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Assignment 4

MGMT 510 50 A 2020/Spring-Bus Strategy & Management Principles

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02/22/2020

Assignment 4:

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Michael Porter Model

Michael Porter Model describes the Gain/Profit of a Company which is largely displayed by the companies Strength of Competitiveness. As a result, Michael Porte came up with five model of Competitive Forces which describes the Power/Strength of competitiveness in specific/certain market. The Five Forces of Michael Porter Model consists of

1. Threat of New Competitor Joining the Market
2. Bargaining power of the Buyer
3. Bargaining power of the Supplier
4. Threats of Substitutes
5. Risk of Entry by Potential Competitors i.e., Rivalry among the current firms

**Threat of New Competitor Joining the Market**

The Threat of New Competitor into an existing industry can provide a huge competition for current players to keep their prices down and invest more to retain customers. In General, a new entry in certain industries causes an immense pressure on current prices in the market. The Threat also depends on the power or ability of the potential newcomer. If they are reputed and famous in the industry operating in the same region as you are raises the threat of entry

*Example: Airline Industry*

New Entrants to Airline Industry poses a low threat. The Barriers in Airline Industry are said to be very high. Taking the cost and Govt Regulations into consideration the process is fairly complex. It takes years before a new entrant gets recognized and the existing players in the Market who have already established their name only makes it tough to the New Companies.

**Bargaining Power of the Customer/Buyer**

The model component shows the Bargaining Leverage of a Buyer and the need for Price Sensitivity. This component is based on few factors if, the products it purchases from the industry are unique and has its own standards, Wholesale purchases i.e., concentrating on large volume of purchases, switching costs proportional to switching costs etc. The power is observed to be high when the buyer has a good knowledge/information/background of Production costs and the item being delivered and hence knows how to spend/purchase a specific product of what the company produces. However Bargaining power of Buyer is said to be low when the company poses a threat to forward integration

*Example: Airline Industry*

Customers/Buyers have a huge Bargaining Power over Airlines as the price to switch between different Airlines are cheaper. Customer/Buyer doesn’t have to necessarily call a specific Airline to purchase a ticket, there are multiple third-party Websites and Mobile Applications which can be leveraged to look up the best price and compare rates across all the Airline Companies.

By introducing interesting Reward Programs can attract Buyers to select specific Airline and keep choosing it.

**Bargaining Power of the Supplier**

Powerful/Strong Suppliers can use their upper hand to charge higher costs or get a negotiation in accepted terms from the industry competitors which impacts Industries Profitability. If there are only handful of suppliers in the market, then the supplier is said to have more power than the buyer

*Example: Airline Industry*

Main supply for Airline Industry is said to be Engines, Fuel Suppliers, space to park etc. Airlines pay a high amount of price switching suppliers as per the requirements and benefits of the fleets compatibility and the need for using massive airports

On Contrary, another example which shows Supplier has no effect on Buyer

Example: Qatar Airways, one of the Top Airline Companies in the World. Bargaining power is in the favor of Qatar Airlines, having said it holds the top1 position in the World. Qatar’s suppliers must have a Strong Motive to keep the partnership in good terms. Qatar can find a replacement easily if something was to go wrong, but the Supplier wouldn’t find another buyer which can be capable of replacing the volume of Sales by Qatar

**Threats of Substitutes**

This describes how a Business is replaced rather than product or services. Threats of Substitutes comes into existence when a product or service meets the same requirements in a different manner. Threat of substitutes is said to be high if it offers a reasonable price performance trade off related to the Industry’s product

*Example: Airline Industry*

There is no substitute when it comes for Air Travel when travelling longer distances, however there are other means of Transport like Car, Bus or Train when travelling shorter distance

**Risk of Entry by Potential Company Competitors i.e., rivalry among the current firms**

Competition that exists between the established firms dealing into same industry producing same goods or products can drive down costs/prices in the market by increasing the price of competing. This can be seen when there are numerous Competitors which deal into the same industry and are roughly of the same size. Besides, Industry growth is said to be at a slower pace and the exit barriers are high

*Example: Airline Industry*

There are numerous/multiple Airlines which are in competition for every route, As the differentiation is low and costs are high, there is a huge competition for Air Fares which can match the features, improvements and customer service

