

Original Article

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 Technology so that organizations can improve Technology infrastructure by considering all five forces and improve strategy using SWOT models that provide strengths, weaknesses, opportunities, and threats. This paper focuses on different quadrants involved in Payments and considers analyzing these stakeholders and factors from Time to Time to improve and thrive in business. This analysis of the data we can collect from these models can drive major strategy shifts.

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

I. INTRODUCTION

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

II. 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 that strongly impact organizational behaviour. (Thurlby, B. 1998) The five forces are a framework for analyzing the competition between existing sellers. It is to notice what our competitors will do in the future, where we have a competitive advantage, and how sellers' relationship

changes. This happens because of price competition and staging advertising battles. It brings firm pressure. (Michael, Hitt, 2000) Next is the power exerted by the customer. The customer demands high quality for less value, bringing higher competition for companies. The third factor is the suppliers' impact, which is the supply of vendors with the product and service after the product is sold. The fourth factor is associated with a new seller's threats, which comes with a lot of pressure and high competition for the existing company. The Last factor is the threat of substitute products available at lower prices and of similar quality. These are five porter factors affecting an organization's 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)

III. WHAT IS SWOT

SWOT helps in practising strategic information management. It provides an understanding of the business units' core competencies within the Organization and itself. (Orndoff, Keith, 2002) It is a tool to minimize weaknesses, look for market opportunities, plan against threats, and identify strengths. The new opportunity may come in a competitor going out of business or merging with the company itself (Kyle, Bobette). Conclusion: there are some possible opportunities like a new customer needs a quality that a company can produce and satisfy the customer and thus expand the market. (Lexisnexis, 2003) The possible threats can be a new competitor entry, changing its location, and a new technology invasion, which is not cheap for already established Organization and regulatory requirements. Companies can create defensive measures to build a competitive market strategy by looking at these features. (Michael, Hitt, 2000). First, it was used to build business strategies in a complex business environment (Xiaomin, 2000). Now, it has gained success as a management tool for analysis. It increases the productivity of 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 the use of SWOT. It will help in the analysis if known beforehand the way and place it will be implemented. Next is to prepare a model with four sections for strengths, weaknesses, opportunities, and threats. SW can be seen as an external factor when studying SWOT and OT as an internal factor. It can also be viewed as TOWS, but both views SWOT and TOWS are the same. (Pearce, C, 2003)

IV. WHAT ARE THE SIMILARITIES

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

V. WHAT ARE THE DIFFERENCES

Porter does not recognize the factors which are changing and are highly IT-dependent. (Thurlby, B. 1998) Porter also does not balance operational and strategic issues. (Finlay, 1988) According to Porter, the Porter model is not considered a strategy but a way to deal with past strategies' failures. (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 that helps in the analysis. (Amundson) SWOT gives an overview of a company's strategic 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 the Porter model is used for industries. (Amundson)

VI. WHAT IS PAYMENT

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

A. Traditional Method of Payment

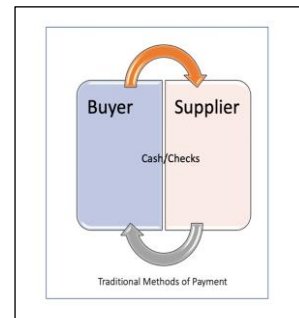


Fig. 1 Traditional Method of Payment

B. Key Players

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

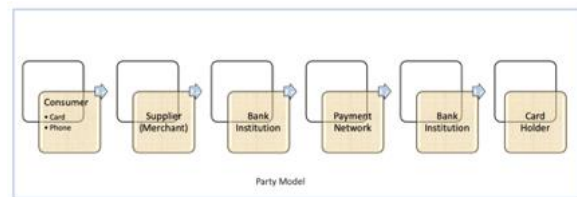


Fig. 2 Multi-party Model

C. Definitions of each party involved

- Consumer: Beneficiary of the services, a cardholder, Buyer.
- Payment network: who provides payments rails, Network of Network, process transactions.
- Consumer Processor/Bank entity: An entity that bears the risk of providing extended credit line to the consumer, services to the consumer used for making payments.
- Supplier/Merchant: An entity that pays for the services provided by the Payment network, processing entities, but there is a high uptake for Suppliers as their products can be sold more because of the consumer's use of multiple payment methods as supported by Merchant.

