Michael porter’s five competitive forces and generic strategies, market segmentation strategy and case study of competition in global smartphone manufacturing industry

Moses Jeremiah Barasa Kabeyi

Abstract

As per Porters five competitive strategies, to sustainably operate profitably, it is necessary for organizations to strategically deal with competition from both direct and indirect competitors who can affect the organization like influential customers, influential suppliers, new entrants, and substitute products. Market segmentation has proved to be an effective strategy in marketing of technology based products like smartphones. It was observed that the smartphone industry has a few players in manufacturing and with heavy capital costs limiting entry. The market is characterized by plenty of innovation through research and development which also increases the entry costs and harden exit for the players, the manufacturers are relatively few but competition can be said to be falling between intense and low. The suppliers have generally a lower bargaining power except for the software suppliers like google who have higher bargaining power. Smartphone manufacturers develop wide range of products targeting different market segments and in some cases phones with unique features are developed by various manufacturers as well as smartphones with different prices to suit different market segments. An analysis of the smartphone market shows that the market is approaching saturation in developed countries which also provide market for most of the smartphone sales but the developing countries like India and China have huge and fast market growth rates making the smartphone market growth to remain high globally. A combination of these factors and competitive forces show that the smartphone market is of moderate rivalry intensity and manufacturers can use a combination of different strategies to remain competitive. Market segmentation can facilitate implementation of the Porters generic strategies by smartphone manufacturers.

Keywords: competitive forces, rivalry intensity, rivalry strategy tool, smartphones, generic strategies, market segmentation, competitive advantage

1. Introduction

The Five Competitive forces and Generic Strategies

1.1. Porters Five Competitive Forces

According to Porter (2008)[14], an organization must strategically respond to competition and constantly monitor direct competitors and indirect competitors or potential competitors to avoid market ambush from unknown and unexpected market entrants and substitute products which can threaten your position and share in the competitive market. Other competitive forces in the market that can hurt an organization are customers who can force the organization to reduce prices by colliding the rivals, suppliers who may eat into your profits by charging higher prices for the raw materials and other inputs, aspiring or new entrants who may be equipped with even better abilities and are keen to gain entry and share the market, and substitute offerings who may lure your customers to their products and services at the expense of your products and services. New entrants often cap or limit growth in profits of an existing organization and should therefore be monitored and controlled. Porter (2008)[14] advises companies to develop strategies that guarantee sustained profitability. These strategies include;

1. Concentrate operations where the competitive forces are weakest to your advantage for example if competitors target largescale customers for their products, then position yourself for small customers and if competitors are
Targeting your local market then target the export market which in these cases are areas of weakness.

2. Take advantage of market changes or shifts of competitive forces in the market by identifying vacuums that are generated as a result of these changes. As an example, Apple took advantage of the need to sell music through a platform by a competitor to develop an IPod music player which became a market success.

3. Manipulate the competitive forces to your advantage using various strategies. For example dilute the power of suppliers through harmonization or standardization of specifications which makes it easier to change suppliers at will, counter customer power by expanding your services and diversification and control competitor initiated price wars by developing unique products. As for the threat of new entrants, scare them away by increasing entry costs and requirements through research and development as well as widening or increasing product access by the customers.

1.2. Michael Porters Five Generic Strategies
According to Porter (2008) [14] and David (2011) [2], different strategies allow organizations to gain competitive advantage from three different bases namely:

I. Cost leadership Strategy
This emphasizes production of standard products at a low per-unit cost or consumers who are price-sensitive. Two alternative types of cost leadership strategies can be defined. Type 1 which is a low-cost strategy that offers products or services to a wide range of customers at the lowest price available on the market. Type 2 is a best-value strategy that offers products or services to a wide range of customers at the best price-value available on the market; the best-value strategy aims to offer customers a range of products or services at the lowest price available compared to a rival’s products with similar attributes. Low cost and best value strategies target a large market (David, 2011) [2].

II. Differentiation Strategy
This is Porter’s Type 3 generic strategy, a strategy aimed at producing products and services unique in the market and directed at consumers who are relatively price-insensitive. Best differentiation concentrates on products and services that are hard or expensive for rivals to imitate since competitors are continually trying to copy or benchmark, duplicate, so as to outperform others (David, 2011) [2].

III. Focus Strategy
Focus involves producing products and services that fulfill the needs of small groups of consumers in a target market. Two alternative types of focus strategies are low-cost focus strategy that offers products or services to a small range of customers called niche group of customers at low price possible in the market. Best-value focus strategy offers products or services to a small range of customers at the best price-value available on the market. It is also called focused differentiation. It seeks to offer products or services that meet their preferences better than what rivals offer. The difference between the two focus strategies is that low-cost focus offers products or services at the lowest price, whereas Best-value focus strategy offers products/services at higher prices with more features hence the offerings are perceived as the best value.

