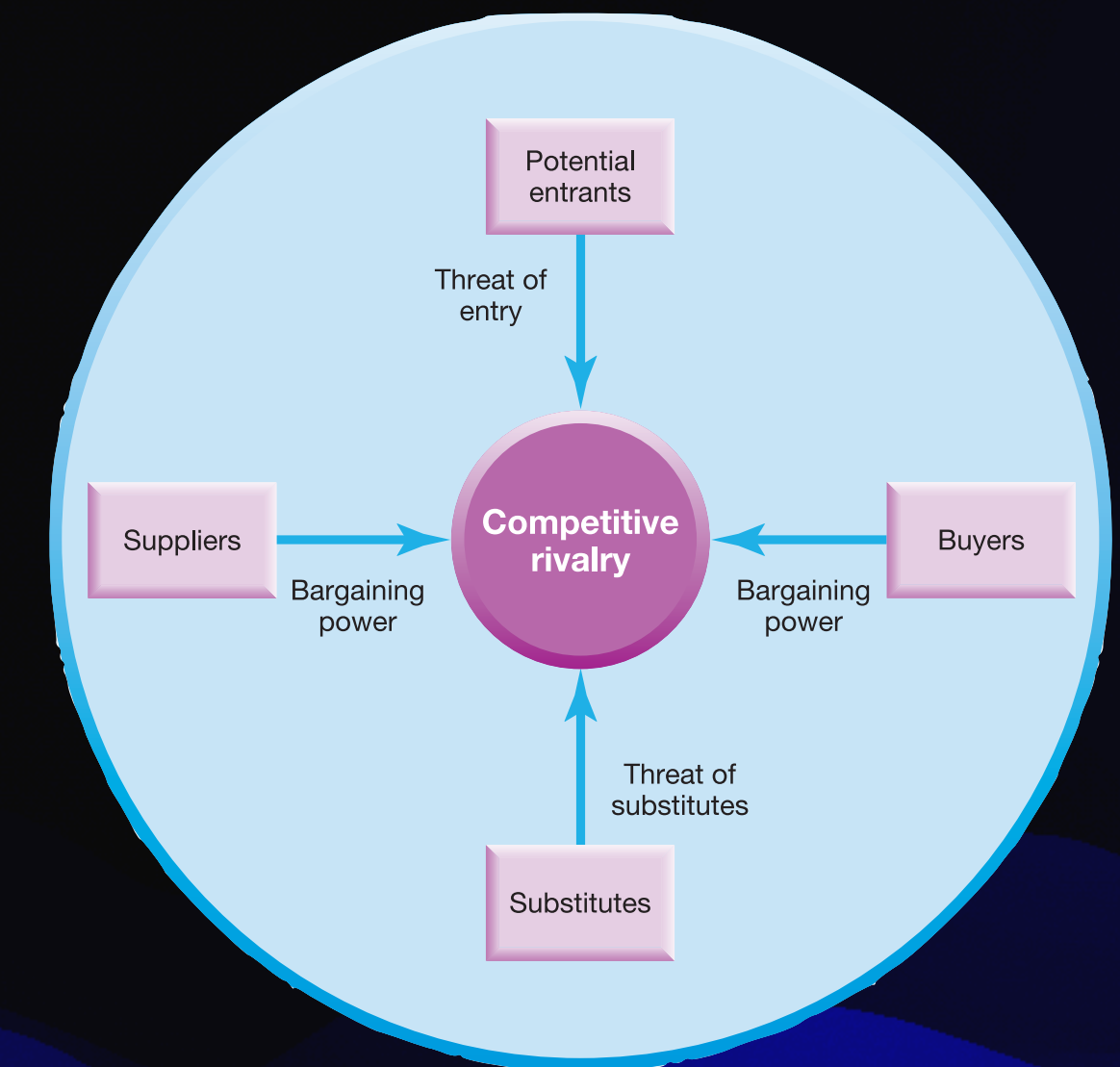




The five forces framework

The threat of new entrants refers to the ease with which new competitors can enter an industry and disrupt market dynamics. If barriers to entry, such as economies of scale, brand loyalty, capital requirements, or government regulations, are low, new firms can easily enter the market, increasing competition and reducing profits for established players.

Example: Fintech startups entering the traditional banking sector, challenging established institutions with innovative digital services.

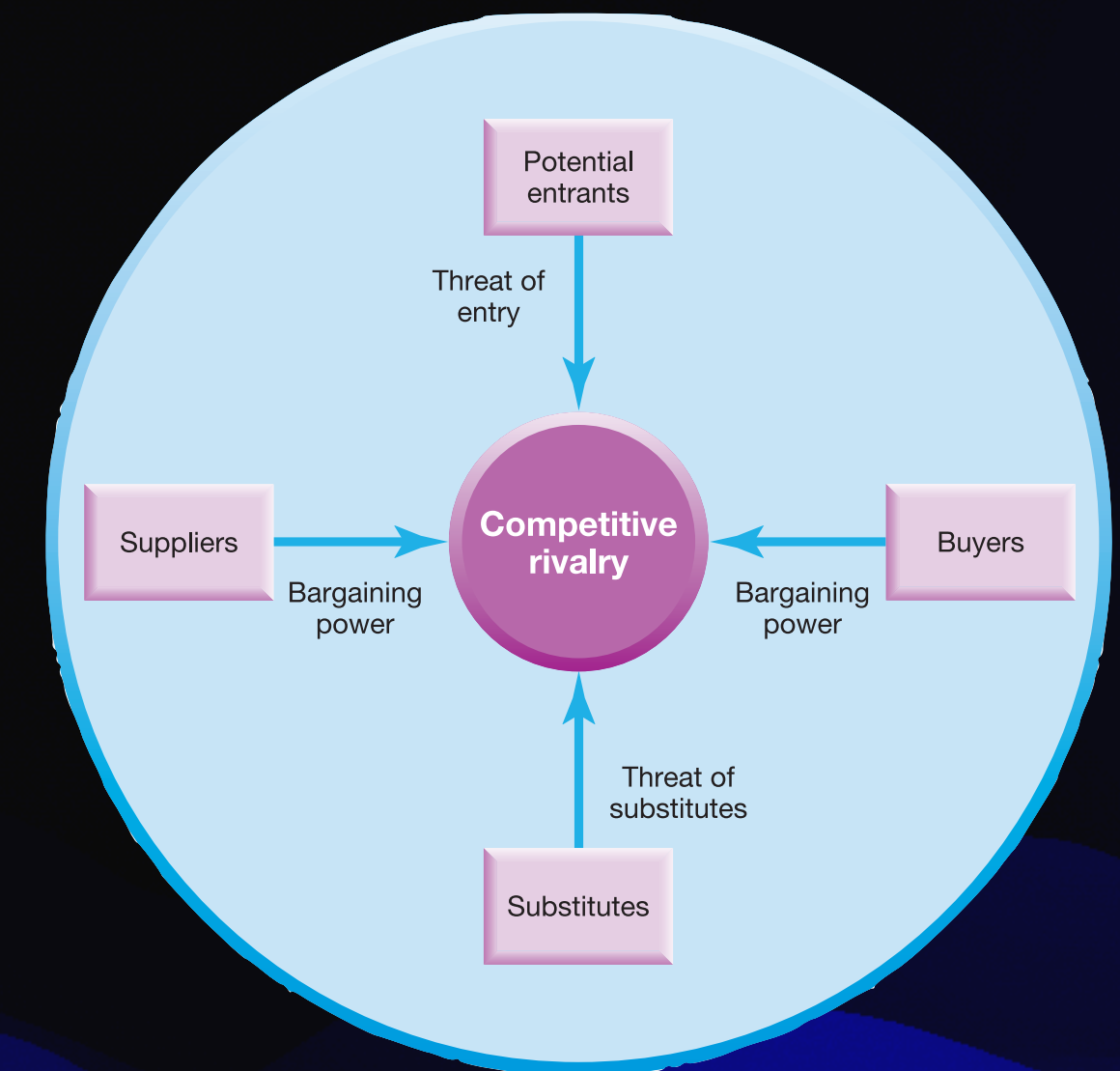


threat of new
entrants

threat of new entrants

Buyer power reflects the ability of customers to influence pricing and demand higher quality or better service. When customers are few but large, or when products are standardised and switching costs are low, buyers can demand more value and push prices down.

Example: Large retailers like Walmart exert considerable pressure on suppliers to lower their prices and meet strict delivery schedules.



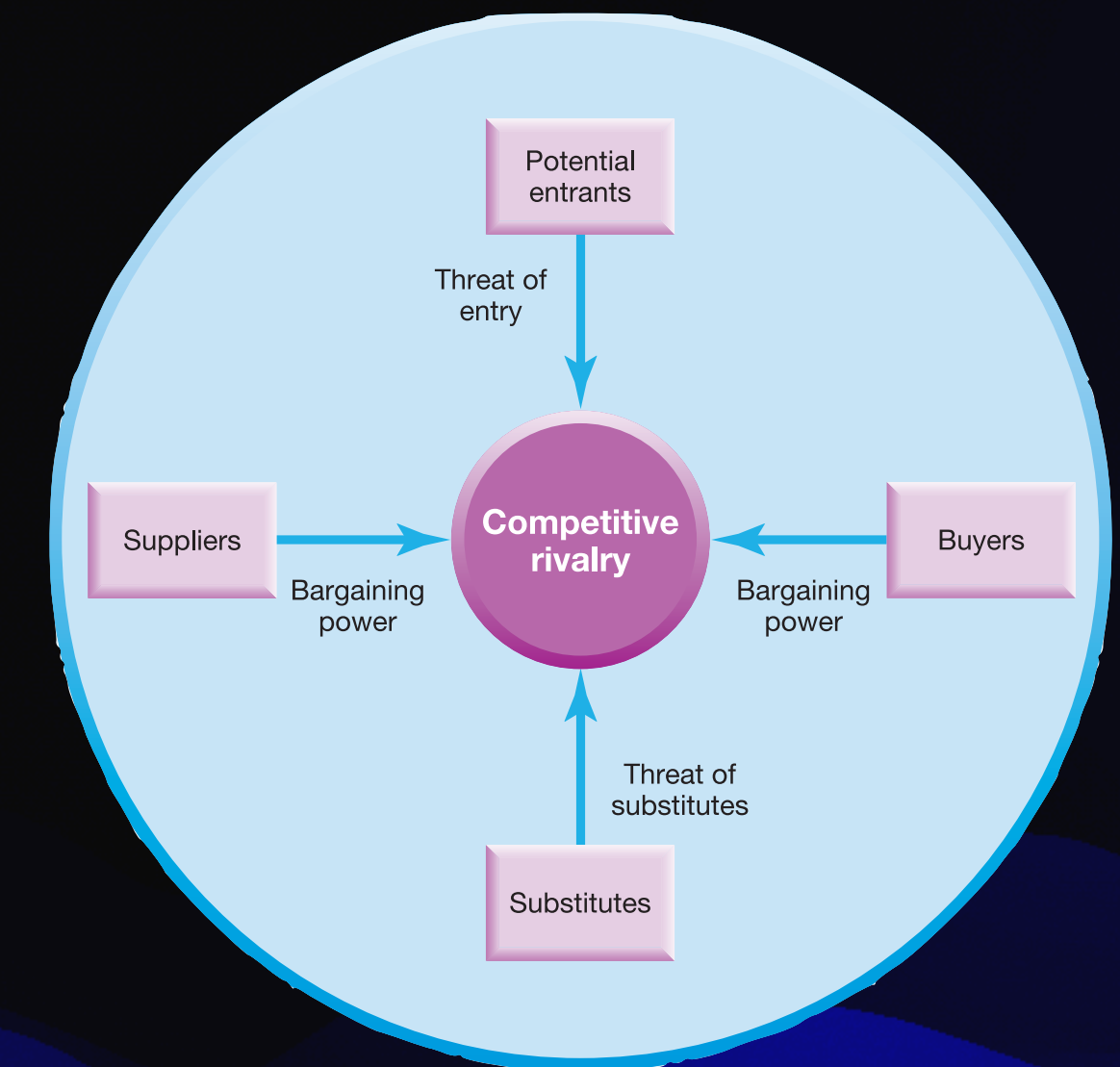
Power of Buyers

Power of Buyers/ Customers

The threat of substitutes refers to the risk that customers may switch to different products or services that perform the same function as the industry's offering, but in a different way.

Substitutes are not direct competitors; they come from outside the industry and meet the same customer need through a different solution or material.

For example, aluminium is a substitute for steel; a tablet computer is a substitute for a laptop; and charities can be substitutes for public services.



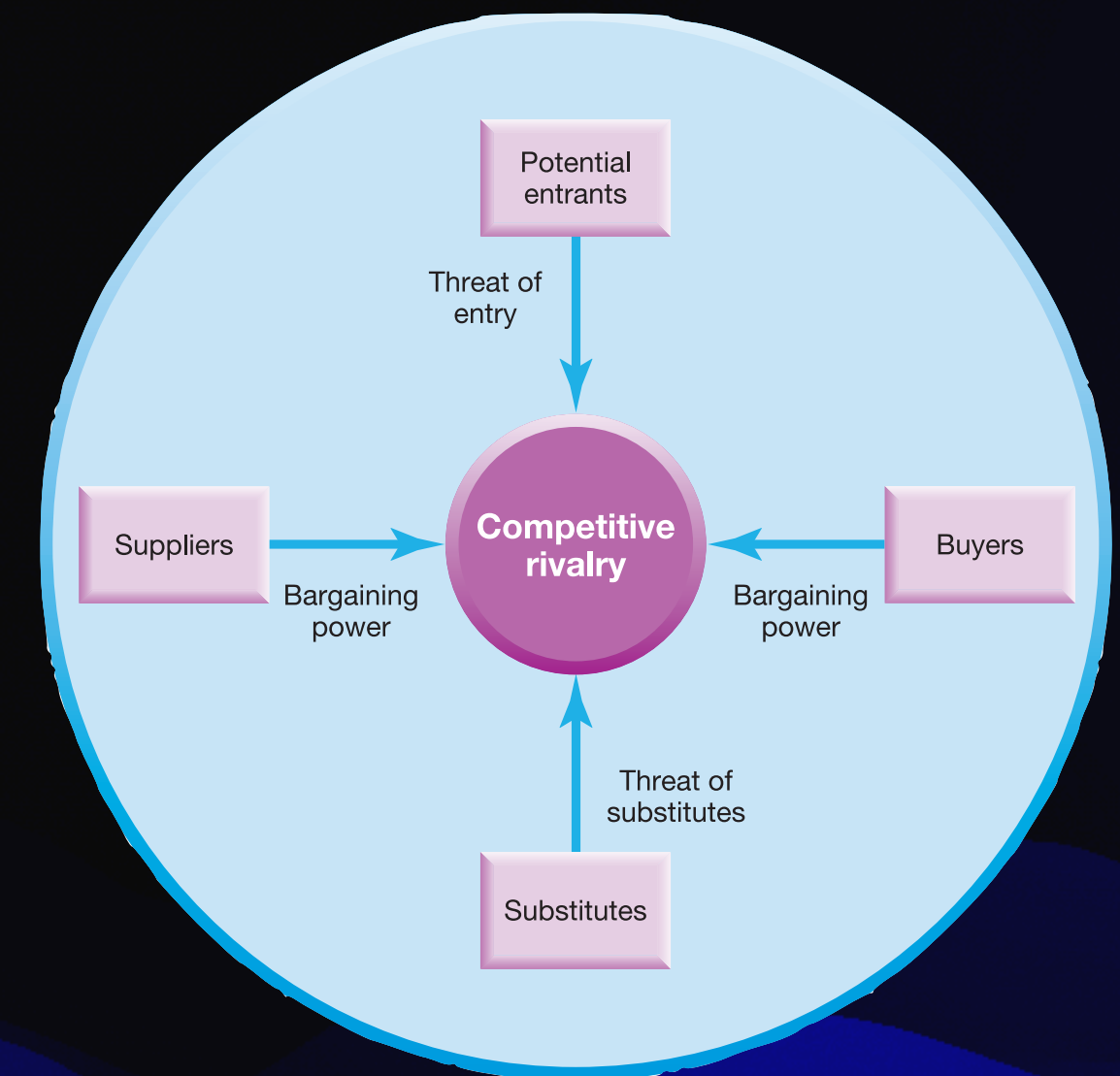
Threat of Substitutes

Threat of Substitutes

If raw materials or ingredients are scarce, their suppliers can dictate terms. Companies with strong brands can also do this, i.e. market leaders with a distinct advantage.

