

# Porter's Competitive Forces Model and SWOT Analysis to Payments

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**Abstract** This article aims to apply Porter's forces model and the SWOT analysis to the Payment Industry and the Technology so that Organization can improve Technology infrastructure considering all five forces and improve strategy using SWOT models that provides strengths, weakness, opportunities and threat. This paper focuses on different quadrants involved in the Payments and considers analyzing these stakeholder and factor these from time to time in order to improve and thrive in business. This analysis of the data that we can collect from these models can drive major shifts in the strategy.

**Keywords** Porter Analysis, SWOT analysis, Payment Industry, Payment Processor, Buyer, Supplier, Cryptocurrency

## 1. Introduction

This article will focus on the forces which have strong influence on the organization and provide the competitive advantage in the market. The main idea behind this is to earn a return on investment which is better than the average. These models Porter and SWOT use IT as a supportive resource and means to achieve competitive strategies. (Thurlby, B. 1998). By Providing a combined understanding of these models and the Payments together, this article and the research focuses on the analysis of these models into the Payment Industry. This analysis also adequately demonstrates thorough process descriptions and the actual business outcomes.

## 2. What is Porter's Competitive Forces Model

Porter was given in 1980 by Michael porter, a strategy professor at Harvard business school. The original competitive forces model identifies five factors which have strong impact on organization behaviour. (Thurlby, B. 1998) The five forces are a framework for analysing the competition between existing sellers. It is to notice what our competitor will do in future, where do we have competitive advantage and how will the relation among seller change. This happens because of price competition and staging advertising battles. It brings a firm in pressure. (Michael, Hitt, 2000) Next is power exerted by customer. The customer

demands high quality in less value and it bringing a higher competition for companies. The third factor is the impact of suppliers, the supply vendors with the product and service after the product is sold. Fourth factor is associated with the threats of a new seller which comes up with a lot of pressure and high competition to the existing company. The Last factor is threat of substitute products which are available in the market at fewer prices and are of the similar quality. These are five porter factors affecting organization position in the market. (Thurlby, B. 1998) All these factors combine and make up the environment. This model is to be applied to an entire industry. (Michael, H, 2000)

## 3. What is SWOT

SWOT helps in practicing strategic information management. It provides an understanding of core competencies of the business units within the organization and also of the organization itself. (Orndoff, Keith, 2002) It is a tool to minimize the weaknesses, looking for the market opportunities, planning against threats and identifying strengths. The new opportunity may come in a form of a competitor going out of business or merging with the company itself (Kyle, Bobette). There are some possible opportunities like a new customer needs quality which a company is capable of producing and satisfying customer and thus expansion of market. (Lexisnexis, 2003) The possible threats can be a new competitor entry, changing of location of the company, a new technology invasion which is not cheap for already established organization and regulatory requirements. Looking at these features, the companies can create defensive measures to build a strategy against competitive market. (Michael, Hitt, 2000). First, it was used in complex business environment for the purpose of building business strategies (Xiaomin, 2000). Now, it has gained

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success as a management tool for analysis. It increases the productivity for any business (Backman and Butler, 2003). SWOT analysis can be used in many ways like building a team or business planning (Pearce, C, 2003). There are ten ways to implement SWOT. The first step is to consider use of SWOT. It will help in analysis if it is known beforehand the way and place where it is going to be implemented. The next step is to prepare a model that is having four sections for strength, weaknesses, opportunities and threats. When studying SWOT, SW can be seen as external and OT as internal factor. It can also be viewed as TOWS but both views SWOT and TOWS are same. (Pearce, C, 2003)

## 4. What are the Similarities

Both the models help in developing strategies against online and as well as offline competitive environment. Both concepts help in competing in market. Porter and SWOT are frameworks that help an organization to build strategies and moves towards success. If viewed in detail, SWOT and Porter identify an organization's strengths, weaknesses as well as their environment opportunities. When studying SWOT, SW as seen as internal and OT as external. (Kyle, Bobette)

