5 When companies from the respective industry are not particularly important suppliers for the buyers, in the sense that more important suppliers can be found in other industries.

It is logical that an industry is more attractive when the negotiation power of buyers is higher in the sense that there is less room for achieving a higher degree of profitability for companies operating in the respective business. In other words, the pressure from buyers for lower prices is higher resulting in lower sale prices and less room for profitability (Table 4.5).

Substitute pressure – the danger of substitutes

The analysis of this force considers the possibility of substitution, i.e. the danger of substitution. Substitution includes products coming from direct or indirect competitors with an equal function. Substitutes enter the industry guided by the notion of meeting the same needs which the current competitors in the industry are meeting. According to Michael Porter (1980), the possibilities of substitution are highlighted in the following cases:

1 When a buyer does not have to pay a high price for the transition to a substitute product directly jeopardising the products.
2 When buyers develop a tendency under equal price and performance, leading them to switch from products to substitutes.
3 When companies produce items that can substitute the respective product at a profit at their other markets.
4 When substitute consumption trends increase at the cost of the product, causing the substitute consumption increase to lead to a decrease in product consumption.
5 When there are many other products that can fulfil the same function as the product at hand but with acceptably low prices.

It is logical that an industry is less attractive when the danger of substitution is more expressed in the sense that there is more room to achieve a lower degree of profitability for companies operating in the respective business. In other words, a more attractive price-based positioning towards existing products leads to a lower possibility of above the average profitability (Table 4.6).

Competition intensity – the rivalry of competitors

The analysis of this force investigates the rivalry of companies in an industry as an important factor of industry profitability. The intensity of competition includes the mutual rivalry of companies within an industry to achieve the best possible technological and market position. More direct companies rivals within an industry lead to the assumption that the strength of industry

Table 4.5 Elements for assessing the influence of the negotiation power of buyers

The negotiating power of buyers	*Opportunity*	*Threat*
The buyer purchases big amounts from the company in the industry	+	
The buyer purchases small amounts from the company in the industry		+
Industry products present a considerable amount of the overall expenses of the buyer	+	
Industry products do not present a considerable amount of the overall expenses of the buyer		+
Industry products are standard and non-differentiated	+	
Industry products are differentiated and unique		+
The buyer is faced with minor switching costs	+	
The buyer is faced with major switching costs		+
The profit of the buyer is small	+	
The profit of the buyer is big		+
The buyer can produce the purchased products	+	
The buyer cannot produce the purchased products		+
Industry products are not important for the quality of buyer products	+	
Industry products are important for the quality of buyer products		+
Buyers have complete information on the industry and the product	+	
Buyers have limited information on the industry and the product		+

Source: Adapted from Johnson and Scholes (2009:47).

Table 4.6 Elements for assessing the influence of substitute pressure

The danger of substitution	*Opportunity*	*Threat*
There are very good substitution products, i.e. substitutes		+
There are several solid substitution products, i.e. substitutes	+	
There are very bad substitution products, i.e. substitutes		+

Source: Adapted from Johnson and Scholes (2009:48).

rivalry is higher. According to Michael Porter (1980), the intensity of competition is highlighted in the following cases:

1 When there is a big number of competitors in an industry similar in scale and power which influences their similar offer.
2 When there is a larger number of competitors of equal scale, there will be a higher intensity of rivalry among them, rather than the other way around.
3 When fixed costs are high or the product has a short-term nature creating evidently expressed efforts to reduce prices.