

# Analysis of the porter forces theories commerce essay



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Porter 5 forces analysis is a business strategy development to determine competitive intensity and attractiveness of market. Porter 5 forces deals with external factors which influence the nature of competition. It is helpful to understand an organization's strength and weaknesses. Besides, it also assists to understand the current competitive position as well as to cope with competition. It consists of suppliers, customers, new entry, substitute and rivalry.

#### Threat of substitute

Analyzed that Porter theory was helping FedEx to take fair advantage of its strength as well as avoid wrong steps. Instance of case study, FedEx (1973) provided overnight products delivery and next-day delivery, it to avoid threat of substitute of post which take longer time between normal delivery. This service could satisfy customers who are time-sensitive. Besides, FedEx also used airborne delivery to replace the marine shipping in early years. Thus, FedEx updated their facilities to match today's environment.

#### Bargaining power of suppliers

In FedEx, packaging equipment suppliers and oil suppliers also have strong bargaining power because FedEx have to rely on them to package all the products for delivery services or in case of improvement of fuel prices. In case study, FedEx planned to reduce the bargaining power of suppliers, thus it's invested heavily in IT development and in year 1984, PowerShip systems provided label printing, online package pick up requests, package tracking and others. It helped FedEx to save costs and to be independent on its operation.

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## Rivalry

In the year 1979, FedEx used COSMOS system to manage vehicle, people, and others. This system helped FedEx to process the data on package movement to a central database. FedEx's PowerShip programme also aimed to improve their operation efficiency and monitor the process. FedEx practice is to cope with rivals to decrease the high strategic stakes, high existing barriers, high fixed costs and others. FedEx is able to become the strongest in this logistic field and make more profits.

\*Kindly refer appendix 1

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The Porter's value chain is described as interrelationship of the value activities for the firm (Remenyi, D & Remenyi, B, 2009). The value activities help to classify the operation into two categories which is technological and economical, thus the operation can be performed well. All the products and services have to pass through all the value chain activities and are evaluated by each activity. In addition, it could increase the organization's effectiveness and efficiency.

## Primary activities

One of aspects of FedEx's value chain activities is operation through 24 hours and is called Global Operations Command Centre. It was able to provide efficient gathering and spread of real-time data. According to case

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study, FedEx decided to restructure its internet IT infrastructure under Project GRID in year 1998. The network computers linked over a Global Internal Protocol network aimed to enhance the quality and quantity of FedEx's services. This will bring FedEx's operation into good control and ensure that a coherent set of actions are implemented which are consistent.

### Support activities

FedEx's value chain analysis also focused on technology development. Under Smith's leadership, the company had set a few records with breakthrough technology. Based to case study, FedEx invested heavily on IT development and promoted the globalization of commerce to generate operation efficiencies, reduce costs and improve the services.

\*Kindly refer appendix 2

(509 words)

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### **Question 1. b**

FedEx's success in logistic field is having strong core competencies and capabilities. The core competencies and capabilities include leadership, innovation and technologies, services, facilities and others.

FedEx Corporation is having advanced technologies, which is COSMOS (Customer Oriented Services and Management Operating System). " It's a global shipment tracking network based on a centralized computer system to manage vehicles, routes and weather scenarios on a real-time basis" (Wit,

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BD & Meyer, R, 2004, p. 650). The advanced technology assists FedEx to improve their efficiency (speed, packaging, process, time). For example, FedEx used advanced technology system to help National Semiconductor Corp to have control over the goods sent out in shorter duration, save cost and achieve customer's satisfaction.

In FedEx, facilities are part of the tools to attract customers, and its aim to success. " FedEx corporate served nearly 210 countries around the world; manage over 10 million square feet of warehouse space worldwide, 648 aircraft and more than 60, 000 vehicles, with a staff of nearly 200, 000" (Wit, BD & Meyer, R, 2004, p. 649). FedEx has good facilities in their operations and it is able to deliver the products to wherever the customers require and with the less time and cost. So, other competitors (GD express, Nationwide Express) didn't have ability to replace or influence FedEx market, because GD express has less facilities to compare with FedEx Corporation. \*Kindly refer to appendix 3.

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FedEx has strong leadership skills and provide proper guidance to lead the employees to be smart. Good leadership skills include good planning, good thinking and good management, good teaching and correct investment. Based on case study, Fred Smith is the chairman of FedEx Corporate. It comes out with a good plan to shorten the duration of order cycle and improve cash flow. According to Jones, PB, leadership development is helpful in an organization because it may assist the organization to limit employee

turnover, increase productivity, and provide better vision to obtain great performance in the organization.

