

Porters five forces framework or model business essay



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Federation Internationale de l'Automobile (FIA) in 1945 established Formula A which was over the years referred to as Formula One (F1). In mid 1960's F1 went further on and transformed into a specialised business where leading and competitive technologies were used to build cars. Within no time F1 was one of the most popular TV sporting event which had the third highest audience in the world. Around 2008, more than 14 car manufacturers or constructors were competing in F1 out of which the top three teams were Ferrari, McLaren and BMW. The finest teams would typically test and develop their own systems and would generally employ 450 to 800 employees. The employees will include the highly qualified race engineers, designers, aerodynamicist, composite experts and system specialist.

In addition to the sponsorship the individual teams have, Revenue is generated through the prize money generated by the inning championship points which is negotiated on behalf of teams by Bernie Eccles tone's Formula One Group (FOG). In 2009 around 15 percent of Ferrari's budget was estimated to have come from prize money.

PORTER'S FIVE FORCES FRAMEWORK OR MODEL

Formula one is a extremely competitive industry and is based on a swiftly changing environment, which can be defined and projected with the help of Porter's five forces

“ Porter's five force model is a framework designed for industry analysis and strategic development for businesses by Michael Porter in 1979. It helps organisation to derive five forces that determines the competitive intensity of the organisation/ industry.”

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(<http://globaleduc.files.wordpress.com/2012/09/5-forces.png>)

Fig 1. 1 a graphical view of Porters Five Forces Model

Porters Five Forces For Formula One Constructors

Threat of New Entrants:

High start up and running cost.

High amount of experience and expertise required to meet the technology challenges

Bargaining Power of Buyers:

The buyers in Formula One are of high intensity because of the high power of the game. They play an important role in bringing out the contribution for funds for the teams. They basically are:

Fans

Media

Sponsors

Competitive Rivalry within the Industry:

Formula One is a highly intense and competitive industry. Each team places prominence in different capacities on a number of aspects like:

Engineers and Designers

Technology

Drivers and Management

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Sponsorships

Bargaining Power of Suppliers:

The suppliers of Formula One constructors play an extremely important role. It is so crucial so that in a few instances, primary suppliers have been the grounds of the end of the dominant period of some constructors.

Threat of Substitutes:

For Formula One the popular sporting events can be a threat as they may end up being more popular among people and may take away resources such as money, drivers, sponsors, popularity, etc. Some of the events are:

Cricket

Olympics

Le Man

Soccer

BTCC

Implication of the Porter's framework

- With the help of this framework, the management can think and understand about the possible threats and opportunities for their further growth and expansion.
- The study can provide the better solutions for improving strategies to deal with the competitors.

- Directions for the future steps and plans can be obtained.
- Possible actions can be taken to raise firm's value by getting better structure to their firm's advantage and to be in better position to convey better competitive advantage.

According to porter, " The intensity of competition in an industry is neither a matter of coincidence nor luck. Rather competition in an industry is rooted in its underlying economic structure and goes well beyond the behaviour of current competitors" (As cited in Moore. J. I., 1992, p-37)

Limitations of the Porter's framework

- Due to explosion of information technology, easily accessible technology and worker mobility, it is nearly impossible to establish any competitive advantage which cannot be traced by the competitors.
- No space for unforeseen circumstances, if any unexpected events occur such as weather change, natural calamities.
- The framework is comparatively rigid.

According to Mintzberg H, et al, (1998, p-34), " Every strategic change involves some new experience, a step into the unknown, the taking of some kind of risk. Therefore no organization can ever be sure in advance whether an established competence will prove to be strength or a weakness".

Competitive advantage required to succeed in Formula One

" Competitive advantage is a heart of a firm's performance in competitive markets. It's all about how a company puts all the generic strategies into

practice. It may take the form of prices lower than competitors for equivalent benefits or the provision of the unique benefits that more than offset a premium price. " Porter, M. E., (1980), *Competitive Strategy*, Free Press: New York.

The case studies clearly depicts that all three teams focussed on different strategies. However their strategies changed within the environment and circumstances, but what evident is that a team needs all the elements to be put in the right place. Below listed are some of the most important aspects for any team competing to focus on.

Technology and Innovation

To succeed in Formula one it was believed that the team needs to have the most up to date technology for designing the car. As the Technological factors did affect the success in Formula One, the teams should be adaptable to the new innovations or the technology changes. For example Williams' success was also due to their engineering focus, which enabled them to make a car which was both fast and dependable by adopting many of the innovations done by other teams.

