Assessing the industry using Porter’s five forces

To develop a business and plan for the future, there is a need to assess the current situation. One way of doing this is to use Porter’s five forces framework. This was the brainchild of Harvard Business School’s Michael Porter and developed in 1979. Looking at the competitive intensity of an industry, the model assesses internal and external factors that act together to determine the direction of the business; taken together, this gives an indication of the attractiveness of the industry.

AHEAD of the event, the Zoetis business consulting team led by Nick Steele, National Consulting Manager, applied Porter’s five forces analysis to the UK companion animal veterinary practice industry.

By examining the current attractiveness of the industry, we can begin to form opinions of how it may change in the future and what that change might look like.

- How attractive is the industry to new entrants (both traditional practices and corporate)?
- What is the current level of competitive rivalry within the industry?
- How likely is it that veterinary services could be provided by substitute providers?
- How much power over the industry do its customers have?
- How much influence do its suppliers have?

Looking at each of these, the analysis determines the attractiveness of the industry and, therefore, the likelihood that it will evolve and change.
The following opinions were presented as a starting point and the contributors invited to discuss whether they agreed or disagreed.

- **High threat of new entrants.** There has been a 36 per cent growth in the number of ‘corporate’ practices compared to 9 per cent in the number of independent small animal only practices, because access to capital favours corporate entrants.

Therefore, the threat of entry of new traditional practices is low; however, there is an opportunity for new businesses (corporate or large independent) with access to capital, making the overall threat of new entrants medium to high risk.

It is also important to consider that the future regulatory environment could determine the nature of a new entrant.

- **Medium threat of substitutes.** The threat of substitution for preventive services is higher than for therapeutic/surgical services.

Many potential substitutes have been present in the market for some time, but have had little impact.

In the future, as clients become more technologically astute, their demand for greater convenience and value may become increasingly important.

The greatest threat that could influence the entry of substitutes into the market is the potential for change in the EU directive on veterinary medicines.

Therefore, the threat of substitutes offering preventive veterinary services is high, whereas the threat of substitution for therapeutic/surgical services is low, giving an overall medium threat.

- **Low bargaining power of suppliers.** Substitute products from suppliers are widely available and there is a low barrier and cost to switching.

As corporate practices and buying groups consolidate, it increases the purchasing power of these groups.

Suppliers are key contributors to the quality and service of the veterinary industry, but their profitability is of variable importance.

- **High bargaining power of customers.** Although the number of clients is increasing (which would indicate a dilution of power), customer power is increasing as the cost of switching practice is low and they demonstrate low loyalty.

Customers are increasingly information hungry and savvy, and becoming increasingly sensitive to price and value; the demand for convenience is also rising.

- **High competitive rivalry.** The limits to pet ‘medicalisation’ means growth comes largely from attracting clients from other practices. Buying groups have allowed independent practices to gain a competitive advantage and these groups have grown 74 per cent over the past three years. Add to this that 25 per cent of small animal practices in the UK belong to a corporate or charity; this sector has grown by 36 per cent in three years.

We can see that practices are consolidating to increase their competitiveness.

Conclusions from the analysis

With four of the five forces indicating a medium or high threat, it can be concluded that the veterinary industry is attractive and has the potential to return business success.

- There is an opportunity to obtain competitive advantage by innovating and communicating clearly with the customers.

- Customers are informed and making increased use of online resources to select veterinary services. A business that recognises this and adapts to take advantage of it will have a better chance of success.

- An innovative business offering veterinary services through a different channel could have a good chance of success.

- The proposed changes in the EU directive on veterinary medicines may open the market to new players.
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