FedEx Corporate focused in services area, and provides excellent quality of services to the customers. The excellent services are operating business 24 hours via internet, high speed and reliability of delivery system and responsibility. Besides, FedEx provides overnight delivery service and optional services of delivery through aircraft, ship, and truck; it's quite flexible to the customers who make decision. According to case study, FedEx provide value added service which is pick up documents from customer's homes and has document safety hand-held scanner. For example, the staff use hand-held scanner to make sure whether, the document is legal or illegal, and will pick it up as an order with the purpose to protect public safety.

(394 words)

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### **Question 1. C**

International trade is defined as trade between two or more countries with exchange of goods and services, that is, exports and imports. No matter which country is, the importance is to find something that can be produced cheaper than other countries ([http://www. wordiq. com/definition/International\\_trade](http://www.wordiq.com/definition/International_trade)).

One of the benefits of FedEx in international trade is enjoy economies of scale ([http://www. myownbusiness. org/s13/#4](http://www.myownbusiness.org/s13/#4)). Exporting product is an

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excellent ways to enjoy pure economics of scale. It will increase the quantity of production and decrease the average cost of product. According to case study, FedEx operates other centers in Colorado Springs, Orlando, Singapore and Brussels to enjoy lower cost of employees and material.

Next benefit for FedEx in international trade is reducing dependency on existing market, because existing market will be limited on sales and opportunity. So, FedEx going globalization might be getting more new markets and opportunity. Besides, it is less affected by fluctuations in the home country's marketplace and economy, because their business which is spread out overseas does not fully rely on domestic market. For example, FedEx aimed to achieve business-to-consumer (B2C) electronic commerce market in the world, and reduce dependency of business-to-business (B2B) market.

Another benefit is being able to be leader of logistic corporate and gain the global market share, able to control the entire market share, have power to give any suggestion and gain good reputation everywhere. " FedEx in year 1998 was leader in global logistic field, and it offered the delivery services to 211 countries that comprised 90% of the world's GDP" (Wit, BD & Meyer, R, 2004, p. 649).

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The disadvantage of international trade for FedEx is different culture and language, high risk, government barriers (tariffs, quotas, and embargos), it brings a lot of difficulty to FedEx to operate business. (<http://www>.

rajputbrotherhood. com/knowledge-hub/business-studies/what-are-the-advantages-and-disadvantages-of-foreign-trade. html ).

One of the disadvantages of FedEx in international trade is high risk, because of large investment capital in system, services, transportations and marketplace. Besides, it will bring high risk to FedEx during operation; it may lose in the first few years. For example, FedEx investments at overnight delivery system with excellent packages, but because of high invest and make losses in the first three years of operation.

Disadvantage of FedEx in international trade is host's country government policy (tariffs, quotas, and embargos). Besides, FedEx will get less profit and cannot smoothly expand their business. For example, Malaysian government will impose high tax to foreign organization during the trading; government aim is to protect domestic organization. ([http://www.mida.gov.my/en\\_v2/index.php?page=taxation-2](http://www.mida.gov.my/en_v2/index.php?page=taxation-2))

The disadvantage of FedEx in international trade is facing different culture and language during the transaction. Even though, FedEx website has provided many different languages for customers to choose. But, during verbal communication it's no helpful, because employees disable communication with customer. So, it will affect the organization profit and sales. For example, Japan is used own language " Japanese-language".

(453 words)

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## Question 2

Question 2. a

### Strategy Development

In FedEx Corporate, strategic development helps to establish the right structure to achieve their objectives. It assists FedEx to determine the condition and position as well and use the correct steps that decide with visionary and conceptual. Strategy development and planning is upgrading the organization with intention to increase the potential of organization. One of the strategy development used by FedEx is Whittington's perspective.

### Classical perspective

Classical perspective is one of the strategies that classified into Whittington's perspective. It is used at the beginning of the operation and will more secure and helpful to stabilize the future operations. In the process strategy management for classical perspective is conceived as deliberate, predetermined, planned, programmed movement from now to the future.

Assuming an organization without any deliberate plan for each operation, it will have huge amount of losses for the company. It had shown the importance why an organization have to use this strategy as due to the security to the company and is helpful to save cost and time.

FedEx Corporate used deliberation as a strategy because it helps to save costs and time from any wrong steps. Deliberation all plans and go through all the relevant survey, it make the corporate confident and more secure to make any decision. Based on case study, Smith was acquired to improve

their transportation fleet to avoid any control by third parties, while not like other competitors to sub-contracting to third parties.

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## **Evolutionary Perspective**

In the evolutionary perspective, an organization might become victim or banned by the market when it is over dependent on its environment. Why is this strategy important to an organization? The reason is it includes emergent, flexible, adaptation and evolution. Commonly discussed, an organization surely has to be aware of any unexpected issue, and randomize to cope with the issue or adapt it and evolve for it.