Best Driver

The Best Driver is another factor; the success for Formula one would depend on. An example would be driver's choice of Ferrari Michael Schumacher, who played the role of a driver as well as a motivator of the team and the Driver, Niki Lauda. He was always able to design and develop a car by building associations and interactions with the design team. McLaren recruited Alain

Prost and Ayrton Senna who were the best at their time, and they had won four consecutive constructor titles for McLaren

Best Supporting Team

“ Internal strategic capability allows for successful strategy and is required for survival and success.”(Johnson et al, 1998). The success factor of a constructor also depends on the Effective management and the internal relationship between the Technical Director, the Driver and the Design Team. Ron Dennis and his professional management style were synonymous with the success of McLaren. Similarly Niki Lauda was always able to design and develop a car by building associations and interactions with the design team. Williams were remarkable in their effort to build an extensive relationship with Renault which was their engine supplier.

Retaining Sponsors/Finance

The constructor's relationship with the Sponsors also plays a vital role in the success factor. The winning performance of F1 teams has a direct impact on their values as well as on business, both by providing sponsors with more exposure and by entitling the team to a greater proportion of the media royalties that are distributed on the basis of performance. The majority of team finance is generated through sponsorship - a lucrative sponsorship deal can help improve a team's level of performance through cash injection alone.

The most successful team in Formula One

The study evidently brings out the generic level of success stories for each of the teams. But like it is always said there their can never be two winners at

the same time. The winner is identified by its approach applied in winning the task.

Ferrari, its renaissance and its return to glory

Ferrari is the oldest team which is still racing among of all the Grand Prix teams. Ferrari experienced its success in the mid 1970's. Mauro Forghieri was accountable for some of the most victorious Ferraris of the 1960s. In addition to Forghieri, a new team boss, Luca di Montezemolo was also appointed, who was unlikely the right hand man for Il Commendatore. He brought in the much needed discipline in the team. He defined strict areas of tasks so as to reduce the adverse effects of the internet policies and interference. This helped to create an environment where various technical teams concentrated on and were fully accountable for their own areas.

Recruitment of the best drivers like Niki Lauda and Michael Schumacher added a lot to the success story of Ferrari. Niki Lauda was always able to design and develop a car by building associations and interactions with the design team. This enabled Ferrari to convert the driver's senses into dependable technical solutions. Thus in 1975, Ferrari dominated due to the Forghieri's creative ideas, introducing the new 312T and Lauda's achievements of Drivers' and constructors' world championship. Michael Schumacher who was recruited as the Driver was a motivator of the which was identified by his effort made to just to converse and have a great understanding with an engine technician he even learnt Japanese. In 1999 Ferrari won its first constructor's championship for 12 years. Ferrari held both championships in 2000s and that was the moment that the team felt it had truly returned the glory of the mid 1970s.

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Recruitment of two more individuals from Benetton: Rory Byrn, who had the overall responsibility for designing the car and Ross Brawn, who operated and managed the entire technical operation, was also a beneficial move for Ferrari. Byrn and Brawn with a design department of 50 people, taking up the advantage of the fact that Ferrari makes its own engines, integrated the design of the engine, chassis and aerodynamics. This rejuvenated team provided the basis for Ferrari's dominance in F1.

Reason why Ferrari was unable to sustain the success

The reason for Ferrari's loss of advantage can be isolated into many factors. The early 1970s began shakily for the Ferrari's, as it could not compete with the DFV engine, which was built by Cosworth Engineering. The DFV was F1's first purpose built engine. It was light, powerful and relatively inexpensive. Thus in 1971 and 1973, every Grand Prix was won by a car using a DFV Engine. During this period, the Ferraris were very fast, but not reliable. Thus it got worse for the Ferraris with the cars only finishing every other race and rarely in the points. Enzo Ferrari, the founder of Ferrari himself had been suffering poor health and the team unable to turn around.

Luca di Montezemolo, the team boss of Ferrari recruited the driver, Niki Lauda. The things didn't continue smoothly for a long time. Niki Lauda lost control of the car in the wet conditions and crashed in flames at the German Grand Prix. He suffered from severe burns and inhaled toxic fumes.

Miraculously Lauda recovered from his injuries and although still badly scarred, he returned back to race in Ferrari, but couldn't perform well. Thus the Nurburgring accident ended up the relationship of Ferrari with Niki

Lauda, which was one of the main factors in the loss of Ferrari.

