BUS.AL5 Porter's Five Forces and Competitive Strategy

AQA 7132 · Calculators not allowed · about 50 minutes

Total Marks

Name: ________________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Use full sentences for the longer 'apply' and 'assess/recommend' questions. Show working where appropriate. The SuperShop case details given in several prompts are fictional and provided for use in applied questions.

1 Identify the Porter's Five Force described as 'the threat posed by rival firms currently competing in the same market for the same customers'. Apply this to a supermarket market.

- ☐ A) Threat of new entrants
- ☐ B) Bargaining power of suppliers
- ☐ C) Competitive rivalry
- ☐ D) Threat of substitutes

(Total for Question 1 is 1 mark)

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2 Define the Porter's Five Force 'threat of new entrants' and give one brief example relevant to UK supermarkets.

(Total for Question 2 is 2 marks)

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3 Identify one way in which buyers in a supermarket market can exercise strong bargaining power.

(Total for Question 3 is 1 mark)

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4 Identify one example of supplier power that could affect prices at UK supermarkets.

(Total for Question 4 is 1 mark)

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5 Identify one example of a substitute that could reduce demand for supermarket grocery purchases in the UK.

(Total for Question 5 is 1 mark)

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6 SuperShop is a fictional UK supermarket chain with moderate market share, strong private-label lines, and recent investment in online ordering. State two barriers to entry that help protect SuperShop from new local competitors.

(Total for Question 6 is 2 marks)

7 Explain one way SuperShop's investment in online ordering could reduce the bargaining power of buyers in its local market.

(Total for Question 7 is 3 marks)

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8 Explain one way SuperShop's strong private-label ranges could reduce the bargaining power of suppliers.

(Total for Question 8 is 3 marks)

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9 Identify one reason why the threat of new entrants into the supermarket market might be low even if barriers are moderate, using the SuperShop context.

(Total for Question 9 is 1 mark)

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10 Identify one strategic action a supermarket could take to respond to strong competitive rivalry in its market.

(Total for Question 10 is 1 mark)

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11 Identify one substitute to supermarket shopping that is strengthened by digital technology.

(Total for Question 11 is 1 mark)

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12 Identify one factor that increases supplier bargaining power in a supermarket supply chain.

(Total for Question 12 is 1 mark)

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13 Identify one way intense price rivalry between supermarkets could affect SuperShop's long term strategy.

(Total for Question 13 is 1 mark)

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14 Identify which Porter's Five Force is most directly concerned when customers can easily switch to online meal-kit subscriptions, and explain the choice in one line.

(Total for Question 14 is 1 mark)

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15 Assess the competitive pressures facing SuperShop in the UK supermarket market, using Porter's Five Forces and the case details given about SuperShop (moderate market share, strong private-label lines, recent investment in online ordering). Recommend which generic strategy, cost leadership or differentiation, SuperShop should prioritise. Make a clear, supported judgement.

(Total for Question 15 is 16 marks)

Mark scheme · BUS.AL5 Porter's Five Forces and Competitive Strategy

Question 1

- **B1** C cao
- **Answer: C**

Question 2

- **B1** definition: factors that determine how easily new firms can start competing in a market
- **B1** an example such as high set-up costs for stores and distribution, or strong brand loyalty
- **Answer: The threat of new entrants is how easily new firms can enter and compete in a market, for example high set-up costs for store networks and distribution that deter new supermarket chains.**

Question 3

- **B1** identifies a valid example such as buyers switching supermarkets to get lower prices or better promotions
- **Answer: Buyers can switch to rival supermarkets that offer lower prices or better promotions.**

Question 4

- **B1** identifies a valid example such as a major supplier increasing wholesale prices or restricting supply
- **Answer: A major food supplier increasing wholesale prices or restricting deliveries to supermarkets.**

Question 5

- **B1** identifies a valid substitute such as meal-kit delivery services, takeaway meal apps, or local convenience stores
- **Answer: Online meal-kit delivery services that let customers avoid supermarket grocery shopping.**

Question 6

- **B1** high initial capital costs for stores and distribution networks
- **B1** brand loyalty and established private-label lines reducing customers willingness to switch
- **Answer: High initial capital costs for stores and distribution networks; and brand loyalty supported by SuperShop's strong private-label range.**

