Porter's five forces in an international market essay sample

Business, Management

This paper discusses and describes Michael Porter's Five Forces Model. It shows how this model can be beneficial in developing a strategy for expansion in new markets, including those operating internationally. And it also shows that though the Porter Five Forces Model has some flaws, it can be useful overall in developing new strategies in business.

When developing a strategic plan in business, one has to take into account all the many factors that will affect their chosen market. To help facilitate this, Michael Porter developed a model describing five forces that influence the market. This paper discusses and describes Michael Porter's Five Forces Model. It shows how this model can be beneficial in developing a strategy for expansion in new markets, including those operating internationally. And it also shows that though the Porter Five Forces Model has some flaws, it can be useful overall in developing new strategies in business. Porter describes these five forces as " threat of new potential entrants, threat of substitute product/services, bargaining power of suppliers, bargaining power of buyers," and " rivalry among current competitors" (Management Study Guide, 2012, para. 1). The threat of potential new entrant refers to the threat that a new company may decide to enter the specified market. This company could be a new start-up, or may be a well-established company looking to diversify. In either scenario, the entry of a new firm will decrease market share and likely cause rivalry among other firms to regain this lost share of the market.

The risk of new entrants to a certain market can vary depending on barriers to entry such as government regulation, high costs of entry, or brand loyalty.

Threat of substitutes is the threat of other closely related products (or services) that can satisfy a customer’s need. If there are many close substitutes to a product, then this effectively sets “ a limit on the price that firms can charge for their product in an industry” (Management Study Guide, 2012, para. 7). If a firm sets their price too high, then they risk losing customers due to switching to another close brand. Bargaining power of suppliers refers to the power a supplier has over a producing firm. The supplier may be able to assert power such as higher prices over a producing firm, if it is one of few competing suppliers. But, if there are many suppliers or the market is very standardized, then the suppliers may have little or no power over producers. Bargaining power of buyers refers to the impact a buyer can have over a certain producing firm. In most consumer product markets, buyers are “ fragmented” and “ no buyer has any particular influence on product or prices” (QuickMBA, 2010, para. 25).

However in some markets, there may be only a few or even just one buyer, so that the buyer may have significant power over what a firm can charge for the products or services offered. Rivalry is competition between firms within the same industry to control a larger market share. This rivalry can be “ cutthroat, intense, moderate, or weak, based on the firms’ aggressiveness in attempting to gain an advantage” (QuickMBA, 2010, para. 6). Firms will use tactics such as “ raising or lowering prices” or “ exploiting relationships with suppliers” in order to take a larger share of the market (para. 7). Porter’s five forces model should be considered whenever developing a strategy for entering any new market. There are so many factors to consider when entering a new and different market, one can use this model to go through and carefully consider these forces when planning a strategy.

This model can be useful as a guideline to make one consider all possible factors, including ones that they may not have considered beforehand, especially for a very different international market. One factor that this model covers that would be highly in important to international expansion is government regulation as a barrier to entry. When moving into an international market, where the laws and government regulation can be significantly different than one’s home country, one should study the regulations very closely to make sure that while meeting all regulations, the venture will still remain profitable. This is just one of many factors covered by this model that would be beneficial to study in considering an international expansion.

Although Porter’s model is beneficial in many ways, it also has its flaws like any other business model. The model ignores complementaries, which “ refers to the reliance that develops between the companies whose products work is in combination with each other” (Management Study Guide, 2012, para. 9). The model also “ overlooks the role of innovation as well as the significance of individual firm differences,” which “ presents a stagnant view of competition” (para. 9). As stated, this paper discusses and describes Michael Porter’s Five Forces Model. It shows how this model can be beneficial in developing a strategy for expansion in new markets, including those operating internationally. And it also shows that though the Porter Five

Forces Model has some flaws, it can be useful overall in developing new strategies in business.

References

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