

Relevance of Porter's Five Forces: A Case Study of RB Patel in Fiji

Shivneet Vikash Chand

Department of Banking & Finance of School of Economics and Finance, Fiji National University, Namaka, Fiji

Email: vikashchand865@gmail.com, shivneet.chand@fnu.ac.fj

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Abstract

The Porter Five Forces Analysis is a framework for evaluating the degree of industry competitiveness and the creation of corporate strategies. It derives five forces from organization that control the level of competition and a market's attractiveness. It was found that fierce competition is a major worry for RB Patel. Threats from new entrants are posed by the lack of patents, low switching costs for buyers, and straightforward wholesale distribution networks for suppliers. Hence, there is presence of heated price competition between RB Patel and other supermarkets. Overall, the paper provides a literature review on Porter's Five Forces. Further, the paper provides an analysis of porters five forces including: the threat of new entrants to the retail industry, the threat of substitutes, powers of both buyers and suppliers to highlight the intensity of rivalry between competitors in the retail (supermarket) industry.

Keywords

Porter's Five Forces, Competition, Substitutes, Bargaining Power of Buyers and Suppliers, RB Patel in Fiji

1. Introduction

A generation of academics and managers' thinking was influenced by Michael Porter's publication of Competitive Strategy in 1980 (Magretta, 2012). Porter's definition of the "five forces" that determine the structure of all industries and, in large part, establish the rules of competition and the fundamental drivers of profitability within an industry was included in that foundational text (in fact, it was the opening chapter) (Porter, 2008). The five forces inculcate the challenges posed by fierce competitiveness in the marketplace, strong consumers' power,

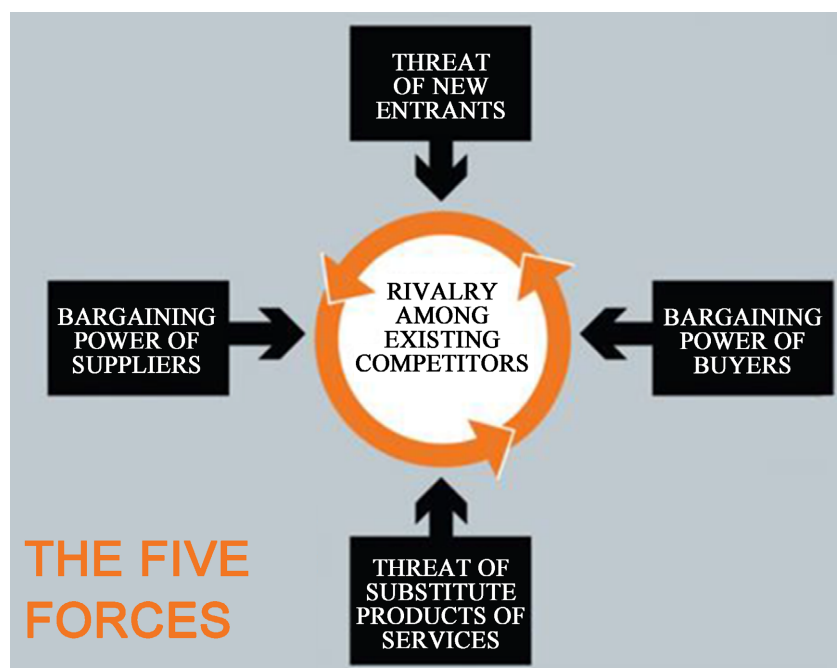
strong suppliers' power, prospective of new competitors in the market, and substitute goods.

RB Patel Group Limited is a listed company on the South Pacific Stock Exchange market which deals with retailing and wholesale of general products, being property owners and managers, and equity investments (RB Patel, 2022). Ten supermarkets are run by the company around the nation. The reason for choosing RB Patel for analysis is because RB Patel is one of the supermarkets in Fiji with large market share and Porter's Five Forces is applied to analyze the presence of intense competition in the retail industry. Regardless of the industry to which an organization belongs, competition has proven to be a vital element in its operation. Porter's Five Forces Model has been regarded as the best among the numerous strategic analysis methods; nevertheless, because of the vastness of the external environment, only the competitive environment is discussed in this study. Therefore, the paper focuses on analyzing RB Patel's competitiveness using the application of Porter's Five Forces.

