

# Five Competitive Forces: Threats from New Entrants/Substitutes (Local)

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**SUBJECT(S):** Management

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

## ≡ OVERVIEW:

In this lesson, the teacher will address a sub-element of the “five competitive forces” management theory: Threat New Entrants/Substitutes. Students will read “Vive la Difference: Using Hyper-Differentiation Strategies to Build Value and Boost Profits.” Students will then create a class SWOT analysis of the business described in the article to understand how a local company can compete with threats.

## ≡ NBEA STANDARD(S):

- Management, II. Management Theories

**Objectives/Purposes:** The purpose of this lesson is for students to comprehend elements of the Five Competitive Forces management theory, specifically in the context of business management/competition at the local level. Students will be able to make connections at scale, understanding the organizational dynamics of a local business operation.

**Knowledge@Wharton Article:** [“Vive la Difference: Using Hyper-Differentiation Strategies to Build Value and Boost Profits”](#)

**Other Resources/Materials:**

For Teachers:

1. Internet Access-if the teacher has internet and can project the screen to the class, this is fine.
2. Butcher paper
3. Markers

### Activity:

*Introduction (10 mins): Class discussion opener:*

The teacher should introduce the “Five Competitive Forces” management theory:

- Simply mention to students that there are five competitive forces in the theory, but that the focus of today is threats that arise from new entrants and substitutes. The full list of the five competitive forces includes:

1. Current Rivalry
2. Bargaining Power of Suppliers
3. Bargaining Power of Buyers
4. **Threat of New Entrants**
5. **Threat of Substitutes**

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.

Have students remember that every business starts somewhere and has 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 that they are familiar with and patronize often. Have the class brainstorm ways that small businesses can compete in light of threats.

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):*

Note: Teacher should project article on projector for students to read or if students have access to their own computers, they should visit the article at the link given below.

Now, have students read the Knowledge@Wharton article with a partner: [“Vive la Difference: Using Hyper-Differentiation Strategies to Build Value and Boost Profits”](#)

*Class Discussion (5 mins):*

As a whole class, answer the following questions based on the article.

1. How did Victory Brewery compete with larger breweries?
2. What is involved in the hyper-differentiation strategy?
3. How can companies employ it effectively?

*Exploration Activity (10 mins): Threats*

Have students get into groups. Each group should do a SWOT (Strengths, Weaknesses Opportunities, Threats) analysis based on the company in the article.

During a SWOT analysis, students analyze a business enterprise for its Strengths, Weaknesses, Opportunities and Threats. Have students record their analyses on butcher paper.

Have one group analyze the strengths of Victory Brewery based on the article. Have the second group analyze the weaknesses of Victory Brewery based on the article. Have the third group analyze the opportunities of Victory Brewery based on the article. Have the fourth group analyze the threats of Brewery based on evidence presented in the article.

Create a SWOT analysis chart on the board. Once students have analyzed the business in groups, they should present their findings to the rest of the class and add their information to the SWOT comprehensive class chart on the board. Once this is complete the class should be able to see a SWOT analysis of Victory Brewery on the board.

As a class, discuss how Victory's strengths and opportunities make the threats less threatening. Also discuss how Victory's uniqueness helps against threats from substitutes and new entrants. How is it possible that hyper-differentiation could limit the growth potential of Victory Brewery?

*Closing (5 mins):*

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

**Tying It All Together:** Threats of new entrants and substitutes are two elements of the “Five Competitive Forces” theory. The other three forces are: Current Rivalry, Bargaining Power of Suppliers, Bargaining Power of Buyers. In terms of an overall strategic view, now that students understand *new entrants and substitutes*, the teacher may wish to contextualize this function vis-à-vis the other three remaining forces. Each force can be analyzed at various levels of scale (small business/local, national, multi-national, non-profit, etc.), and at each level there is insight as to a variety of strategic approaches to business management in the face of market competition.

This lesson plan can stand alone or the teacher may wish to visit other Wharton Global Youth Program lesson plans that highlight the other “Competitive Forces.” Bear in mind that each force represents a unique element of competition and when the five are taken together, they collectively promote a comprehensive view of the dynamics of market competition as experienced in any specific context/market space.

The “Five Competitive Forces” are subsumed within the greater umbrella of Business Management, including but not limited to:

- Theories of Management
- Five Management Functions
- 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 can be called to think of ways a local business in their area could use hyper-differentiation to insulate them against threats.