

Porter's five forces analysis of yahoo!



The World Wide Web brings about new products and services every day for any consumer to access at any time with the simple click of a mouse.

Consumers may look at the local weather forecast, find address and phone number of a business, or simply use the Internet for entertainment. All of these activities and many more are all accessible on Yahoo!'s website. Terry S. Semel, Chief Executive Officer at Yahoo! and the Porter's Five Forces analysis model along with Porters Differentiation strategy helps Yahoo! compete intensely among its competitors.

From an internal perspective, Porter's Five Forces gives Yahoo! a sustainable competitive advantage by analyzing the Threat of New Entrants, the Bargaining Power of Buyers, the Bargaining Power of Suppliers, the Threat of Substitute Products and Services, and the Intensity of Rivalry among Competitors in an industry. Semel analyzes each piece of Porter's Five Forces model to determine the best route for Yahoo! to boost its competitive advantage in the Internet industry. First, Yahoo! analyzes the Threat of New Entrants coming into the Web industry.

The Threat of New Entrants refers to " the possibility that the profits of established firms in the industry may be eroded by new competitors" (Dess, Lumpkin, & Eisner, 2007, pg. 59). In Yahoo!'s industry, it is relatively easy for any firm to have an eye-catching website. A new entrant can be a firm in its beginning years who does not have a significantly large budget, but could better serve consumers wanting specific products or services because of new technology it owns. Distributors and manufacturers may also reach more consumers through the Internet, so they enter the market. Semel bought technology such as the Inktomi search engine for Yahoo! to better serve the

Internet world and keep a sustainable competitive advantage using product differentiation to create a higher barrier of entry for those smaller or newly established firms.

The second of Porter's Five Forces discusses the Bargaining Power of Buyers in an industry. " Buyers threaten an industry by forcing down prices, bargaining for higher quality or more services, and playing competitors against each other" (Dess, Lumpkin & Eisner, 2007, pg. 61). Buyers are generally not loyal to a specific brand of product or service. Buyers have any information available to them 24 hours a day and they use this to their advantage. Consumers want the best deal for them at that time, so they will take a few minutes, click the mouse a few times, and find the best opportunity for their needs. Buyers use this tool to their advantage. It is difficult for suppliers to retain repeat customers because the customers have the opportunity to shop around to best satisfy their quality and price needs. With Yahoo! expanding their search capabilities by adding new features like its alliance with SBC communications, adding WUF Networks Inc., and HotJobs. com, Semel is aiming to keep more of Yahoo!'s consumers within the Yahoo! website and prevent them from exiting to search on a competitor's sites.

The Bargaining Power of Suppliers is another of Porter's Forces that Yahoo! needs to keep in mind. Suppliers " involve providing products or services to other businesses," therefore use " the term B2B-that is, business-to-business" (Dess, Lumpkin & Eisner, 2007, pg. 285). Yahoo! is an intermediary between some buyers (consumers) and sellers (advertisers) and is business-to-business oriented. Suppliers can make arrangements on the Internet to <https://assignbuster.com/porters-five-forces-analysis-of-yahoo/>

make searching and buying easier for consumers and prevent them from switching. Yahoo! relies heavily on several different advertisers to keep consumers searching on the Yahoo! site. " Semel has built Yahoo! into a site that can offer surfers many different services, with several of them requiring the customer to pay a small fee" (Shamsie, pg. 795). The customer is more likely to stay on one site if everything he/she is searching for is there, letting Yahoo! and the advertising supplier profit.

Any company in an industry needs to keep a watchful eye for the Threat of Substitute Products and Services. This may be the most important of Porter's Five Forces for Yahoo! to stay on top of. " Substitutes limit the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge" (Dess, Lumpkin & Eisner, 2007, pg. 63). Again, consumers can compare prices, quality, and customer service between companies, but companies can do the same. A firm can research what products and services other firms are selling and make substitute products or services. This is the case for Yahoo!'s digital theme part Semel is pushing into effect. AOL and MSN are also envisioning a digital theme part and they have many substantial advantages from competitive software and programs to money on hand. Semel has pushed through with new advanced technology to give Yahoo! the edge they need to compete with companies such as AOL and MSN (Shamsie).

