

Management Theories: Analysis of Five Competitive Forces (Local Level)

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SUBJECT(S): Management

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

This is a capstone project lesson plan that emphasizes all aspects of the management theory of business with regards to the five competitive forces (Bargaining Power of Suppliers, Current Rivalry, Threat of New Entrants, Threat of Substitutes, and Bargaining Power of Buyers) at the local level.

If students need more direction on a given aspect of the five competitive forces of management theory, please see the following lesson plans for a more detailed understanding: Five Competitive Forces-Current Rivalry (Local), Five Competitive Forces-Bargaining Power of Suppliers (Local), Five Competitive Forces-Bargaining Power of Buyers (Local), and Five Competitive Forces-Threats from New Entrants and Substitutes (Local).

In this lesson students will create a SWOT analysis in order to analyze the five competitive forces. The five competitive forces are:

1. Current Rivalry: the intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.
2. Bargaining Power of Suppliers: As supply goes down, the bargaining power of suppliers goes up and vice versa.
3. Bargaining Power of Buyers: The degree to which buyers have the market strength to hold sway over and influence competitors in an industry.
4. Threat of New Entrants: The ease or difficulty with which new competitors can enter an industry.

5. Threat of Substitutes: The extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitute products and services.

☰ NBEA STANDARD(S):

- Management, II. Management Theories

☰ RELATED ARTICLES:

- [“To Your Doorstep: The Logistics Journey from Container to Customer”](#)
- [“The Supply Chain: Who Knew that Every Oreo Makes a Journey?”](#)
- [“Big Data and Your Future as a Data Scientist”](#)
- [“A Conversation on Trade and Manufacturing”](#)
- [“5 Truths About the Sharing Economy”](#)

Objectives/Purposes: The purpose of this lesson is for students to comprehend the five competitive forces of management theory. Students will be able to make connections at scale, understanding the organizational dynamics of a local business operation.

Knowledge@Wharton Articles (for referral):

- [“Vive la Difference: Using Hyper-Differentiation Strategies to Build Value and Boost Profits”](#)
- [“In South Africa, Poor Health Can Kill Small Businesses”](#)
- [“Winning in Two Worlds: Supply Chain Flexibility”](#)
- [“Power to the People or Just a Fad? Forecasting the Future of Group Buying Sites”](#)

Other Resources/Materials:

For Teachers:

1. Internet Access-for each student group
2. Poster board/butcher paper and markers

Activity:

Introduction (5 mins): Class discussion opener

After presenting the five forces, teacher should define *rivalry* (competition) for students and give examples (i.e., Verizon vs. Sprint; Sony vs. Boss; Microsoft vs. Apple; American Airlines vs. Southwest; McDonalds vs. Burger King; etc.).

The teacher should further explain to students that establishing a small business enterprise at the local level (i.e., in a local community, neighborhood, “mom and pop” store, etc.) and maintaining/sustaining that business comes with a particular set of challenges and considerations for the business manager/leader. Because local level businesses are small (i.e., small funding base, small marketing base, small client base, etc.), they may face challenging competition from larger businesses that have access to more liquid capital, perhaps a greater number and diversity of product, more staff, etc.

The teacher should then review the definition of the bargaining power of *suppliers* (*listed above*). Remind students that *local* suppliers (typically smaller operations) are often vulnerable to competition from larger national-scale/multi-national scale suppliers (i.e., local steel industry versus overseas steel, local food suppliers versus overseas food imported in, etc.).

The teacher should then review the definition of the bargaining power of *buyers* (*listed above*). Some examples of the bargaining power of buyers at the local level include the following:

1. The current housing market: if you are ready to buy a house, there are more houses for sale than buyers who are willing to buy. Therefore, the buyer is able to dictate certain conditions of the sale (i.e., a lower price, repairs that the seller should make, closing costs, etc.).
2. A small factory that sells to few customers or a certain industry (i.e., A piston factory that makes pistons only for Ford cars).