## 5. What are the Differences

Porter does not recognize the factors which are changing and are highly IT dependent. (Thurlby, B. 1998) The porter also does not balance operational and strategic issues. (Finlay, 1988) According to Porter, Porter model is not considered as strategy but as a way to deal with the failure of past strategies. (Finlay, 1988) Porter is an industry analysis and it is for environmental forces whereas SWOT is a situation analysis. (Kyle, Bobette) SWOT is not an analysis but a tool which helps in analysis. (Amundson) SWOT gives an overview of a company's strategy situation (Michael, Hitt. 2000) It is used for external and internal analysis. (Michael, H, 2000) SWOT can also be used to perform an analysis of the competitor. SWOT can be used for personal career development whereas Porter model is used for industries. (Amundson)

## 6. What is Payment

It is very crucial to understand the concepts and workflows of the Payments before diving into Porter and SWOT analysis into Payment Industry. Payment is a complex ecosystem that enables Buyer buy goods and services from a Supplier (Merchant) and it involves multiple stakeholders. It essentially enables money movement in order to exchange good and services. All stakeholders rely upon set of services provided by the payment network. The below figure 1 describes a simple traditional method of Payments.

### 6.1. Traditional Method of Payment

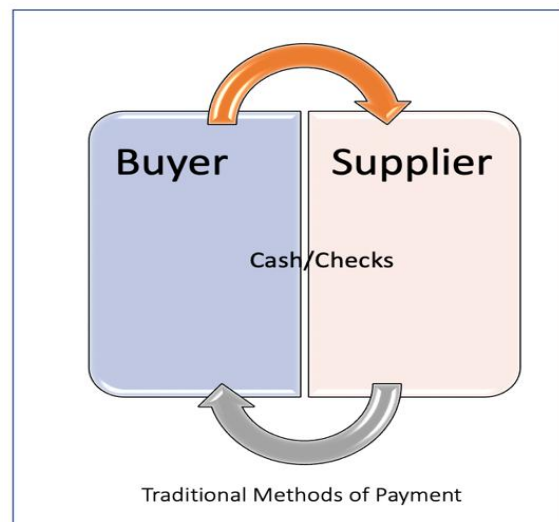


Figure 1. Traditional Method of Payment

### 6.2. Key Players

I call this as Many-Party model because depending on if we are looking at the traditional methods of payments or the newer versions of Payment Processes, it can have 3-party model to x-Party model. The simplest way to describe the stakeholders in the Payments and how each of these are depending on each other is outlined as in Figure 2. This can be as detailed as depending on the various use cases involved in the Payment Technology.

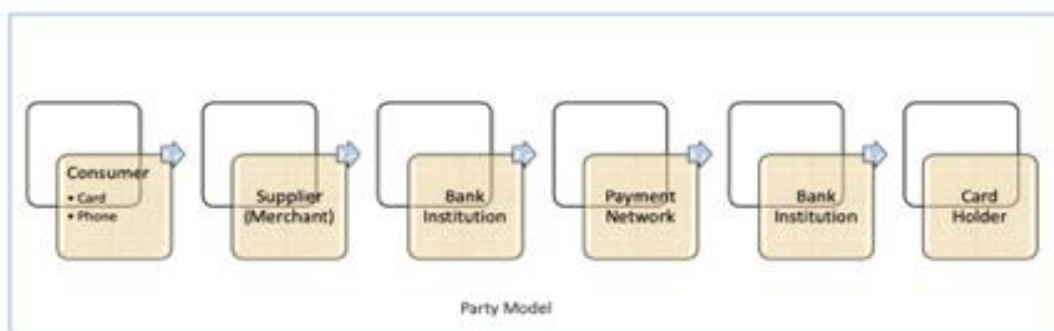


Figure 2. Multi-party Model

### 6.3. Definitions of Each Party Involved

6.3.1. Consumer: Beneficiary of the services, a cardholder, Buyer.

6.3.2. Payment network: who provides payments rails, network of network, process transactions.

6.3.3. Consumer Processor/Bank entity: An entity who bears the risk of providing extended line of credit to the consumer, services to consumer that are used for making payments.

