

Good example of porter's five forces and how they affect strategic planning withi...

[Business](#), [Marketing](#)



Abstract

Strategic Planning is very much important from the business perspective, as it helps in determining the objectives of the organization. It further helps in laying out a plan to achieve those objectives. But, for determining such strategies, there are certain parameters that need to be taken into consideration. Porter's five forces help us to determine the environmental factors that could impact the given business. There are five such parameters on the basis of which we could plan our strategies within the organization. These include the buyer power, the supplier power, the threat of substitutes, barriers to entry, and competitive rivalry in the given business scenario. All these parameters of Porter's forces help in formulating the required strategies for the organization. In order to understand these five forces in greater detail, we shall consider the example of the automobile industry in this case.

Introduction

The automobile industry is booming these days with the emergence of a lot of new vehicles, new cars, and other automobile vehicles. The entire automobile industry is counted to be highly labor intensive and capital intensive industry. Porter's five forces help in understanding the external environment of a given industry. We can identify the major players, the competitive parameters, and the opportunities and threats that exist in the current market. The thesis of this paper shall focus upon applying Porter's Five Forces to the Automobile industry, and trying to find out the impact on the strategic planning.

There are huge costs involved with the research and development, and for the launching of a new vehicle. In addition, the other major costs associated with this industry include - labor costs, materials costs, advertising and marketing costs. With the advent of new technology, this industry does involve a lot of automation in all the operational activities; but, it still involves a lot of labor work in designing the different automobiles.

The costs of all the raw materials involved in the production of automobile have increased a lot (Rajan & Zingales, 2003). These include - aluminum, steel, seats, tires, and dashboards. Further, the advertising and marketing costs have gone quite higher due to increased competition. Today, the automobile players are spending nearly billions of dollars on print and broadcast advertising in order to stay ahead of the competition. They also spent huge amount of money on the market research and other statistical analysis for identifying the needs and requirement of the consumers (Hanlon, 2013).

Body

Many players are moving forward from their domestic market to the national and the international markets. General Motors, Ford Motor Co., and Chrysler are the major players of the North American market. They produce a variety of car products and other automobiles serving the different segments of this industry. The other two major international players that have marked their presence in this industry are Toyota Motor Co., and Honda Motor Co. The total selling of the cars, trucks, light vehicles and other automobiles for the period of March 2013 was estimated to be 1.5 million. There is about 13%

growth in the Sales as compared to the figures of March '11. The companies are looking at different ratios for their financial and production analysis. The first one of them is the Fleet Sales ratio that determines the volume of the total Sales in the given year. They then take into account the profitability ratios, and costs - related ratios, to determine their overall performance in a given industry (Karagiannopoulos, Georgopoulos, & Nikolopoulos, 2005).

We shall now apply the Porter's Five Forces Analysis to the given Automobile industry, in order to know the industry better. The first one is the Threat of Entrants. The threat of entrants refers to the new players that could rise in a given market. Hence, the existing players will provide barriers to entry for these new players. As a result, it will be difficult for the new players to start their new business in a given market scenario. The existing players want to capitalize upon their existing market shares. In the given case of the automobile industry, any ordinary individual cannot start the business of the automobile. In addition, due to huge initial investments in the building of plant and purchase of machinery, and other huge labor costs, a new entrant cannot easily enter into this industry. These barriers will stop any new entrant from entering into the automobile industry.

The next parameter is the power of suppliers. In several markets, it might happen that the number of suppliers is less and number of buyers is more. As a result, they will be framing their own strategies regarding prices and quality of products. Hence, they will be having an opportunity to gain enough profits in each of their transaction.

In the given automobile industry, the suppliers are quite fragmented. But, as a major automobile players buy their parts and other raw materials from one

or two suppliers only, the power of suppliers is less. In addition, if the given automobile player switches the supplier, the old supplier's entire business will be at stake of loss. Thus, the manufacturers of automobile will be having an upper hand over their suppliers. As a result, they will be framing their business strategies accordingly, which in turn would result into higher profit margins.

The next parameter is the power of buyers. In the given automobile industry, the power of buyers is limited. But, with the introduction of several players and their wide range of products, today's American consumer has so many alternatives (Porter, 2008). As a result, he gets more power of bargaining, through which he can get the best product within his limited budget.

The next is the wide range of substitutes available in the industry. People can take the bus, the train, or even the flight for reaching their targeted destinations. So, if the operating expenses of the car do not fit into the budget of the consumer, they can easily choose the other alternatives. The prices of gas and fuels are also increasing, due to which, people might prefer availability of other substitutes. The threat of substitutes might force the organizations to lower the prices of their products. Hence, the top level management needs to take decisions accordingly, by incorporating necessary business strategies in this direction.

The overall effect of price-based competition is reduced due to the oligopoly nature of the industry. The competition today in this industry is now based upon the preferred financing, rebates, and long term warranties (Aghion et al., 2009). The competition rivalry will get further stronger due to the technology advancements in the future. Hence, it is important for the top

level management to introduce new products in the market and provide more features as compared to the competitive products.

Conclusion

With appropriate consideration of Porter's five forces, the manufacturers will be able to gain substantial market share and will even achieve the desired business objectives of the organization. The strategies can be formulated only after taking into consideration the Porter's five forces. They help us in analyzing the given market in a better way. We shall be able to identify the prices of the competitors, get the knowledge of new entrants, get aware of the substitutes, and finally determine the competitive rivalry amongst one another. All these parameters play an important role in determining the business strategies for any given organization.

References

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