Industry Competition Analysis Using Porter's Five Forces

Posted on December 5, 2023

View this essay online:
https://academic-master.com/industry-competition-analysis-using-porter-s-five-forces/

Porter's Five Forces and the Structure of Industry Competition

The Porter Five Forces Model is used for industry analysis and business strategy formulation. It examines the different elements that contribute to the attractiveness, competitiveness, and profitability of a given industry. The model helps businesses understand the dynamics within a certain market and identify the pressures that may affect long-term performance. To foresee and manage future competition, it is necessary to understand the industry's structure, competitive forces, and profit potential. Porter's Five Forces is therefore a useful framework because it helps companies evaluate not only direct competitors but also the wider forces that shape business success.

The five forces in Porter's model include the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products or services, and rivalry among existing competitors. Each of these forces affects how much value companies can create and how much profit they can keep. When these forces are strong, profitability becomes more difficult because companies face pressure from customers, suppliers, competitors, substitutes, or new firms entering the industry. When the forces are weak, companies may have more room to increase prices, protect market share, and earn higher returns.

The corporations in Group 2 are the primary focus of this Porter Five Forces analysis. Verizon, AT&T, and T-Mobile are examples of companies operating in the U.S. cellular industry. These companies operate in an oligopoly market structure because a small number of large firms dominate the industry. In an oligopoly, a few major companies control a large share of the market, and their pricing, service quality, network coverage, and promotional strategies strongly influence the entire industry. The U.S. wireless market is highly concentrated because large companies require massive investment in spectrum, towers, technology, infrastructure, retail networks, and customer service systems.

Earlier, Sprint was also one of the major wireless carriers in the United States. However, Sprint merged with T-Mobile, which reduced the number of major nationwide wireless competitors. Therefore, Verizon's main competitors today are AT&T and T-Mobile. The oligopoly structure affects competition because these firms closely monitor one another's prices, network investments, customer

plans, and promotional offers. A pricing decision by one company can influence the strategic response of the others. This makes the industry competitive but also different from a market with many small sellers.

Market Entry and Barriers in the Wireless Industry

Additionally, firms in an oligopoly can influence the prices of products and services. Since only a few companies control a major portion of the market, they have some ability to shape pricing trends. However, this does not mean that they can charge any price they want. Customers can switch providers, compare plans, and choose alternative services, which limits pricing power. At the same time, companies may try to avoid price wars because aggressive price-cutting can reduce profits for all major competitors. Therefore, oligopoly markets often involve a balance between competition and strategic caution. Dzhabarova et al. (2020) explain that oligopoly markets are shaped by market equilibrium, stability, and the strategic behavior of firms.

The first force in Porter's model is the threat of new entrants. Based on Porter's Five Forces, new entrants pose a threat to Verizon because they can increase production capacity, introduce new services, create pricing pressure, and attract customers away from existing firms. If a new company enters the wireless industry and offers low prices or innovative services, existing firms may be forced to lower their prices or improve their service packages. Unless demand increases at the same rate, additional capacity may hold consumer costs down and result in lower returns for Verizon.

However, the threat of new entrants in the U.S. wireless industry is relatively low because entry barriers are very high. A new company would need enormous financial resources to compete with Verizon, AT&T, and T-Mobile. The company would need to buy spectrum licenses, build or lease network infrastructure, invest in 5G technology, develop customer service operations, advertise nationally, and comply with government regulations. These requirements make it difficult for small companies to enter the market successfully. Even if a new entrant appears, it may struggle to compete with established firms that already have strong brand recognition and large customer bases.

Nevertheless, new entrants can still create indirect pressure. For example, mobile virtual network operators, also known as MVNOs, do not always own their own networks but use the networks of larger companies to provide wireless services. These smaller carriers may offer cheaper plans and attract price-sensitive customers. While they may not threaten Verizon's entire market position, they can influence customer expectations and increase pressure on pricing. Therefore, Verizon must remain aware of both direct and indirect new entrants.

Buyer Power and Customer Choice

The second force is the bargaining power of buyers. Buyers are the customers who purchase wireless services, data plans, devices, and related products. If buyers have more purchasing power in the

industry, there is a higher chance that they will force the prices of goods and services to go down, creating a lower profit margin for Verizon. Buyer power is stronger when customers have many alternatives, when switching costs are low, and when customers can easily compare prices and service quality.

In the wireless industry, buyer power is moderate to high. Customers can compare plans from Verizon, AT&T, T-Mobile, and smaller carriers. They can also switch providers when they find better prices, stronger coverage, or more attractive promotions. Many customers are sensitive to monthly costs because wireless service is a recurring expense. Family plans, unlimited data plans, device financing, streaming bundles, and promotional discounts all influence buyer decisions. If customers believe Verizon's prices are too high, they may move to another provider.

Buyer power also increases because wireless services are becoming more standardized. Many providers offer similar products, such as unlimited talk, text, and data. When products appear similar, customers may focus more on price, coverage, and additional benefits. Verizon must therefore differentiate itself through network reliability, customer service, premium plans, business services, 5G coverage, and bundled products. If Verizon cannot clearly show why its service is worth the price, buyers may pressure the company by switching to competitors.

Supplier Power and Corporate Negotiation

The third force is the bargaining power of suppliers. Suppliers provide the inputs that companies need to operate. In the wireless industry, suppliers may include network equipment manufacturers, device makers, software providers, tower companies, infrastructure contractors, technology vendors, and spectrum-related service providers. Verizon has a tougher time turning a profit when suppliers in the sector have more power because suppliers may impose stronger contractual conditions, increase prices, or reduce quality.