An emergent strategy is the process of becoming apparent. Simultaneously, it is a pattern of action that develops over time in an organization in the absence of a specific mission and goals. (<http://planningskills.com/glossary/154.php>) Where there are no plans, but their behavior is still strategy. In this strategy, it is to develop a manager with no prior intention and experiences, to expose him/her to learn and piece together a consistent set of behaviors over time (Wit, BD, & Meyer, R, 2004, p. 113).

For example, FedEx could not predict the unexpected, but shall retain enough mental freedom to cope with this as they emerge. In the case study, FedEx invested heavily on technologies development and introduced electronic data interchange (EDI) and built relationship between one-to-one with their customers. Thus, it resulted in efficiency and it is a perfect circumstance to match supply to demand without wastage.

(429 words)

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## **2. 2 Question 2. b**

FedEx used these perspectives to succeed in its operations in the international market and both are helpful in efficiency and controlling the operation. Classical perspective helps FedEx to plan on the operation and operate as well as save on costs and time. Without objectives and plans, an organization would be adrift. Plans are the programming all organizational activities in advance. Classical perspective was helpful in FedEx to operate the logistic services.

Evolutionary perspective is an important strategy to FedEx too. With this strategy, FedEx has solved and coped with all unexpected issues. In emergent strategy, it consists of opportunism which copes with unpredictable issues, flexibility, learn by experimentation and others. It makes sense to FedEx to operate successfully in its logistic field.

Evolutionary perspective is the best choice that is preferable for FedEx. It provided significant contribution in increasing efficiency during process and operation. Evolutionary perspective was selected as best performance for survival in other markets, especially managerial labor markets, markets for capital and corporate control (Whittington R, 2001, p. 16). FedEx is able to maximize the operational areas in a short period with perfect performance against their environment. Besides, this perspective does not rely on management's ability, but expect markets to secure profit maximization for the organization. It does not necessarily utilize planning methods, it rather <https://assignbuster.com/analysis-of-the-porter-forces-theories-commerce-essay/>

argues to do best perform for the organizations to survive. Managers need not be rational optimizers because ' evolution is nature's cost-benefit analyses.'

For Business to Consumer (B2C) areas, FedEx should do survey on customer's needs and come out with a plan of promotions to match their needs and satisfy them as well. For example, FedEx also needs to match with today's event such as FIFA World Cup event, therefore, FedEx may create an attraction for those consumers who purchase FedEx' delivery services more than three times and above within a week, they are provided lucky draws of free flights to South Africa to enjoy the live FIFA World Cup final show. Thus, an organization survival in a competitive environment depends on strategies of differentiation. (335 words)

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### **Question 3**

Processual perspective is one of the strategic management which pays attentions to. It defined as characterized by pluralism with means concerning more than one, as well as it not unitary and viewpoint are disagreeing constantly. Processual perspective is a strategy as result of process in political activity for concerned between manager and stakeholder. In Ralph Stacey's integrated model, seems the issues of the connection among change context and decision making modes. Besides, it is an implication for strategic management with four loops as following:

Rational loop

Overt politics loop

Culture and cognition loop

Covert policies loop

\* Kindly refer to appendix 4, 5, 6 & 7

## **The rational loop**

According to strategic management, UOS (2004, p. 157) stated Ralph Stacey's integrated model, the rational loop is a classical starting point of the strategy management. It has to be unitary and everything has to be supported by strong evidence and logical argument. So, every transaction and process is fixed by organization. The processes are strictly based on discover-choose-act, an organization has to discover its position with environment and make choice for necessity, thus, act with to the final requirements.

Thus, processual perspective is a strategy that influences the decision making of rational loop but there is shown low. Because every transaction and process are fixed and it's needs logical argument to support with strong evidence. So, everyone could not process any transaction without the rules and regulation which are set by the organization. Even top management would not get special offers to enter the transaction.

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For example, in the Penang Swimming Club's rules of 40 (c), a member has to settle his/her account within 14 days from the defaulter period. If the

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account still remains in the unpaid status, membership will be ceased. Even the President is bound by the rules. After cessation, he has to pay RM1000.00 as deposit to reinstate his account to active status. There are no any discounts for committee or even the President of the Club. All the procedures are set by club's rules, and all members have to follow it strictly with no short-cut procedures.

\* Kindly refer to appendix 8

### **The overt politics loop**

Based on strategic management, UOS (2004, p. 157) stated this loop shows reality and overt to the organization resources as well. Nevertheless, the resources in an organization might be limited and possibly inadequate. Therefore, the implementation option in stage of choice, which courses of action, possibly can threaten and subvert the organization's current environment. Besides, some will use their power to bargain with each other to get the resources in the organization to achieve their goals.

