

# Zoom Analysis by Porter's Five Forces

Wenlin Li

Southeast University, Nanjing, Jiangsu, China

## Abstract

This report aims to analyse a company with reference to Porter's Five Forces and recommend some suggestions to improve its competitive advantage. Porter's Five Forces believe that there are five different forces in an industry that determine the degree and scale of competition, collectively influencing the competitive strategy of existing companies. This report evaluates Zoom Video Communication, Inc. from the aspect of substitutes threat and market competition. To be specific, the substitutes threat and competition among companies will be used to demonstrate how forces have been affecting the Zoom. It is found that Zoom has harvested recognition and dominated the global video conferencing market by Strategic Pillars and Growth strategy to some extent, but there is a threat of substitutes due to its product singularity. Therefore, it is recommended that Zoom should research core technologies to implement safety performance to resist to the threat of substitutes and create a platform ecosystem to reduce the possibility of customer loss and retain customers.

## Keywords

Zoom; Porter's Five Forces; Substitutes Threat and Market Competition; Core Technologies; Platform Ecosystem.

## 1. Introduction

The long-term COVID-19 has prompted major enterprises to telecommute, thus driving the development of the industry from the demand side (Kubacz-Szumaska & Szumski, 2021). As a unified communications platform, Zoom Video Communication, Inc. was founded in 2011 by Eric Yuan and listed on NASDAQ in 2019, whose aims are to enable consumers to connect with others, exchange ideas, and lay plans (Zoom Video Communication, Inc., 2022). Benefiting from the demand for telecommuting caused by the epidemic, the sharp rise of the company's stock has attracted attention.

Michael Porter established the Porter's five forces model and he argues that there are five different forces in an industry that determine the degree and scale of competition, which jointly affect the competitive strategies of existing companies (Schwenger et al., 2014). More importantly, these are bargaining ability of buyers, menace of new entrants, dickering capability of suppliers, threat of substitutes, and competition among firms respectively (Porter, 2008).

This report will evaluate Zoom with reference to Porter's Five Forces. In particular, the substitutes threat and competition among companies will be used to demonstrate how forces have been affecting the Zoom. Some measures of managing the applicable forces taken by Zoom will be evaluated and two recommendations for improvement will be provided.

## 2. Theory of Porter's Five Forces

Porter's Five Forces started a revolution in the strategy field, and competitive strategies for companies, nations and philanthropy have appeared in subsequent decades, which shows that this theory has shaped a generation of academic research and business practice (Porter, 2008).

## 2.1. Threat of Substitutes

Threat of substitutes is that alternative products or services offered by other companies can perform the similar function to current products or services in the market, which is influenced by many factors, such as price competitiveness of alternatives, satisfaction with the quality of substitutes and transfer cost (Porter, 2008). To be specific, price is an important factor affecting customers' choice of products because most consumers will measure whether the value of products is consistent with the price, so as to choose products. Secondly, due to the reason that consumers will evaluate the use experience of products and decide whether to continue to consume the company's products in the future, customer satisfaction is another important factor affecting product sales. Thirdly, conversion cost refers to the one-time cost caused by the conduct that consumers switch from one provider to another, and it is also a factor influencing the threat of substitute (Porter, 2008). There is no doubt that the threat of substitutes is inevitable. For example, because of the emergence of cheap Internet-based telephone services such as Vonage and Skype, traditional long-distance telephone service providers have been affected (Porter, 2008). In conclusion, the threat of substitutes will influence the competitive strategy of existing enterprises.

## 2.2. Rivalry among Existing Firms

There are many competitions among existing competitors, which will affect the market position of firms (GHICAJANU, 2021). Competitions are mainly influenced by types of market competition, industry expansion and ambition of competitors. As the most significant and basic factor to determine the structure of market, the industrial concentration ratio reflects the competition in the market. Generally, the competitions are greatest if the concentration ratio of industry is low and there are many ambitious competitors in a sluggish industry. For instance, airlines have engaged in price wars for many years because there are many competitors whose products or services are almost identical in the market, and the industry expansion is slow (Porter, 2008). There is no denying that competition brought by competitors and industry expansion will have an essential influence on the company.

## 3. Analysis

According to Zoom Annual Report Fiscal 2022, Zoom Meetings is the cornerstone of the firms platform, around which there is a full suite of features and products designed to provide consumers with an easily available and innovative unified communications experience, which will significantly expand the market space that the company can contact (Zoom Video Communication, Inc., 2022). Therefore, Zoom Meeting is the core product and most analysis will focus on this product by Porter's Five Forces.

