Essay summary of porters 5 forces

Technology

PORTER'S FIVE FORCES 4 Power of Suppliers Criteria Level Effect on Power Effect on Profit Difference of Inputs High Increases Decreases Cost of Switching Suppliers High Increases Decreases Threat of Forward Integration High Increases Decreases Supplier Concentration High Increases Decreases Difference of Inputs ? Product differentiation within inputs in the tech industry is largely dependent on how recently the input has been developed (the extent of which it is considered cutting edge). In cases where component innovations are the property of the supplier prices increase to compensate.

However, in cases where products are low tech, older innovations, product differentiation is minimal. In some cases the differentiation between products may be so extreme that companies are forced to buy components from a direct competitor, just as Apple purchased roughly $8 billion worth of parts from Samsung last year (Levine 2013). Since newer, more recenttechnologyis where the vast majority of profits are in the tech sector the level of difference of inputs is going to be considered high.

This then increases the level of the bargaining power of suppliers put pressure on the company's profit margin. Cost of Switching Suppliers ? Companies within the tech sector design their products around certain components, impacting size, shape, weight and function. If a company is to change their component supplier then the product will have to be reengineered, costing the company time and resources that could be allocated elsewhere. These then threatens the company's ability to compete, stay relevant and develop newer products in a market with a high product turnover rate.

Thus company’s have a high cost of switching suppliers, which in turn increases the bargaining power of suppliers which puts pressure on the buy’s margin and profitability. Threat of Forward Integration ? Forward integration, the ability of a supplier to enter a state of competition with their buyer (" Porter's Five Forces" 2012) is extremely high in the tech sector. For instance, MSI and ASUS, two long time component suppliers have both entered a state of direct competition with companies such as HP and Dell, who they still supply components for (“ ASUS” 2012).

Because component suppliers often have a majority of all of needed parts to make the final product they can easily enter the market, and while their products may not be on the cutting edge they are solid competitors. This threat of forward integration increases the bargaining power of suppliers, which decreases the profitability of the buyer. Supplier Concentration ? Supplier concentration refers to the strength of market share the top suppliers in the industry have in relation to the total industry (" Porter Model - Suppliers " 2010).

Many of the larger tech companies have large market shares in their specific specialization, for instance Samsung has 97% of the world market share in OLEDs (Choi 2011), 40. 4% in DRAM (Liu 2010), and 40. 4% in NAND flash (" Samsung Expands" 2012). ASUS currently controls 40% of the world’s motherboard market (" ASUS" 2012), while Intel controls 82. 3% of the global processor market (Shilov 2012). This extremely high supplier concentration results in a very large increase in supplier power, which drastically decreases buyer profitability. Summary The technology sector is rather brutal on buyers when it comes to their relationship with suppliers, who have a disproportionate amount of bargaining power with every category going in their favor. The difference in inputs, cost of switching suppliers, threat of forward integration and supplier concentration all favor an increase in supplier bargaining power and a decrease in buyer profitability. With all these factors considered it comes as no surprise that many companies make and develop their own components or are previous suppliers who have undergone forward integration.

Power of Buyers Criteria Level Effect on Power Effect on Profit Product Differentiation Low Low Decreases Number of Buyers/Sellers High High Increases Switching Costs Low High Limits Profitability Access to Information High High Degreases Access to Information ? The more information the buyers have, the better the bargaining power they are in. With all of the product information that can be accessed via the Internet, it gives the buyers added bargaining power. The Internet is a powerful tool for consumers.

Buyers can easily use the Internet to compare prices, features, packages, and find great deals at the time of a purchase. There are many buyers who use the internet to access information and the effect on power is very strong which leads to having decreasing profitability for the whole industry. Switching Costs ? Buyers who can switch brands at any given time due to a low switching cost have more leverage than buyers who have high switching costs. The switching costs for this industry are low and have a high effect on bargaining leverage for the buyer. This leads to having limiting profitability for the industry.

It limits the profitability because in principle, it puts a cap on how much producers can raise or reduce quality before they will lose the buyers business. However, in a few cases the switching costs can be high. When buyers purchase a phone, they can be purchased at a low price but with that it comes with a 2 or 3 year contract with a given provider. If this contract is breached, large fees are usually acquired by the customer. During this contract if a customer would like to purchase a new phone then they will have to pay full price for their purchase if their provider does not allow non-contract purchases.

Product Differentiation ? In certain industries buyers will make their selection based on prices -- which would increase price completion among companies. When the products are differentiated then the buyer's options will be limited. Unfortunately, in the industry Samsung is currently in the product differentiation is low. This has a strong impact on buyer bargaining power and results in lower profitability. When we take a look at Samsung's Galaxy Tablet compared with the ipad, we can see many similarities among the two products.

The price is very similar, size, as well as features, and even the battery life. Number of Buyers ? In this industry, there are many buyers that it can attract. Since Samsung makes products such as mobile phones, tablets, laptops, TV's, cameras, and much more they have many buyers since most of the items mentioned everyone has. The more buyers in a given industry results in more sellers the company will have to compete with and more alternatives a buyer can choose from. The larger the buyers as well as the number of sellers, means the customer is more important to the sellers business.

