Nokia, amazon.com external analysis porter 5 forces

Business

Shai Zamir Dan Saguy January 5, 2012 Strategy Assignment External Analysis: Porter's 5 Forces ComparisonNokiavs. Amazon. com Nokia is a multinational communications corporation that is headquartered in Finland and engaged in the market of manufacturing of mobile devices and in converging Internet and communications industries, with over 132, 000 employees in 120 countries, sales in more than 150 countries and global annual revenue of over €42 billion and operating profit of €2 billion as of 2010. Nokia produces a wide range of mobile devices and offers Internet services such as applications, games, music,
maps, media and messaging through its OVI platform.

Its global device market share was 23% in the second quarter 2011. 1. Supplier Power For both software and hardware providers, there are numerous mobile operating systems providers and hardware manufacturers, options are plenty, hence the bargaining power of suppliers is low. 2. Buyer Power Buyer's bargaining power is high.

There is a large choice of products and very limited differentiation of those products. Demand is elastic and highly sensitive to economy. Buyers have all the required information about alternative products, and there are low switching costs (depending on the mobile plans provided by the service provider) 3. Rivalry among existing firms Competition is intense among existing players. The differentiation among existing products is diminishing.

However, players continue to differentiate in terms of applications and services offered. 4. Threat of Substitution Generally, there isn't a direct substitute to the mobile phone industry. However, Smart phones do a wide variety of functions, so any product that specializes in one of those individual functions can also be termed as a substitute. Other formidable substitute products are notebooks, PDA, tablet PCs.

5. Threat of new entry Huge capital requirement, high manufacturing costs, high R; D costs and constant push to innovate and launch new products results a low threat of entrance. In addition, mobile industries are heavily regulated with governmental and legal barriers (radiation levels, warranty issues, etc.). Amazon.

com, Inc. s an American multinational electronic commerce company in the online retail market. Its' headquarters is in Seattle, Washington, United States. It is the world's largest online retailer, with different websites for large countries. Amazon was founded by Jeff Bezos in 1994 (the site went online in 1995). It started as an online bookstore, but soon diversified, selling DVDs, Music, software, games, electronics, apparel, furniture, food, and toys.

1. Supplier Power Suppliers have low power. Amazon is a very big company, and has the advantage of deciding when to pay their suppliers. Most of the suppliers don't charge their products until the moment that amazon sells them and the payment for most suppliers is normally more than a month after the sale. Nevertheless companies are prepared and ready to provide services and products to amazon. Also, for smaller suppliers, amazon keeps a very low inventory of items in their stock in order to reduce costs.

Suppliers consider amazon. com as an important and prestigious company hence, their commitment with amazon is clearly noticeable and essential. 2. Buyer PowerOn one hand, consumers have the power to easily switch amazon to the competition, due to the simplicity in internet product search and comparison, so amazon must maintain low prices compared to the competition. On the other hand, after initially buying a product, consumers tend to return to amazon every time, assuming the price will be lowest, even without checking. This equilibrium leads to a moderate buyer power.

3. Rivalry among existing firms Amazon is one of the first companies into the e-commerce field. This gives a certain level of tranquility. Nevertheless, the market is highly competitive. Amazon has innovated to achieve high levels of customer’s satisfaction which can assure their position into the market for future years.

A differentiation should be made between products such as books (in which amazon is a strong leader) and other products like clothing, which are also bought elsewhere. 4. Threat of Substitution The threat of substitute is low. There is a megatrend of the world increasingly moving to online commerce, rather than other options for example: shopping in stores, or ordering by phone. Amazon has innovated their services and products along the years and the name of amazon. com is well recognized and trusted into the field hence there aren’t significant threats of substitution at least in the short time.

5. Threat of New Entry Internet has shown to us that a simple idea well developed can offer extraordinary results, examples such asFacebook,

Youtube, etc. These companies have developed their web sites in a short period of time with incredible final results.

This can be the proof that a threat of new entries into the market is possible. It is an easy market to enter, with low capital requirements and almost no regulations Summary Nokia and Amazon are massive players from different industries. Nevertheless, there are some similarities within the characteristics of each market. Both companies perform in competitive markets with several major other players. The high level of competition impacts the bargaining power of supplier for both companies.

Each one considers being a big player in a competitive arena and the numerous number of suppliers in each market lowers their bargaining power. The buyers bargaining power is high for both firms due to the intense competition mentioned earlier. For Nokia the buyer’s power is even higher due to its decreasing reputation in the mobile industry. Another similarity stands for the low power of threat of substitutes. Both companies offer quality products that are superior to its substitutes significantly (communicating via mobile phone comparing to communicating via stationary phone/ internet calls, buying via the internet comparing to buying in stores/ by phone).

The differences as reflected in the Porter’s 5 forces model appears in the threat of new entrants. The significantly higher costs of production and marketing in the mobile industry (Nokia), along with the strict regulatory required in the communication market lowers the entrance threat and make it harder for new rivals to enter the market. Those factors has a low impact on the internet industry, make it harder for Amazon to maintain its position.