2. Literature Review

Scott (2023) elaborates how porters five force model shapes every industry and also it helps to identify weaknesses and strengths in industries. It can also be used to identify industry's structure so that corporate strategy can be developed. Industries competitive environment can be analyzed using five force model and is also used as a guideline It helps to identify the number of the competitors and their power, the new entrance, suppliers' power, buyers' power and competition that affects the profitability the company makes (Isabelle et al., 2020).

The Porters Five Force Model can be used in the company's advantage if used effectively to be more competitive in the industry. One of the forces is competition, if there are large number of firms into the industry then profitability will be low (Magretta, 2012). Competitors can offer similar products and offer better prices. However, if the competitors are few then firms can set higher prices and make more profits. Secondly, new entrance can be prevented with having strong barriers of entry. If the barriers are weak then profits are shared with other firms. Thirdly, if the firms have few suppliers', then suppliers can raise the price of the raw material and thus the cost of production will also increase. However, if there are more suppliers then prices will be kept low. Fourthly, if the companies have few customers, then they can negotiate prices however, if there are more customers then firms can charge high price (Hanson, Hitt, Ireland, & Hoskisson, 2016). Finally, if there are substitutes then customers have a choice not to buy from them therefore their power is weakened. However, after understanding porters five forces, it was found that it helps in designing strategy to use its resources that can generate more profits (Scott, 2023).



Source: (Ural, 2014).

Three of Porter's five forces come from "horizontal" competition: the threat of substitute goods or services, the threat of seasoned competitors, and the threat of new entrants; and two come from "vertical" competition: the bargaining power of suppliers and the bargaining power of customers (Rihan, 2014). Professor Michael E. Porter had developed a technique for identifying the most lucrative and promising industries. According to (Porter, 2008), the five forces determine whether an industry will be profitable in the future or whether it will be used as a case study and for commercial purposes. The structure of the industry and how competitive each force is in that sector are both factors.

Analysts and academics frequently utilize the Five Forces paradigm to examine industry rivalry and direct strategic decision-making (Isabelle et al., 2020). Some detractors counter that by concentrating only on the five forces and ignoring other crucial elements like technology advancement, industry evolution, and regulatory environment, the model oversimplifies industry dynamics (Ural, 2014). Others contend that the model is overly rigid and fails to take into consideration the dynamic nature of industry competitiveness, where the five forces can change over time as businesses adapt to shifting market conditions.

The grocery sector is one of the popular investment areas in today's globalized world. Additionally, it is developing the retail sales of popular food product categories such fresh meats, poultry, and seafood, fresh fruits and vegetables, canned and frozen goods, as well as a variety of dairy items. If successful, investing in this sector of the economy can be beneficial, but keep in mind that there is still danger involved if the monitoring procedure is not implemented (Porter, 2008).

3. Analysis of Porter's Five Forces of RB Patel Group

LOW THREAT INDICATORS	THREAT LEVELS	HIGH THREAT INDICATORS
	Existing Competitors	
Low	Moderate	High
	Industry Growth	
Low	Moderate	High
	Fixed Costs and Storage Costs	
Low	Moderate	High
	Product Differentiation	
High	Moderate	Low
	Switching Cost	
High	Moderate	Low
	Strategic Stakes	
Low	Moderate	High
	Exit barriers	
Low	Moderate	High

Figure 1. Competitive rivalry for RB patel.

Note 1: When companies are practicing more product differentiation it leads to low threat among its competitors as market share increases, hence, high product differentiation is categorized under low threat indicators.

Note 2: When there are high switching costs including expenses, time, effort and other factors which customers face when they try to switch the product to another, the level of competition in the market tends to decrease, hence, high switching cost is categorized under low threat indicators.

