

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

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 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 Things You Should Know About a British Exit from the European Union”](#)

**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 multinational business operation.

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

- [“Water wars: Multi-National Bargaining Power of Suppliers”](#) (Bargaining Power of Suppliers)
- [“What’s Ahead for the Global Economy in 2008? Reports from the Knowledge@Wharton Network”](#) (Current Rivalry)
- [“Wal-Mart, Posed for Expansion in China, Is Learning to be More Chinese”](#) (Threats from new entrants and substitutes)
- [“Social Marketing: How Companies Are Generating Value from Customer Input”](#) (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*

- 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.
1. Industry growth rate slows: Growth rates can be slow if customers do not develop a high demand for a product or service.
    - Examples include: PCs 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
  2. Demand falls: Less customers want the product (i.e., Private homes in the U.S., especially large 5+ bedroom homes).
  3. Product Price Descends: i.e., “Gas Wars” when local gas stations lower prices to compete with each other.
- 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 affects the buyer-seller relationship to the extent it is easy or difficult for new competitors can enter an industry.
  - 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 multinational level of business competition, teacher should explain to students that examples of new entrant threats at a multinational level could/would include threats across country lines inclusive of technology that facilitates competition across multinational contexts. For example:

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

1. A new (start-up) web-based company sells goods and services cheaper than the multinational company. (i.e., Napster creating a service where you could download Free music v.s. Columbus records from whom you would buy a \$15-20 dollar CD).
2. Another multinational company enters into your market to compete (i.e., Dasani Water Bottling company competing with Perrier Water, who was the first to offer bottled water in the U.S.).
3. A new local or national company competing with a multinational company (i.e., A new, local coffee shop competing with Starbucks).

Threats of Substitutes at the multinational level include the following examples:

1. A multinational clothing company offers a “Winter Extravaganza” SALE on jeans, that entices customers away from the Levi’s Jeans brand.
  2. Nike produces a new “ergonomic” shoe that competes directly with the ADIDAS brand shoe-line, as ADIDAS customers consider switching over to the new Nike shoe.
  3. Customers who decide to boycott a multi-national corporation who has engaged in child-labor, etc. in favor of a more naturalistic company’s product-line (i.e., A customer only buying things “made in America” or only buying “free-trade coffee, tea, or chocolate).
- 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 multinational level include the following:

1. World-wide recession: If the global economy retracts, customers will buy less goods and the lack of purchasing will cause the multinational business to court the buyer more (i.e., lowering prices, sales on goods, etc).
2. Increasingly, buyers around the world are able to communicate with each other and decide how they collectively want to do business with the multinational (i.e., Customers deciding to boycott shoes from Nike because of child labor abuses).

### *Guided Reading:*

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

### *Project Activity (30 min): Multinational Business Domain*

Each group will choose a multinational 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 multinational 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 multinational 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.

1. **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.
2. **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 multinational business may have certain levels/limits of resources, budget, etc.

*Group Reports/Discussion (20 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, multinational, nonprofit, 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 can be encouraged to analyze how Coca-Cola engages the five competitive forces.

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