Suppliers are powerful when:

- There are a few other sources of supply
- The suppliers threaten to move along the supply chain and become competitors
- The cost of switching to other suppliers is great
- The company's business is not key to the supplier

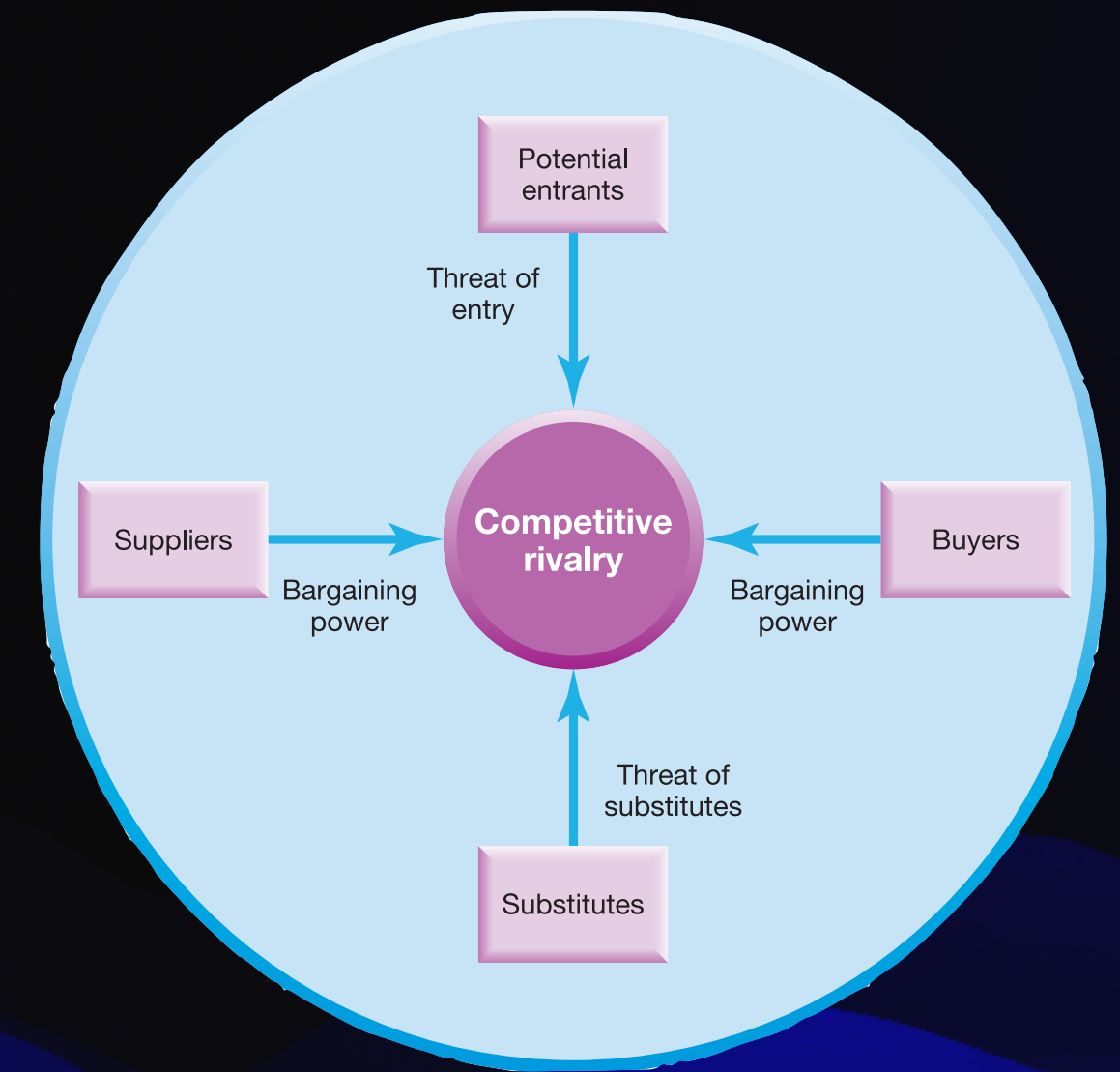


Power of Suppliers

Power of Suppliers

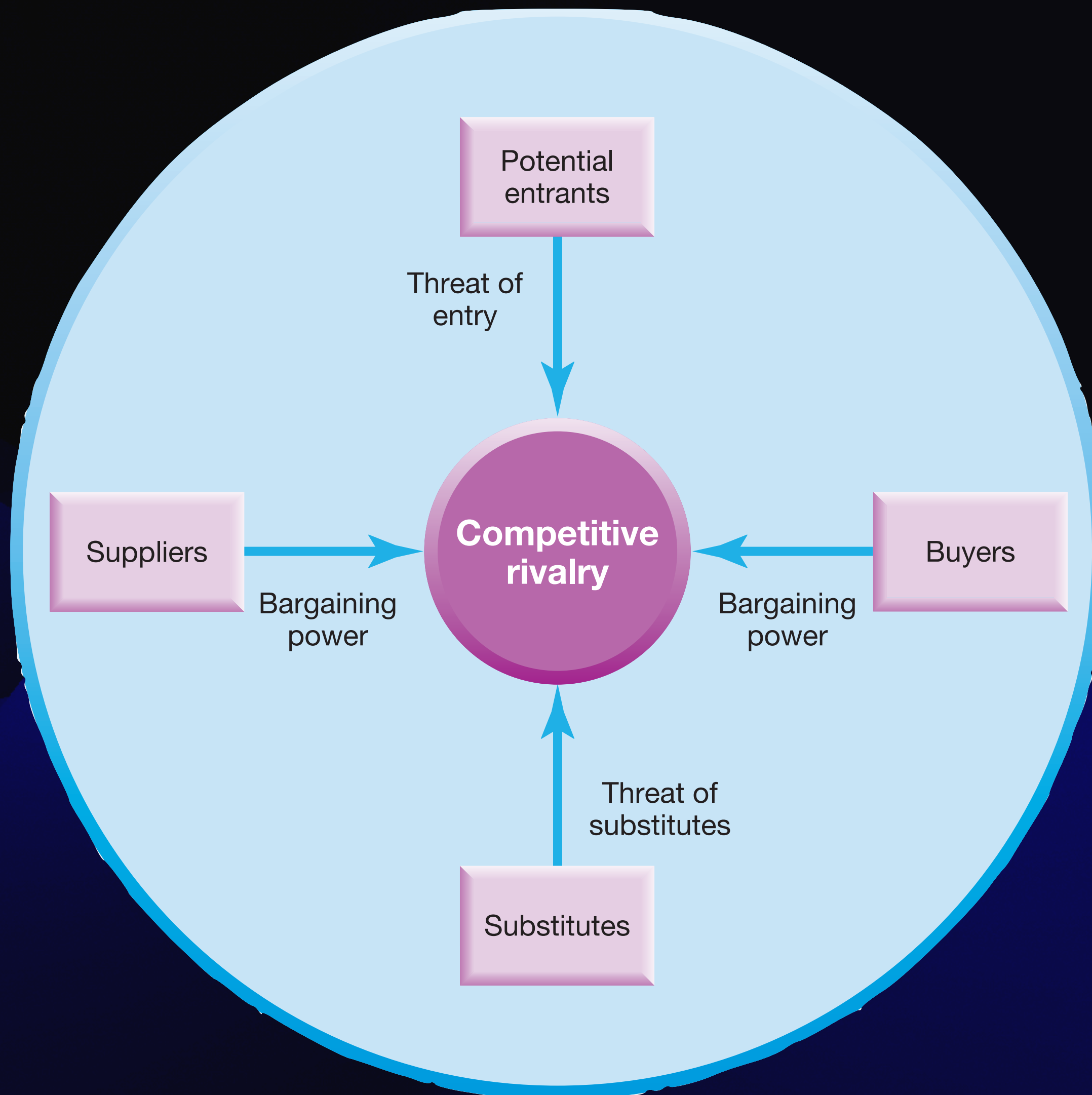
Some companies and markets are more competitive than others. The intensity of rivalry may depend on:

- The number of competitors in the market
- The cost structure
- The differential advantages between market offerings
- The costs involved with customer switching
- The strategic objectives being pursued by competitors
- The exit barriers