Question 7

- **B1** identifies a way, e.g. online ordering increases convenience and loyalty
- **B1** develops the point, e.g. customers may value delivery slots or loyalty points and be less willing to switch stores
- **B1** links to outcome, e.g. this weakens buyer bargaining power because buyers have higher switching costs or prefer SuperShop services
- **Answer: Online ordering increases convenience and loyalty, for example through delivery slots and loyalty benefits, so customers face higher switching costs and are less likely to shop elsewhere, reducing their bargaining power.**

Question 8

- **B1** identifies a way, e.g. private-label reduces dependence on major branded suppliers
- **B1** develops the point, e.g. SuperShop can switch to its own branded products if a branded supplier raises prices
- **B1** links to outcome, e.g. this weakens supplier power because suppliers fear losing volume to SuperShop own-label alternatives
- **Answer: Private-label ranges reduce dependence on branded suppliers, since SuperShop can substitute its own products if a supplier raises prices, which weakens supplier bargaining power by threatening suppliers with lost volume.**

Question 9

- **B1** identifies a reason such as incumbent scale economies or access to prime store locations making entry unattractive
- **Answer: Incumbent scale economies and difficulty accessing prime store locations make market entry unattractive despite moderate barriers.**

Question 10

- **B1** identifies a valid action such as price competition, loyalty schemes, cost reduction, or differentiation of services
- **Answer: Introduce or enhance a loyalty scheme to retain customers and reduce the impact of price-led rivalry.**

Question 11

- **B1** identifies a substitute such as online meal-kit services or food delivery apps
- **Answer: Online meal-kit services delivered to the home, enabled by digital ordering platforms.**

Question 12

- **B1** identifies factor such as few alternative suppliers, supplier concentration, or uniqueness of product
- **Answer: Supplier concentration, where a small number of large suppliers control key products, increases supplier bargaining power.**

Question 13

- **B1** identifies an effect such as shifting strategy towards cost leadership, margin reduction, or focus on efficiency
- **Answer: SuperShop may pursue a cost leadership strategy to protect margins by reducing costs and competing on price over the long term.**

Question 14

- **B1** identifies threat of substitutes and links it to meal-kits being an alternative to supermarket shopping
- **Answer: Threat of substitutes, since online meal-kit subscriptions offer a different solution that reduces demand for supermarket grocery shopping.**

Question 15

- **Level 1** (1-4): Makes general, undeveloped statements about competitive pressures or strategy with little use of SuperShop facts and no clear judgement.
- **Level 2** (5-8): Identifies relevant forces and offers some application to SuperShop, with limited analysis and a tentative recommendation.
- **Level 3** (9-12): Analyses several of Porter's forces applied to SuperShop using the case details, discusses implications for competition and gives a reasoned recommendation.
- **Level 4** (13-16): Provides a sustained, balanced analysis of all five forces applied to SuperShop, considers strategic options and trade offs, and reaches a well supported, justified recommendation linking evidence to implications.
- **Indicative content:**
  - Competitive rivalry: existing supermarkets compete on price, range and convenience; SuperShop faces strong rivalry because of many national and local competitors, so margins may be under pressure.
  - Buyer power: customers can easily switch between supermarkets and online options; SuperShop's online ordering and loyalty schemes can reduce buyer power by increasing switching costs.
  - Supplier power: SuperShop's strong private-label ranges reduce dependence on large branded suppliers and weaken supplier power; however, some suppliers may still be concentrated and able to push up wholesale prices.
  - Threat of new entrants: barriers such as capital costs, distribution networks and brand loyalty reduce the threat, helping SuperShop maintain market position despite only moderate market share.
  - Threat of substitutes: online meal-kits and food delivery apps are realistic substitutes that digital adoption strengthens; SuperShop's investment in online ordering helps it counter this threat.
  - Implications for strategy: cost leadership is appropriate where price rivalry is intense and margins need protecting, and SuperShop's private-label strength and scale economies support cost-based approaches; differentiation is appropriate where added services, convenience and unique products reduce price sensitivity and create loyalty, and SuperShop's online capability offers routes to differentiate.
  - Recommendation and judgement: a combined strategic emphasis may be best, but a clear priority should be stated and justified, for example prioritise differentiation through superior online convenience, targeted private-label premium ranges and loyalty benefits if SuperShop believes customers value service and convenience, or prioritise cost leadership and further private-label expansion if immediate margin protection is essential given local price competition.
  - Consider trade offs: differentiation may require investment and risk of low uptake; cost leadership may erode perceived quality and make SuperShop vulnerable to suppliers if price competition intensifies.