

As the Cookie Crumbles: Porter's Five Forces

Abstract:

We describe a visual and kinesthetic exercise offering students the opportunity to experience how Michael Porter's Five Competitive Forces in Strategy operate within a specific industry, a decorated cookie industry. Donning hats which spell out roles parallel to the Five Force model, students become buyers, suppliers, existing companies, disruptors and start-ups with the goal of becoming profitable. Quickly students begin operating as they might in the real world, making deals, addressing conflict, and being competitive. The exercise can be adjusted for varying sizes of classes and learning objectives and it can be used for both graduate and undergraduate students. [99 words]

Keywords: Experiential Exercise, Strategy, Porter Five Forces

Introduction:

As the Cookie Crumbles: Porter's Five Forces is a visual and kinesthetic exercise offering students the opportunity to experience how Michael Porter's Five Competitive Forces in Strategy operate within a specific industry, a decorated cookie industry. Donning hats which spell out roles parallel to the Five Force model, students become buyers, suppliers, existing companies, disruptors and start-ups. Everyone shares a similar objective, to become profitable, though individual journeys to profitability vary depending on the roles assigned. Companies become profitable by selling actual decorated cookie prototypes to the buyers. Suppliers and Technology disruptors may become profitable by establishing strategic alliances, merging with other companies, and entering into equity relationships. Buyers become profitable by creating profit margins. Quickly students began operating as they might in the real world, making deals, dealing with conflict, and being competitive. The room quickly fills with high energy and teachable moments.

This exercise can be positioned to either kick off a learning unit on Porter's Five Forces model or to end a unit by creating an experience which makes an academic model come alive. Students of diverse backgrounds and learning styles are engaged as they act on their own instincts. Students can either be assigned or self-select roles based on their own talent and learning style. As success in the real business world is defined differently, the varying profitability goals in the *As the Cookie Crumbles* exercise allows for success through different talents. For example, introverted problem solvers can formulate long-term relationships with extroverted deal makers to end the exercise successfully.

Flexibility in the set-up, facilitation and debrief allows this exercise to be used in many ways. Typically the instructor pauses the exercise a few times to debrief on the teachable moments, and/or add additional environmental conditions for the industry to which the students must respond. Each of these variables can be managed to accommodate the following educational environments:

- Undergraduate or Graduate Classes
- Ongoing class or workshops where participants are not known by each other
- Varying Class Sizes from 12-50

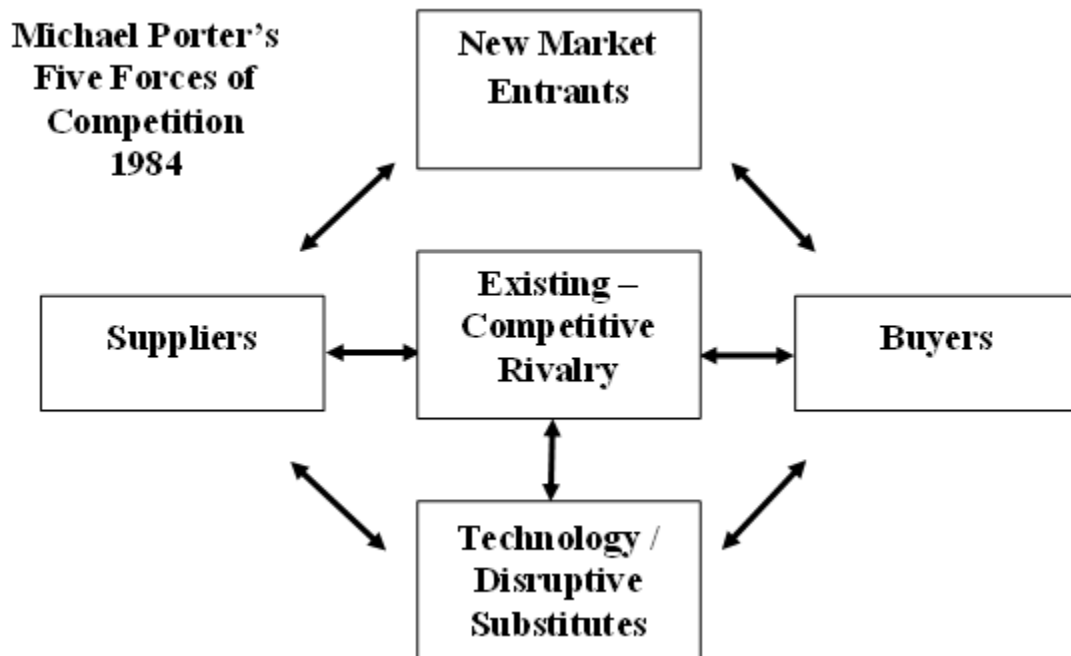
Theoretical Foundation/Teaching Implications

