

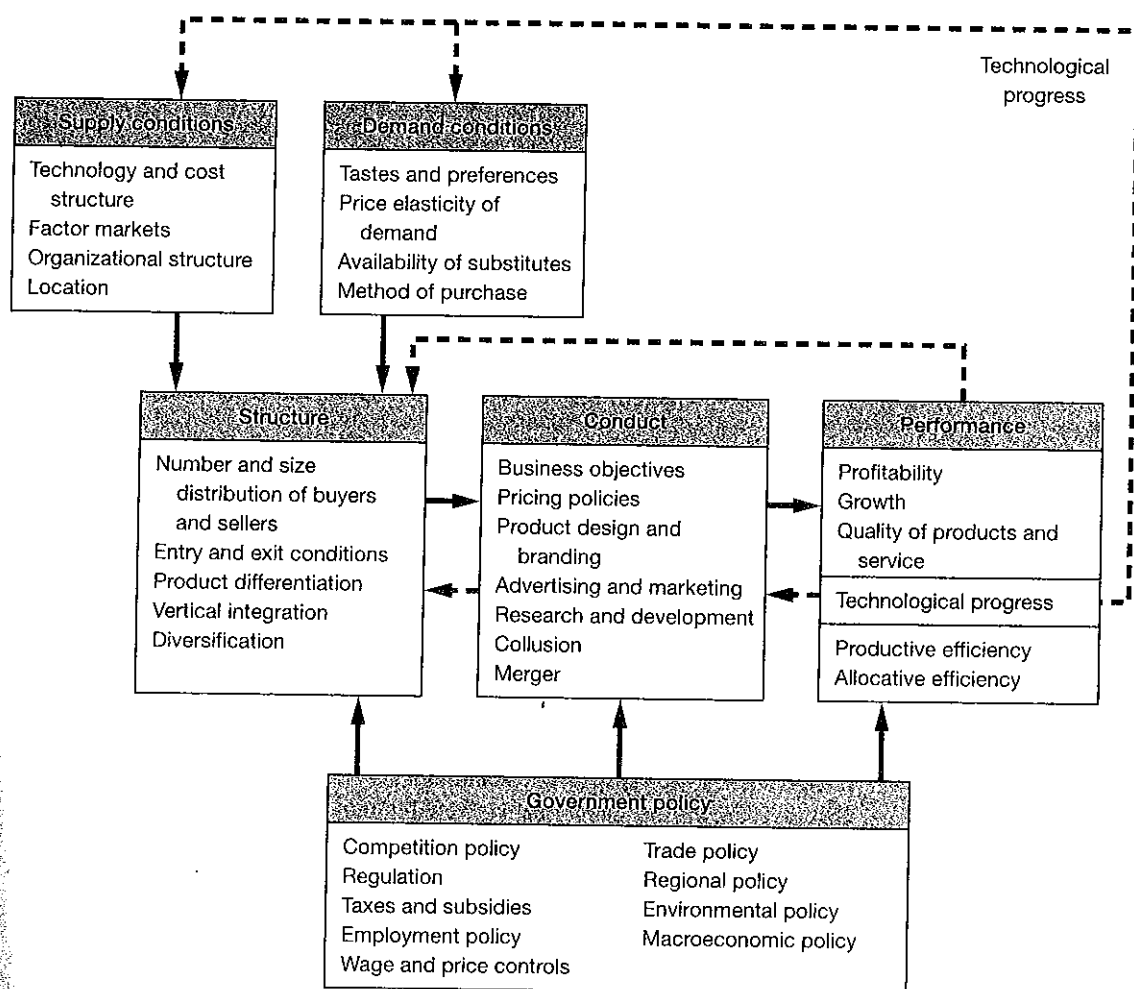


Figure 1.1 The structure-conduct-performance paradigm

A schematic representation of the SCP paradigm is presented in Figure 1.1. In accordance with the fundamental logic of SCP, the main linkages are shown as running from structure through conduct to performance. However, various feedback effects are also possible: from performance back to conduct; from conduct to structure; and from performance to structure (Phillips, 1976; Clarke, 1985). These are represented in Figure 1.1 by dotted arrows. Several specific types of feedback effect are identified in the following discussion of the main components of the structure, conduct and performance categories.

Structure

Structural characteristics tend to change relatively slowly, and can often be regarded as fixed in the short run. Some of the more important structure variables are as follows:

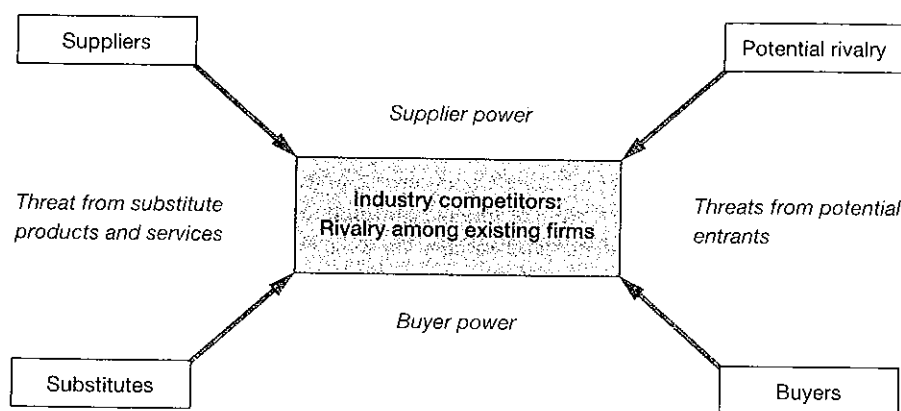


Figure 1.2 Porter's five forces model

Source: Adapted from Porter (1980), p. 4.

competitors); the threat of substitute products and services; the power of buyers; and the power of suppliers. The five forces are illustrated schematically in Figure 1.2.

- *Extent and intensity of competition.* The intensity of competition depends on the number and size distribution of the industry's incumbent firms. If there are large numbers of similarly sized firms, competition is expected to be more intense than it is if one or a few firms are dominant. Other influences on the extent of competition include the rate of growth of industry sales; incumbent firms' cost structures; and the availability of spare capacity to meet potential increases in demand.
- *Threat of entrants.* Incumbent firms that are threatened by entry behave differently to those in industries that are sheltered from competition. The perceived threat of entry is likely to be higher in industries where incumbents are highly profitable, and incumbents may search for ways of raising entry barriers. Government regulation also plays a part in determining the ease of entry. The size of the entry threat depends on the importance of economies of scale, the extent of product differentiation and brand loyalty, the level and specificity of capital investments, and the availability of access to distribution outlets.
- *Threat of substitute products and services.* The availability of substitute products and services naturally tends to increase the intensity of competition. The availability of substitutes increases the price elasticity of demand for existing products, reducing the market power of incumbent firms. Incumbents may respond by seeking to differentiate their products more strongly from those of rivals, through branding or advertising. The attractiveness of substitute products to consumers depends on the prices and quality of the competing products, and the size of any switching costs.
- *Power of buyers.* The power of buyers of a firm's product depends on their number and size distribution, and their level of dependence on the firm's output. If there are only a few buyers, or if close substitutes are available, buyers are likely to wield significant market power. In order to secure their own supplies, large buyers may seek to integrate backwards (by taking over an input supplier), reducing their reliance on external suppliers.