Inter-rivalry of Competitors

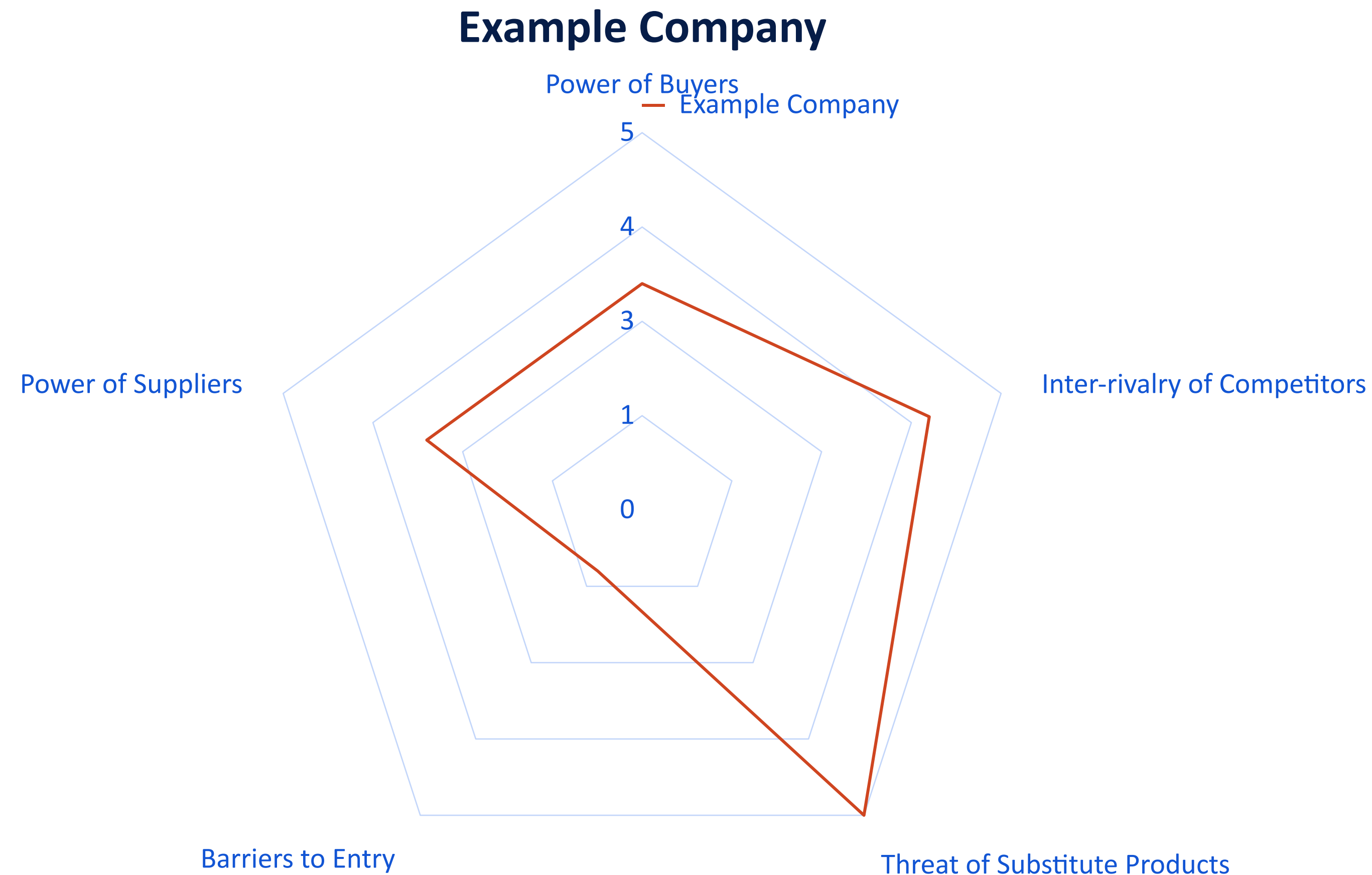
Inter-rivalry of Competitors

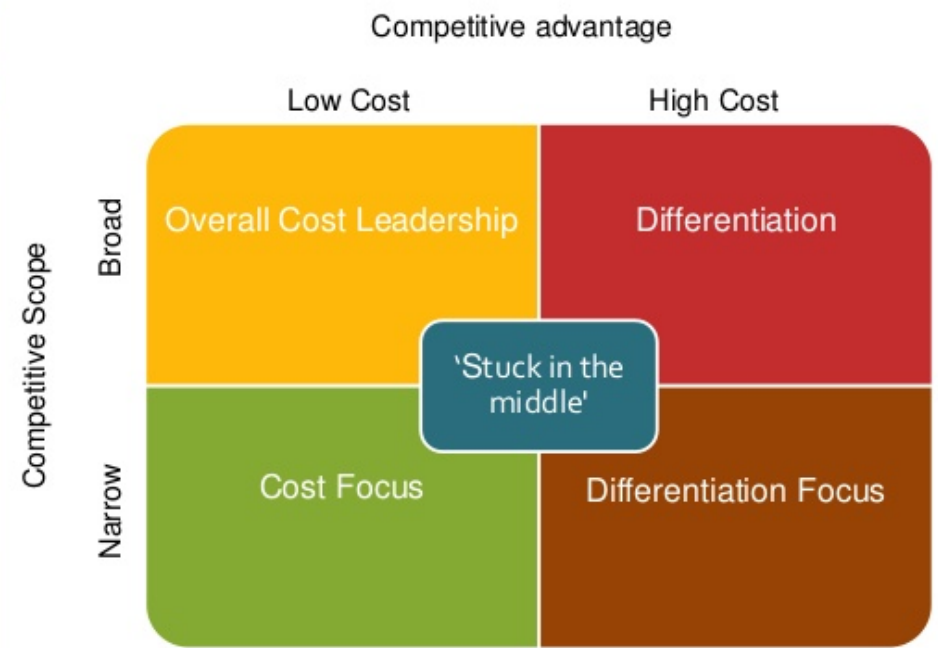
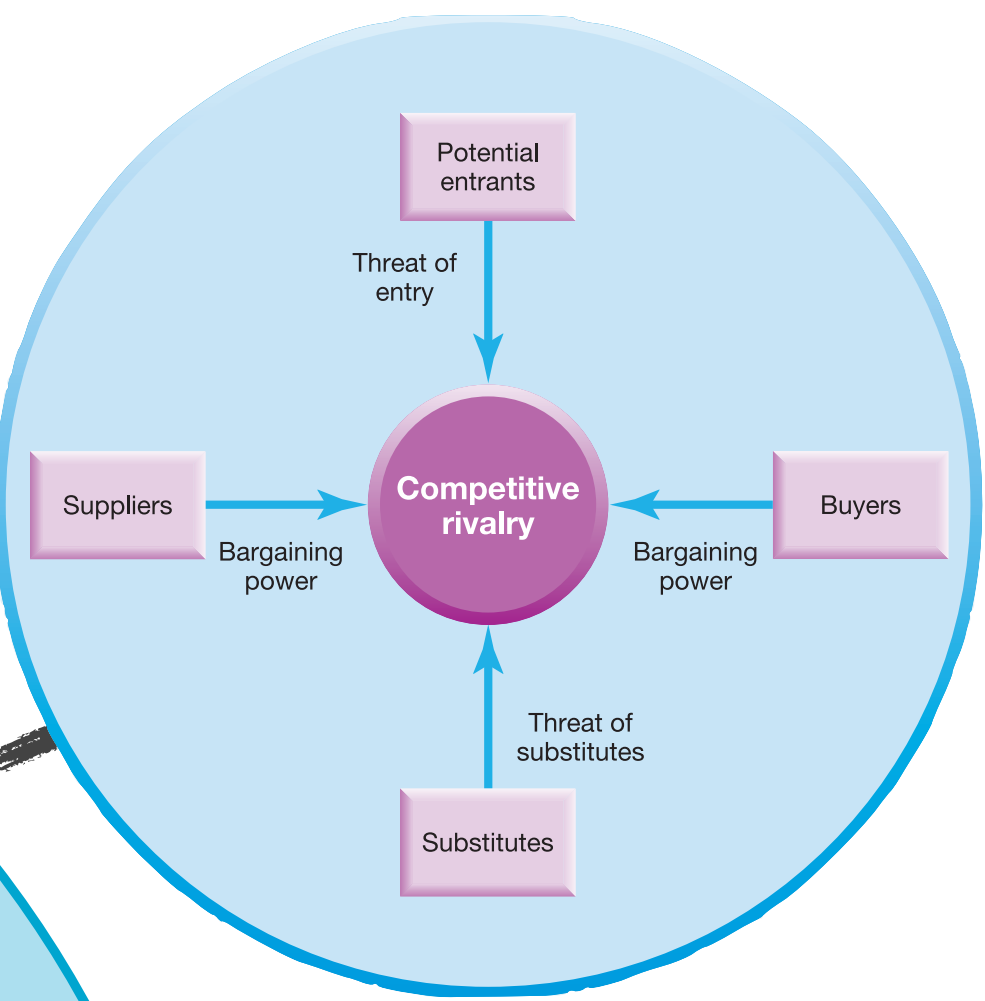
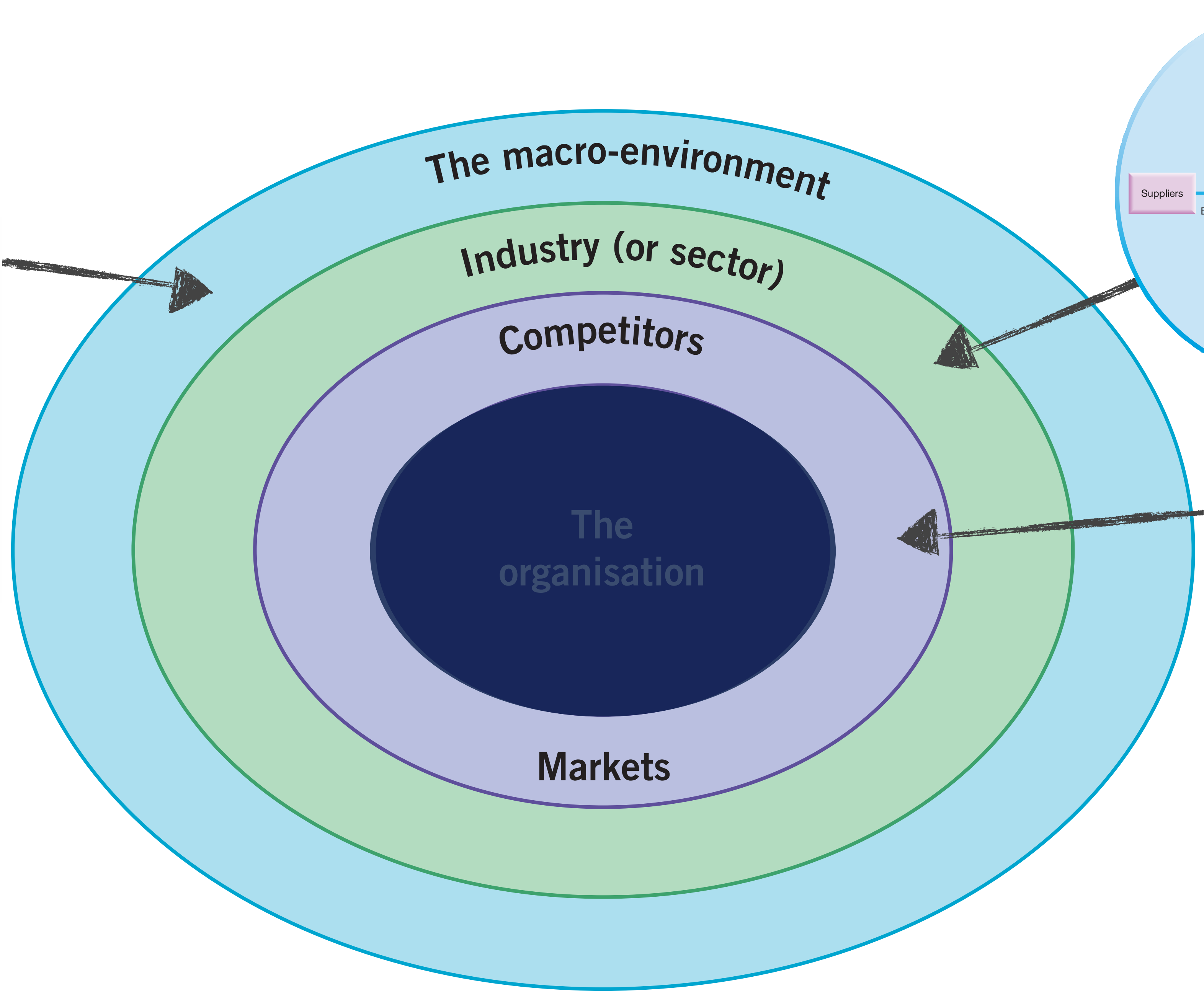
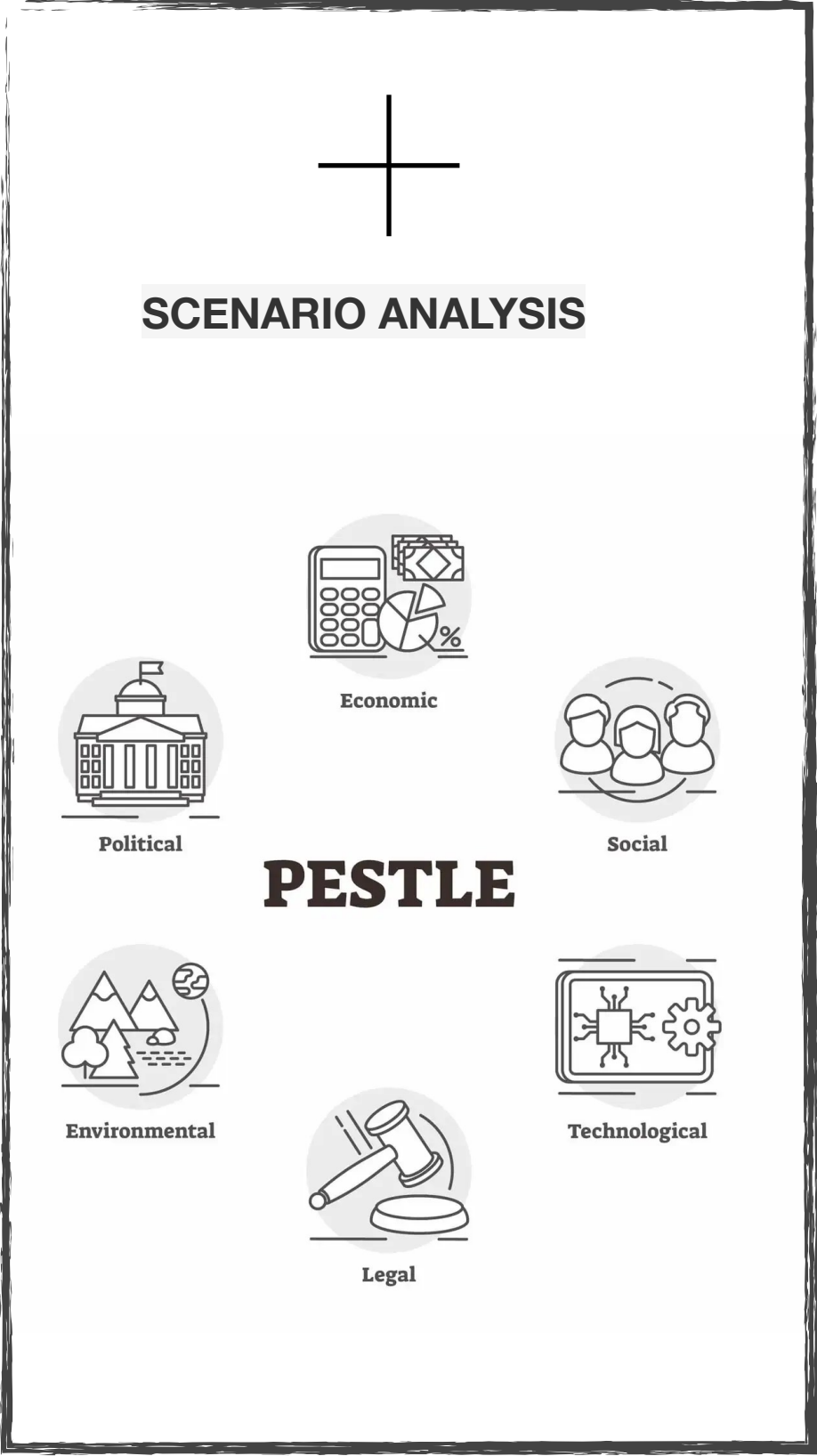


The five forces framework

Competitive – Porter's 5 Forces

- Porter's 5 Forces Model (Porter, 1985) analyses competitive activity by helping companies determine the strength (intensity) of competitive threats





Competitive strategy

Competitive strategy refers to the set of coordinated actions and choices through which a company, business unit, or organisation seeks to achieve and sustain a competitive advantage within its chosen domain of activity. It involves positioning the organisation to deliver superior value to customers by optimising key dimensions such as cost efficiency or product differentiation. In turn, **competitive advantage** is about how a company, business unit, or organisation creates value for its users that exceeds the costs of supplying them and is superior to that of its rivals.

Competitive strategy

There are **two fundamental means** of achieving a competitive advantage. An organisation can have structurally **lower costs than its competitors**. Or it can have products or services that are **differentiated from competitors** products or services in ways that are so valued by customers that it can charge higher prices that cover the additional costs of the differentiation.