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**HBR Case Review**

The article outlines how a company can plan in a Strategic way to ensure Improvement not only in sales but also protect the company from upcoming future disasters. The Case Review from HBR describes how Ericson’s policies and Strategies went wrong when compared to smart and effective Strategies implemented by Nokia’s Management. Michael Porters 5 Forces has been applied to the HBR case review

**Bargaining Power of Supplier**

Philips was one of the major suppliers in the market who was supplying semiconductor chipset to both Nokia and Ericson. In this scenario the power of Supplier is high when compared to a buyer (Nokia or Ericson) especially when the companies are solely dependent on a single Supplier to produce the number of devices during the launch. Companies face a higher switching cost when a large volume (~40%) of devices are being produced and are dependent on a single supplier

Both the Companies instead of being dependent on one supplier (Phillips), the assignment could have been split into two or more Suppliers to distribute the load among all which will not only reduce the Bargaining Power of supplier but also help the company survive in case of a natural disaster/calamity at a Suppliers Plant.

Nokia and Ericson were one of the top contenders back in 2000 and had a good market shares in the industry at the time, therefore it is obvious the suppliers wouldn’t lose such reputed Companies. Besides, one of the important factors is aggressive competition between the two companies among suppliers automatically causes to reduce price for Producers

**Bargaining Power of Buyer**

Nokia and Ericson, both do not sell devices directly to their consumers, they go through intermediate stores. The stores on the other hand sells various manufactured handsets apart from these two companies, they have them readily available for consumers which makes is difficult for Nokia or Ericson and has a direct impact on selling their handsets. Lower Switching Costs make is really easy for consumers/customers to change/choose the products they usually buy.

With both the companies providing similar product, the Mobile industry is said to be price sensitive with consumers looking to get the most value in exchange to their money. If somehow the expected product is delayed during the launch, then there are high chances of the consumer diverting their interest to another company which has released their device on time as per the expectations

Similar thing happened with Ericson and Nokia, when the Supplier plant which was responsible to produce chipset caught on fire and due to lack of corrective measures faltered by Ericson, Nokia had attracted lot of Customers by releasing their Device on time with Bluetooth technology

**Threats of Substitutes**

Mobile phones include variety of functionality besides making calls and sending Texts, therefore any device that distinguish and specializes in any of those functions can be described as a substitute. For example, use of Bluetooth technology or camera in the phones. In the Mobile Industry there are way too many substitutes if the buyer wants to switch

As per the case study, both the companies were to launch the new Bluetooth technology in their new models, but since Ericson failed to take appropriate measure, the company had to face threat of substitutes i.e, Nokia or some other company providing the same technology taking over Ericson’s customers

**Threat of New Competitor Joining the Market**

Mobile Industry is a very well-Established Market, a threat of a New competitor joining the market is relatively low. Companies thrive to constantly innovate, develop and launch their products to keep up with the technology. New Entrants have to be prepared for huge manufacturing and production costs, spending a huge chunk of their money into Research and Development etc, therefore companies can worry less about the new Entrants but concentrate on existing competitors. All the existing Companies are fighting a cutthroat competition to attain more market shares and with so fierce competition there will be recrimination towards any new Competitors in the market

As per the case study, both the companies Nokia and Ericson were Reputed and were ruling the market back in 2000, so any new competitor would hardly have made any difference

**Intensity of Existing Rivalry**

Nokia and Ericson had an intense competition among each other. Although their chipsets were from the same supplier and had no much difference in their products, they try to differentiate in terms of Services, or the Application offered.

Both the companies are well known brands and had an immense competition due to the launch of new products than any other established model. For example Nokia was famour for keeping up with the technology like Bluetooth, Application compatibility etc, whereas Ericson was famous for its Camera, Audio Quality, design etc.

Other Companies like BlackBerry, Samsung, Motorola where also its primary competitors. Nokia was competitive in terms of price when compared to Ericson while the other companies offered their devices at a higher rate. When it comes to application, both the companies had a huge competition among themselves and the other developing companies who were just getting into Mobile Market. For example, delivering GPRS services on the Browsers, where you can now download from a browser like never before. The technology has advanced in 20 years, but back in 2000, technology like Bluetooth, infrared, Browsing, texts, calls etc. had a huge demand when purchasing a mobile phone

In conclusion, the competitive rivalry between Nokia and Ericson was very high