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Year 1980 was a disaster for Ferrari. Ferrari couldn't respond to the new innovations in aerodynamics, which brought the ground effect revolution. No initiative was taken was taken by the Ferrari towards a longer term project to develop a V6 turbocharged engine. As a result, Jody Scheck also failed to qualify his Ferrari for the race at Canadian Grand Prix. Hence, we can say that Ferrari's uniqueness in designing its own engine and constraining itself from getting adapted to the new technology in market was another factor for Ferrari's loss in the 1970's to 1980's.

In year 2005, it meant the end of the glory period for the Ferrari as it couldn't respond to the change in the regulations of F1. The tyres were required to last for the whole of the race, but being unable to respond, Ferrari struggling towards the end of the race on its Bridgestone tyres.

The main factor responsible for the loss of Ferrari in 2006 was the loss of its team members. Michael Schumacher retired at the end of the year in 2006 and highly experience engine director Paolo Martinelli moved to a job with Fiat and Ross Brawn announced that he was taking a sabbatical in 2007. Thus these factor i. e. the change in the regulations in the sport and the loss of the key team members lead to the loss of Ferrari in later 2000's.

Consideration for Ferrari in order to have prevented the loss of advantage of success

Response to innovation and new regulations

Ferrari always maintained its uniqueness by building its own engine design and its development with the help of dedicated technical team. Though, this uniqueness of designing their own engine got Ferrari many victories, at the

same time, at some point of time Ferrari were not able to adopt or respond to the new innovations and the change in technology. The Ferrari was not able to respond to the new innovations in aerodynamics which brought the ground effect revolution. Thus Ferraris must have sustained their success factor by keeping up with the new innovations. In 2005, F1 made some changes in the regulations i. e. the tyres were required to last for the whole of the race. This change in regulation left Ferrari struggling towards the end of the race on its Bridgestone tyres. An another change in the regulations of F1 during this period was that the constructors had to shift from 3. 5 litres V10 engine to smaller V8's with the design engines to be frozen for three years from 2007. Though this was a benefit for the Ferraris, it struggled to perform in the early part of the season

Focus on reliability issues

Ferrari's dominated the 1975 season because of Niki Lauda, but due to the reliability issues of the Ferrari's, Niki Lauda lost the control of the car crashed in flames. And this accident resulted in Lauda leaving the Ferraris which was a loss for Ferrari. Thus, if Ferrari must have realised the reliability issues, Lauda's accident would have been avoided.

Sustaining the talent

Ferrari was struggling in the mid 1980s as it was not able to respond to the new developments in aerodynamics. Thus, in 1986 Ferrari recruited John Barnard to the top technical role. But Barnard was not ready to move to Italy. Ferrari allowed Barnard to establish a design and development facility near Guilford that was known as the Ferrari GTO or Guilford Technical Office. GTO concentrated on the design of the following year's car, whereas the <https://assignbuster.com/porters-five-forces-framework-or-model-business-essay/>

Maranello focused on the building and racing the current car. But this physical separation between the design and development in Guilford and the racing operations in Maranello lead to problems and Barnard and Ferrari parted company in 1996. If Ferrari must have kept both the design and development team in one place and found a replacement for Barnard, it must have been able to sustain its success.

Team with the best source of competitive advantage

In my opinion, Ferrari projected the best source of competitive advantage as it held in the key factors responsible for success. The major key quality of Ferrari to build up a solid and beneficial relationship between the team and the driver has driven the Ferrari to success. However there were other reason as well that added to the forces that led Ferrari to succeed.

Relationship with the team

The Ferrari portrayed a successful relationship with Luca di Montezemolo. He bought the much needed management discipline to the team. Ferrari had a commendable association with Niki Lauda who was always able to design and develop a car by building associations and interactions with the design team. This enabled Ferrari to convert the driver's senses into dependable technical solutions.

The Ferrari team also maintained good relationship with Michael Schumacher which led to its dominance in F1. Schumacher's talent as driver and motivator of the team. The relationship of the teams with the manufacturers was also a key factor for the success of the constructors in F1.

Uniqueness of the in house engines

Ferrari manufactured its own cars at the Maranello factory. Ferrari's uniqueness in designing their own engines did get them a lot of victories. The other constructors in the race were unable to respond to the chassis/gearbox and the engine combination which was unique to the Ferrari.

Relationship with the manufacturers

Ferrari had good term relationship with the manufacturer, Shell with whom it had a long term partnership for both technical and financial support. The relationship between the team and the tyres also played a major role in the success factor of a constructor. Ferrari's relationship with the Bridgestone tyres was a key aspect in its advantage. It designed and developed its components keeping in mind the advantage. In 2002, Bridgestone tyres specifically developed and designed its compounds for Michael Schumacher and Ferrari.