Competitive Advantage

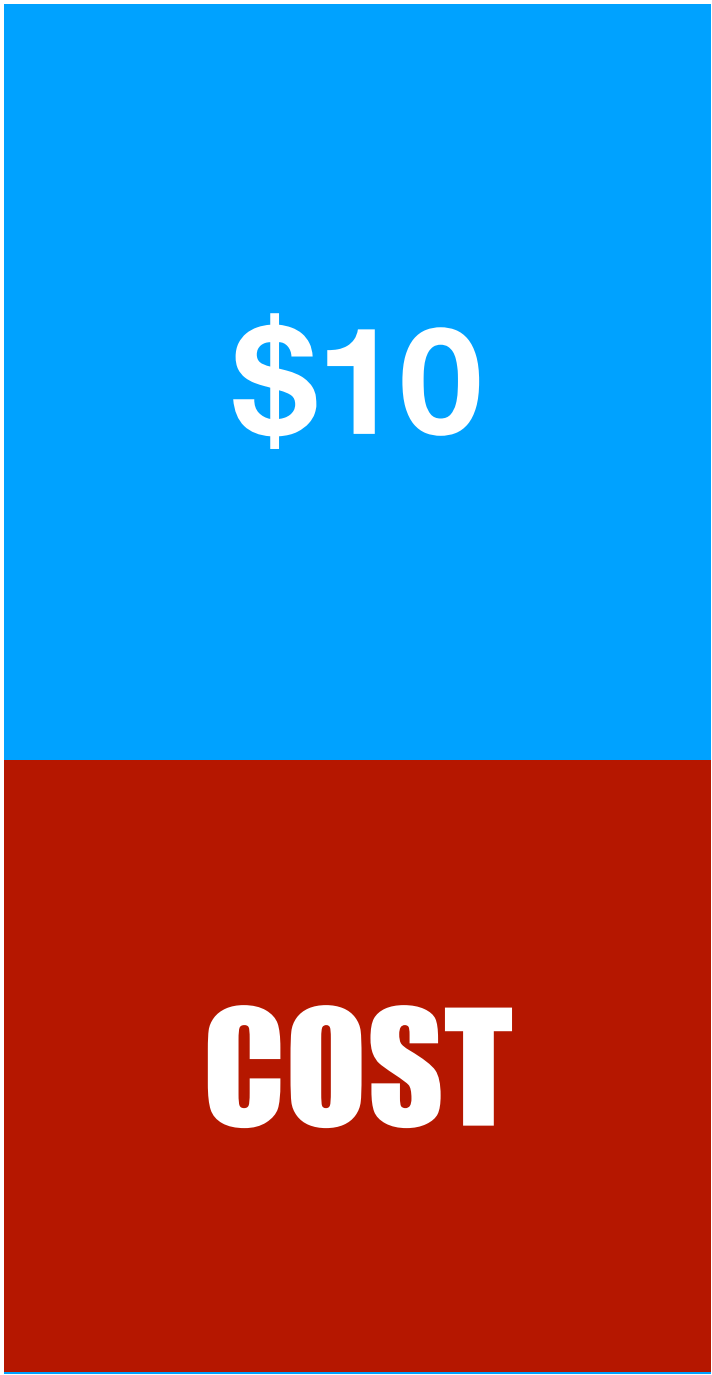
Competitive Scope



COST
LEADER

SP \$15

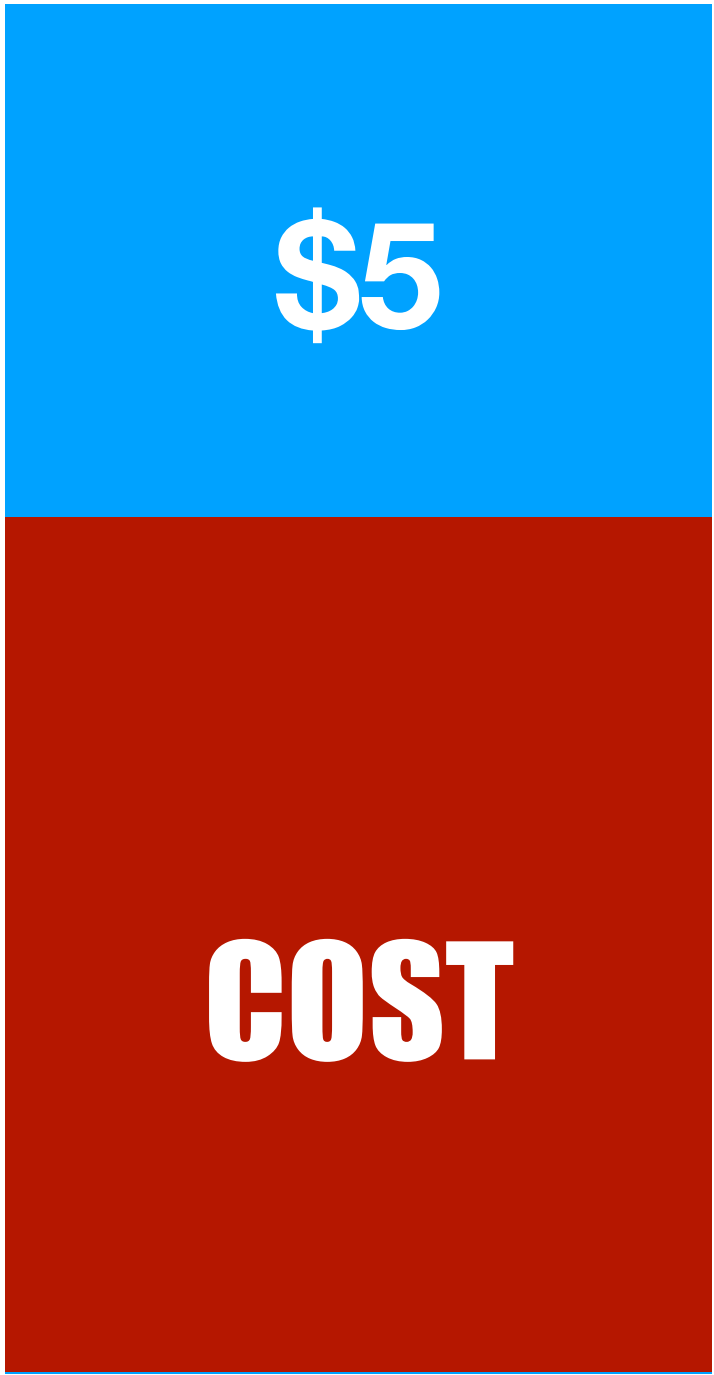
CP \$5



AVERAGE
PRODUCER

SP \$15

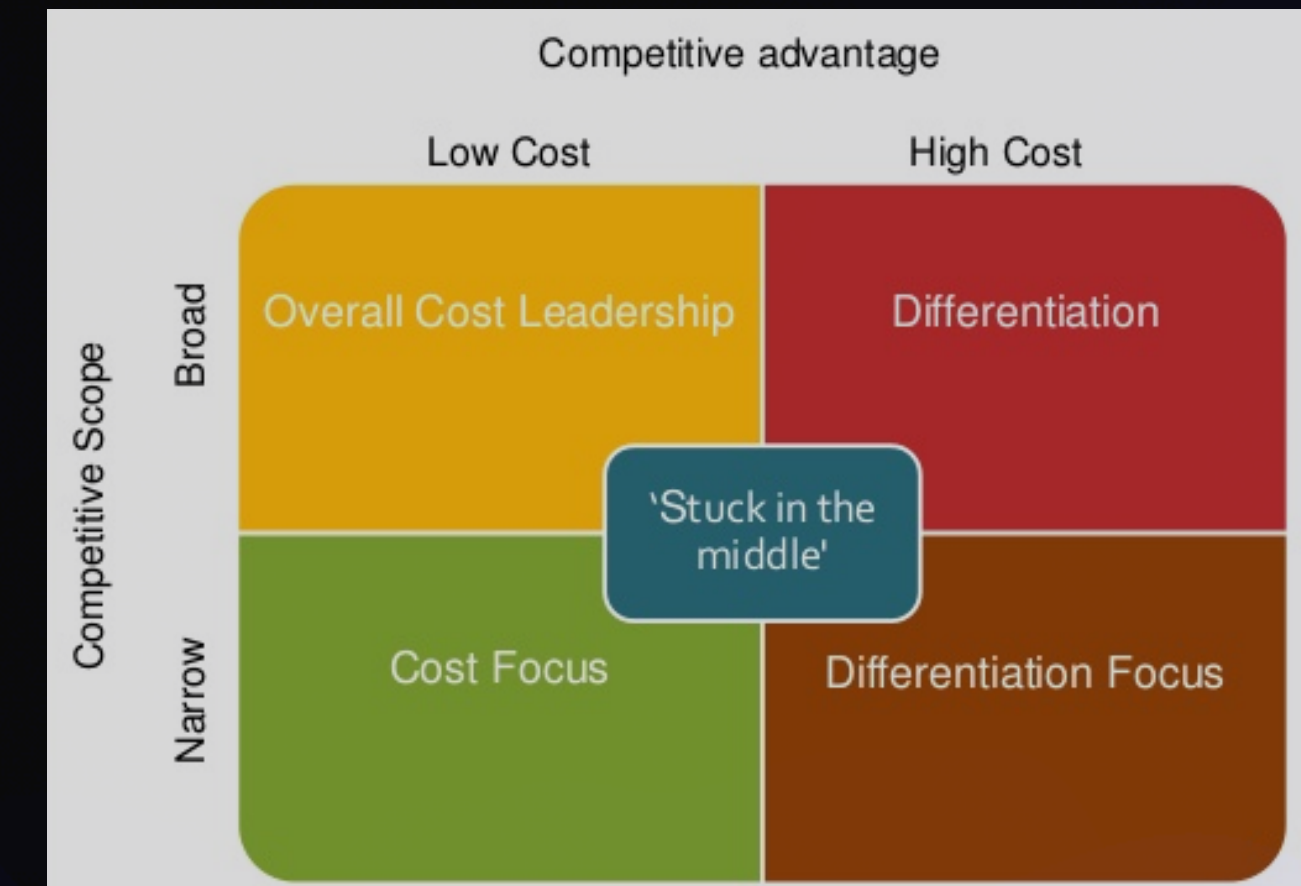
CP \$10



Cost-leadership strategy involves becoming the lowest-cost organisation in a particular domain of activity (industry, market, or product line). The firm aims to achieve and maintain a cost advantage over its competitors by effectively managing costs across the entire value chain, enabling it to offer lower prices or achieve higher profit margins. **The Goal:** Deliver products or services at a lower cost than competitors, without necessarily lowering quality.

Four key cost drivers can help deliver cost leadership, as follows:

- **Input costs**
- **Economies of scale**
- **Experience**
- **Product/process design**



Competitive Advantage

Cost-leadership

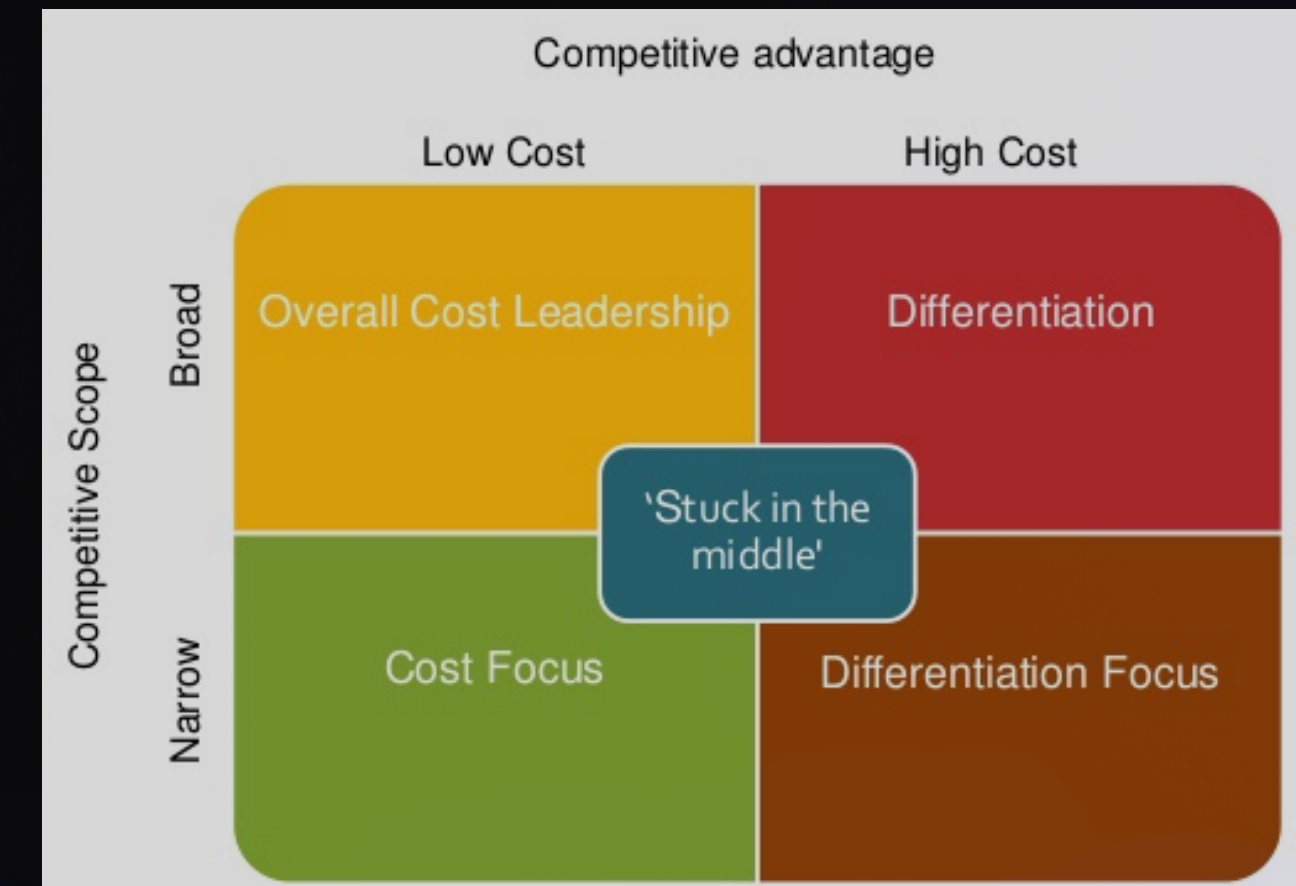
Input costs: Lowering the cost of inputs (raw materials, labour, energy, capital) relative to competitors.

How to Achieve Lower Input Costs:

- Bargaining power over suppliers (e.g., bulk purchasing).
- Global sourcing from low-cost regions.
- Vertical integration: owning the supply chain.
- Standardised inputs: using standard parts/ materials to reduce variation.

Example:

McDonald's secures ingredients like potatoes, beef, and buns in bulk at negotiated low prices, driving down input costs.



Competitive Advantage

Cost-leadership

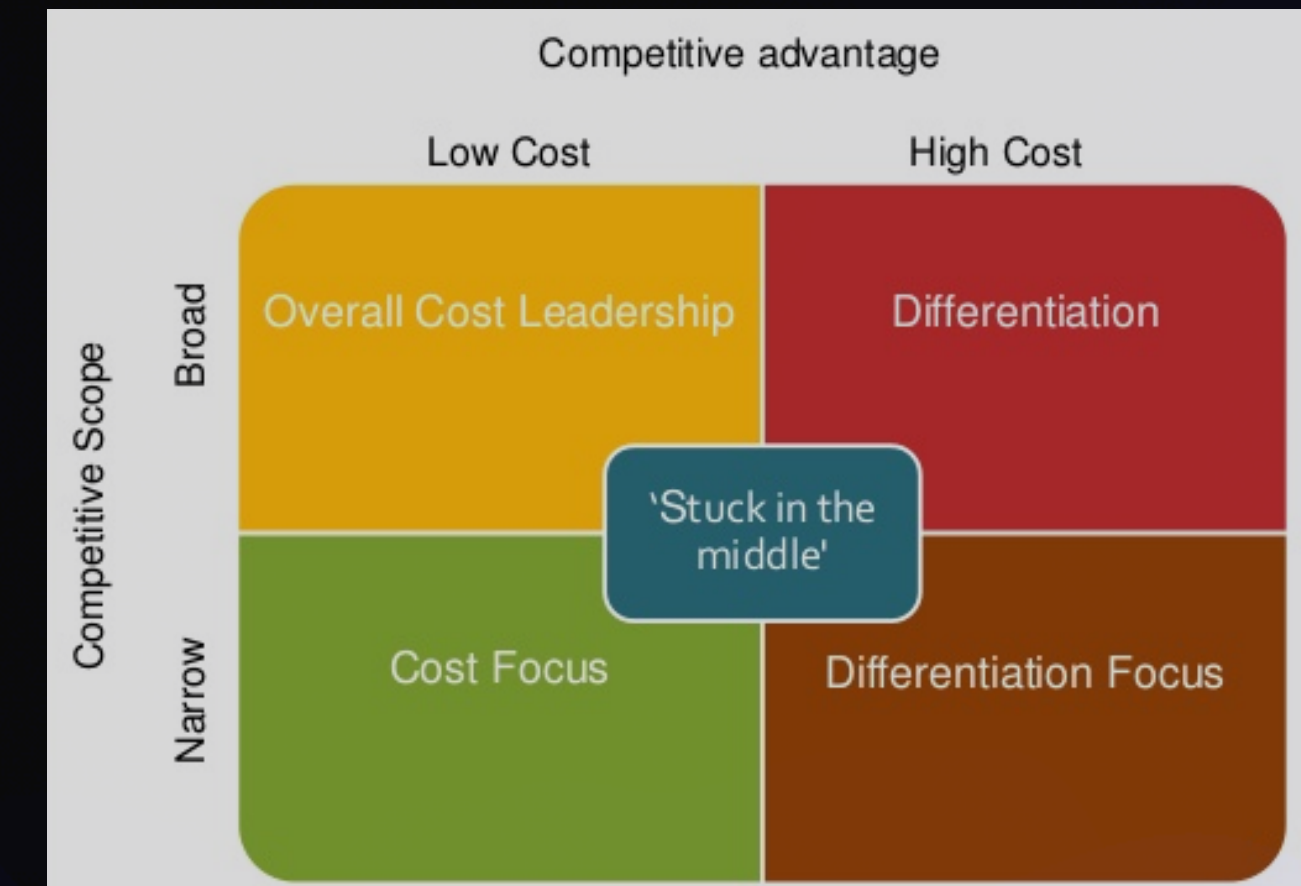
Economies of scale: Cost advantages that a business obtains due to its size, output, or scale of operation; typically, the larger the scale, the lower the cost per unit.

