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APPLICATION OF PORTER'S FIVE FORCES OF COMPETITION TO LIBRARIES

Dr. Chipo Mutongi[1]

[1]Part Time Lecturer,
Zimbabwe Open University,
Harare, Zimbabwe

ABSTRACT

Information is the glue that binds everything together and needs to be strategically planned for, in order to meet the environmental changes and competition. This turbulent and changing environment calls for strategists in the information profession who would strategically position libraries and information centres in this world of information society and information superhighway. Competitive advantage would not be effectively achieved if Porter's five forces of competition are ignored. This can also apply in the management of libraries. This document applies Porter's five forces of competition to libraries.

KEY WORDS: *Porter's five forces, libraries, competition, competitive advantage, information, Information products and service, information centres.*

1. INTRODUCTION

Poor firms ignore their competitors, average firms copy their competitors and winning firms lead their competitors (Kotler, 2005:241). Porter's five forces are potential entries, bargaining power of suppliers, substitutes, bargaining power of buyers and rivalry among established firms. Saloner et al (2011:21) posit that since the firm faces actual or potential competitors, it must have a compelling reason to expect that it will be able to compete effectively against them. It is more important to do what is strategically right than what is immediately profitable" (Kotler, 2005:89). Libraries like any other business sector are associated with so many suppliers, competitors, suppliers, buyers, substitutes and new entries hence the need to apply Porter's five forces in their library management.

2. PURPOSE OF THE ARTICLE

The purpose of the article is to show the application of Porters' forces forces to library services which fall under the information industry.

3. PORTERS' FIVE FORCES

The five forces approach to competition are as follows:

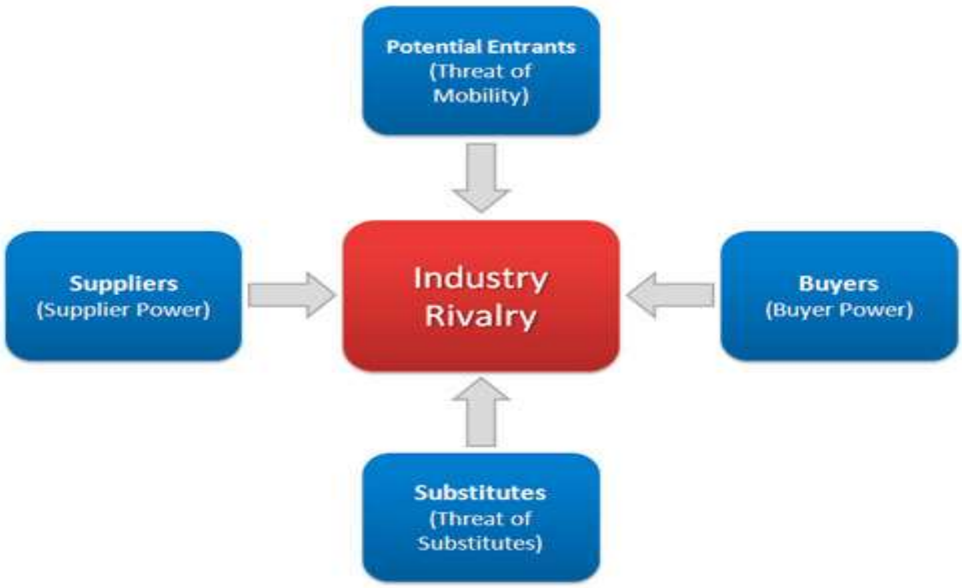

Figure 1: Porter's Five Forces

3.1 The Intensity of Rivalry Among Existing Firms

Rivalry refers to the competitive struggle between companies in industry to gain market share from each other (Hill and Jones, 2005:43). The competitive struggle can be fought using price, product design, advertising and promotion spending, direct selling and after sales services. Take for example a student who just graduated, there is need for an after sales services to that student. Through our library database, we can locate the client and lure them again to our library for their further studies and even for their lifelong learning. Thompson et al (2005) avers that the intensity of rivalry among established companies within an industry is a function of usually the following:

- industry competitive structure,
- demand conditions,
- the height of exit barriers in the industry and competitors become more equal in size and capability and
- price cutting becomes common as rivalry among competing firms intensifies, industry profits decline.

A, Industry growth

If growth of the industry as whole is rapid, each firm will be trying to employ strategies that would make the company stand the competition which include low prices. There is industrial growth in the information industry because of information exposition.