VII. PORTER'S ANALYSIS OF PAYMENTS

As this article focuses 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. In an x-party model of payments, some players correspond to Porter's model's different factors. This article mainly focuses on applying Porter's five forces factors to the payment industry and performing an analysis. The below-outlined Figure 3 draws the Porter five forces and the various stakeholders in the Payment industry.

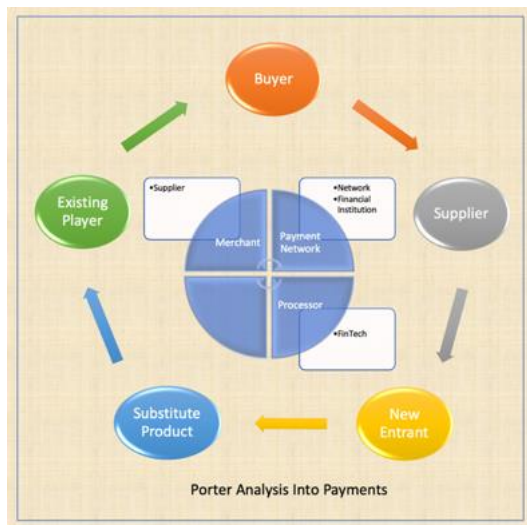


Fig. 3 Porter's Analysis of Payment

A. Bargaining power of Buyer

The Buyer is the customer base. The customer base position of the financial institution is very strong because of the pressure to increase the customer base. More incentives need to be offered to achieve it, and companies will have to charge low fees. A payment can certainly be under pressure to provide more services, packages, and offers. The buyer definitely may have more control in this industry.

B. Bargaining power of Supplier

The role of a 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 the Merchant could accept a chip-based contactless card, and they get more business—the power of the Supplier is not very strong in the model and may have control over the prices.

C. 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. The payment industry feels the pressure of innovating. Getting a new Product

into the market and innovation is always a challenging task. It also needs to resonate with the market needs and be strong enough to compete with competitors in the same field. Putting the idea into context and incorporating experience in this area, it is important to ensure that any idea does not fall behind the competition. However, innovation does not always mean a new idea or service. It also includes redesigned, little changes to the existing rails to serve better customer needs. In the Payment, Industry stakeholder needs to revise their strategies around innovation and enhance the product to accommodate new services as they gain time to market. The position of substitute products can be high, and companies need to continue thinking about innovation or competing with upcoming ideas and products in the same competing space.

D. New Entrant

An example of new players can be a Blockchain-based payment Company building new payment rails. In the payment industry, this factor may be a threat. Still, as long as stakeholders and mainly the service provider, the payment processor has been updating itself to all new payment methods, this factor is not very high.

E. Competition

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

VIII. SWOT ANALYSIS INTO PAYMENTS

SWOT is a tool to analyze Strengths, Weaknesses, Opportunities, and Threats. It is a tool to be able to use to draw strategies. Its main purpose is to identify the strategies that a firm can utilize and thrive. 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 the SWOT analysis: 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 the business succeed.

Table 1. SWOT analysis Matrix into Payment

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

As we can see, strengths and opportunities help the Organization's strategy; weaknesses 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 thriving in the business.

IX. CONCLUSION

As mentioned in the introduction, this article primarily focuses on looking at the Porter factors to help build a strong strategy for the Organization. On the other hand, SWOT helps to identify strengths and weaknesses. These 2 models can go hand-in-hand by developing the strategy map and fully understanding strategy mapping. As we build 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 organizational goals and reflect that. When we get to the process that stages the strategy mapping, activities can be set based on the strengths, and those help determine if there is any improvement needed. Unlike many other industries, the Payment Industry is a very complex system, and applying and implementing Porter/SWOT analysis can produce thriving results in this industry. The outcome varies by industry, organization, and implementation, but typically results can be very promising.

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