Suppliers can exert pressure on rival businesses by increasing pricing and decreasing quality. If Verizon cannot pass the increase in supply costs to customers, the company's profitability may suffer. For example, if network equipment becomes more expensive, Verizon may need to spend more on infrastructure upgrades. If smartphone manufacturers increase prices, customers may become less willing to buy new devices or may demand better financing options. Similarly, if tower companies or technology vendors charge higher fees, Verizon's operating costs may increase.

However, Verizon's size gives it some negotiating power. Because Verizon is one of the largest wireless providers, suppliers are often motivated to maintain business relationships with the company. Large firms can negotiate better terms because they purchase equipment and services at a very large scale. This can reduce supplier power to some extent. Still, some suppliers may remain powerful if they provide specialized technology, essential infrastructure, or products that are difficult to replace. Therefore, supplier power is not extremely high, but it remains an important factor in

Verizon’s strategy.

Substitute Services and Technological Change

The fourth force is the threat of substitutes. Substitute products or services reduce the profit margins available to businesses operating in a given market. The difficulty of earning a profit increases when the price-performance alternative provided by substitutes becomes more attractive. In the wireless industry, substitutes may include internet-based communication platforms, Wi-Fi calling, messaging applications, video conferencing services, fixed wireless access, fiber internet, cable internet, and other digital communication tools.

Substitutes are important because customers do not always need traditional cellular service for every form of communication. People can use applications such as WhatsApp, Zoom, FaceTime, Google Meet, or other internet-based services to communicate. If customers rely more on Wi-Fi and internet-based communication, they may reduce their dependence on traditional mobile voice or text services. This can pressure wireless providers to offer better data plans, stronger internet services, and bundled packages.

However, wireless service remains difficult to fully replace because mobile connectivity is essential in daily life. Customers need cellular networks for mobility, emergency communication, navigation, business activities, social communication, and internet access outside the home. Therefore, substitutes may reduce some parts of Verizon’s profitability, but they do not completely eliminate the need for wireless service. The threat of substitutes is moderate because alternatives exist, but they often depend on internet access that may still be provided by telecom companies.

Competitive Rivalry and Verizon’s Strategic Position

The fifth force is rivalry among existing competitors. This is one of the strongest forces affecting Verizon. The U.S. wireless industry is highly competitive because Verizon, AT&T, and T-Mobile all compete for customers, network leadership, pricing advantages, and brand reputation. Rivalry is intense because these companies offer similar services and target many of the same customers. They compete through pricing plans, device promotions, network coverage, 5G speed, customer service, and bundled entertainment or internet services.

Rivalry among existing competitors can reduce profitability because companies may spend heavily on advertising, promotions, discounts, and infrastructure. If one carrier lowers prices or introduces a major promotion, others may respond with similar offers. This can create pressure on profit margins. Verizon must therefore maintain a strong competitive position by investing in network quality, customer retention, and service innovation. The company cannot rely only on its brand name because

customers have alternatives.

Verizon's strength lies in its established network, brand reputation, and large customer base. However, the company must continue to innovate because competitors are also improving their services. T-Mobile has become especially competitive in 5G and pricing, while AT&T remains a strong player in wireless and business communications. This makes the market dynamic and forces Verizon to adapt continuously. The company must offer reliable service, attractive plans, and strong customer value to remain competitive.

Industry Profitability and the Value of Five Forces Analysis

Porter's Five Forces analysis shows that Verizon operates in a challenging but profitable industry. The threat of new entrants is low because of high barriers to entry, but indirect entrants and smaller carriers still create pressure. Buyer power is moderate to high because customers can compare plans and switch providers. Supplier power is moderate because Verizon is large but still depends on specialized technology and infrastructure providers. The threat of substitutes is moderate because digital communication alternatives exist, but mobile connectivity remains essential. Rivalry among existing competitors is high because Verizon, AT&T, and T-Mobile compete strongly for market share.

In conclusion, Porter's Five Forces is an effective framework for analyzing Verizon and the U.S. wireless industry. The model helps explain how industry structure, customer behavior, supplier influence, substitutes, new entrants, and rivalry shape Verizon's strategy and profitability. Verizon operates in an oligopoly market where a few large companies dominate, but this does not eliminate competition. Instead, competition remains strong because customers can switch providers and rivals constantly improve pricing, coverage, and technology. To maintain its position, Verizon must continue investing in network quality, customer satisfaction, innovation, and strategic pricing. The Five Forces analysis shows that Verizon's long-term success depends on its ability to manage competitive pressures while creating value for customers.

References

Dzhabarova, Y., Kabaivanov, S., Ruseva, M., & Zlatanov, B. (2020). Existence, uniqueness and stability of market equilibrium in oligopoly markets. *Administrative Sciences, 10*(3), 70.

Isabelle, D., Horak, K., McKinnon, S., & Palumbo, C. (2020). Is Porter's Five Forces Framework still relevant? A study of the capital/labour intensity continuum via mining and IT industries. *Technology Innovation Management Review, 10*(6).

Madsen, D. Ø., & Grønseth, B. O. (2022). Five forces model. In *Encyclopedia of Tourism Management and Marketing*.

Porter, M. E. (1979). How competitive forces shape strategy. *Harvard Business Review*.