Summary ? The overall buyer bargaining power for the industry that Samsung is in would be labeled as high. This creates a few challenges for Samsung as it makes the market very competitive, leaves little room for error, and creating a following for the company. With the buyers having most of the power the chances for profitability can be difficult to reach but Samsung has done a great job reaching good profitability. They have handled the high effects of buyer bargaining power very well and have been gaining more buyerloyalty. Threat of Substitutes

Criteria Level Effect on Threat Effect on Profit Relative Price of Substitutes Low Increases Threat Decreases Profitability Relative Performance of Substitutes High Increases Threat Decreases Profitability Switching Costs High Decrease Threat Increases Profitability Buyer Propensity to Substitute Low Decreases Threat Increases Profitability Relative Price of Substitutes ? When it comes to the price of substitutes in the electronics industry, it really depends on the particular product being considered, but overall, they are fairly low.

For example, if someone is looking to replace their laptop and is looking for a product that can satisfy their need to access the internet and communicate with others, they could consider purchasing a tablet, which is fairly inexpensive compared to the price of some computers. (Spoonauer 2011) The low cost of substitutes increases the threat on businesses because they are at risk of losing customers to the businesses that are offering lower priced substitutes. This loss of business would decrease their profitability. Relative Performance of Substitutes As with the price of substitutes, the performance of substitutes also depends on the particular products being considered, but overall the performance is fairly high. Technology has rapidly advanced throughout the past few years, which has led companies to create devices that allow users to complete many tasks on one device, rather than have separate devices for each task. Someone that normally uses a laptop to access their email and chat with friends onsocial networkingwebsites can now access those same things on a tablet, which is a much smaller and convenient device. Biggs 2011) The high performance of substitutes leads to increased threat, because customers are more likely to switch to a product that is high quality and extremely convenient. The increased threat would ultimately decrease the profitability, because it would be difficult for them to compete with a company that is offering a higher quality product. Switching Costs ? Depending on the individual customer, switching costs could be high or low. Switching costs tend to be high with electronics, because making the decision to purchase a new product usually takes some time and research. Chen 2000) It is risky to purchase an electronic device without looking up product information and customer reviews beforehand. Switching costs can also be high because it takes time to get used to a new product and figure out all of the capabilities and features. This can be a time consuming as well as frustrating process. High switching costs leads to a decrease in overall threat, because many customers do not want to switch products if it involves a lot of time and effort. It is much easier to stick with a product that is familiar rather than try to learn something completely new.

This will lead to an increase in profitability because customers won't want to switch to a new product offering from a different company. Buyer Propensity to Substitute ? Overall, buyer propensity to substitute is fairly low, with a few exceptions. Most people are satisfied with the products they are using and are not looking to switch products all the time and look for the most recent technology. Many people who have laptops would never consider buying a tablet, because a laptop does everything a tablet does, minus the convenient size. But there are people who are always looking for the most echnologically advanced products and they are more than willing to substitute their products. Some people like the convenience of a tablet and would gladly replace their bulky laptop with it. (Adhi Techno 2012) Because buyer propensity to substitute is fairly low, it decreases the threat of substitution, since most people don't have a need to switch out their current products. This ultimately increases profitability, because customers are remaining with that product rather than switching to a company that offers something else. Overall Threat of Substitution Overall, the threat of substitution has roughly the same negative and positive impact on profitability. The low price and high performance of substitutes draws customers away from the business and encourages them to look to those substitutes to satisfy their needs, thus decreasing profitability. High switching costs and low buyer propensity to substitute have a positive impact on profitability, because customers would rather stick with their products rather than take the time and effort to find a new product to satisfy their needs. Threat of New Entrants Criteria Level Effect on Power Effect on Profit Product Differentiation High High

High Diversity of Competition Moderate Moderate Low Start-up Costs High High High Distribution High High High Product Differentiation ? According to Randy Khoo, author of “ Why Apple is Very Afraid of Samsung,” Samsung carries itself through many different production areas even though most people believe Samsung only dabbles in the electronics market. At this time Samsung has 6. 5% of the IT Hardware market share, 7. 1% of the peripheral market share, 8. 5% of the converged devices market share and 5. 2% of the personal computer market share (Khoo, R). This means that the company's ability to spread over a broad p of products is immense.

According to Khoo, Samsung's power could one day take over Apple's entire market share. Diversity of Competition ? According to the U. S. Patent and Trademark Office's records from 2011, Samsung applied for the second most patents in the Nation. In 2011 alone, they applied for and were granted 4, 868 patents, right behind International Business Machines Corporation, who were granted 6, 148 patents. Samsung's closest competitor, Panasonic Corporation, raked forth with 2, 533 patents granted (Patenting by Organizations, 2011). Start-up Costs ? As for all electronics, start-up costs are extremely high.

