**Michael Porter’s Five Forces analysis of the Technology industry**

Porter’s Five Forces is a business framework that helps entrepreneurs shape their strategy to drive profitability. The framework is a holistic way of looking at any industry and understanding the structural underlining drivers of profitability and competition.

1. Bargaining Power of Buyers

* The IT industry is expected to reach $5 trillion in 2021 which represents 4.2% growth compared to last year. Digital transformation and technology have contributed to this growth.
* The IT industry caters to the needs of individuals and enterprises. According to this December 2020 report, the number of smartphone users in the world today is 3.5 billion, which translates to 44.69% of the world’s population. In 2019, there were over 2 billion computers in the world, including servers, desktops, and laptops. Although at home, we may prefer our smartphone, in the workplace, we do our work on PCs.
* there is a large number of buyers relative to the number of IT companies
* buyers are both B2C and B2B
* buyers face significant costs in switching supplier
* buyers do not need a lot of important information with regards to using the products
* he product or service drive the buyer’s performance
* buyers are not able to manufacture the product/service in-house

1. Bargaining Power of Supplier

* The inputs (material, labour, services) standard are not differentiated
* companies cannot switch suppliers quickly and easily
* the suppliers find it difficult to enter the IT industry
* there a large number of current suppliers in the IT industry
* the IT industry is very important to the suppliers
* the supplier’s product is indispensable to IT companies
* IT companies are important as a customer to the supplier

1. Rivalry among Existing Competitors

* there many similar competitors in the IT market
* market shares is not equally distributed among competitors
* the products being sold commodities, making it difficult to add value and have a high-margin
* Products on offer are not highly complex and require significant customer-producer interaction
* the industry is growing rapidly
* The IT industry is changing rapidly due to fast-evolving technology.

1. Threat of Substitutes Product

* there are multiple available substitutes
* customers incur low costs in switching to substitutes
* substitutes have performance limitations
* it easy to replace one product with a substitute
* customers are not likely to go for substitutes
* available substitutes do not have high prices

1. Threat of New Entrants

* Economies of scale is important. Economies of scale is achieved when costs are lowered and production is increased. This happens because costs are spread over a larger number of goods.
* economies of scope is important. Economies of scope is a concept which states that the unit cost to produce a product will decline as the variety of products increases. Namely diversity of products lowers the costs of producing them. Apple has the manufacturing capacity to design, manufacture and launch other products besides smartphones.
* a new entrant be competing with established brands. Any newcomer to, let’s say, the semiconductor industry would go against the market leaders Intel or AMD. They would need to spend significant amounts of money on advertising and promotions to attract customers.
* Large amount of up-front capital is required to enter the market
* profit margins in this market currently high
* switching costs for customers high