In line with porter competitive forces larger firms would typically compete on a cost leadership and/or differentiation basis, but smaller firms would rather compete on a focus basis. If the market is large, it is difficult to pursue a focus strategy due to need for economies of scale needed for a low-cost or best-value cost leadership’s strategy for competitive advantage (David, 2011) [2].

A market segment refers to a group or subgroup of people, organization with common characteristics that enable them to have identical products and service needs. A consumer market can be segmented based on demographic, geographic, product life cycle, product or service use rate and benefits characteristics or any other identifiable consumer characteristics (Neil, nd). Therefore market segmentation refers to subdividing a market along some commonality, similarity, or kinship so that members in a given segment share something in common (Thomas, 2017) [19].

Segmentation is based upon development demand side and involves adjustment of product and marketing effort to consumer or user the user requirements. Segmentation involves substantial use of advertisement and sales promotion and is essentially a merchandising strategy (Smith, 1995) [20]. Hunt and Arnett (2014) [9] view segmentation as one of the most widely acceptable marketing concept and strategy but warn that segmentation should be grounded in competition theory.

2.1. Target Market Strategies
Strategies that can be applied in market segmentation include:
1. Aggregation strategy where a seller treats a total market as a single market e.g. gasoline market or smartphone market.
2. Single segment strategy also known as concentration strategy where focus is on one segment of a total market e.g. Chinese smartphone market, African smartphone market, etc.
3. Multiple segment strategy where the organization targets more different groups of potential customers.

2.2. Positioning for market segmentation
In market segmentation, an organization should decide how best to position itself in relation to competitors for identified market segment. This positioning could be based on price, product design features, distribution method used or unique selling options developed for a given product or service, product lifecycle, and consumers lifestyle.

2.3. Repositioning in market segmentation
This is a strategy used when changing consumer perception of a brand against competitor offerings. Repositioning is done to sustain in slow growth market or to correct errors/mistakes committed during the positioning phase (Hunt and Arnett, 2014) [9].
2.4. Importance of Correctly Identifying and Choosing a Firm’s Markets
Slater, Hult, & Olson (2007) [18] noted that business strategy is refers to a set of activities required to create better customer value in the markets with the objective of achieving superior or unique performance. The two strategies or marketing activities required to achieve this objective are:
1. The adoption of the best or most appropriate strategic orientation or behaviors e.g. competitor orientation, technology orientation and customer orientation
2. Targeting of the right market and market segments which could be the innovators, early adopters, early majority, late majority or the laggards
According to Walker & Ruekert (1987) [21] marketers in prospectors need to be aware of the firms technical capacity when engaging the market while R&D should be customer-oriented when creating new products as well as developing important technologies. They observed that prospectors may not even recognize who their competitors or potential competitors are, instead they are focused on the market and customers. So, prospectors should demonstrate more concern with their target customers and the technology that delivers products to markets than with competitors. Slater, Hult, and Olson (2007) [18] noted that Prospectors are the most proactive and innovative of the strategy types. They noted that exploration for new opportunities is a central theme in innovation and that exploration may take the form of “outside-in” processes, that is customer-oriented behaviors, or of “inside-out” processes, which is purely R&D driven innovation. According to Walker & Ruekert (1987) [21] and Miles & Snow (1978) [12] prospectors business units take an aggressive new product-market position and are often industry pioneers in the creation and development of new technologies, products, and services in the market. As a result of this, they may have little or no reference to competitors or business rivals, but are rather concerned with the customers and the target market. The early market for innovative products are both innovators and early adopters with innovators being buyers who appreciate innovation for its own sake and are motivated by the idea of being change agents. Therefore to be successful, prospectors should target innovators and adopters not just the entire market. On the other hand early adopters want to use innovation to achieve some revolutionary improvements. They are attracted by high-risk, high-reward projects, and because they envision great gains they are not quite price sensitive. Customers in the early market typically demand personalized solutions and quick-response, highly qualified sales and support services (Slater, Hult, & Olson, 2007) [18]. Gatignon and Xuereb (1997) [6] noted that customer orientation significantly improves product performance in the market but only in markets where the demand uncertainty is high. They however noted that market orientation detracts from performance when demand uncertainty is low. In their study on prospectors analysis and performance Slater, Hult, and Olson (2007) [18] found out that there is no relationship between customer orientation and performance and that there is a negative relationship between targeting the early majority and performance of the product in the market.

