

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

SUBMITTED BY: Mustafa Abdul-Jabbar, University of Pennsylvania

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 nonprofit 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 (Non-Profit), Five Competitive Forces-Bargaining Power of Suppliers (Non-Profit), Five Competitive Forces-Bargaining Power of Buyers (Non-Profit), and Five Competitive Forces-Threats from New Entrants and Substitutes (Non-Profit).

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 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:

- [“Nonprofits Are Changing the World – With a Little Help from the Next Generations”](#)
- [“Big Data and Your Future as a Data Scientist”](#)

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 nonprofit business operation.

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

- [“CHIP’s Katherina Rosqueta: ‘India and China Will Leapfrog Past the U.S. in Impact Investing’”](#) (Bargaining Power of Suppliers)
- [“Ready, Set, Go! Innovators Set the Pace in the Race for Faster Cures”](#) (Current Rivalry)
- [“MAC AIDS Fund’s Nancy Mahon: Tying the Cause to the Brand”](#) (Threats from New Entrants and Substitutes)
- [“Warm’ or ‘Competent’? What Happens When Consumers Stereotype Nonprofit and For-profit Firms”](#) (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: 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
 - **Demand falls:** Less customers want the product (i.e., Private homes in the U.S especially large 5-plus bedroom homes)
 - **Product Price Descends:** i.e., “Gas Wars” when local gas stations lower prices to compete with each other

2. Note: For the purpose of the assignments in this lesson plan, we will focus on the funder as the “supplier.”

Whereas in the for-profit world, the supplier is usually the company and the buyer is usually the customer, in the nonprofit world “suppliers” supply funds and donations to the nonprofits. In this light, students should brainstorm as a class a few ways in which nonprofit suppliers have increased bargaining power (i.e., a grantor who donates the greatest sum of money may have more influence on the non-profit’s activity/investments, donors pulling together collectively to create a larger donation). Put this list on the board.

Then have students brainstorm as a class ways in which the bargaining power of nonprofit suppliers could be decreased (i.e., donating less money). Juxtapose this list next to the first list generated on the board so that students can see forces that affect the bargaining power of suppliers at the nonprofit level.

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 nonprofit level of business competition, teacher should explain to students that examples of new entrant threats at the nonprofit level usually involve threats to funding sources.

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

1. A new nonprofit emerges that attracts funders away from your nonprofit cause.

Threats of Substitutes at the nonprofit level include the following:

1. Another nonprofit offers similar services/volunteerism as your nonprofit and attracts potential funders and volunteers away from your nonprofit cause.

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 nonprofit level include the following:

1. Political campaigns, while they are not nonprofits, operate very much like non-profits do in as much as they rely on donations in order to fund the campaign. Individuals or groups are able to use their dollars to contribute to a campaign that they agree with, by doing this, buyers can use their negotiating power through their dollars to influence a campaign and its ability to be continued.
2. In a business that relies primarily on donations (i.e., nonprofits) the buyer, or donor, can and often determines if the nonprofit continues to provide services. Therefore, the buyer has more leverage when establish conditions under which the money may be given to the non-profit. (i.e., Under a Bill and Malinda Gates Foundation Grant, a nonprofit must work within the rules and parameters outlined in the grant.)

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 nonprofit 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

- 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

- 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 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' ability. Remember the national 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 may notice how nonprofits compete for market share versus for-profit businesses. Students may note that nonprofits tend to use different

strategies than for-profit businesses.

☺