6.3.4. Supplier/Merchant: An entity that also pays for the services provided by the Payment network, processing entities but there is a high uptake for Supplier as their products can be sold more because of the consumer being able to use multiple method of payments as supported by Merchant.

## 7. Porter's Analysis into Payments

As this article focusses on the Porter five forces analysis of the Payments, it does determine the portion of Buyer, Supplier, other stakeholders and helps companies identify their strategic positions in the industry. This comparison also helps create or revise strategies for the Organization given that in a x-party model of payments there are players that corresponds to the different factors in the Porter's model. This article mainly focuses on applying the Porter five forces factors to a payment industry and perform analysis. The below outlined Figure 3 draws the Porter five forces and also the various stakeholders in the Payment industry.

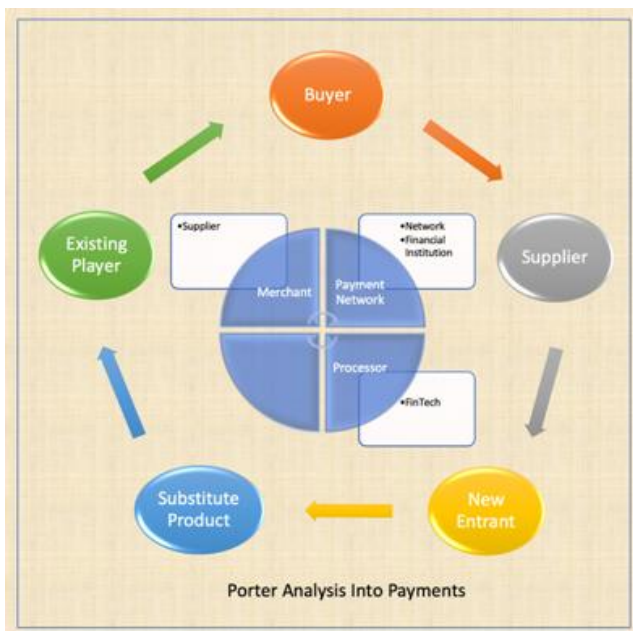


Figure 3. Porter's Analysis into Payment

7.1. Bargaining power of Buyer: The buyer is the customer base. The position of customer base or the financial institution is very strong because of a pressure to increase the customer base. More incentives need to be offered and in

order to achieve it, companies will have to charge low fees. A payment can certainly be under pressure to provide more services, packages and offers. Buyer definitely may have more control in this industry.

7.2. Bargaining power of Supplier: The role of supplier in the payment industry either could be of a merchant or a financial entity that provides the services. One example will be a processor supplying SDK so that a chip based contactless card could be accepted by the Merchant and he/she gets more business. The power of supplier in not very strong in the model and may have control in the prices.

7.3. Substitute Product: A new Product in the market for which a company does not have alternatives and the existing services and products can be easily be replaced. Payment industry feels the pressure of innovating. Getting a new Product in the market along with innovation is always challenging tasks. It also needs to resonance with the market needs and must be strong enough to compete with other competitors in the same field. Putting the idea into context and incorporating experience in this area, it is really important to make sure that any idea does not fall behind the competition. However, innovation does not always mean a new idea or service. It in-fact also includes redesigned, little changes to the existing rails to serve better customer needs. In the Payment Industry stakeholder needs to revise its strategies around innovation and enhancing product to accommodate new services as gain time to market. The position of substitute product can be high and companies needs to continue to think about the innovation or compete with upcoming ideas and products in the same competing space.

7.4. New Entrant: Example of a new players can be something like Blockchain based payment Company building new payment rails. In payment industry, this factor may be a threat but as long as stakeholder and mainly the service provider, payment processor has been updating itself to all new payment methods, this factor is not very high.

