

Volume 30, Number 4, April 2024

Exam-style question

Applying Porter's five forces to Royal Mail

Mark Hage

Check your answer to the question on pp. 2–3 of the magazine. This question relates to the Edexcel specification.

Sample answer

Both SWOT and Porter's five forces analysis aim to give Pinewood a strategic and tactical framework with which to consider the environment in which the business operates. This can be used by the business to make a plan to manage any potential issues that may affect their objective of doubling in size.

SWOT analysis is a method for analysing a business, its resources and its environment; it stands for internal strengths and weaknesses and external opportunities and threats. For example, a key internal strength of Pinewood may be its long track record of success in managing very large film productions such as the James Bond films, together with having a small group of very skilled technicians. This means that US productions are more likely to use Pinewood facilities. As the value of this type of work is very large at £2 billion, SWOT would seem to indicate that as long as this high level of skill is maintained then the objective of doubling in size is achievable. A key threat to Pinewood are US studios and, in the longer-term, Chinese studios such as Wanda Group. SWOT allows Pinewood to both identify these threats and then develop strategies to convert them into strengths. For example, the doubling in size of Pinewood and the fact that they have more highly skilled technicians than Chinese studios would act as a barrier to such competitors being able to derail the expansion by taking away customers.

However, SWOT does tend to oversimplify the analysis of threats and opportunities. For example, there may be potential competitors who are not yet known to Pinewood who could take valuable customers away from their facilities and mean the doubling in growth could be jeopardised.

Porter's five forces analysis is a framework for analysing the nature of competition within an industry or market. It specifically considers the threat of new entrants to a market, the bargaining power of suppliers and customers, the threat of substitute products and the degree of competitive rivalry. In some ways, Porter's five forces analysis allows Pinewood to complete the same analysis of threats to their £300 million expansion as SWOT. For example, it would encourage Pinewood to consider in detail the threat to expansion from Chinese and US competitors. However, Porter's five forces analysis can be seen as a better tool for Pinewood to use because it also allows for a more detailed framework for analysis of the film studio market. Threats from new entrants may show that there are only a few businesses dominating the market, such as Pinewood, so Porter's five forces analysis may describe rivalry between businesses as low. Also, barriers to entry, the ability of competitors to enter a market, could be considered as very high for this industry, both based on the large amount of money

needed to set up a studio and the technical barriers to entry achieved by Pinewood having a unique highly skilled workforce. Therefore, Porter's five forces analysis allows Pinewood to carry out more detailed analysis and decision-making regarding potential competitors that could stop the doubling of growth through expansion, which SWOT may not have shown. However, Porter's five forces analysis assumes market forces don't change and clearly the film industry is changing, for example more state of the art skills are needed in making a film. Porter's five forces analysis would also not consider the clearly large positive effect that tax incentives have on Hollywood production companies in choosing to use Pinewood's studios. SWOT could consider both of these issues in its framework so may be considered to be a less risky analysis tool.

Using just SWOT or Porter's five forces analysis runs the risk of missing out on the identification, analysis and creation of a wide-ranging corporate strategy to achieve a doubling in size over 10 years and is something that any investors thinking of helping to pay for the expansion would be concerned about. Pinewood needs to look at a wide range of decision-making tools, with SWOT and Porter's five forces analysis being just some of the evidence-based decision-making tools needed to ensure that risks to growth are kept to a minimum. Investors are likely to put a lot of trust into the subjective decision-making skills and intuition of Pinewood executives as they have a long track record of success with Pinewood. All these tools need to be used over the period of 10 years to ensure that doubling growth is successful.

Sample examiner comment

Mark: 20/20 (Level 4 — an excellent response fully focused on the question)

Excellent and detailed knowledge and understanding of SWOT and Porter's five forces analysis throughout the answer, focusing on the business objective of growth. Excellent application is shown using appropriate context applied to the question. Analysis is well developed, coherent and logical. Analysis is linked together giving cause and effect of the positive and negative effects of competing arguments, using context based on qualitative and quantitative data. An evaluation of which analytical tool is most likely to help Pinewood achieve their growth objective, with context, is used to support a judgement and recommendation.

This resource is part of BUSINESS REVIEW, a magazine written for A-level students by subject experts. To subscribe to the full magazine, go to www.hoddereducation.com/businessreview