The teacher should then review the definition of the threats of new entrants and the threats of substitutes (*listed above*). Have students remember that every business starts somewhere and had to fight with competition at the local level at one point or another. You may want to provide context for students by suggesting a local business they are familiar with and patronize often.

For example, threats of New Entrants at the local level could include the following:

1. A new business such as Wal-Mart opening up in a local area (i.e., Wal-Mart opening up and selling more items under one roof).

2. A local business could mitigate against such a threat by offering a specialty product (creating a niche) (i.e., Wal-Mart may sell diapers but a local company can market cloth-diapers (environmentally friendly) with door-to-door local service included, where they drop off clean diapers and pick up/clean used diapers).

Threats of Substitutes at the local level include the following:

1. Any local dry cleaner can dry clean your clothes, thus, could be substituted at any given time (i.e., this also makes the strategy of coupon offers and “weekend/holiday sales events” so relevant in the local context).

Guided Reading (10 mins):

Students only need to read the articles if they need direction and a resource for understanding the management functions.

Project Activity (30 mins): Local Business Domain

Each group will choose a local business in which to plan using the strategic management process. This will help students analyze the five competitive forces of management theory. The steps are outlined below.

1. Identify the organization’s current mission, objectives, and strategies.
 - Mission: The firm’s reason for being.
 - Goals: The foundation for further planning.
 - (If students need to research this on the Internet, make sure that it is available)
2. Conduct an “External Analysis”: What are the **Threats** and **Opportunities**?
 - The environmental scanning of specific and general environments (i.e., Threats from new entrants and substitutes, current rivalry or opportunities for new entrance or creating a substitutes and current rivalry). These form the bases of the threats and opportunities section of a SWOT analysis.

3. Conduct an “Internal Analysis”: What are the **Strengths** and **Weaknesses**?

- Assessing organizational resources, capabilities, activities, and culture of the local business. Strengths create value for the customer and strengthen the competitive position of the firm. Weaknesses can place the firm at a competitive disadvantage.

NOTE: Steps 2 and 3 combined are called a SWOT analysis (strengths, weaknesses, opportunities and threats) During a SWOT analysis, students analyze a business enterprise for its Strengths, Weaknesses, Opportunities, and Threats. From the vantage point of planning in the local sector, have students record their analyses on poster board or butcher paper. Make sure students use the five competitive forces in looking for strengths, weaknesses, opportunities and threats.

4. Formulate Strategies: Develop and evaluate strategic alternatives for the threats identified. Select appropriate strategies for all levels in the organization that provide relative advantage over competitors. Then correct weaknesses and guard against threats. (Note: students can choose one threat to address and formulate a strategy to provide an advantage over a competitor and one weakness to address) Have students write this under the SWOT analysis.

5. Implementing Strategies: Implementing involves effectively fitting organizational structure and activities to the business environment. The business environment dictates the chosen strategy; effective strategy implementation requires an organizational structure matched to its requirements. In other words the implementation strategy must be realistic given the business's ability. Remember that a local business has limited resources, budget, etc.

Group Reports/Discussion (10 mins):

Have all groups report to the class the plans that they have created. Make sure that plans are detailed and well thought out. Help students fill in any gaps that they might have left in their analysis.

Closing (5 mins):

Use this time to answer questions and clarify points of confusion.

Tying It all Together: This lesson plan can stand alone or the teacher may wish to visit other Wharton Global Youth Program lesson plans that highlight the “Competitive Forces” at other levels (i.e., national, multi-national, non-profit, etc.). The “Five Competitive Forces of Management” are subsumed within the greater umbrella of Business Management including, but not limited to:

- Theories of Management
- Business Organization
- Personal Management Skills
- Business Ethics and Social Responsibility
- Human Resource Management
- Technology and Information Management
- Financial Decision Making
- Operations Management

Practice Outside of the Classroom: Students may look at articles in the business section of a news website. Students may focus on a local business that is implementing a new plan. As they read the article students may be called to notice the author's take on competitive challenges that the business may face.

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