### 3.1. Products of Zoom

Focused on Zoom Meetings, there are different kinds of products of Zoom, including Zoom Meeting, Zoom Phone, Zoom Chat, Zoom Rooms, Zoom Events, Zoom Webinar, Zoom App Marketplace. Additionally, benefiting from the advantages of being great for webinars, meetings and large groups, the advanced features of multi-screen support and large group end-to-end encryption, Zoom keeps high acceptance from the aspect of consumers satisfaction, even if its licensing is expensive compared with Google, Microsoft Teams and other substitutes (Patrick, 2021). To summarise, Zoom has achieved constantly high scores across customer comment sites by TrustRadius, Gartner Peer Insights and G2 Crowd (Zoom Video Communication, Inc., 2022).

However, there is another relatively large threat of substitutes for Zoom according to Porter's five forces. To be specific, the main single feature video meeting function of Zoom is the main reason why customers are willing to choose them, but it is exactly because as a single tool

software, it has strong replicability, which makes it possible to reproduce by other substitutes, such as Google, Microsoft teams and so on. If other substitutes imitate Zoom's functions and have advantages in terms of price and customer satisfaction, the conversion cost of customers will be reduced, and the threat of substitutes will be greater. Faced with this risk, Zoom has taken some measures to make up for weakness. For instance, Zoom has Strategic Pillars that include a unified communications platform and hybrid work and growth strategy that are keeping existing customers satisfied, driving new customer acquisition and expanding within existing users (Zoom Video Communication, Inc., 2022).

### 3.2. Competitive Position of Zoom

Zoom and Microsoft Teams dominate the global video conferencing market, and the competition pattern is relatively stable. Although the industry Zoom operates in is a highly competitive market from all kinds of subdivision tracks, taking bundled productivity solution providers as an example, Google Workspace and Microsoft Teams are Zoom's strongly direct competitors (GHICAJANU, 2021). Due to the customer base of Microsoft Office suite and the strategy of bundling sales, many investors are worried about the influence of Microsoft teams on Zoom's share. In fact, Microsoft teams and Zoom essentially serve different customer needs. Specifically, Microsoft teams mainly takes document collaboration as the core and serves the internal communication of enterprise users; Zoom, on the other hand, mainly relies on the reliable and easy-to-use video call capability of data centre nodes with global layout, which makes it more efficient and convenient for external and cross organisational communication. Moreover, from the perspective of historical share, the relative share of original manufacturers such as Microsoft and Cisco has not changed significantly from 2016 to 2020, which also shows that the video conference market has high customer loyalty to a certain extent according to IDC. Faced with the threat from Microsoft teams, Zoom has taken a Growth strategy that mainly concentrates on innovating the Zoom platform continuously and growing the partnership ecosystem. Through improvements, the platform of Zoom can serve more types of customers, which is conducive to gaining advantages in market competition.

## 4. Conclusion and Recommendations

In conclusion, Zoom manages the two applicable forces successfully by Strategic Pillars and Growth strategy to some extent. To be specific, both customer satisfaction and the net promoter score of Zoom are high. Additionally, Zoom dominates the global video conferencing market, and the competition pattern is relatively stable. However, the threat of substitutes is relatively high due to its product singularity, so some necessary measures should be taken for Zoom.

There are two suggestions for Zoom to confront the threat of substitutes and market competition. To begin with, Zoom should develop core technologies to improve safety performance because the core technology is not only an important guarantee for the moat, but also a barrier that is least easily copied by substitutes, which is conducive to Zoom's resistance to the threat of substitutes. Secondly, it is recommended that Zoom needs to create a platform ecosystem. In order to reduce the possibility of customer loss, Zoom should cultivate users' habits by creating a platform ecosystem and retain customers when Zoom has a relatively fixed customer group now. Simultaneously, Zoom is also conscious of the difficulty and strives to build an application market to provide consumers with various office tools of "Zoom version", such as embedding some function modules of Zoom into other products. In summary, considering Zoom's products are very distinctive, but they are easy to be copied owing to a single product, Zoom should maintain its characteristics and raise barriers at the same time if it wants to guarantee success in the future even though Zoom has developed a single function to achieve success right now (Ravenscraft, 2021).

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