3.1. Competitive Rivalry

As shown in **Figure 1**, there are a large number of supermarkets in the Fijian economy which increases the level of competition for RB Patel Supermarket. These rival registered supermarkets with their chains includes; Shop N Save Supermarket with 20 plus supermarkets around Fiji, Max Value, New world, True Mart being one of the current developing supermarkets and other supermarkets with few and sole branches. With high growth of supermarkets in the industry, and low product differentiation, the level of competition increases with low switching costs since many customers freely switch to other supermarkets for groceries. The level of strategic stakes is high with the increase in advertising and bulk buying strategies to sell at a lower cost in the market. Therefore, the threat from competitive rivalry is high for RB Patel. Currently, RB Patel disclosed their contribution to the environment in the 2022 annual report of gene-

rating 473 MWH of solar power, total diesel avoidance of 139 tones, 8, 372 trees planted (RB Patel, 2022). The supermarket can compete on prices of products similar to their \$2 dollars sale promotions (RB Patel, 2023). Focusing on product differentiation and brand loyalty can help to maintain customer base.

LOW THREAT INDICATORS	THREAT LEVELS	HIGH THREAT INDICATORS
Government Policies and Regulations		
Low	Moderate	High
Capital Requirements		
High	Moderate	Low
Incumbency		
Low	Moderate	High
Patents		
High	Moderate	Low
Switching Costs		
High	Moderate	Low
Distribution Channels		
Limited Access	Moderate	Easy

Figure 2. Threat of new entrants for RB Patel.

3.2. Threat of New Entrants

In the Retail Industry (Supermarkets), there are high level of government policies and regulations (see **Figure 2**). Fijian Competition & Consumer Commission (FCCC) role is to advance consumer interests, gather, analyze, and disseminate information, as well as regulate the prices of basic foods and other goods to foster competition (FCCC, 2023). Any new supermarket that enters the Retail industry needs to comply with FCCC. Huge amount of capital is required to run a supermarket which reduces the threat of new registered supermarkets. The incumbency is high since supermarkets including RB Patel, Shop N Save, Max Value, and New world hold largest market share in the industry since it has been in the industry for a longer period of time. A threat to new entrants is due to no patents, easily switching costs of the buyers and with easy distribution channels of suppliers in wholesale. Therefore, the threat of new entrants is highly present for RB Patel. Potential competitors can be discouraged by the opportunity to decrease prices in response, along with focusing on customer loyalty which may

discourage both new and existing competitors, and focusing on creation of fundamental skills that can serve as an entry hurdle (Isabelle et al., 2020).

LOW THREAT INDICATORS	THREAT LEVELS	HIGH THREAT INDICATORS
Price/ Indirect Costs of other Supermarkets		
High	Moderate	Low
Sensitivity of Buyer Price of RB Patel		
Low	Moderate	High
Performance of Other Supermarkets		
Low	Moderate	High
Buyer Switching Costs		
Low	Moderate	High
Buyer Profile for New Products		
Risk Avoidance	Risk Neutral	Risk Seeking

Figure 3. Threat of substitutes for RB Patel.

3.3. Threat of Substitutes

In Porter's five forces, the concept of threat of substitutes becomes essential in analyzing the competitive forces in the retail (supermarket) industry as there are many supermarkets in Fiji which act as substitutes for consumers in purchasing goods. Hence, the threat of substitutes can reduce the market share and profitability. As shown in **Figure 3**, RB Patel faces stiff price competition with other supermarkets. Consumers in Fiji focus more on price factor than the quality. Due to low minimum wage rate in Fiji, many consumers can only afford amenities with low price or cheap prices (switching cost-effect). In the retail industry, supermarkets run promotions and specials on different products to either increase sales for their bulk profitability or to facilitate the new products specials (risk seeking for introduction of new products) in the market. For instance, RB Patel, New world, Extra Supermarket, Shop N Save and other supermarkets uses Viber and Facebook platforms to highlight the customers of their specials every week (RB Patel Group Limited, 2023). These leads to increase in threat of substitutes since the sensitivity of the prices of products at RB Patel are high and other supermarkets performance and reputation is a factor which undermines sale of certain products. Low cost can be used by RB Patel to counter substitutes. Customers grow attached to distinguishing characteristics, lowering the threat of substitutes. To guard against substitutes, RB Patel might concentrate on its core

competencies and specialized products.