B, High fixed costs or storage costs, if there are high, failure to maintain the volume of sales may cause a dramatic increase in costs and loss of profits. As a result, firms will be concerned at maintaining the volume of sales and will tend to cut prices if they feel there is any danger of reducing sales volume.

C, Product differences, brand identity and switching costs for customers

If an industry's products are identical and there is no brand identity and customers can change from one supplier to another without worrying incurring costs, then customers will be very highly elastic as in perfect competition. A firm that charges a low price will gain customers very substantially and a firm that charges a high price will lose heavily. In this situation rivalry will tend to be intense. In the library sector, the products and services have different categories and prices.

D, Intermittent over-capacity

If an industry experiences periods of over-capacity, either because information needs fluctuates or because economies of scale require that additions to capacity are very large, rivalry will tend to become more intense. In the information industry volatile demand often causes over capacity.

E, Corporate stakes

Rivalry will tend to be more intense if success in the industry is of particular importance for the firm involved, either because of its potential contribution to their profits or because it has some strategic value to them.

F, High exist barriers

If leaving the industry entails incurring high costs then firms will be anxious to remain in the industry and rivalry will remain in that industry. The costs like redundancy payments or the loss in value of highly specialised assets, but may also include psychic costs like executors unwillingness to abandon the business, or loss of good will from government if unemployment is caused.

3.2 The threat of new entry

The importance is determined by the height of "barriers to entry" (Davies: 2001: 224). If entry barriers are very high, the existing firms in the industry do not need to concern themselves with the possibility that high prices and profits may attract competition from new entrants.

A, Economies of scale

If there are substantial; economies of scale, a firm that is considering entering the industry must either build a large market share immediately in order achieve the scale required to keep cost down, or suffer higher costs than the incumbent firms. As a result, scale economies are a key source of entry barriers.

B, Product differentiation and brand loyalty

If existing firms have successfully developed buyer loyalty to their products, a new entrant may have to make expensive and risk investments in advertising and promotion in order to overcome that loyalty. If entry should fail, those investments become worthless. In the information industry, product differentiation can be achieved in the pricing strategies as well as the convenience of selling. Some companies would reach the buyers directly. The threat of new entry is low due to government regulations and demand interventions.

C, Capital requirements

In some industries, very large amounts of capital have to be acquired if entry is to take place. There are high investment requirements in order to acquire the library equipment and machinery, legal and certification requirements that would be used to mine the information in information forest. As a result of these high investments requirements the threat of entry is low in libraries.

D, Switching costs for buyers

If customers have to face additional costs in switching from one supplier to another, they will be unwilling to change suppliers and it will be difficult for a new entrant to be successful, without a heavy investment to help customers overcome these switching costs. In the information industry, switching costs are not significant, they are very low.

E, Access to distribution channels

A new entrant must establish its own distribution channels, persuading whole sellers and retailers to stock and display its products alongside products of existing forms. If the incumbent firms have well established relationships with the distribution channels, it may be difficult or expensive for the information industry.

F, Absolute cost advantage

The incumbent firms can have lower cost as than entrants to the extent of always have the ability to cut their prices to a level at which new entrants cannot survive. In the information industry existing firms have access to inputs on favourable terms, for example favourable location and equipment and experience.

L, Government policy

In some industries, in some countries, government policy sets up barriers to entry. At the extreme these involve industrial licensing, where a firm has to have government permission before setting up in an industry. In the information industry barriers exists through, legislation for example, Censorship, Copyright and Neighbouring rights, NLDS, Printed Publications Act, Access to Information and Protection of Privacy Act, Public Order and Security Act.

3.3 The threat of substitutes

If substitutes are available, for the industry's products, customers will be able to switch to those substitutes if the existing firms attempt to charge high prices. Substitutes are products of different businesses or industries that can satisfy similar customer needs (Hill and Jones, 2005:49). For example, companies in the coffee industry compete indirectly with those in the soft drink industries because all are in the same industry of alcoholic drinks. Paraffin can be a substitute of electricity. Substitutes limit the price that companies can charge for their product. Substitutes want to gain immediate attention by entering the market with very low prices, for example, peanut butter versus cooking oil. The threat of substitutes to libraries includes the internet. The threat of substitutes is very high given the increased use of the internet by people even through their smart phones and the existence of Wi-fi.

A, The relative price and performance of substitutes

If the substitutes are available which offer similar performance, then the threat of substitution is very strong. On the other hand if substitutes are more expensive and offer inferior performance, the threat is much weaker.

B, Switching costs for customers

This factor has been referred to above as a source of entry barriers, and it also determines the threat of substitutes. In the case of information industry, customers would incur little costs in switching from one supplier of information to another.