How it Works:

- Spreading fixed costs over larger volumes (e.g., plant, equipment).
- Specialisation of labour and management.
- Efficient use of production facilities.

Example:

Walmart: enormous scale enables it to spread logistics and operational costs across thousands of stores globally, reducing per-unit costs.



Competitive Advantage

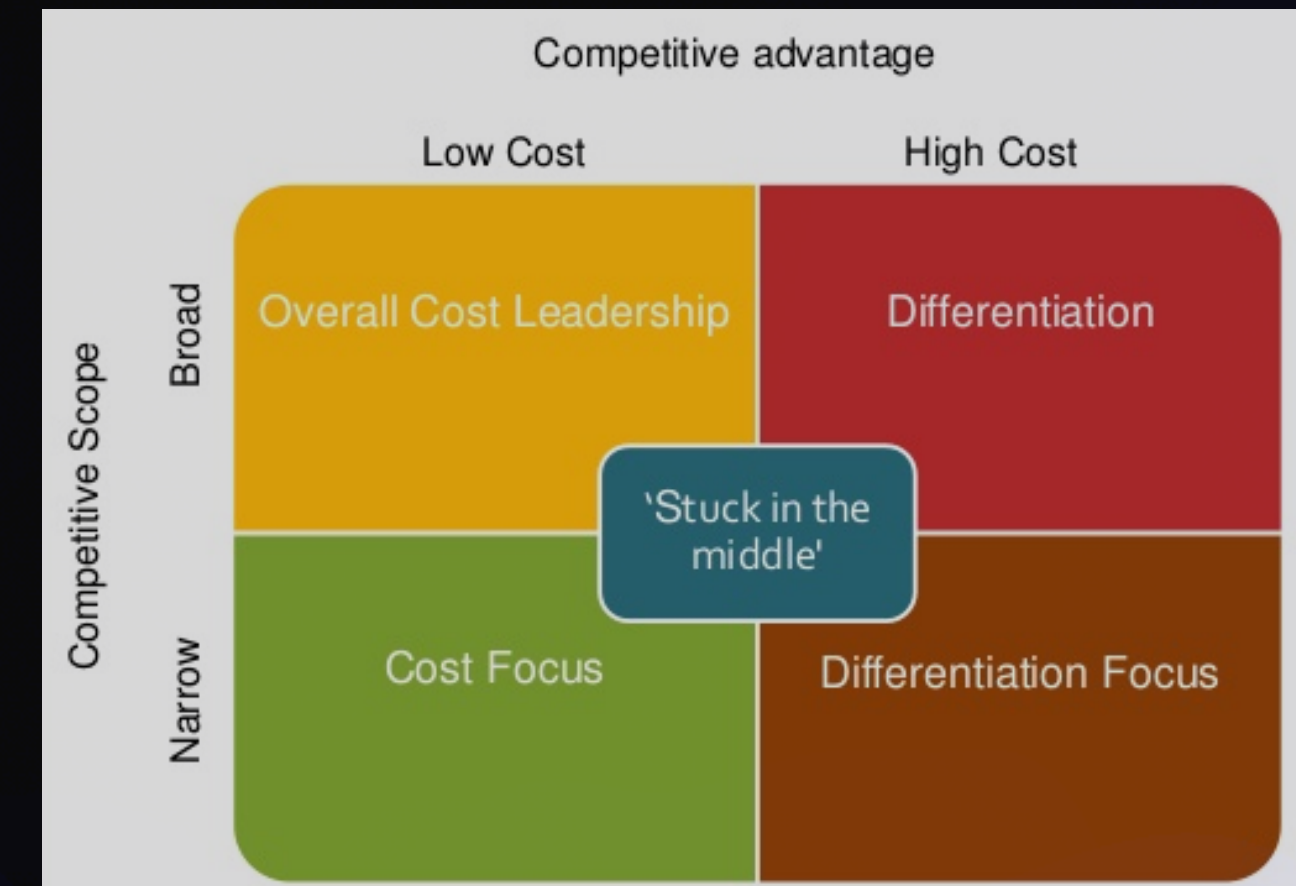
Cost-leadership

Experience. Also known as the experience curve, costs decline over time as a firm becomes more efficient due to learning effects, better practices, and refined processes.

How Experience Reduces Costs:

- Workers and managers become more skilled and faster.
- Improved processes reduce waste and inefficiency.
- Better relationships with suppliers and customers streamline operations, enhancing overall efficiency.

Example: Toyota is renowned for its continuous improvement (Kaizen) philosophy, resulting in increased production efficiencies and lower costs over time.



Competitive Advantage

Cost-leadership

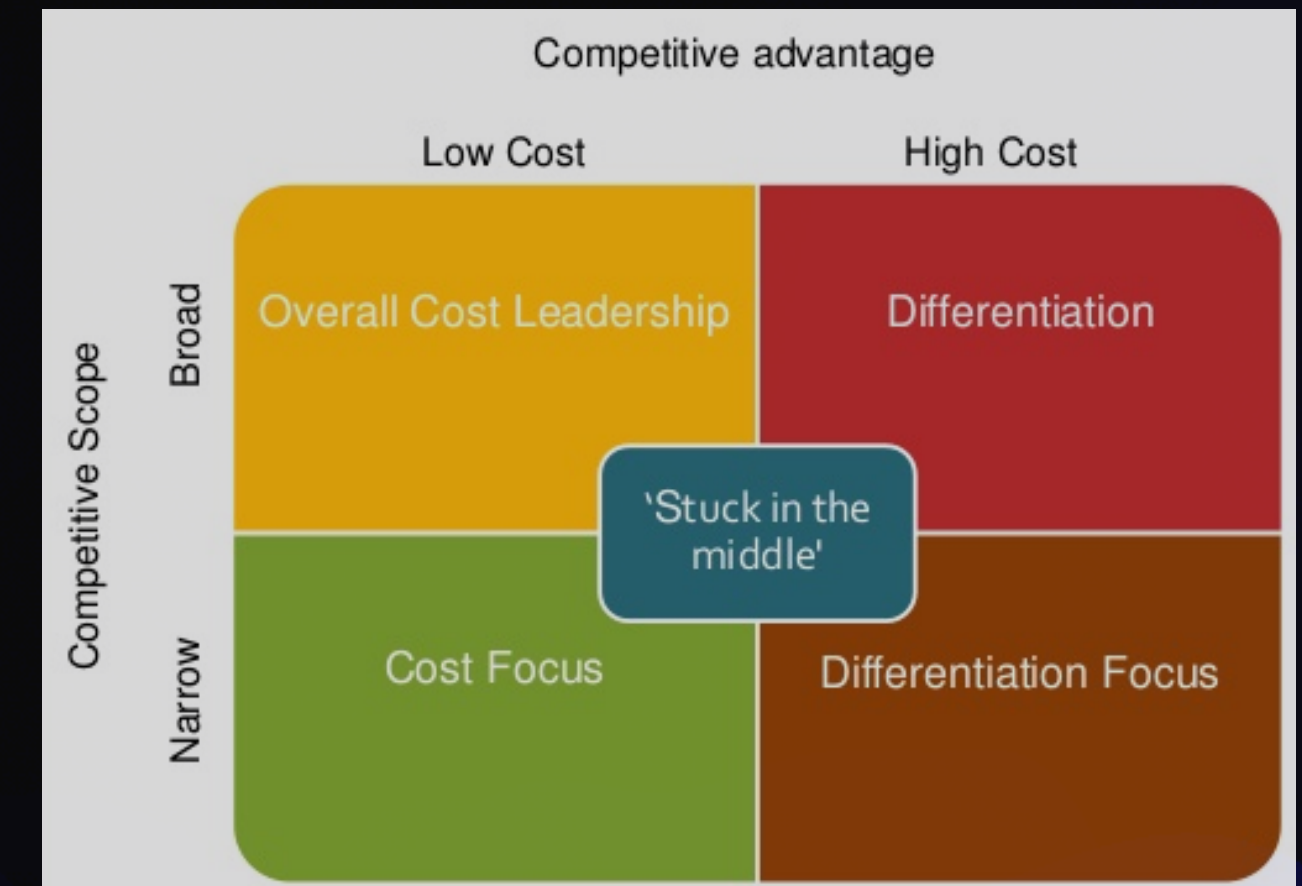
Product/ process design: Designing products and production processes that are cost-effective to manufacture and deliver.

How to Use Design for Cost Leadership:

- Modular designs that simplify production.
- Standardisation of components across products.
- Automation of production processes.
- Lean manufacturing principles to reduce waste.

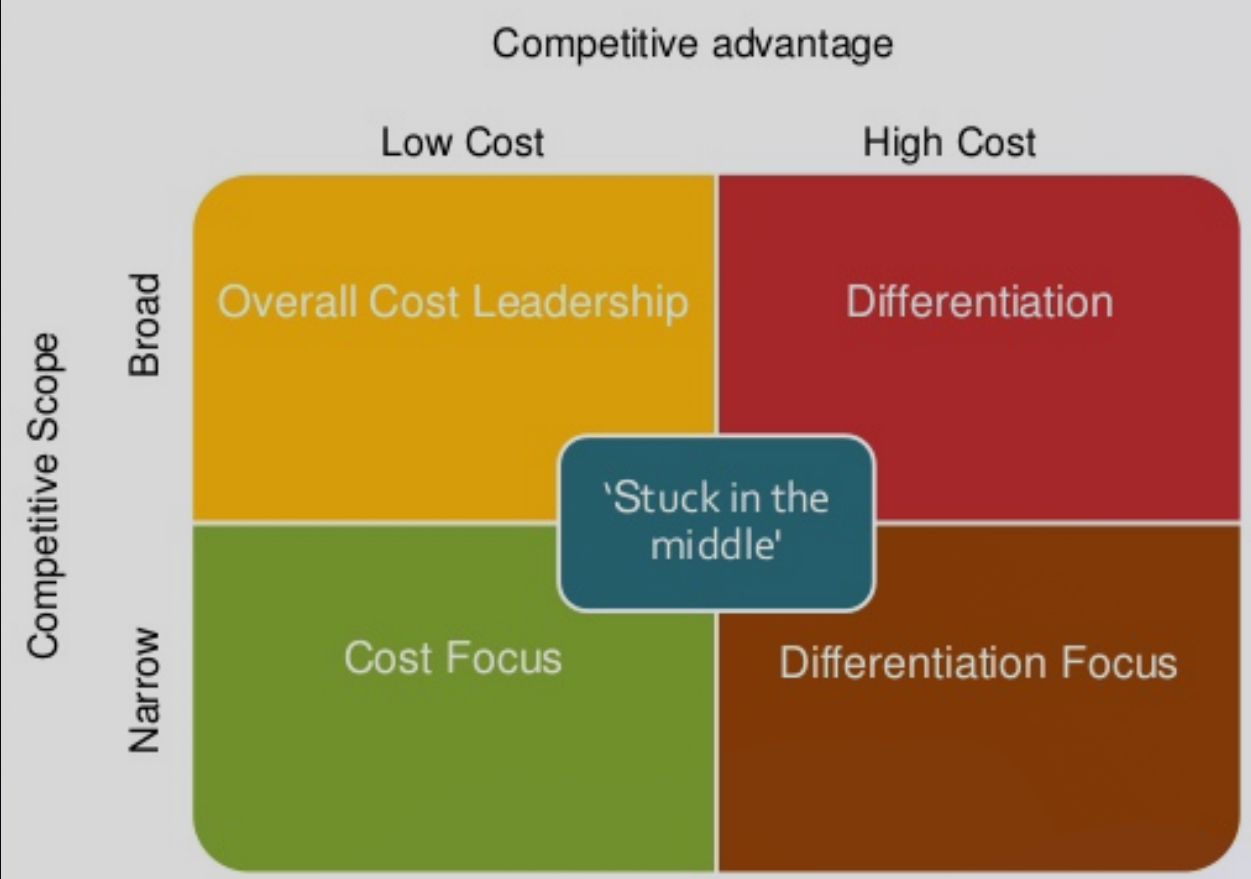
Example:

IKEA: flat-pack furniture design reduces manufacturing and transportation costs drastically by optimising packaging and assembly processes.