3. Rivalry Intensity: High and low Intensity
According to Harrison, Hitt, Hoskisson & Ireland (2008) [8] and Wilkinson (2013) [22], the intensity of rivalry among industry competitors is the extent to which firms put pressure on one another and limit each other’s performance in an industry. As a result, this reduces profit potential for all firms within the industry. Intensity of rivalry among firms shapes the competitive structure of an industry according to Porter’s five forces framework and influences the ability of existing firms to achieve profitability. High intensity makes an industry more competitive while low intensity of competitive rivalry makes an industry less competitive and increases the firms ‘profit potential.

3.1. High Intensity of Rivalry in an Industry
Harrison, Hitt, Hoskisson & Ireland (2008) [8] and Wilkinson (2013) [22] identified the following Characteristics of high intensity rivalry:
1. Significant number of competitors in the market competing for common customers and markets.
2. Rate of growth of the industry is low and sellers and manufacturers struggle over same customers.
3. The industry requires high fixed costs hence huge capital requirements to enter the market.
4. Competing firms tend to have equal capacities in terms of size and ability to outdo each other.
5. The level of product differentiation tend to be limited hence customers have limited choices of product and sellers.
6. Customers have limited brand loyalty hence keep switching freely between different products and competitors.
7. Customers have low switching costs so change to a competitor is much easier and almost flawless
8. The rivals have same market share and influence and hence equal chances to win over customers from rivals and vice versa.
9. Different strategies are employed by the competitors to outdo one another in the market
10. Underutilization of production capacity by the competing organizations.
11. There many industry exit barriers forcing players to stay put and struggle for survival and space in the market.

3.2. Low Intensity of Rivalry
Hitt, Hoskisson & Ireland (2008) [8] and Wilkinson (2013) [22], identified the following characteristics of low intensity rivalry in the market:
1. The number of competitors in the market is low
2. The few competitors have different sizes and abilities
3. The business rivals have different size of market share or control hence different influence and control over the markets.
4. The rate of growth of the Industry is higher hence more and more customers and markets keep presenting themselves meaning more opportunities.
5. Entry costs for the industry are low hence unrestrictive giving room for new entrants
6. Wide range of products through differentiation. This provides room for more new markets and strategies enabling competitors to pursue different strategies and markets.
7. Customer’s loyalty to brands is high since choice is limited and so they have to cope with limited options.
8. Switching costs by customers are resitive or high meaning that it becomes prohibitive to change suppliers or sellers thus customer retention is higher.
9. Competitors are not strategically diversified hence apply similar strategies.
10. Production capacity is fully utilized as the market is ready to absorb production.
11. Limited exit barriers from the industry by sellers or manufacturer hence investors do not have to struggle so much to keep the business going just like it is easier to enter the market.

Low intensity of rivalry by competitors makes an industry more attractive while increasing profitability for the competing firms (Wilkinson, 2013) [22].

Analysis of the Influence of Market Selection in Business Strategy Development

Market selection is an important step important step to successfully launch a product in a given market. Important considerations in market selection are market size, growth rates, analysis of competitive forces, new product developments, population factors and operating business environment, economic factors and consumer-related factors that influence market potential. Market strategies like exporting and licensing need less investment, but leads to least control of the business while joint venture and 100% ownership have more managerial requirements and capital but enhances control over operations of the organization so it is better to employ different strategies for different markets. The nature and type of the products and services should also be considered because of significant need for after-sales service, or significant amount of contacts with the customer will require direct ownership and control. (Boumphrey, 2016) [1].

4. Overview of Global Smartphone Industry

4.1. Introduction

A smartphone a handheld personal computer which has extensive computing capabilities, with access to the Internet using both Wi-Fi and mobile broadband. Most smartphones also are built with support for Bluetooth and satellite navigation with modern smartphones having touchscreen color display. Smartphones use a mobile operating system, and are able to process a variety of software components, known as apps (Reisinger, 2017) [16].