This exercise directly aligns with the visual and theoretical concepts as defined by Michael Porter in his *Competitive Strategy* (1984). The setup visually mirrors Porter's model which can reinforce the distinctness of each of the five forces of competition (Figure 1). As the exercise proceeds organically, the dynamics of business strategy come into play. Porter's concepts of differentiation and cost implications on strategic action are seen during the exercise. Dynamics, such as when customers force down prices by playing rivals against one another or suppliers changing prices based on competition, illustrate Porter's concepts shared in his more recent *Five Competitive Forces that Shape Strategy* (2008). Students also learn about Porter's basic industry analysis in understanding what products exist and what new or innovative products could be designed for a competitive position. When the exercise is expanded to have more than one industry geographical zone dynamics coming from different geographies can be integrated into the exercise.

As the Cookie Crumbles also is an exercise which touches on all four elements of Kolb's (1984) model of experiential learning within one class session: 1) concrete experience, 2)

reflection/observation, 3) abstract conception and 4) active experimentation. Specifically, the exercise itself is a concrete activity that all students in a classroom experience. There are ample moments for individual, small group and class reflection. Since the exercise is based directly on Porter's Five Forces, abstract conception can be offered throughout the exercise and/or at its conclusion. The fourth aspect of Kolb's model, active experimentation, can be achieved through a follow-up assignment for student to apply their learning to analysis of cases or capstone client experiences.

Figure 1.



Learning Objectives:

As the Cookie Crumbles: Porter's Five Forces learning objectives include:

1. Students will understand the major elements of Porter's Five Force Model for Competitive Strategy and how they may interact within an industry sector.

2. Students will experience elements of strategic actions including differentiation and cost leadership, mergers, vertical integration, strategic alliances, challenges facing new industry entrants and potential challenges facing existing companies in an industry
3. Students will gain insight in how they may interact in a business situation including but not limited to risk orientation, relationship building, assertiveness, sales, deal-making and problem solving.

Exercise Overview:

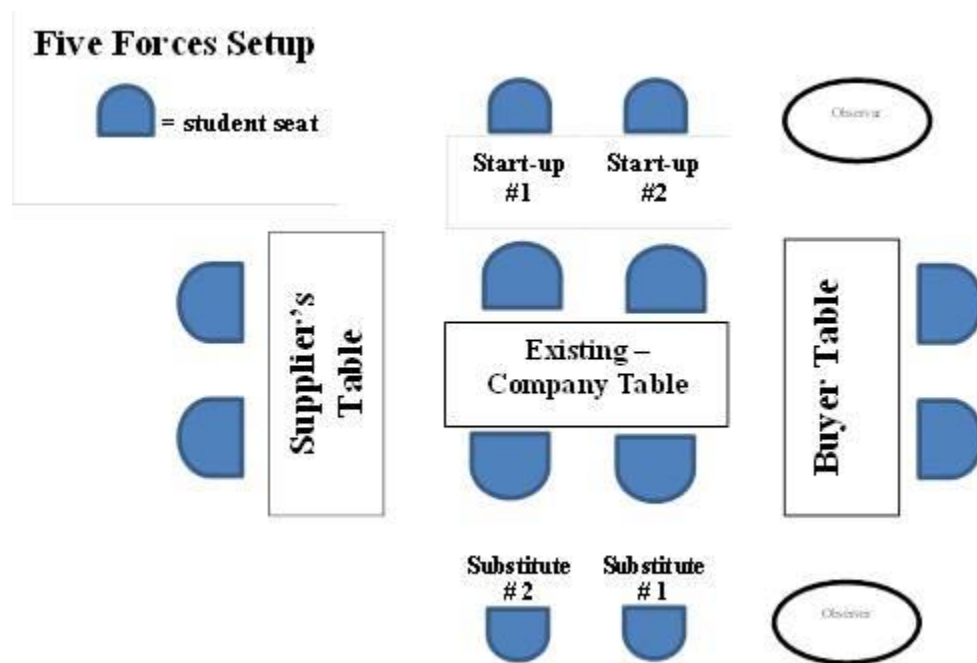
Set-up

The premise of the exercise is that each zone represents an active industry cell. The industry is “decorated cookies” as one might find in department stores. Cookies are used to brand special occasions, seasons, sports teams or other elaborate designs. The “buyers” in the industry are defined as two separate department store corporations. Typically one is considered a mid-price chain such as Kohl's or J.C. Penney's and the other a higher-end chain such as Saks Fifth Ave or Bonwit Teller. The goal is for companies to create prototypes of decorated cookies and go into a contractual relationship with one of the buyers.

