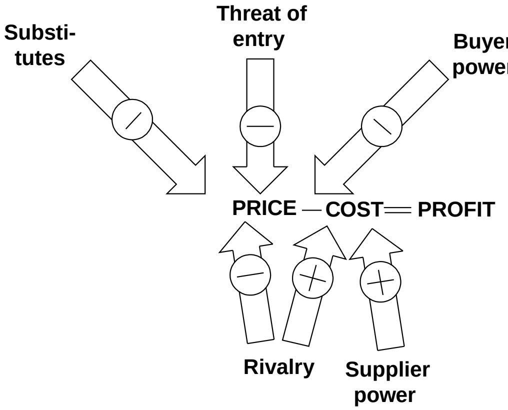

Figure 4.5 The influence of five competitive forces on profit.

Source: Magretta (2012:32).

Entry barriers – the danger of newcomers

The analysis of this force considers the entry barriers, i.e. the danger of newcomers. Newcomers are seen as potential competitors newly present in the industry or with an intention of entering the industry. Newcomers enter the industry guided by above the average profitability made by existing competitors in the industry. Michael Porter (1980) states that entry barriers are highlighted in the following cases:

1 When forcing potential competitors to start mass producing by applying the economy of scale with the risk of competitor reaction.
2 When there is a larger number of established market brands with loyal buyers in terms of reaching the sales level that minimises the cost per unit.
3 When there is a need for a big amount of initial capital of the company to attain an adequate level of competitive gravity.
4 When it is not possible for potential competitors to attain achieved cost advantage which has a highly set bar for potential competitors.
5 When there are institutional limitations imposed by the government through special permits needed to enter the industry (Table 4.3).

It is logical that an industry is more attractive when the danger of newcomers is lower, in the sense that there is more room for achieving a higher level of profitability for companies operating in the respective business. In other words, bigger market share for existing competitors means less opportunity for above the average profitability.