Competitive Advantage

Cost-leadership



Competitive Advantage

Cost-leadership

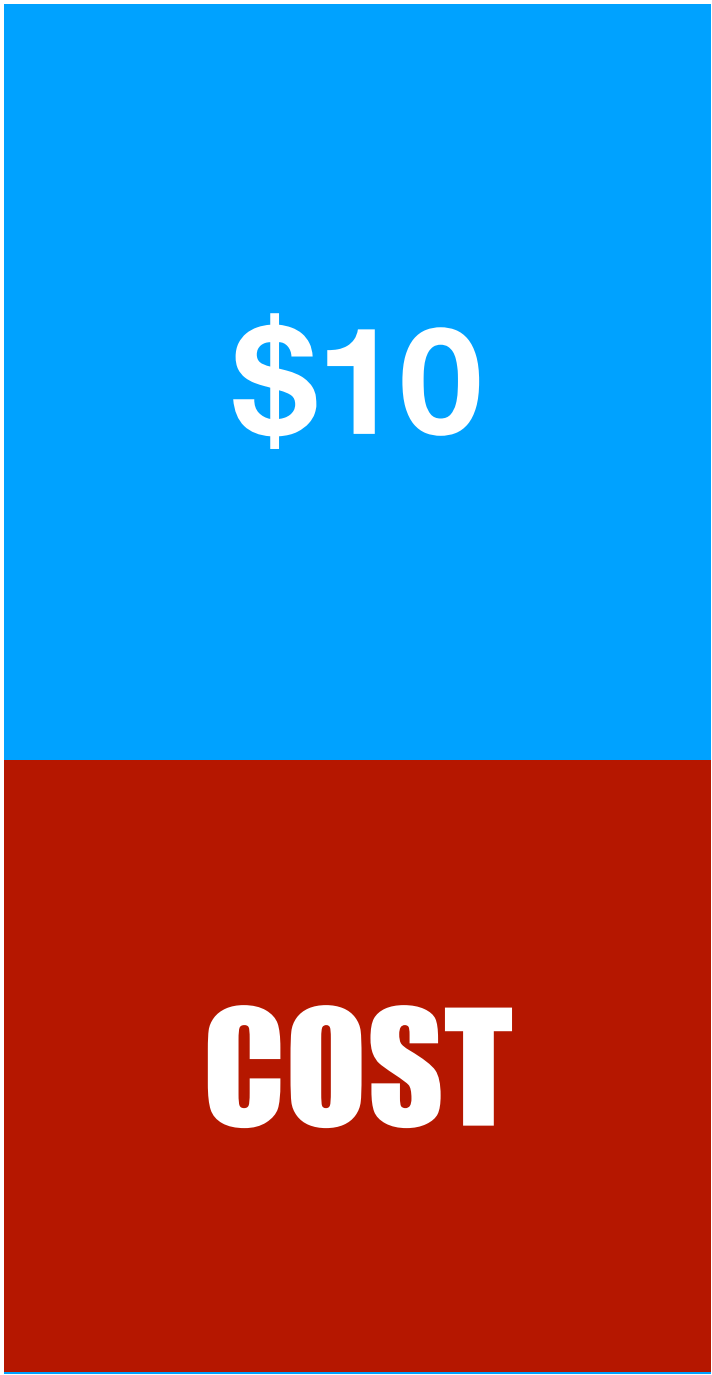
Competitive Scope



COST
LEADER

SP \$15

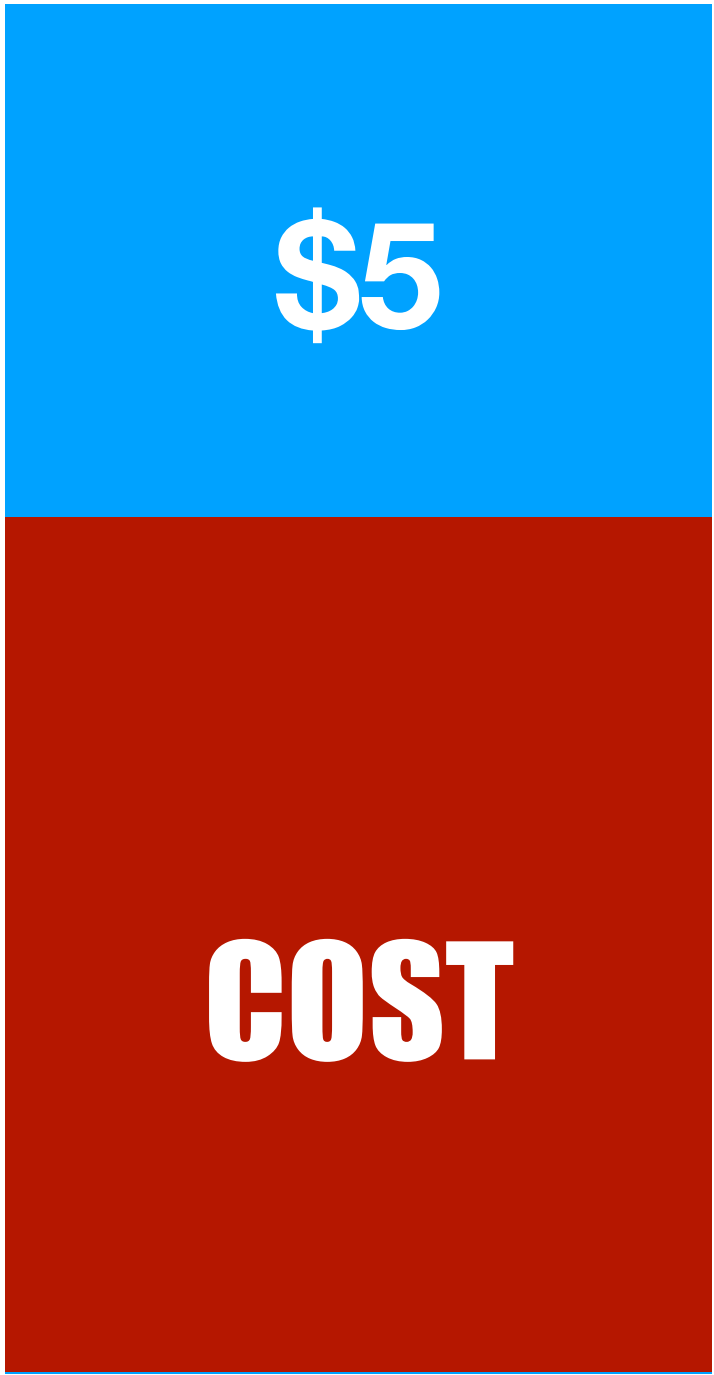
CP \$5



AVERAGE
PRODUCER

SP \$15

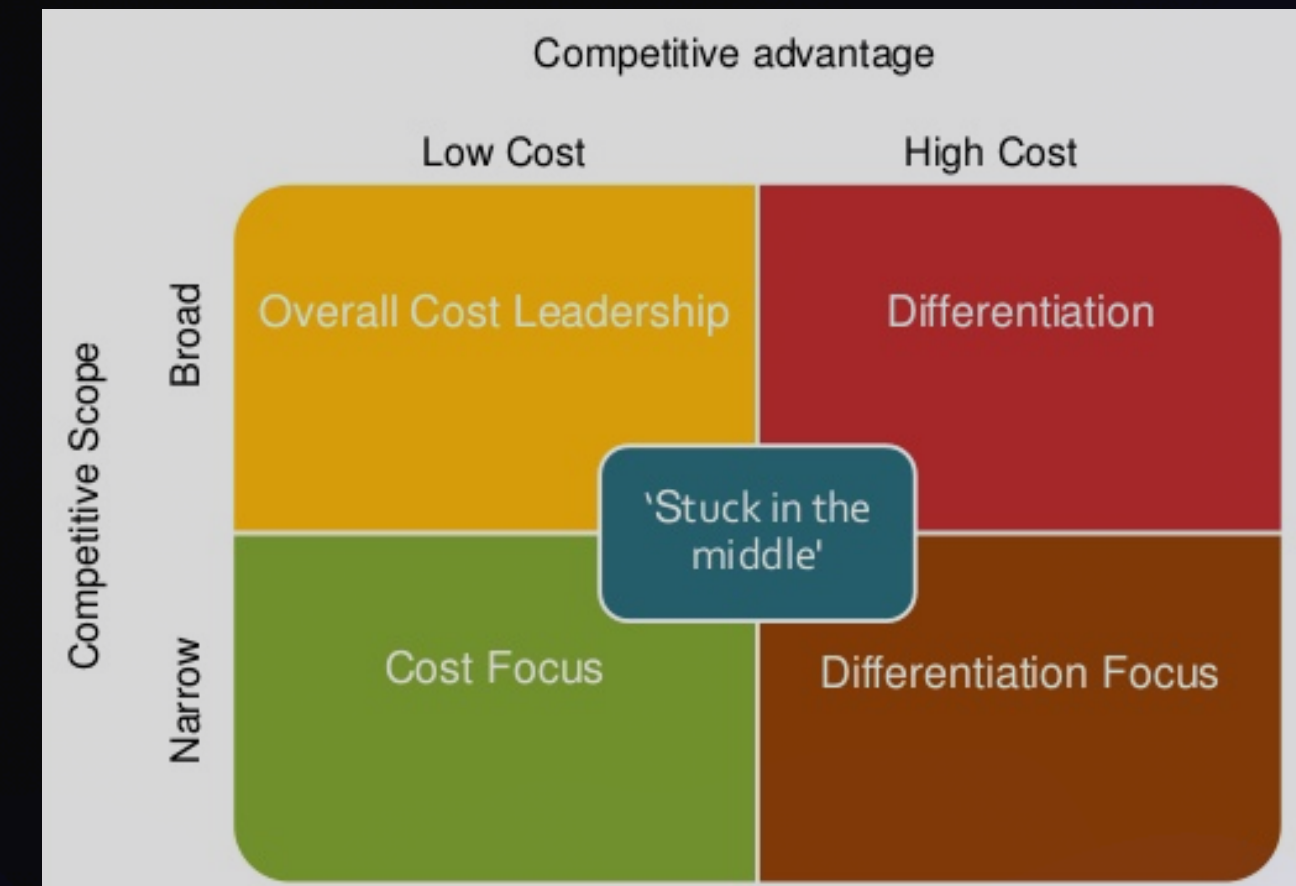
CP \$10



A differentiation strategy involves creating unique product or service offerings that customers distinctly value. The aim is to deliver something perceived as different and better than competitors, allowing the firm to command premium prices and build customer loyalty.

Goal:

Stand out in the market by offering superior value, not just lower prices.



Competitive Advantage

Differentiation

Competitive Scope

Broad
Narrow

Competitive advantage

Low Cost

High Cost

Overall Cost Leadership

Differentiation

Cost Focus

Differentiation Focus

'Stuck in the middle'