4.2. Market Analysis and Potential

The smartphone industry is one of the fastest growing and dynamic industry mainly due to growing need of internet services, availability of cheap and affordable phone combined with growing internet connectivity around the world. A smartphone is a mobile phone that functions like a computer. It typically has a touchscreen interface, Internet access, and an operating system that can run application software or apps that are integrated with other devices and sensors to provide users information on a real-time basis. The phone can be can be used in a number of applications, including making calls, instant messaging, taking pictures and videos, browsing the Internet, carrying out financial transactions, creating presentations, and analyzing data. Almost 10 years ago, performing these functions without a computer were considered impossible. Key vendors are Apple, Samsung, Huawei, OPPO, Vivo, Xiaomi, Lenovo, LG Electronics, Sony, and ZTE. Other players are ASUSTeK Computer, google, BlackBerry, Gionee Communication Equipment, Micromax, Microsoft, OnePlus, Nokia and Panasonic with the Market driver being rising income levels and increasing consumer spending in emerging markets. As far as the smartphone market is concerned, the main challenge experienced is that developed countries where most of the market exists are reaching market saturation while the market trend today is upcoming possibilities or innovations include with 5G network (Global Information, Inc., 2018) [7]. As for future potential of smartphone industry presents, developing economies like India are quite have huge potential with an emerging middle-class population of more than 500 million and about 65% of the population aged 35 and below in India. This population benefit, with an increasing smartphone user base of about 340 million, improved data and Internet access and affordability, and expanding electronic payment ecosystem supported ambitious Digital India project, is giving fresh impetus to the adoption of e-commerce across the country. India, which is a growing economy and the second largest smartphone market in the world, is prove of huge growth potential for the smartphone industry around the world.

4.3. Intensity of Rivalry within the Smartphone Manufacturing Industry

This refers to the level of completion between competitors and rivals through advertisements, product quality, price wars, differentiation and other strategies (Johnson, 2014) [10]. Customers are less willing to switch the operating system they are used to while Suppliers such as operating system providers have moderate power in the industry. Inputs for the high-end markets are quite specialized hence suppliers have more bargaining power but not at the low end. Rivalry in the smart phone industry is moderate, because customers tend to have high brand loyalty at the high end of the market. The market does not have many potential substitute of smartphones, but PCs and Tablets can be considered as substitute but not really, thus force of substitutes is moderate low in smartphone industry (Zhuo, 2017) [25]. The industry has huge customer base of over 968 Million worldwide. The Industry is growing at rate of 28-30% worldwide and at 168.8% in India. Top players in smartphone market include Samsung, Apple, Huawei, Lenovo, Xiami and LG. Samsung is dominant player in the smartphone market with nearly 25% market share in the second quarter of 2014. This share has come down from 32.2% from a year before. Apple has lost 2% from previous year to settle down at 11% in the second quarter of 2014. On the other hand Xiami emerged as a new player in the smartphone market which has seen increase in market share from 1.8% to 5.10% in just one year (Sushitend Nexus, 2016) [17]. Analysis shows drops in market share by Samsung and Apple, fewer players with each having different market share, significant product differentiation and a huge growing market especially in India and globally, the rivalry in smartphone industry can be said to be neither low nor high, hence moderate.

However according to Djajadikerta (2017) [4], rivalry in smartphone industry is still with the target being standard phone features like the software’s used and security, cameras, screens, touchscreen quality. These feature are
relatively easy to imitate and even produce better products to get competitive advantage.

4.4. Intensity of Supplier Power in Smartphone Industry
This refers to the bargaining power of suppliers which is
their ability to exert pressure and influence competitors to
increase their prices leading to their profitability and other
benefits at the expense to the supplier’s profitability and
even competitiveness (Johnson, 2014) [10]. Pratap (2017) [13] on suppliers and their power in the smartphone industry
observed that Apple has managed a complex chain of
suppliers that are spread globally over several nations
including United States, China, Japan, Mexico, Brazil and
other countries. This huge number of limits their bargaining
power with Apple. Apple also maintains excellent control
over its suppliers. Switching costs are low for Apple but for
suppliers, they would not like losing their business with
Apple. At the same time there is no potential of forward
integration by the suppliers. Therefore Apple’s position
against its suppliers is strong and while their bargaining
power weak. Nokia on its side relies on its suppliers to
supply equipment for their advanced mobile phones and a
large number of equipment makers are involved and so
which Nokia could switch to.
However the software suppliers for their Smartphones are
now Microsoft, who has a high bargaining power. As the
leading company in the industry, Nokia is in a stronger
position when bargaining with other suppliers. As a
conclusion, there is a moderate threat from the powers of
suppliers for Nokia because although the hardware
suppliers have a very low power, Microsoft’s power over
the software is very high because they’re very few other
organizations who have the expertise and skills to rival
Microsoft.
As for Samsung the bargaining power of suppliers working
with Samsung depends on the specific type of supplier.
Samsung has about 579 suppliers globally and the
company’s supply chain includes over 2,700 suppliers in
various industries around the world. General parts and
components suppliers do not have substantial bargaining
power due to the importance of Samsung’s order volume
and its ability to negotiate prices with suppliers. On the
other hand, Google exercises significant bargaining power
as the supplier of Android platform due to the lack of
alternative platforms available to Samsung. Therefore
smartphone manufacturers have a stronger power over
suppliers for most parts but the software’s used with Google
and Microsoft having an upper hand (Pratap, 2017) [13].
This shows that not all suppliers for smartphone
manufacturers have the same influence with software
suppliers having more power over the manufacturers
compared to parts manufacturers.