The last of Porter's Five Forces Model is the Intensity of Rivalry Among Competitors in an Industry" (Dess, Lumpkin & Eisner, 2007). " Because the Internet creates more tools and means for competing, rivalry among competitors is likely to be more intense" (Dess, Lumpkin & Eisner, 2007, pg. <https://assignbuster.com/porters-five-forces-analysis-of-yahoo/>

288). Rivalry among competitors on the Internet is extremely high because technology is constantly changing. New, better software is being introduced every day to give certain companies a competitive advantage and leave others trying to catch up. Google is Yahoo!'s biggest competitor, and is regarded " as the most prominent search engine in most parts of the world" (Shamsie, pg. 796). Semel and his team have been dedicated to increase Yahoo!'s search engine capabilities to compete with competitors like Google, MSN, and AOL.

Semel has done a wonderful job turning Yahoo! around from the falling company it was before he joined the team. Using Porter's Five Forces, Semel has wisely used the company's funds and resources to gain new technology to push Yahoo! to the top of the bar. Implementing Porter's Differentiation strategy by building an animated theme park as Yahoo!'s Web site to keep people wanting more from Yahoo! might just give Yahoo! the edge it needs to move forward and take over the number one spot for search engines.

" Differentiation consists of creating differences in the firm's product or service offering by creating something that is perceived *industrywide* as unique and valued by customers" (Dess, Lumpkin & Eisner, 2007, pg. 169). Differentiation can have a huge influence on customers because of unique service and product offerings and positive brand image (Dess, Lumpkin & Eisner, 2007). Semel is creating differentiation through features and technology with Yahoo! having multiple services in one location in Yahoo!'s digital theme park. He is building brand image by investing in billion dollar companies like SBC Communications and Inktomi so Yahoo! will have the technology and the freedom to adapt to changes in the fast-paced Internet

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industry by owning their own technology. Semel is aiming for Yahoo! to be a whole, small world in itself and enticing customers to stay in Yahoo!'s website for all of their service and product needs. Semel comments, " The more time you spend on Yahoo!, the more apt you are to sample both free and paid services," (Shamsie, pg. 795).

The total revenue for Yahoo! leaped tremendously from 2002 to 2003 and continues to rise because of Yahoo!'s CEO Terry Semel. Yahoo! hired Semel to pull the company out of ruins and he did so successfully with Michael Porter's Five Forces Analysis model and by implementing Porter's Differentiation strategy. He acquired excellent technology and made strategic alliances with companies to give Yahoo! a step-up from its competition. Semel is differentiating Yahoo! by building a " digital Disneyland-a souped-up theme park for the Internet Age" (Shamsie, pg. 792). His goal is to keep current customers in Yahoo!'s site by offering everything to fill their needs. The more time a customer spends on a specific site, the more likely he/she is to do business on that sight, letting Yahoo! profit from his/her requests. Semel using Porter's Five Forces and the Differentiation strategy continues to push Yahoo! to the top of the leader board.

References

Dess, G. Gregory, Lumpkin, G. T., & Eisner (2007). Strategic Management 3e. McGraw-Hill.

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Porter's Five Forces and Differentiation

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The Threat of New Entrants

- Easy for anyone to have eye-catching websites that compete with large companies
- New entrant can be any firm who will do well because of technological advances
- Distributors and manufacturers can reach more consumers through the Internet, so they enter the market

The Bargaining Power of Buyers

- Buyers can get information off of Internet about competing products and services
- Most Internet buyers are not loyal to a specific brand. Want what is good now
- Suppliers have a hard time keeping loyal customers because they shop around for the best quality, prices, and customer service

The Bargaining Power of Suppliers

- Yahoo! is intermediary between some buyers and sellers
- B2B oriented
- Suppliers can make arrangements on the Internet to make searching and buying easier to prevent customers from switching
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- B2B oriented

- Suppliers can make arrangements on the Internet to make searching and buying easier to prevent customers from switching
- Yahoo! uses several different types of suppliers on their site to keep customers within their walls

The Threat of Substitute Products and Services

- Any company can research and find a better way to accomplish the same task
- Yahoo! was threatened by AOL and MSN for the theme park

The Intensity of Rivalry among Competitors in an Industry

- Rivalry is very intense because there are many tools and excellent technology for competing firms
- Google, MSN, and AOL are major rivals

Differentiation

- Huge influence because of the unique services and products
- Yahoo!'s alliance with big companies
- Yahoo!'s buying of outstanding technology
- Yahoo! wants to keep people in their site. They are more apt to pay a small fee for something if they can stay in one place