DIFFERENTIATION

SP \$100

\$85

CP \$15

COST

AVERAGE PRODUCER

SP \$15

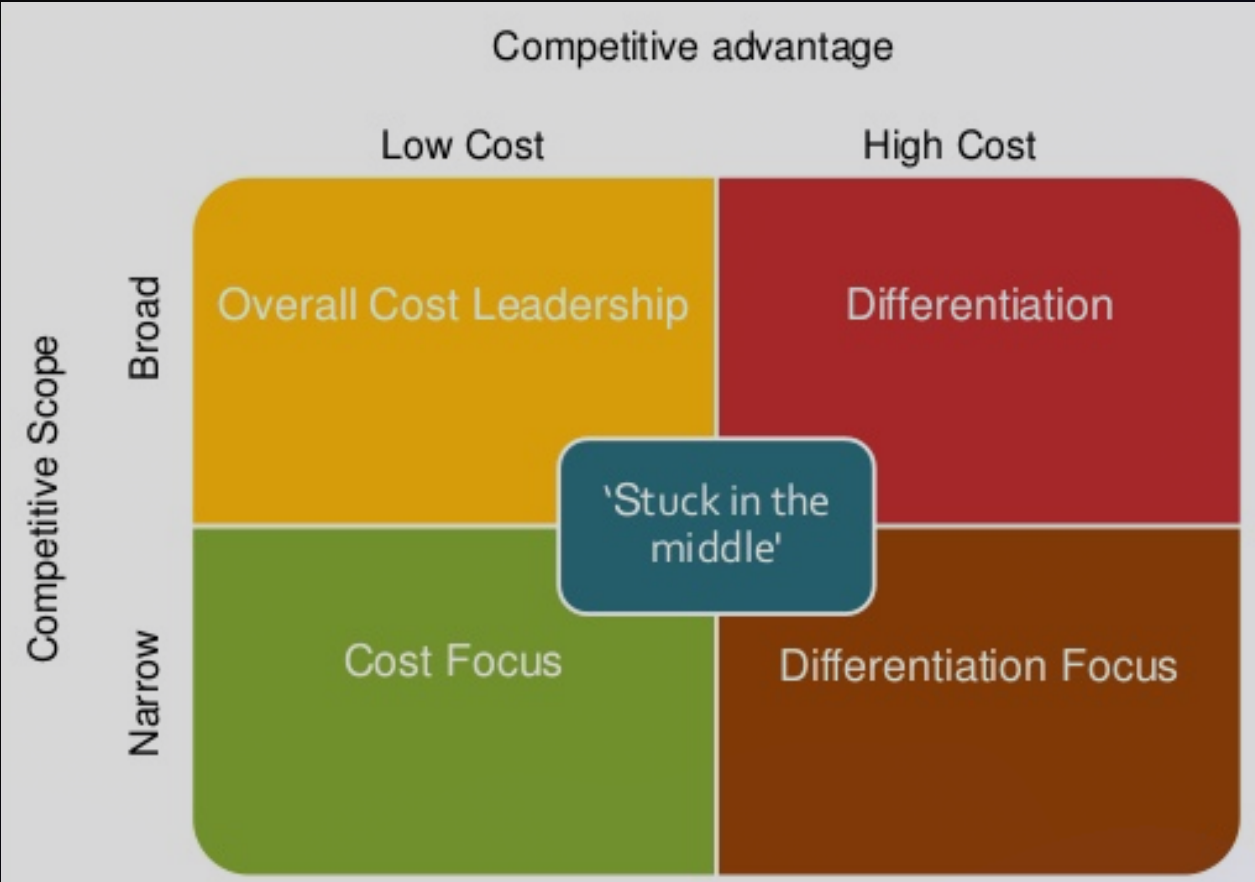
\$5

CP \$10

COST



Miele

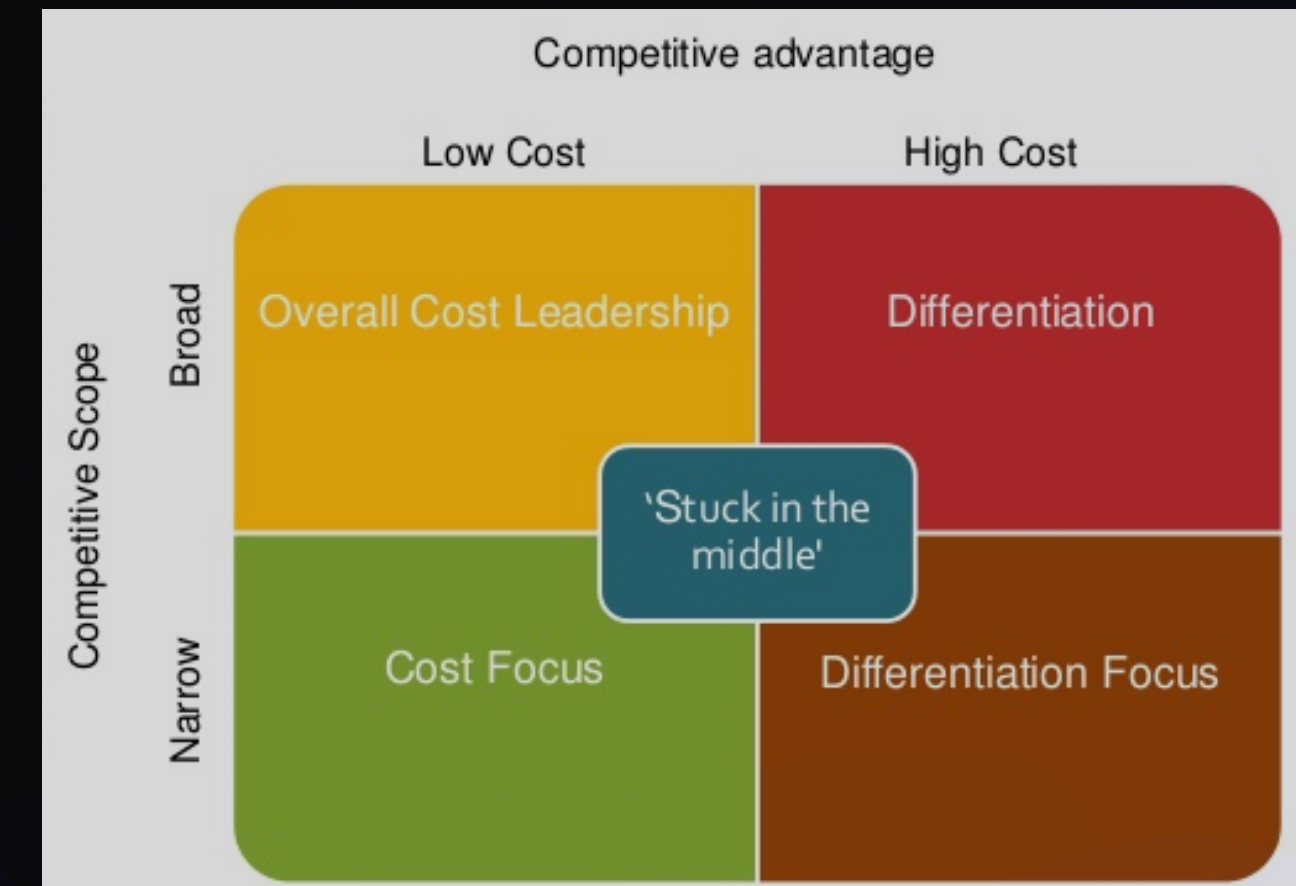


Competitive Advantage

Differentiation

For example, German manufacturer Miele pursues a differentiation strategy in the domestic appliance industry. Its European-manufactured, high-quality, durable dishwashers, washing machines and stoves are targeted at higher-income households at a price premium.

In brief, several key aspects should be considered when implementing a differentiation strategy. Three primary differentiation drivers to consider are **product and service attributes, Customer relationships, and Complements**.



Competitive Advantage

Differentiation

Refers to the physical and intangible characteristics of a product or service that make it distinctive.

How to Differentiate:

- Quality: Superior materials, craftsmanship, durability.
- Features: Unique, advanced, or enhanced capabilities.
- Customisation: Tailoring products to individual needs.
- Design: Aesthetic appeal, ergonomics, branding.
- Innovation: New technologies, creative solutions.

Example:

Apple iPhone: combines cutting-edge technology with sleek design, ease of use, and a strong brand identity to differentiate from other smartphones.



Competitive Advantage

Differentiation - Product and service attributes

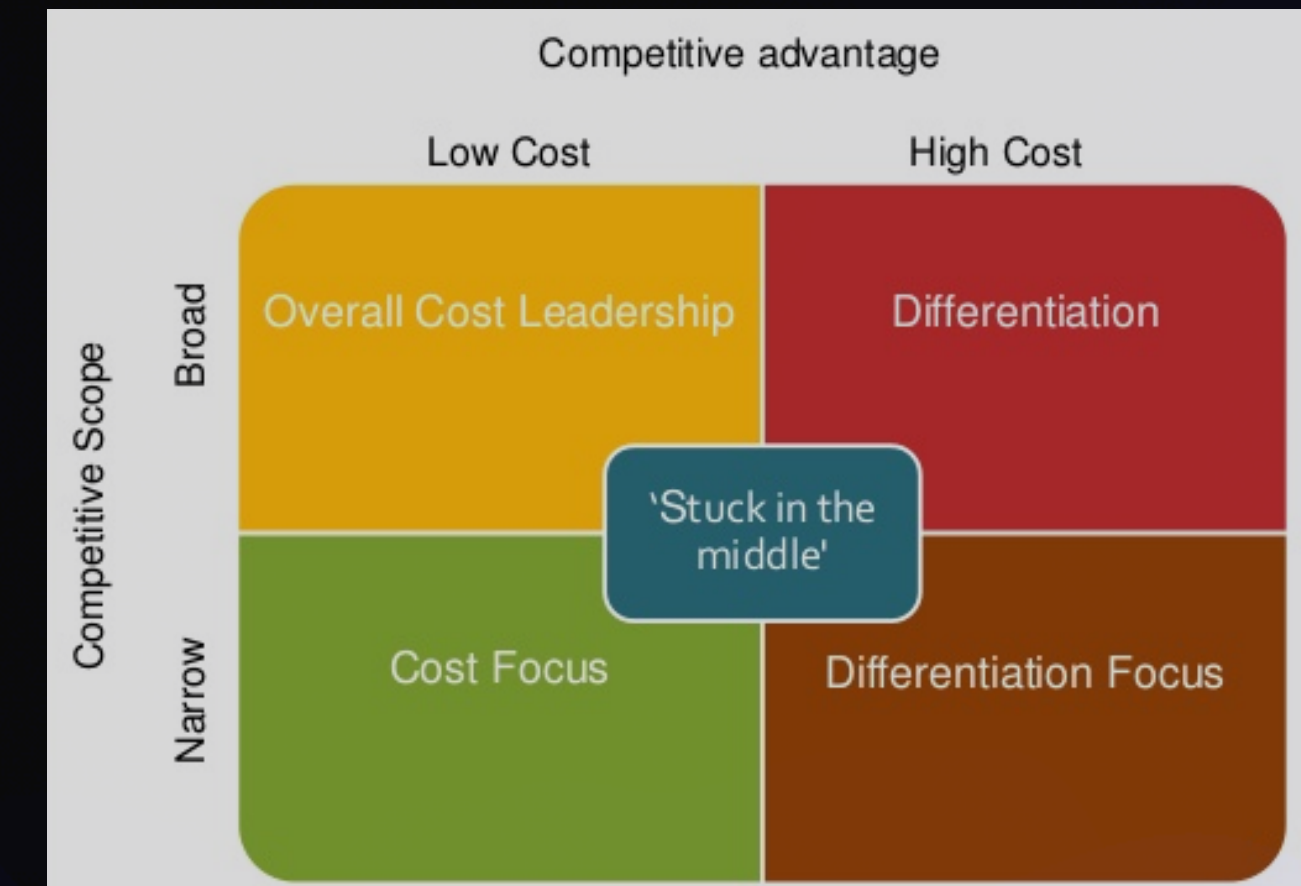
Customer relationships Differentiation is based on how a company interacts with its customers before, during, and after the sale.

How to Differentiate via Customer Relationships:

- Customer Service: Personalised support, responsiveness, reliability.
- Brand Image: Emotional connection, trust, values alignment.
- Customer Experience: Seamless shopping experience, loyalty programs, omnichannel presence.

Example:

Ritz-Carlton Hotels are famous for exceptional, personalised customer service, where employees are empowered to go above and beyond for guests, creating lasting loyalty.



Competitive Advantage

Differentiation - Customer relationships

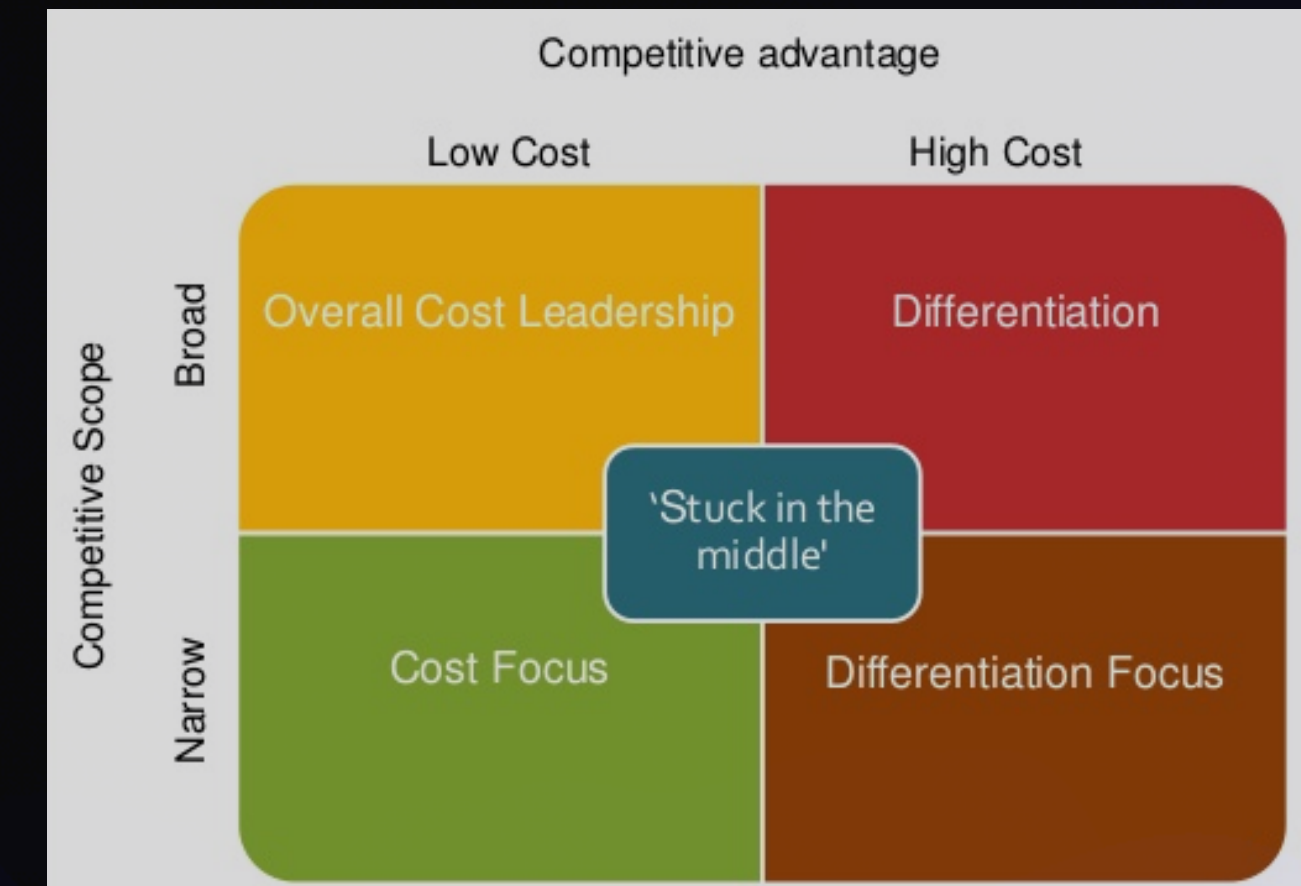
Complements. Additional products, services, or features that enhance the value of the core product and create a more complete customer solution.

How to Differentiate Using Complements:

- Ecosystem Offerings: Bundling related products or services.
- Third-party Integrations: Partnerships that expand product capabilities.
- After-sales Services: Maintenance, Warranties, and Upgrades.

Example:

Microsoft Office Suite: Word, Excel, PowerPoint, and Teams are bundled to create a complete productivity solution, making it harder for customers to switch.



Competitive Advantage

Differentiation - Complements

Competitive Scope

Broad

Narrow

Competitive advantage

Low Cost

High Cost

Overall Cost Leadership

Differentiation

'Stuck in the middle'

