

# E.g. – CEMENT INDUSTRY

## PORTER'S FIVE FORCE ANALYSIS

### Threat of Substitutes

Low- Practically cement has no direct substitutes

### Bargaining Power of Buyers

Low- Substantial market concentration among large players ensures low bargaining power of buyers

### Bargaining Power of Suppliers

Moderate- Cement players have to depend on the railways for carriage and coal companies for fuel

### Competitive Rivalry

High- There are large number of players in the market with high degree of product homogeneity

### Threat of New Entrants

High - High capital requirement and long gestation period makes very difficult for any new entrant to enter into the market

# Barriers to Entry(high)

- RAW MATERIAL -Cement being a high bulk and low value commodity, outward freight accounts for close to one fifth of the total manufacturing cost. In addition, for every tonne of cement produced, close to 1.7 tonnes of raw material is transported.
- LOCATION-In this scenario, the location of the cement plant becomes crucial. While deciding on the plant location, there is a trade-off between proximity to raw material sources and proximity to markets
- COMPETITION- High level of competition in the cement industry. The Indian cement industry is weakly oligopolistic in nature on a national level with top 6 firms among more than 100 firms capturing 55% of the cement market. This nature has been consistent through the years.
- COST- High capital costs and long gestation periods. a new cement works producing 1m tonnes a year, the smallest worth building, costs around \$200m. It is much cheaper for an incumbent to expand

# Buyer Power(low)

This refers to the effect customers can exert on a particular industry. In the cement industry, the bargaining power buyers is low because the majority of buyers are bulk buyers. For example, big construction firms, corporate who want to build their own offices, etc. These buyers can bargain with the cement companies. In the cement industry, facts suggest that this effect is minimal. The power of consumers is limited due to the lack of substitutes, the small number of cement firms, and the demand that consumers have for the product. Buyers are said to be powerful if they are highly concentrated, purchase a large amount of the product,. The last effect exists but its impact is weak because of persistent shortages in the cement market.

# Inter firm rivalry(high)

Cement industry is one of the highly competitive markets in India. Many players in this industry are large scale players with huge capital invested in setting up the production units. This factor raises the exit barrier for the companies. Hence, they stay in the industry and start aggressive competition. Also, the differentiation in types of cement is marginal, hence the switching cost to customers is not high, so firms compete intensely to gain market share. Also, sometimes problem of overcapacity comes into play. This leads to a price war and competition intensifies.



# Supplier power(moderate)

In this industry, the suppliers exert a very high power. This is so because the raw materials form a very large part of the process in the manufacturing of cement. Shortage in supply of raw materials can cripple the whole plant and can lead to huge losses. When the suppliers demand something, the negotiations have to be completed quickly and the result is more or less in favor of suppliers. But since all the raw materials are natural resources, they are under the Government's control. Companies have to buy rights from the government to set-up the cement plant. Hence the suppliers power is moderate.



# Threat of substitutes (low)

Lack of substitutes ,other products that are not within the same industry but can be used instead, means that the industry does not face a credible threat of competition. This represents the reality of the cement industry. No product exists to date that can substitute effectively for cement.

In India, cement is the ultimate material used for almost all type of construction work. Bitumen is one of the substitutes of cement but these days cement is even replacing bitumen. Another substitute for cement is engineering plastic. This also cannot replace cement in many areas of work. Hence, there is practically no material to substitute cement.