The classroom is set up to mirror Porter's five forces by re-arranging tables and placing a “role hat” on each chair (see Figure 2). One model of this exercise can accommodate the following number of students: new market entrants (2), suppliers (2), buyers (2), disruptive substitutes (2) and existing company (4) for a total of 12 roles. By having two students operate in a similar Porter role (e.g. buyer, supplier, disruptor) competition or the opportunity for collaboration increases, which also increases engagement. The introduction of different buyers (e.g.,

department store chains) allows students to explore how consumer needs may vary based on the niche they exist within. All of the roles are instructed to act as independent entities with the exception of the existing company team which is positioned in the middle of the zone facing each other at the same table. As an existing company they have the advantage of more resources. If the class is larger, a duplicate zone can be created and positioned as existing in another geographical area. By expanding the model geographically, teachable moments can occur in how it might cost more to travel between geographies and/or customer expectations may be different. Thus within one classroom you can have east coast/west coast operations and the exercise could even be spread across different rooms. There is also a competitive tension set up from the beginning of the exercise because there are three companies (one existing company and two start-ups) and only two buyers. Rules such as making a deal with only one company can be flexible depending on the level of competition or collaboration desired.

Figure 2



Next, actual cookies and decorating supplies are distributed in the exercise. Suppliers start out with some configuration of icing, cookies, knives and candies. Disruptive substitutes are given, including squeeze nozzles and other specialty items. Existing companies start with basic supplies and start-up companies only have a cookie, or icing or a knife. The difficulty of the exercise is easily managed by varying the distribution of actual supplies and setting up the scenario.

Running the Exercise

During the exercise, several real-life scenarios play out. Existing companies tend to have some advantage based on how materials are distributed. Additionally, it is not rare to see existing companies becoming complacent and not assessing their competitive environment. Often students will remain in place and not venture to learn about the environment or what the customer wants. This is an example when the exercise can be paused for reflection or teachable moments can be made.

As students begin to understand that success can come from long-term partnerships or alliances, various dynamics begin to occur. Typically, vertical integration occurs when either an existing or start up cookie company merges with a supplier or disruptor. Sometimes supplier companies merge and a new cookie company is born and tends to be very competitive. For the suppliers and disruptive substitute roles, profitability remains their goals too, which often leads to learning about the differences of establishing long-term supplier relationships instead of making simple transactions. This aspect of the exercise can be modified to include more of an emphasis on supply chain dynamics.

In this exercise modifications are limitless and can result in unpredictable dynamics. Thus as the instructor, it is helpful to repeatedly pause the exercise for reflection and teaching. It is also helpful to have some students be observers so that the room includes individuals to point out topics for learning and reflection

To equalize the competition, financial success is measured by calculating the costs of one cookie prototype. For example, when companies buy from suppliers or disruptors, they have to figure out what the equivalent cost of that ingredient would be for one cookie. When companies sell prototypes to buyers (department chains) they have to specify how much the prototype costs. Buyers are evaluated on how much profit margin they would make selling what they brought. At various points in the exercise, a pause can allow for an assessment of how profitable various roles have become. This is an excellent example of doing competitive analysis and it typically results in a change of behavior.

At the end of the exercise, a teachable moment includes a conversation about how to define success as some roles may have maximized short-term success, others built a long-term strategy and others just quit the industry. As mentioned above, multiple strategies for reflection exist for this exercise. Individuals can reflect on their own behavior as well as what they learned from the exercise. Students grouped into the role they played could reflect on their experience. Finally a whole class reflection is helpful to highlight the dynamics throughout the classroom. It is especially helpful to utilize the student observers to offer their behavior observations. In terms of having the students apply their learning, assignments might include having the students analyze another industry through an assigned case and/or a business highlighted in the popular press. The author uses this exercise in a business capstone class where students are working with

organizations from the community. Their assignment is to analyze the industry in which their clients operate based on their learning from the As the Cookie Crumbles exercise.

Session Description:

We propose to have the participants experience aspects of the exercise in an expedited manner while options and choices in facilitation are highlighted along the way. The proposed time table follows:

15 min	<ul style="list-style-type: none"> ● Introductions ● Participants will randomly choose roles as they enter the classroom which will be set-up using Porter's model ● General setup will be explained supplementing the handout for participants
10 min	<ul style="list-style-type: none"> ● Materials will be distributed - if there are enough participants some will be designated observers ● Based on participants' actions, environmental variables will be modified to decrease or increase the energy of competition and learning
10 min	<ul style="list-style-type: none"> ● Pause exercise ● Highlight teachable moments ● Comment on choices that might be made at this time to increase teachable moments on various topics

10	<ul style="list-style-type: none">● Continue the exercise after changing environmental factors
15	<ul style="list-style-type: none">● Wrap up the exercise and engage participants in a discussion of how the exercise might be used in different settings or with different constraints

References:

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