7.5. Competition: Upcoming fintech, value chain payment methods, blockchain payments causes new competition in the payment industry and can be very disruptive. However, since the ecosystem of a payment processing is very complex, this threat (depending on the infrastructure and dependencies of the stakeholder on the payment rails) can be considered as moderate. Nevertheless, this factor is very strong and intense. It is very critical for the stakeholders to update, invest in trending technological research and be time to market. They must be strong in the competitive market by offering new product and services. Some of the examples are Risk analytics, Fraud detection, Security, Cardholder verification methods, real-time money transfer capabilities and tokenization.

## 8. SWOT Analysis into Payments

SWOT is a tool to analyse Strength, Weakness, Opportunities, and Threats. It is tool to be able to use to draw

strategies. Its main purpose is to identify the strategies that a firm can utilize and thrive in the business and be successful. SWOT analysis of the payment industry can identify some important aspects of a business. The table below contains four quadrants each containing one part of SWOT analysis:

**Table 1.** SWOT analysis Matrix into Payment

Strengths:	Opportunities:
<ul style="list-style-type: none"> <li>• Core infrastructure</li> <li>• Reliable ecosystem</li> <li>• Security</li> <li>• Quick Time to market</li> <li>• Global presence</li> <li>• Already adapted solutions</li> <li>• Ability to transform into digital solutions, services</li> <li>• High Availability of services</li> <li>• Large Customer Base</li> <li>• High volume of Payment that can be processed per second.</li> <li>• Seamlessly Integrated with Fintech institutions, Buyer, Supplier, Payment Network, and Bank institutions</li> </ul>	<ul style="list-style-type: none"> <li>• New Partnerships</li> <li>• Innovative products</li> <li>• Ease of use</li> <li>• Digital transaction transformation is quick and welcomed</li> <li>• Strong resilient infrastructure systems and existing trusted and robust Network</li> </ul>
Weaknesses:	Threats:
<ul style="list-style-type: none"> <li>• High dependencies on the connectivity</li> <li>• Complex systems</li> <li>• Tight coupling of entities</li> <li>• Processing fees (everyone in the ecosystem pays)</li> <li>• High investment because it required a very strong technical development, support organization</li> <li>• Protection systems considering the Fraud and risk activities involved</li> </ul>	<ul style="list-style-type: none"> <li>• New entrants providing services without pricing or low prices</li> <li>• Other Financing models (e.g. direct private payments)</li> <li>• New entities/player in the market</li> <li>• New technological trends and opportunities</li> <li>• High Competition</li> <li>• Lack of resources who built system originally</li> <li>• Fraudsters</li> <li>• Virtual currency</li> <li>• Building a payment network takes year</li> <li>• Not able to quickly innovate</li> <li>• Financial threats (because of the pressure to offer more incentives, low charges for services, return of the investment is low)</li> </ul>

As we can see that strength and opportunities are helpful to the organization's strategy, weakness and threats are harmful. The above outlined table and matrix help consolidate the results so that a payment organization can consolidate the results and work on redefining, revising strategies and continue to thrive in the business.

Strength, weakness, opportunities and threats. This table highlights some key findings from each part of the SWOT analysis that can be performed for a payment industry and help business to be successful.

complex system unlike many other industries and applying, implementing Porter/SWOT analysis can produce thriving results in this industry. Also, the outcome varies by industry, the organization and the implementation of these models but typically results can be very promising.

## 9. Conclusions

As mentioned in the introduction, this article primarily focuses looking at the Porter factors to help build strong strategy for the organization. On other hand, SWOT helps to identify strengths and weaknesses. These 2 models can go hand-in hand by developing the strategy map and certainly fully understand strategy mapping. As we are building the forces, strategy and map, keep in mind there should be a natural alignment with the Business and goals. The strategy must map and if needed, it must be revised to meet the Organization goals and needs to reflect that. When we get to the process that stage the strategy mapping, activities can be set based on the strengths and those helps determine if there is any improvement needed. Payment Industry is a very

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