International Marketing

Class 11

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Porter's Five Forces

1. ***Competitive rivalry***
2. ***Threat of new entrants***
3. ***Bargaining power of suppliers***
4. ***Bargaining power of customers***
5. ***Threat of substitute products***

I. M. Porter's Five Competitive Forces of an Industry

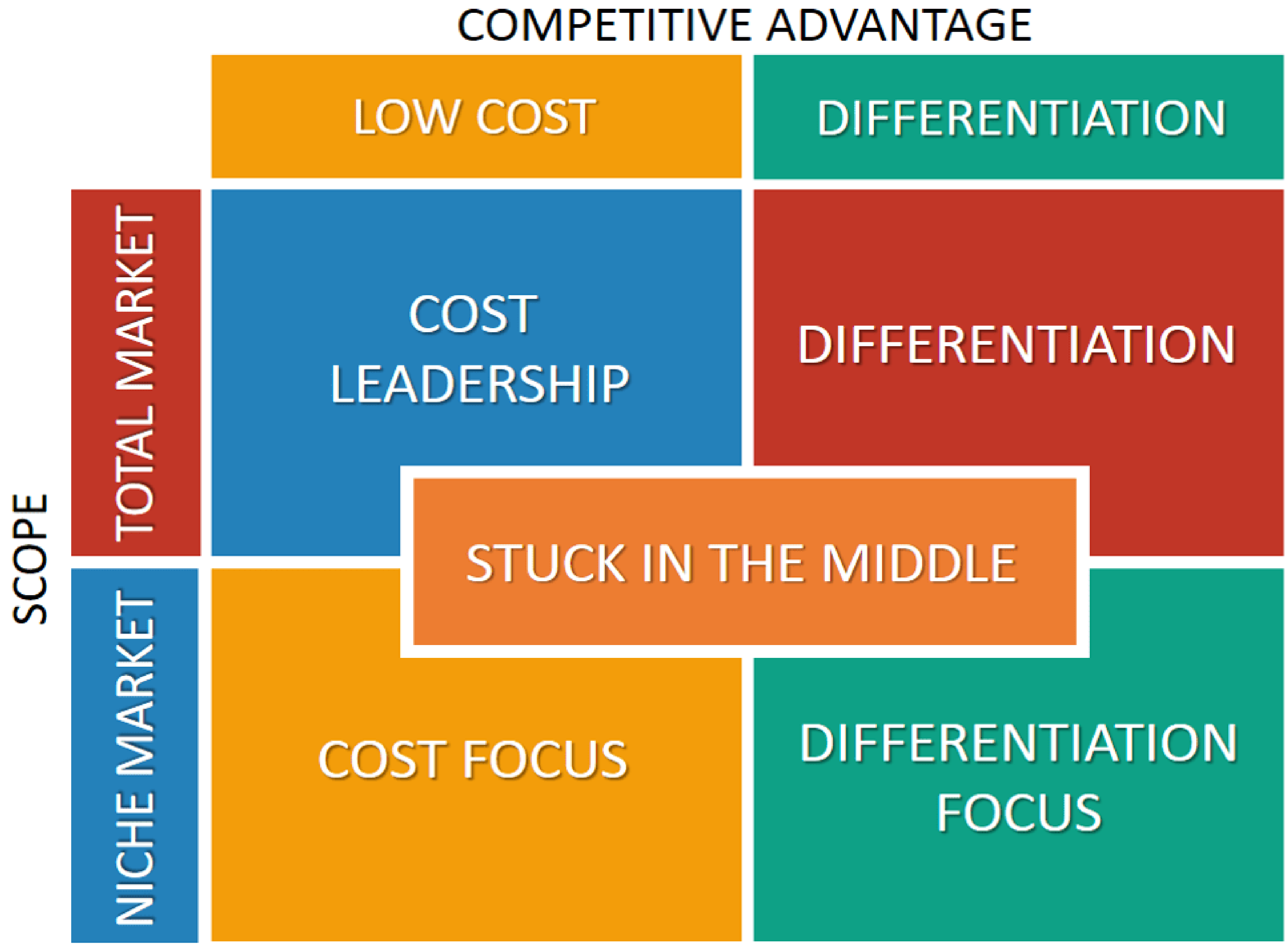
Porter's 5 forces:

1. Threat of substitute products or services.
2. Threat of established rivals.
3. Threat of new entrants to your market.
4. Bargaining power of your suppliers.
5. Bargaining power of your customers.