According to Craig Kuhn, author of " Barriers to Entry," the start up costs for firms selling electronics are extremely high due to the amount of technology and materials needed to create a marketable product. ? Another aspect new firms need to think about is their incoming reputation when attempting to compete with very popular firms. These existing firms are knowledgeable about the industry and already maintain relationships with key manufactures and the biggest retailers. These new firms need to infiltrate these relationships in order to make way into the market, which isn't easy (Kuhn, C).

Distribution ? Randy Khoo, author of " Why Apple is Very Afraid of Samsung," states that Samsung's ability to sell their products anywhere is enormous.

Since Apple strictly sells their products in their stores, through their website and through their strict distribution channels, Samsung has the ability to take over the market by selling their products anywhere that will accept them. “ Samsung also has an existing distribution network from their existing businesses. This is of tremendous value…These distribution channels will also be there for the future dissemination of other Samsung products.

This means that if they want to, it’s easy for them to market more than just electronics (Khoo, R). ” Intensity of Rivalry Supposed to have four criteria. Criteria Level Effect on Power Effect on Profit Product Differentiation High Decrease Power Increase Switching Cost High Decrease Power Increase Diversity of Competitors High Decrease Power Increase Cost Product differentiation: ? According to Arthur Thompson, in his article, “ Crafting and Executing Strategy,” “ the essence if a broad differentiation strategy is to be unique in way that are valuable to a wide range of customers” (Thompson 2010).

He also mentioned that, “ a focused strategy to focus keyed to differentiation aim at securing a competitive advantage with product offering carefully designed to appeal to the unique preference and needs of a narrow, well defined group of buyers” (Thompson 2010). Broadly, Samsung faces many competitors who produce a wide range of electrical appliances. They have competitors like LG, Panasonic, GE and so on. In a small niche, differentiation is still a major factor that influences the sales of certain products.

For example, in the cell phone industry, there is a lot of differentiation constantly appearing in the cell phone competition, because differentiation can gain more advantage to their products. Therefore, the more differentiation their rivals make on their products, the less power Samsung has, and the more they will have to increase the cost of their phones. Switching cost: ? The majority of Samsung’s products are electrical appliances which require relatively high switching cost. According to Samsung, the common price of high tech products, like cell phone or tablet, is around $500.

The price of big electrical appliances is usually more than $1, 000 (Samsung, 2012). Compared to other low switching cost products, the majority of Samsung’s products have higher switching costs. Also, the life cycle of those products are long, which means as long as customers buy the products, it is not easy for them to switch. Therefore, there will be more competition to attract customers. That would decrease Samsung’s power, and they would drive up cost to make their products more attractive. Diversity of competitors: ? There are many competitors in the electrical appliance industry.

In the high tech industry, there are also many different competing companies. Apple is one of the main competitors in the high tech industry. According to Vaughan-Nichols, “ Apple has sued Samsung around the world. Apple has made the same lousy patent design claims: Samsung has stolen the look and feel of its iPhone and iPad” (Vaughan-Nichols 2012). The more competitors an industry has, the more the companies will spend to compete against rivals. Apple is only one of those competitors. As the industry becomes more mature, the diversity of competitors becomes wider. Therefore, the effectiveness of Samsung’s power in the industry will decrease.

In addition, the more competitors the industry has, the moremoneyeach competitor will put into the production and marketing of goods in order to increase brand identity and image. Therefore, the cost goes up. Overall Power of Rivalry: ? Overall, the power of rivalry would have a negative effect on Samsung. The influence would be losing power in the market and driving up costs. The major influence from rivalries would be differentiation of products, high switching costs and diversity of competitors. RESOURCES Adhi Techno (2012) " Top Five Reasons Tablets Will Substitute Laptops, Cellular Cell phones, and Pcs" Accessed 15 February 2013. ttp://adhi-id. blogspot. com/2012/04/top-five- reasons-tablets-will. html. ASUS, " ASUS. " Last modified 2012. Accessed February 18, 2013. http://www. asus. com/About_ASUS/Marks_in_History_ASUS_Motherboards/. Biggs, John (2011) " 10 Reasons To Buy A Tablet (And 5 Reasons Not To)" Accessed 15 February 2013. http://techcrunch. com/2011/02/12/10-reasons-to-buy-a-tablet-and-5-reasons-not-to/. Chen, pei-yu (2000) " Switching cost and brand loyalty in electronic markets: Evidence from on- line retail brokers" Accessed 15 February 2013. http://opim. wharton. upenn. du/~lhitt/ files/ICIS%20-%20Switching%20Cost. pdf. Choi, Jin. " NO1. " Last modified 2011. Accessed February 18, 2013. http://news. mk. co. kr/newsReadPrint. php? year= 2010&no= 346294. " Five Forces. " Wikispaces. cct424-samsung. wikispaces. com/Five+Forces (accessed February 17, 2013). Khoo, R " Why Apple is Very Afraid of Samsung" Android Authority. http://www. androidauthority. com/why-apple-is-very-afraid-of-samsung-26459/ (accessed February 18, 2013). Kuhl, C " Barriers to Entry" CED. http://www. cedmagazine. com/articles/2005/11/barriers-to-entry (accessed February 18, 2013). Levine, Dan.

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