3.4 The power of buyers

An industry's buyers may be the individual customers who ultimately consume its products or services or the company that distribute an industry's products to end users, such as retailers and wholesalers (Hill and Jones, 2005:47). An example of the buyers in libraries and information centres are the users. The bargaining power of buyers refers to the ability of buyers to bargaining down prices charged by companies in the industry or to raise the costs of companies in the industry by demanding better product quality and service. By lowering prices and raising costs, powerful buyers can squeeze profits out of industry. Thus, powerful buyers should be viewed as a threat. According to Porter (1980:35), buyers are most powerful in the following circumstances when:

- the buyers purchase in large quantities. In such circumstances, buyers can use their purchasing power as leverage to bargain for price reductions,
- the switching costs are low so that buyers can play off the supplying companies against each other to force down prices,
- it is economically feasible for buyers to purchase at once so that buyers can play off one company in the industry against another,
- buyers can threaten to enter the industry and produce the product themselves and thus supply their own needs.

3.5 The power of suppliers

Suppliers are the organisations that provide inputs into the industry such as materials, services and labour which may be individuals, labour, organisations, labour unions or companies that supply contract labour (Hill and Jones, 2005:48). An example of suppliers in library and information centres is book and Information and Communication Technology hardware and software sellers. The bargaining power of suppliers refers to the ability of suppliers to raise input prices or to raise the costs of industry for example, by providing poor quality inputs or services. Powerful suppliers squeeze profits out of an industry by raising the costs of companies in the industry. Thus, powerful suppliers are a threat. According to Porter (1980:36), suppliers are most powerful in these situations:

- the product that suppliers sell has few substitutes and is vital to the companies in an industry,
- the profitability of suppliers is most significantly affected by the purchases of companies in a particular industry, in other words, when the industry is not an important customer to the suppliers and
- suppliers can threaten to enter their customers industry and use their customers' industry and use their inputs to produce products that would compete directly with those of companies already in the industry.

This is determined by the following factors:

A, Differentiation of input

If firms in an industry, are dependent upon the particular variants of an input produced by individual suppliers, those suppliers will be relatively powerful.

B, Availability of substitute inputs

If substitutes input are available, supplier power will be reduced. In the information industry production, the use of substitute inputs would require a completely new technique of production, involving very high levels of investment in new information products and services.

C, Supplier concentration

Higher levels of concentration among suppliers will tend to enhance their power, particular if suppliers of the major inputs to libraries are very highly concentrated.

D, The importance of volume to suppliers

If suppliers are dependent for their survival or profit on maintaining large volume of sales, they will tend to have more limited bargaining power

E, The threat of forward integration by suppliers

In this case, suppliers of information products and service might want to enter the mining industry using their products and instead of selling them.

4. CONCLUSION

Porters' five forces can be used in every industry even the information industry and libraries per se. Libraries have to be aware of rivalries, substitute, threat of new entries, bargaining power of suppliers and bargaining power of buyers in order to effectively plan and competitively compete.

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Bio Data

Dr. Chipo Mutongi: A part time lecturer at the Zimbabwe Open University (ZOU) with more than ten years lecturing experience and Research Supervisor for all levels of education. PhD/DPhil research thesis supervisor/ under study (2014-2015-ZOU); member of the International Board of Reviewers for the International Journal of Doctoral Studies (IJDS); Journal Reviewer-Journal of Information and Knowledge Management (JIKM); published over thirty articles in International Journals; DCIZ board member (2015), published more than ten modules with Zimbabwe Open University (ZOU); is in the process of writing books in Knowledge Management and Information Policy and is co-authoring a book entitled: International Politics Corporation and Integration: Problems Facing Modern Day Africa; An Acting Talent Development Officer in the City of Harare, worked as a Librarian at the City of Harare with more than eleven years experience in library, information and knowledge management; attained the highest and most prestigious degree of Doctor of Philosophy in Information and Knowledge Management (ZOU); Master of Science in Library and Information Science (NUST); the more professional degree of Master of Business Administration (ZOU); Media Studies Degree (ZOU); Higher National Diploma in Library and Information Science (Harare Polytechnic); Diploma in Library and Information Science (Bulawayo Polytechnic); Diploma in Education (UZ); Diploma in Personnel Management (IPMZ); Diploma in Salaries Administration (Stallone Consultancy); Certificate in Desk Top Publishing (CCOSA); Certificate in Web Designing (People's College); Certificate in Computer Repairs (People's College).