

Substitution as a Competitive Force

SUBMITTED BY: Knowledge@Wharton Summer Educator

SUBJECT(S): Management

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

≡ OVERVIEW:

Students will learn about economist Michael Porter's framework for analyzing business growth potential, known as: The Five Competitive Forces, and apply this knowledge (in particular, about substitution) in developing a growth strategy for a local business, product or service.

≡ NBEA STANDARD(S):

- Management, II. Management Theories

Common Core Standard(s):

- *Reading Standards for Informational Text:* Cite strong and thorough textual evidence to support the analysis of what the text says explicitly as well as inferences drawn from the text.
- *Speaking & Listening:* Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9–10–11–12 topics, texts and issues, building on others' ideas and expressing their own clearly and persuasively.

Objectives/Purposes:

- Students will learn about the “substitutes” aspect of Porter’s model in the context of a chocolatier’s expansion interests in the Chinese market.
- Students will explore the “substitutes” element of Porter’s model in reference to their own projects.

Knowledge@Wharton Articles:

- “The Bitter and the Sweet: How Five Companies Competed to Bring Chocolate to China”
- “What’s Behind the 4-Minute Mile, Starbucks and the Moon Landing? The Power of Impossible Thinking”

Other Resources/Materials:

- Background information on Porter’s Five Forces framework on Wikipedia:
http://en.wikipedia.org/wiki/Porter_five_forces_analysis
- Porter’s Five Forces Worksheet
- Porter’s Five Forces PowerPoint

Activities:

- 1) Recap with students your discussion about Porter’s Five Forces model thus far. Use the graphic provided on Wikipedia (or the PPT slides I created) to give students a visual representation of the five forces, and emphasize that today’s lesson will focus on yet another element of the framework: **Substitutes**. (2 mins)
- 2) Before exploring the last element of Porter’s model — substitutes — discuss the article: “What’s Behind the 4-Minute Mile, Starbucks, and the Moon Landing? The Power of Impossible Thinking,” with the students. There are a number of insightful recommendations presented in this article that might prime students to do the kind of thinking needed to explore the issue of substitutes. (10 mins)
- 3) Using the example of the chocolatiers’ attempts to take advantage of the new Chinese market, get students to discuss the threat of substitutes emerging to further complicate expansion efforts. First, share the definition of what a substitute is. (10 mins)

a. Definition: In Porter's model, the term **substitutes** refers to a product that accomplishes the same function as the one your industry offers. In this case, we need to think about what "need" chocolate fills in the lives of the Chinese people in order to speculate about substitutes.

b. An example of a substitute is Travelocity, an online, self-service travel service replacing the need for airline ticket agents to service customers.

c. Questions to consider (record on an overhead slide):

i. *Given that chocolate is a very new commodity in China, where might substitutes come from?*

ii. *Is there another food or experience that could rival whatever chocolate offers the Chinese?*

How could we investigate what void chocolate fills in the lives of Chinese people?

4) After discussing substitutes in relation to the article, direct students to work with their partners to determine a list of potential **substitutes** they should take into account in the business, product, or service for which they are strategizing. (If computers and the Internet are available in the classroom, permit students to do research using these resources. Have students record their work on the Five Forces Worksheet provided. (10 mins)

a. Guiding questions:

i. What other product or service could fulfill the need that your product, business, or service currently offers?

ii. Is your product vulnerable to some type of technological innovation or is it something that is served best through human contact?

iii. If you are aware of a substitution threat, can you think of ways to sidestep it in advance?

5) Have each pair of students share their list of **substitutes** with the whole class, with the invitation for others to offer additional suggestions or critiques to what the team came up with. (10 mins)

6) Wrap up the discussion by underscoring any notable comments made during the sharing period and clarifying any points students misunderstood. Inform students that the next class meeting will focus on pulling together all the pieces of their investigation. They should work with their partners to make any adjustments to their thinking as a result of the feedback they might have received over the course of the information sharing sessions. In the final segment of this unit, the students will have to organize their information for a quick 5-minute presentation about their competitiveness in their industry.

Tying It All Together: This exercise represents the final component of Porter's Five Forces Analysis. Now that students have explored each of the forces, they can begin to draft a

statement regarding the competitiveness (weak or strong) of their business, product or service. There is a space for them to do this on the worksheet, which you can collect and grade.

Give each student group 5-7 minutes in the next class to present their analysis and recommendations for the product or service they analyzed. The students should work on their presentation for homework. Depending on the resources available, have students create a PowerPoint or poster board of their analysis.

Practice Outside of the Classroom: Have students consult with their family and friends at home regarding ideas for substitutes pertaining to their project.

What Worked and What I Would Do Differently: Two notions about substitutes that should be emphasized are: 1) substitutes also include choosing not to buy a product or service (e.g., in a downturned economy, people spend less on non-essential items), and 2) acquiring things secondhand (e.g., at E-bay, Amazon.com, thrift and consignment stores) is also a form of substitution.

5