Processual perspective is acceptable in overt politics loop because there is limit and scarcity of resources. It could give rise to conflicts and make environments challenging each other. So, each department will come to challenge the decision making of the organization with a purpose to obtain the resources prefer to. They could to use different methods to get the resources from the organization, however, use their power to obtain from the organization.

For example, in Sime Darby Corporation, those facing financial instability and limitation of capital because of economic crisis in year 2008, each  
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department's proposal to obtain the limited resources, could make the organization get into confusion of decision. Processual perspective is helpful in this situation and to assess every proposal with requirements in details. It makes a difference to an organization to decide where the resources are supposed to go and might make a loss if there are any wrong decisions, due to limited resources.

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### **The culture and cognition loop**

In culture and cognition loop, it's to sustain unitary organization in its shared mental of model. As long as everyone is having same organization's thinking and culture, it will bring the organization to be peace and stable.

In culture and cognition loop, it's depends on the organization's employee culture whether is unitary of non-unitary. Once the organization's employees thinking are not unitary, the processual perspective will shown high, with occur issues or conflict between each other during meeting or propose the ideas to the management. So, processual perspective is acceptable to reduce the conflicts and analyze the problems, thus management able to solve it with better ways.

In this loop, the organization needs to provide relevant training and development courses to help the employees become more cooperation attitude and have similar thinking and knowledge as well. Because, when the employees are having equal knowledge for their performance tasks, it will be unitary in their ideas and conflicts will be reducing naturally.

## **Covert Politics loop**

Based on strategic management, UOS (2004, p 160) stated this section is regarding the psychology of an individual who respond to contradiction and conflict. Obviously, majority of individuals are afraid to something new as they feel threatened to go out of their current environment and situations. Some people fear failure and challenges. Even refuse the new reality once they have lost their confidence for it.

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Assume as an example in the tailoring industry, the manager planned to replace the entire old machines with new and high technology machines. Some new staff feels good to learn new things, but some old staff would disagree with this because they fear the challenge of new technology. Thus, management could apply processual perspective to estimate and evaluate the issues of the disputation.

With processual perspective, it has shown there is high of processual perspective because it had influenced management to manage the old staff with these new machines. Finally, management made the final decision that they should have leader who is able to cope with challenges and is willing to learn. This leader has to guide all staff, especially old staff to train with new machines. Therefore, a leader is must be able to reduce their anxiety and lead to pluralism in an organization.

(904 words)

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## **Appendix 1**

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## **Appendix 2**

### **Porter’s Value Chain**

Sources :

[http://allaboutproductmanagement. blogspot. com/2007/04/michael-porters-value-chain-analysis-is. html](http://allaboutproductmanagement.blogspot.com/2007/04/michael-porters-value-chain-analysis-is.html)

<https://assignbuster.com/analysis-of-the-porter-forces-theories-commerce-essay/>

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## **Appendix 3**

### **Competitor of FedEx Corporation**

GD Express Sdn Bhd (GDex) was formed in 1997 to provide express delivery service for both the domestic and international markets. It operates a network of 96 stations, comprising 53 branches, 2 affiliate stations and 41 agents throughout East and West Malaysia. GDex has a fleet of more than 280 trucks and vans used primarily for hauling of documents and parcels between stations and the National Hub (termed “ line-haul” fleet) for local pick-ups and deliveries. The company’s express delivery service operations are structured along the principles of the “ Hub and Spoke” concept whereby customers’ packages are collected by the branches, sent by trucks to a Central Clearing Hub for sorting and then redirected to their ultimate destinations. The group currently employs more than 1300 staff.

GDex is the first local express delivery company to obtain ISO 9001: 2000 (Quality Management System) certification for all its entire 25 departments in 2003. In November 2009, GDex upgraded its (Quality Management System) to ISO 9001: 2008. In its quest to be a world class service provider, the company has embarked on a world class excellence training programme called the Prime Minister Quality Award programme (PMQA) to equip its employees for world class performance in express carrier service and operations.

GDex is listed on the Mesdaq market of Bursa Malaysia through its holding company GD Express Carrier Bhd in May 2005.

<https://assignbuster.com/analysis-of-the-porter-forces-theories-commerce-essay/>

Sources: <http://www.gdexpress.com/history.php>

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### **Appendix 4 – Rational Loop**

Sources : Strategic Management (2004), 2nd version. The University of Sunderland

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### **Appendix 5 – Overt Politics Loop**

Sources : Strategic Management (2004), 2nd version. The University of Sunderland

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### **Appendix 6 – Culture & Cognition Loop**

Sources : Strategic Management (2004), 2nd version. The University of Sunderland

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### **Appendix 7 – Cover Politics Loop**

Sources : Strategic Management (2004), 2nd version. The University of Sunderland

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