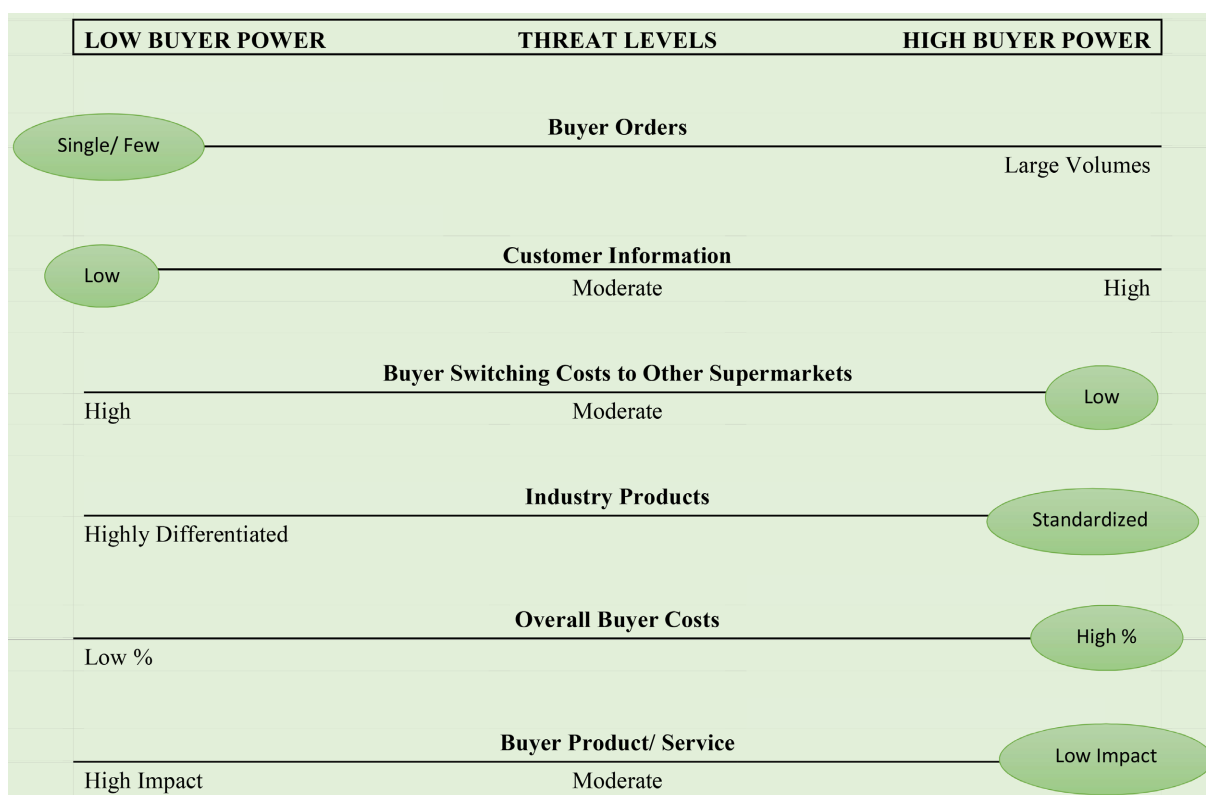


Figure 4. Bargaining powers of buyers (customers).

3.4. Bargaining Powers of Buyers

As shown in **Figure 4**, the power of buyers has an impact on the sales volume of retailers. Customers are dispersed (many and diverse); none of them has any significant influence over the goods or their prices of RB Patel. The buyers are many and each individual buyer purchases single or few volumes of products. Due to many customers the customer information is low, and buyers easily switch to other supermarkets to buy groceries and other goods. The products in the retail industry are standardized with similar suppliers with less differentiated products (RB Patel, 2023). The major threat of buyers' power lies on the grounds of overall buyers' cost on their daily transaction at RB Patel. Therefore, RB Patel can negotiate a cheaper price with influential purchasers. Due of the lack of close alternatives, large buyers have less negotiating strength, since there are few alternatives, large purchasers have less negotiating strength.

