

# Industry analysis: 5 forces model essay sample



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In assessing the competitive position of a home improvement retailer, we would use the five forces analysis of Michael E. Porter. The assessment would compare Home Depot as home improvement retail against its retail competitors.

### Potential Entrants

The retail building supply served two distinct clients which are the professional building contractor and the Do-It-Yourself homeowner.

The industry did not have barriers to entry in the form of patents or special technology. But the BIY segment was moving rapidly one characterized by small, independently run establishments to one dominated by regional and national chains of vast superstores. So there are a few regional or national chains in this industry but they operated a lot of stores in their chain. This can make its chains have more competitive advantage comparing to the independent one. The examples of competitive advantage are brand image, lower cost, a lot of stores, a wide range of products and service, and have more skill. If the newcomer enters into this industry, it has to invest much money to compete with the existing retail chains in every aspect. So the beginner should not enter into BIY segment.

Not only focused on the BIY segment, but the superstore warehouses also tried to serve all market segments, but they had become increasingly consumer-oriented. Because of this, smaller competitors were focusing their strategies on the professional constructor segment of the market. So the newcomer can enter into this segment easier than entering to the BIY segment. But the new entrant has to build its brand image which is the

important factor to persuade the customer to buy its product. Building brand image is difficult. Moreover, it has to find a lot of vendors to supply product and service. Most vendors have already signed contract with the existing retailer, so it is difficult to seek for the qualified vendors. So the potential entrants both in BIY homeowner and professional buildings contractor were low.

### Industry Competitors

According to 2 segments in the retail building supply industry, the competitors in each segment are different.

For the BIY homeowner, the major competitor of Home Depot is Lowe's, which had been replacing its older, smaller stores with new superstores. Lowe's operated 442 stores and had recently moved into large metropolitan areas. Lowe's had developed regional distribution centers to better serve its growing markets. Its sales were estimated about \$11, 900 million in 1998. Both Lowe's sales and number of stores were far away from Home Depot's who was the number one of number of stores, sales in dollars, and net profit in dollars. Besides Lowe's, there are small independent retailers located elsewhere in the United States.

A lot of retail chains were focused on the professional contractor market segment which is HomeBase, BMC, Hughes Supply and Woloham Lumber. HomeBase who write off \$27 million to cover store closings was changing its strategy from defensive to a more aggressive stance such as accelerating store remodel program. BMC had over 50 stores in 10 western states. Hughes Supply, the second biggest competitors of Home Depot, operated

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310 stores whereas Woloham Lumber had 58 stores which generated \$410 million in sales.

The Home Depot's competitors were far away from Home Depot, the number one in retailer in building supply industry, in every aspects both in number of stores, sales in dollars, market share, and so on. As per Home Depot's aggressive expansion program, it affected lower same store sales in short run, but a strategic advantage was created by raising the barrier of entry to newcomer and the retail chain competitors. Pricing strategy is the factor which every players in the industry try to compete. This is because customers have less brand loyalty. So the customer will purchase the product from the retailer who set lower price. Moreover, service is another issue that retailers attempt to do for differentiate themselves. So we can conclude that industry competition was intense.

#### Bargaining Power of Buyers

Homeowners are the consumers of this industry. The customers in this segment have high school diploma or some collage. They did not have well education consequence their income did not high. So the purchasing power was quite low. Although the low purchasing power, the BIY consumer had grown in importance over the past few years. Therefore, this market was interesting. Home Depot had to set low price and sell various products and service to persuade its customer to visit its store. So that customers had high bargaining power in this segment.

The professional contractor customers are remodelers, carpenters, plumbers, electricians, building maintenance professionals, and designers. This group

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of customers is less loyalty and more demanding than the BIY customers. The company has to add the incremental value into its product and service to increase sales and expanding commercial credit programs, delivery services, and incremental dedicated staff. Moreover, the pricing strategy using for this group should be lower price. Hence, the bargaining power of the professional contractor customers is also the same as the BIY customer which is quite high.

### Bargaining Power of Suppliers

There are a lot of suppliers in the industry and everyone can enter into the market. This is because of no regulation and barrier to entry. Each supplier has no bargaining power. Moreover, some suppliers had taken over by its customers whereas some had signed contract with the well known one. Thus bargaining power of suppliers was low.

### Threats of Substitutes

The substitutes for Home Depot and other competitors are the department store and discount store such as Zear, Wal-mart etc. The strengths of the department stores are located in the country and have various products to sell in the same building. So department store is one-stop-shopping and the customers can visit every time they preferred. Although the department store and discount store are located nearer than warehouse, home improvement retailers have a wider range of home product selection comparing to the department store or discount store. Moreover, the home improvement retailer's price is lower than the shopping store in the country. This is because it sells high volume; hence the company ordered a big lot. So <https://assignbuster.com/industry-analysis-5-forces-model-essay-sample/>

the pricing will low and the retailer can set the lower price. The weakness of the home improvement retailer is the location which far away from the country. So customer can faced a problem about transportation. The retailer can solve this problem by offering delivery service. Therefore threats of substitutes were high.

## Conclusion

After analyzing the retail home improvement industry, we can conclude that the degree of competitive intensity was in the moderate level. This is because suppliers have low bargaining power, low threat of substitute product, and low potential entrant. But the customers have high bargaining power and competitors in this industry are always tried to compete with other by using pricing strategy. The company who want to be successful in this industry should have many stores located elsewhere, better customer service, and set the lower price.

## Competitors Analysis

In retail building supply industry, there were 2 main segments which is professional business segment, and Do It Yourself (DIY) segment. The sales value of the professional segment was approximately \$215 billion and Home Depot's share of this market was less than 4% or about \$8 billion, and in DIY segment Home Depot was a leader in this market, it had approximately 24% market share of \$100 billion or \$24 billion in 1997.

Home Depot's competitors could be divided into 2 groups.

### 1. Direct competitor

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Direct competitors were the companies that sold their products to both the professional building contractor and the DIY homeowner. The direct competitors of each segment can be explained as follow:

#### The Professional Business Segment

The professional business segment consists of contractors, tradesmen, repair and remodeling, maintenance, and heavy industrial. But Home Depot did not focus on heavy industrial sector, which valued \$50 billion in 1997. The customers in the professional market shopped in Home Depot stores, but they also made purchases at other retail and wholesale outlet.

#### Do-It-Yourself (DIY) Segment

The DIY market breaks into six market segments: (1) lumber and building materials, (2) lawn and garden, (3) plumbing and electrical, (4) hardware and tools, (5) paint and supplies, and (6) hard surface flooring. Home Depot was the number one position in the DIY industry, more than twice it nearest competitor, Lowe's Companies from the North Carolina. Other companies in the industry were facing the challenge by reconfiguring their stores and by targeting niche segments, but some were being forced to close stores in the face of increased competition.