



The impact of social media on industry structure



By Andrew Shipilov , INSEAD

In the previous post, I discussed some results of a survey where we asked about how companies can use social media to achieve competitive advantage.

In that survey, Prof. Quy Huy and I, also asked participants to tell us how the structure of their industries was affected by the introduction of social media tools.

We conceptualized industry structure by using the well known Porter's 5 Forces framework. Essentially, we asked about the impact that the introduction of social media had on barriers to entry in the respondent's industry (i.e. did the barriers to entry increase, decrease or remain the same), intensity of competition (i.e. did it increase, decrease, remain the same), power of buyers (i.e. did this power increase, decrease or remain the same), power of suppliers (i.e. did this power increase, decrease or remain the same) and the threats of substitutes (i.e. did these threats increase,

decrease or remain the same).

The results of the survey are presented in the slide below. To our surprise, social media did not change either barriers to entry, or suppliers' power or the power of the buyers. The majority of our respondents chose "did not change" answer for these three elements of industry structure.

Yet, the biggest effect of social media was on substitutes, i.e. most of the respondents told us that the introduction of social media in their industry increased the threat from substitutes. When we asked them what substitutes meant to them, many gave us examples of competing products or services (e.g. air travel operator claiming that the use of social media by other air travel operators increased the threat of substitutes). This tells us that even though we explained in the survey that substitutes were actually different products or services that served the same function (e.g. a bus is a substitute for air travel, while another air travel operator is actually a direct competitor) , our respondents still mixed the two.

Ultimately, if we add up the impact of social media on the intensity of competition with the threat of substitutes in the slide below, then we can say that social media did increase the threat from both.

Thus, social media did not change barriers to entry, power of buyers or suppliers, but it did increase the competition/threats from substitutes within the industries. The interesting part about these findings was that we expected social media to change everything: lower barriers to entry, increase the power of buyers and lower the power of suppliers, but this did not happen. So, the impact of social media on the industry structure is not as large as some might predict.

In the final part of the survey, we also asked about the impact of companies' internal social media use on the exchange of information between different functional units (e.g. R&D talking to marketing) and across different levels of hierarchy (e.g. bosses talking to employees and back). What was the response? Stay tuned, I will add one more post this week...

Find article at

<https://knowledge.insead.edu/strategy/impact-social-media-industry-structure>

About the author(s)

Andrew Shipilov is a Professor of Strategy and the John H Loudon Chair of International Management at INSEAD.

Download the free Knowledge App

