

# Management Theories: Analysis of Five Competitive Forces (National 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 national 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 (National), Five Competitive Forces-Bargaining Power of Suppliers (National), Five Competitive Forces-Buyers (National), and Five Competitive Forces-Threats from New Entrants and Substitutes (National).

In this lesson, students will create a SWOT (Strengths, Weaknesses, Opportunities, Threats) 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 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:

- [“Big Data and Your Future as a Data Scientist”](#)
- [“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 national business operation.

**Knowledge@Wharton Articles (for reference):** Note: Students may use companies mentioned in the articles for the capstone project explained below.

- [“Making Customer Relationship Management Work”](#) (Bargaining Power of Suppliers)
- [“In eBay’s Success May Lie Hints of Trouble Ahead”](#) (Current Rivalry)
- [“Netflix: One Eye on the Present and Another on the Future”](#) (Threats from new entrants and substitutes)
- [“A ‘Blueprint for Profit’ in a Time of Growing Consumer Power”](#) (Bargaining Power of Buyers)

### 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*

1. Introduce to students the current rivalry function of the five competitive forces of management. Discuss with them that current rivalry happens as the intensity among rivals increases when industry growth rates slow, demand falls, and product prices descend.

- **Industry growth rate slows:** Growth rates can be slow if customers do not develop a high demand for a product or service
  - Examples include: PC's as people look for more portable options (i.e., laptops and tablets)
  - Luxury Goods such as fine jewelry and gyms, fur coats, etc in a down economy
- **Demand falls:** Less customers want the product (i.e., Private homes in the U.S especially large 5+ bedroom homes)
- **Product Price Descends:** i.e., “Gas Wars” when local gas stations lower prices to compete with each other

2. Introduce to students the bargaining power of suppliers function of the five competitive forces of management. Discuss with them that bargaining power of suppliers is relative to the number of buyers to suppliers. As the number of buyers goes up the power of the supplier goes up. As the number of buyers goes down, the power of the supplier goes down. Threats from substitutes affect the buyer-seller relationship to the extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitute products and services. Threats from new entrants affect the buyer-seller relationship to the extent it is easy or difficult for new competitors can enter an industry.

3. Introduce to students the two “threats” to existing business entities as indicated via the five competitive forces theory of management (i.e., *threats from new entrants* and *threats of substitutes*). Discuss with them the definition of each threat:

- Threat of New Entrants– the ease or difficulty with which new competitors can enter an industry
- Threat of Substitutes– the extent to which switching costs and brand loyalty affect the likelihood of customers adopting substitute products and services.

Because this lesson seeks to lead students to make connections at the national level of business competition, teacher should explain to students that examples of new entrant threats at a

national level could/would include threats across state/province lines inclusive of technology that facilitates competition across national contexts. For example:

Threats of New Entrants at the national level include the following:

1. A local/regional restaurant chain who serves a similar food line as Chili's restaurant decides to launch nationwide restaurants across various states/provinces, in close proximity to Chili's restaurants locations, directly competing with the Chili's brand.
2. Netflix, through online video offering, moves to compete directly with traditional, national video rental chains (i.e., Blockbuster, Hollywood Video Rental, Hastings, etc.).
3. eBay had a strong hold on the national market for customers wishing to buy and sell goods from other customers using eBay as a vehicle for the transaction. The rise in popularity from Craigslist threatened the customer base of eBay by offering customers a similar vehicle to exchange goods and services in a more local context. Through Craigslist, customers could exchange goods and services locally, cutting down on shipping costs that are incurred through dealing with others across the country.

Threats of Substitutes at the national level include the following:

1. Wal-Mart's niche as the "low-price" provider is threatened by Target as they lower their prices
2. Coke and Pepsi: Pepsi's campaign to "take the Pepsi challenge" where they had people take a blind taste-test with Coke. Pepsi was convinced that people would prefer Pepsi on pure taste alone, and substitute Pepsi in place of Coke.
3. Mac competing for PC customers claiming that Mac offers a more user-friendly product than PC.

Introduce to students *bargaining power of buyers*. Discuss with them the following definition:

- Bargaining Power of Buyers — The degree to which buyers have the market strength to hold sway over and influence competitors in an industry.

Examples of the bargaining power of buyers at the national level include the following:

1. Buyers collectively decide your product is not durable and choose not to purchase (i.e., after a news report, many customers choose not to purchase cribs from Fisher Price

- due to a child having fallen out of a Fisher Price crib).
2. Buyers collectively can dictate prices if there are few buyers or if they purchase large volume (i.e., because of its size and consequent “purchasing weight” in the industry, Wal-Mart can negotiate prices when purchasing products from suppliers).
  3. If a certain brand of products in a certain industry can be easily switched for another brand of the same product (i.e., a buyer can easily switch from a Toyota to a Nissan depending on the price — and thus is able to negotiate price when purchasing a car.

### *Guided Reading:*

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

### *Project Activity (30 mins): National Business Domain*

Each group will choose a national 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 national 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 analysis in the national 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 the national business may have certain levels/limits of resources, budget, etc.

*Group Reports/Discussion (20 min):*

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 WGYP 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 notice how national businesses compete with each other (i.e. Mac and PC) and identify how they use competitive forces to gain more market share.

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