Threat of substitutes
Threat of new entrants
Rivalry between existing competitors
Bargaining power of buyers
Bargaining power of suppliers


RIVALRY AMONG EXISTING COMPETITORS:
Number of competitors
Diversity of competitors
Industry concentration
Industry growth
Quality differences
Brand loyalty
Barriers to exit
Switching costs
THREAT OF NEW ENTRANTS
THREAT OF NEW ENTRANTS:
Barriers to entry
Economies of scale
Brand loyalty
Capital requirements
Cumulative experience
Government policies
Access to distribution channels
Switching costs
BARGAINING POWER OF SUPPLIERS
RIVALRY AMONG EXISTING COMPETITORS
BARGAINING POWER OF BUYERS
BARGAINING POWER OF SUPPLIERS:
Number and size of suppliers
Uniqueness of each supplier's product
Focal company's ability to substitute
BARGAINING POWER OF BUYERS:
Number of customers
Size of each customer order
Differences between competitors
Price sensitivity
Buyer's ability to substitute
Buyer's information availability
Switching costs
THREAT OF SUBSTITUTE PRODUCTS:
Number of substitute products available
Buyer propensity to substitute
Relative price performance of substitute
Perceived level of product differentiation
Switching costs
THREAT OF SUBSTITUTE PRODUCTS

II. Success Strategies in the Competing Markets


COMPETITIVE ADVANTAGE
LOW COST
DIFFERENTIATION
SCOPE
TOTAL MARKET
NICHE MARKET
COST LEADERSHIP
DIFFERENTIATION
STUCK IN THE MIDDLE
COST FOCUS
DIFFERENTIATION FOCUS

III. Five Competitive Forces of Industry and Its Marketing Implication

1. Rivalry Among Existing Competitors

Effect on the Marketing Framework

High rivalry → firms must:

- **Differentiate products** (branding, features, packaging)
- **Use aggressive pricing** (penetration, discounts, value-pricing)
- **Increase promotion intensity** (advertising, influencer campaigns)
- **Enhance customer retention** programs (loyalty, CRM)

Low rivalry → firms can:

- Maintain stable pricing
- Focus on premium segmentation
- Invest in brand-building rather than price wars

Global Example

- **Coca-Cola vs. Pepsi**
  Intense rivalry → huge marketing spending, celebrity endorsements, emotional branding ("Open Happiness", "Live For Now").

2. Threat of New Entrants

Effect on the Marketing Framework

When entry barriers are low:

- Companies build **strong brand loyalty** (brand storytelling, unique value propositions).
- Increase **customer switching costs** (ecosystems, subscriptions).
- Invest in **distribution exclusivity** (contracts with retailers).
- Engage in **defensive marketing** (price matching, rapid innovations).

When barriers are high (e.g., pharmaceuticals), marketing focuses on:

- Educating stakeholders
- Institutional relationships
- Professional/technical branding

Example

- **Spotify & Apple Music facing new streaming apps**
  They invest heavily in personalized recommendations, exclusive content, and student pricing — all defensive marketing.

3. Bargaining Power of Buyers

Effect on the Marketing Framework

High buyer power → customers can demand:

- Lower prices
- Better quality
- Customized products
- Multi-channel service (online/offline integration)

Marketing must adapt by:

- Value-based pricing
- Customer segmentation precision
- Enhanced service & post-sales support
- Mass customization (Nike By You)

Low buyer power → firms can:

- Set premium prices
- Reduce promotional spending
- Limit customization

Example

- **B2B buyers in semiconductor equipment (TSMC, Samsung)**
  Very high buyer power → suppliers develop highly specialized marketing emphasizing reliability, yield performance, and long-term partnerships.

4. Bargaining Power of Suppliers

Effect on the Marketing Framework

High supplier power → firms must:

- Justify price increases to consumers via premium branding
- Diversify supply sources and communicate sustainability
- Emphasize unique value in marketing to offset higher cost
- Highlight quality derived from superior supplies (origin marketing)

Low supplier power → firms can:

- Use cost leadership marketing
- Offer price promotions more aggressively
- Expand product variety

Example

- **Starbucks** markets sustainable, high-quality coffee beans.
  High supplier dependency → Starbucks uses ethical sourcing and origin branding ("Single-origin coffee") to justify premium pricing.

5. Threat of Substitutes

Effect on the Marketing Framework

Strong substitutes force marketing to:

- Strengthen **value communication**
- Highlight **unique benefits** (performance, convenience, emotional appeal)
- Innovate product features
- Emphasize ecosystem, compatibility, or switching costs
- Encourage habitual consumption (e.g., subscription models)

Example

- **Uber vs. public transportation & taxis**
  To fight substitutes, Uber markets **convenience**, **safety features**, **loyalty programs**, and **time-saving appeal**.

IV. Q&A