Cost Focus

Differentiation Focus

DIFFERENTIATION

SP \$100

\$85

CP \$15

COST

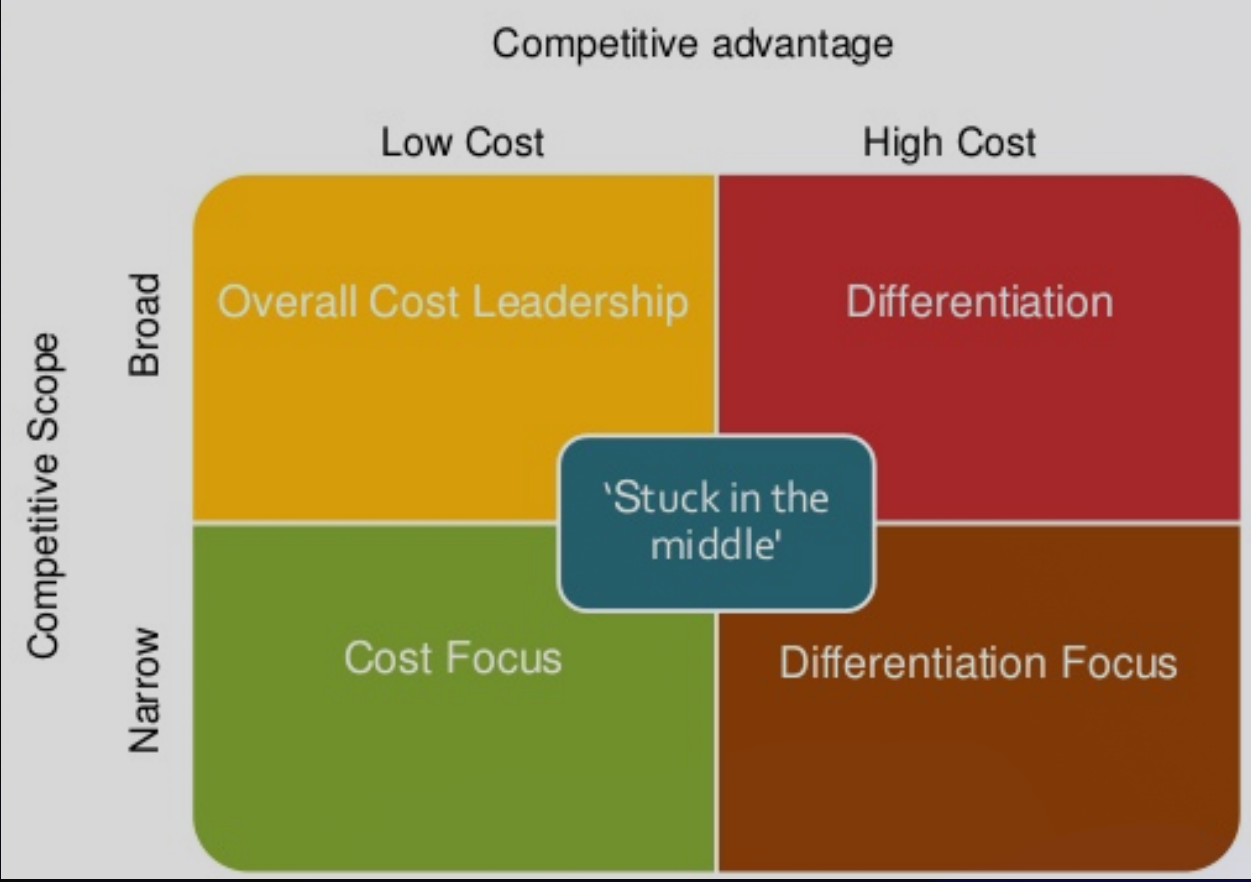
AVERAGE PRODUCER

SP \$15

\$5

CP \$10

COST



Competitive Advantage

Differentiation - Louis Vuitton



COST LEADER

SP \$15

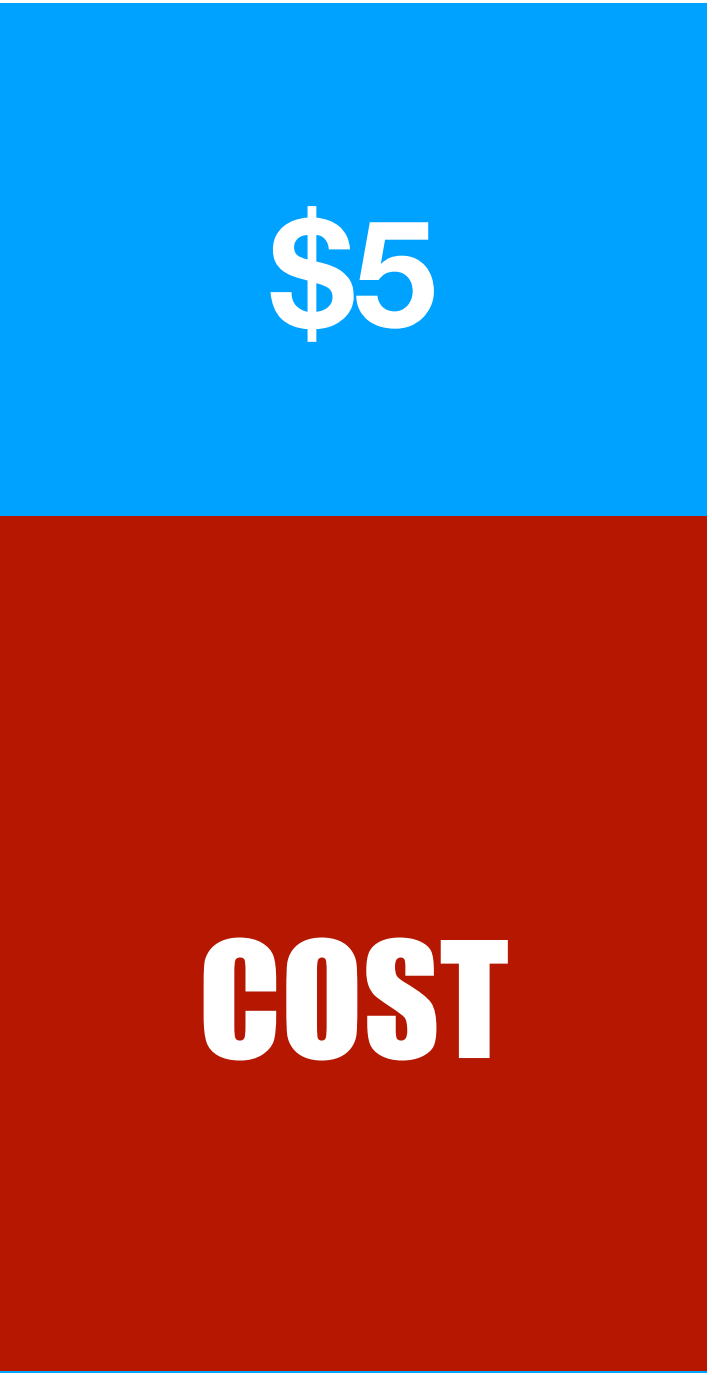
CP \$5



AVERAGE PRODUCER

SP \$15

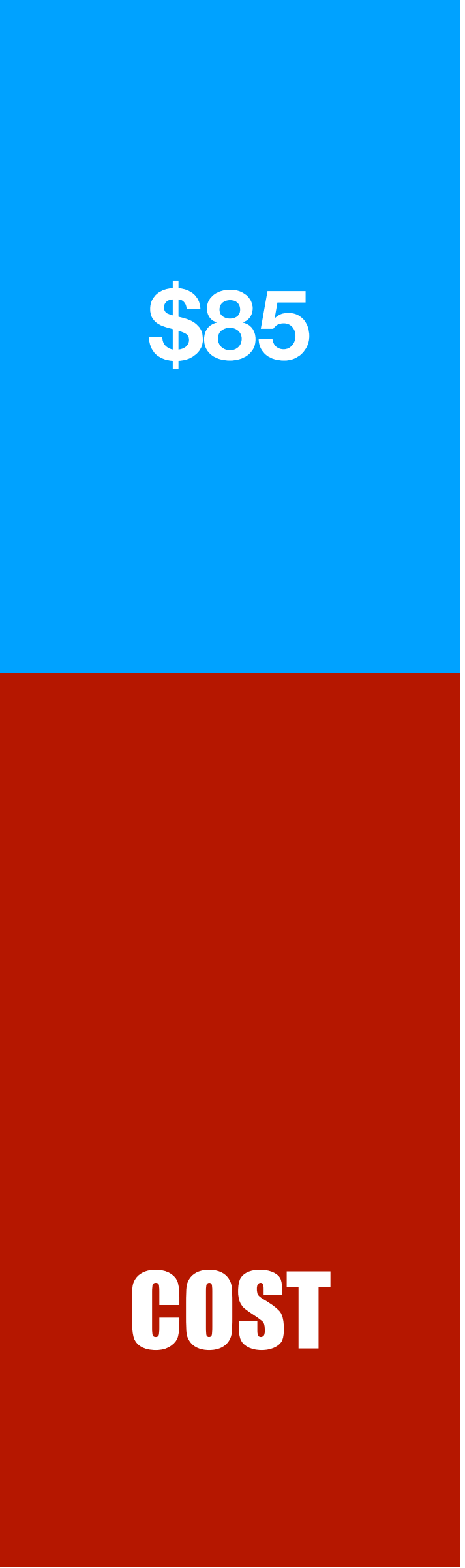
CP \$10



DIFFERENTIATION

SP \$100

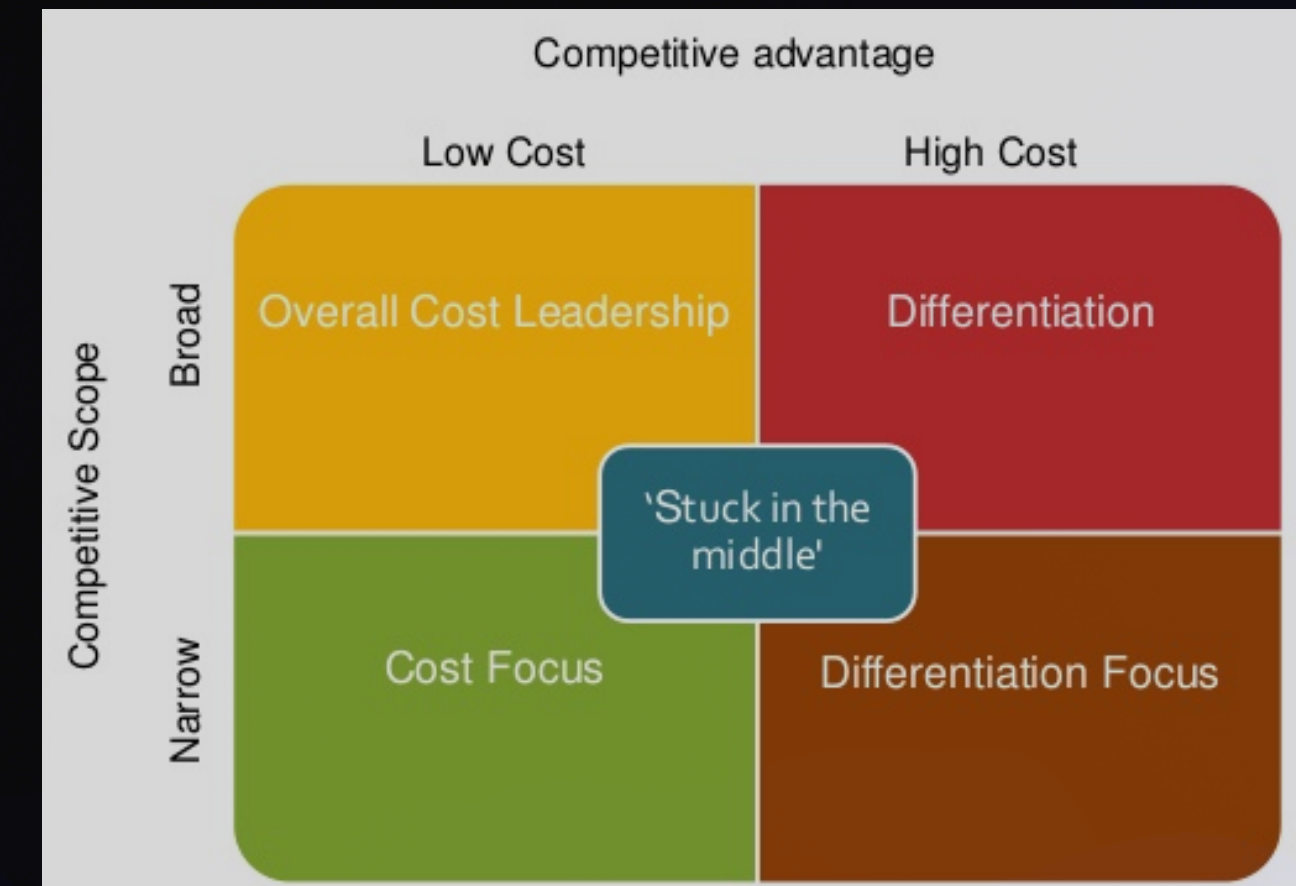
CP \$15



Competitive advantage



Porter distinguishes **Focus** as the third generic strategy based on competitive scope. A focus strategy targets a narrow segment or domain of activity and tailors its products or services to meet the specific needs of that segment, excluding others. Focus strategies come in two variants, according to the underlying sources of competitive advantage: **cost or differentiation**.



Competitive Advantage

Differentiation



COFFEE PRESS
A THREE PART SYSTEM
FOR BREWING THE BEST
FILTERED COFFEE. THE FIRST PART
PLACES THE COFFEE IN THE PRESS
AND THE SECOND PART
PUSHES THE COFFEE INTO THE
CUP.



STARBUCKS RESERVE

We search the world for the rarest small lot coffees and
artfully roast them at our Starbucks Reserve Roasteries.



Competitive Advantage

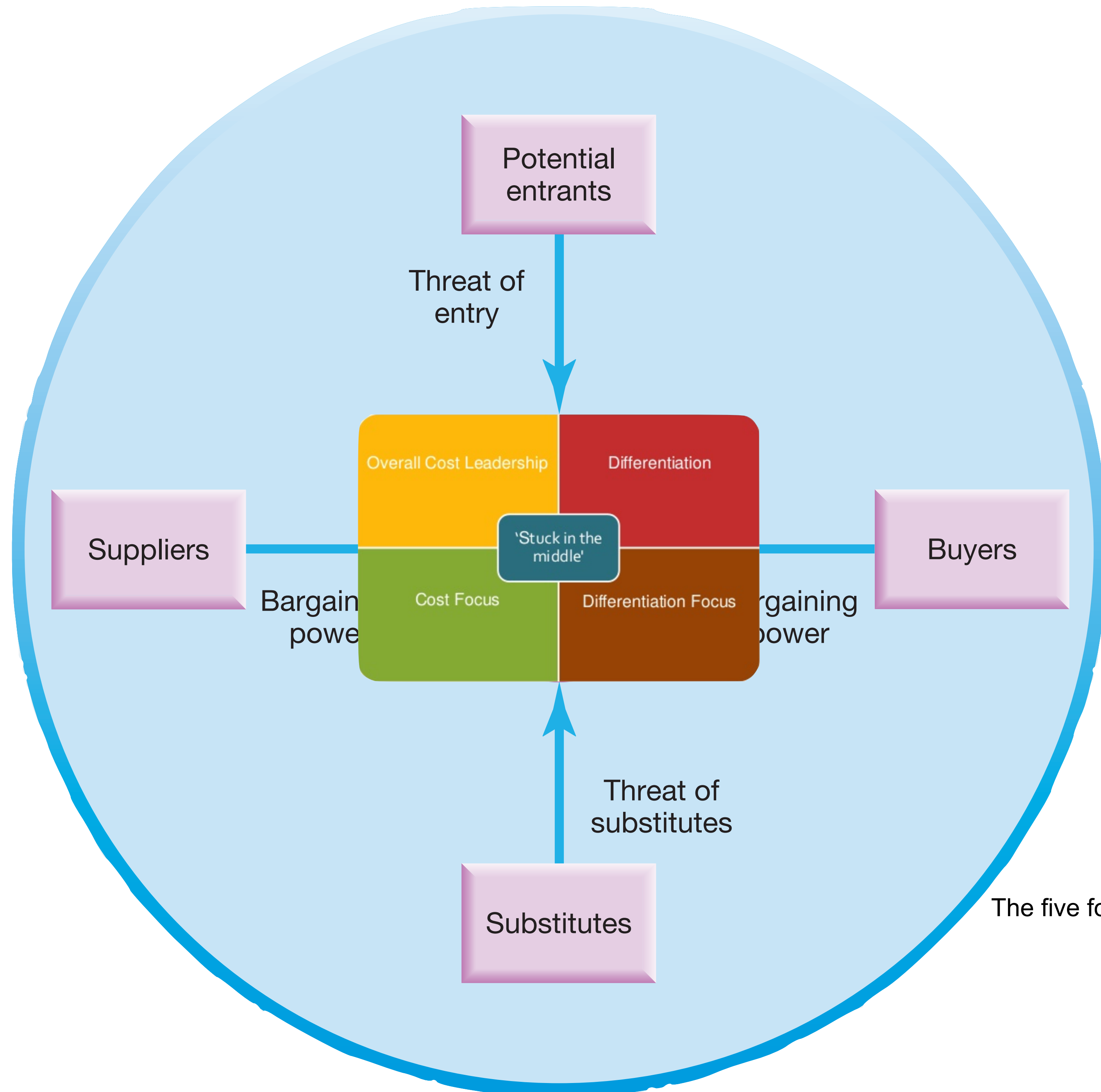
Differentiation - Focus



Competitive Advantage

Low Cost - Focus

5 Forces/ Competition



The five forces framework.

