

Facebook Five Forces Analysis

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1 Michael Porter Five Forces Analysis

Michael Porter's five forces framework as explained by Kotler and Keller (2011) as well as Proctor (2000, p.103) is an analysis method that involves analyzing a specific sector from five various perspectives in order to establish the nature of competition in the given sector. The five different forces in the framework consists of bargaining power of buyers, competitor rivalry, threats of new entrants, bargaining power of suppliers and threat of substitute products.

1.1 Bargaining power of suppliers

According to Peng (2008, p. 35), suppliers will only have high power in situations where they are few in numbers. In perspective of Facebook, suppliers consists of hosting services providers as well as other third party services providers. Since there are a lot of suppliers to Facebook, the threat posed by the suppliers can be argued to be low.

1.2 Bargaining power buyers

Stonehouse et al. (2004, p. 119) pointed out that buyers have high bargaining power when they are few in numbers. The buyers of Facebook who are the actual users can be argued to have a low bargaining power since they are large in numbers.

1.3 Competitor rivalry

Any sector that has a lot of competitors experiences high levels of competition as the competitors adopt various strategies in order to compete for market share (Abraham, 2012, p.62). Since there are numerous competitors to Facebook such as MySpace, Twitter, Bebo, Hi5 and Linked In among others, the threat posed by the competitors to Facebook can be said to be high.

1.4 Threat of new entrants

In situations where it is easy for any organization to establish presence in any given sector, the threat posed by the new entrants can then be considered to be high (Keegan & Green 2005, p. 156). In perspective of Facebook, the threat posed by new entrants can be argued to be medium since Facebook has successfully been positioned as the ideal social networking site that now has over 1 billion users as noted by Lee (2012) implying that it will be quite hard for any new social networking site to threaten Facebook's market position.

1.5 Threat of substitute products

A substitute product as explained by Bensoussan and Fleisher (2008, p. 115) is a different product that is supplied by another company in the market but can also meet the same customer needs that are met by another company's product. In perspective of Facebook, emails can be described as the ultimate substitute product. Nevertheless, the threat posed by emails can be argued to be very low as Facebook offers more features while compared to what email provides.

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