3.5. Bargaining Powers of Suppliers

As shown in **Figure 5**, due to the large number of rival suppliers, whose goods are standardized and bought as commodities, as well as the real danger of backward integration from buyers, suppliers have little leverage in negotiations. For instance, the prices of basic food items are regulated by FCCC, and the suppliers

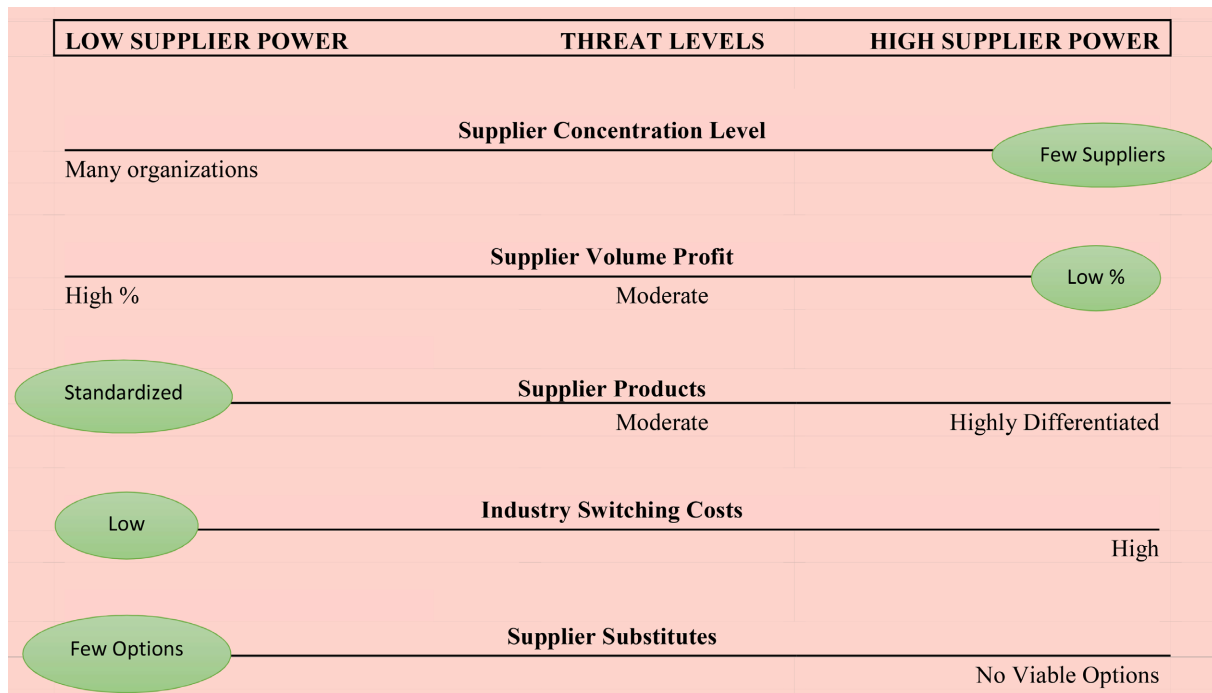


Figure 5. Bargaining powers of suppliers.

can only set 4% - 5% of margin on their products (FCCC, 2023). Hence, the supplier has low percentage of volume profit and they have low switching costs. Overall, there are few suppliers in the market and RB Patel has few options to select products they want to retail in their supermarkets. RB Patel can protect itself against strong suppliers. The increase in supplier prices can be passed on more effectively to customers. Due to low volumes, suppliers have influence, but a firm that is focused on differentiating itself is better able to pass on the increase in price to suppliers.

4. Conclusion

Finally, in accordance to Porter's Five Forces analysis of RB Patel, the company competes with other well-established supermarkets. Intense competition poses a serious concern for the company. The lack of patents, low switching costs for purchasers, and simple wholesale distribution networks for suppliers pose threats of new entrants. The price war between RB Patel and other supermarkets is fierce. Buyers' power is primarily threatened by the entire cost of their everyday transactions with RB Patel while the negotiation position of the supplier is poor. Therefore, to meet the challenges posed by the powerful forces, RB Patel can effectively combine a fundamental general strategy of cost leadership with a supplementary differentiation strategy. RB Patel can attract customers through adoption of technology, economies of scale, and focusing on cost efficiency. Simultaneously, unique products can be offered by RB Patel with a focus on maintaining superior quality of products and providing excellent customer service in the market to build a better reputation and brand loyalty which will result in attain-

ing strong competitive advantage among its competitors.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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