4.5. Threat of Substitutes
Threat of substitutes refers to the level to which products
and services can be exchanged with other products and
services in the competitive market (Johnson, 2014) [10].
Smartphones can be substituted by tablets in the market
which have similarities in terms of device interface, apps
and functionality. However, smartphones may prove quite
attractive to more customers because with similar
capabilities, they come in unique shapes, sizes and
functionalities (Djajadikerta, 2017) [4].

4.6. Threat of New Entrants
According to Porter (2008) [14] new entrants influence the
level of profitability and industry attractiveness and
identifies six barriers to new entrants. The startup costs for
new smartphone manufacturers are extremely high hence
low threat by new entrants as this makes entry difficult.
However few entrants continue to join the industry
particularly those targeting low and middle class customers.
For example MicroMax joined the industry in 2010 and
become the tenth largest smartphone company in the world
(Djajadikerta, 2017) [4].

4.6. Purchasing Power of Buyers
Bargaining power of buyers refers to the ability of buyers to
exert pressure or influence competitors in an industry
leading to their profit reductions, better quality and better
services at the expense of the competitors (Johnson, 2014)
[10]. Smartphone manufacturers like Samsung and
Blackberry need the customers who at the same time can
easily be lured by the rivals products and prices. This
ultimately grants smartphone customers moderate to high
bargaining power over the smartphone manufacturers. With
low switching costs, their position bargaining power is
further strengthened. The customer demand is elastic and
highly price sensitive (Djajadikerta, 2017) [4]. Therefore
to manage buyer power, smartphone manufacturers should
develop affordable, diverse and easily accessible phones.

4.7. Recommendations for Smartphone Manufacturers
to Gain Competitive Advantage
For sustainable long-term profitability by smartphone
manufacturers and guaranteed leadership, the companies
should reshape the competitive forces to their advantage as
follows;
1. Manage competitor initiated price wars by making
smartphones that differ significantly from competitor’s
offerings. This will ensure that the products are unique
and this way give the manufacturer a competitive
advantage.
2. Discourage new entrants by increasing capital
requirements for investments and this can be realized
heavy investment in innovation, research and
development. Heavy investments and maintenance in
distribution channels will also deter new entrants from
market entry or displacing incumbent’s manufacturers
from the shelves. Price wars can also keep off new
entrants when incumbents decide to utilize their
economies of scale. Incumbents should also have
sufficient war chest in terms of excess capacity, excess
cash reserves and unutilized borrowing power and
making switching costs high. Smartphone
manufacturers and sellers should develop strong
distribution networks by investing in them and also
invest in research and development. This will
significantly increase the entry requirements and limit
or discourage new entrants (David, 2011) [2].
3. To contain customer power smartphone manufacturers
should expand their product range and service to make
it difficult to leave for a different manufacturers or
products. Retaining customers through will
significantly reduce their bargaining power at the
advantage of the smartphone manufacturers.
4. To neutralize supplier power standardize product
specifications so that parts it becomes easier for the
5. Manage the threat of substitutes by offering phones with better value, easier access to the markets and customers, and substitutes. The smartphone industry should be controlled. Manufacturers should avoid scenarios where substitutes offer attractive price-performance tradeoff to smartphones.

6. Apply market segmentation as a competitive strategy to facilitate implementation of Porters generic strategies like differentiation and focus.

5. Conclusion
Porter’s five competitive forces and generic strategies continue to be effective and relevant to competitive markets like fast growing smartphone industry. Analysis of the smartphone industry shows an industry with plenty of innovation through research and development which also increases the entry costs and harden exit for the players. The industry has relatively fewer manufacturers but competition can be said to be falling between intense and low. The suppliers have generally a lower bargaining power except for the software suppliers like google. Manufacturers develop wide range of products targeting different market segments and in some cases phones with unique features are developed by various manufacturers. An analysis of the smartphone market shows that the market is approaching saturation in developed countries which also provide market for most of the smartphone sales but the developing countries like India and China have huge and fast growing markets. This makes the smartphone market growth remain high. A combination of these factors and competitive forces show that the smartphone market is of moderate intensity. With product differentiation and diversification, market segmentation for smartphone manufacturers can be an effective marketing strategy for competitive advantage.

6. References


