PORTER’S 5 Forces Model

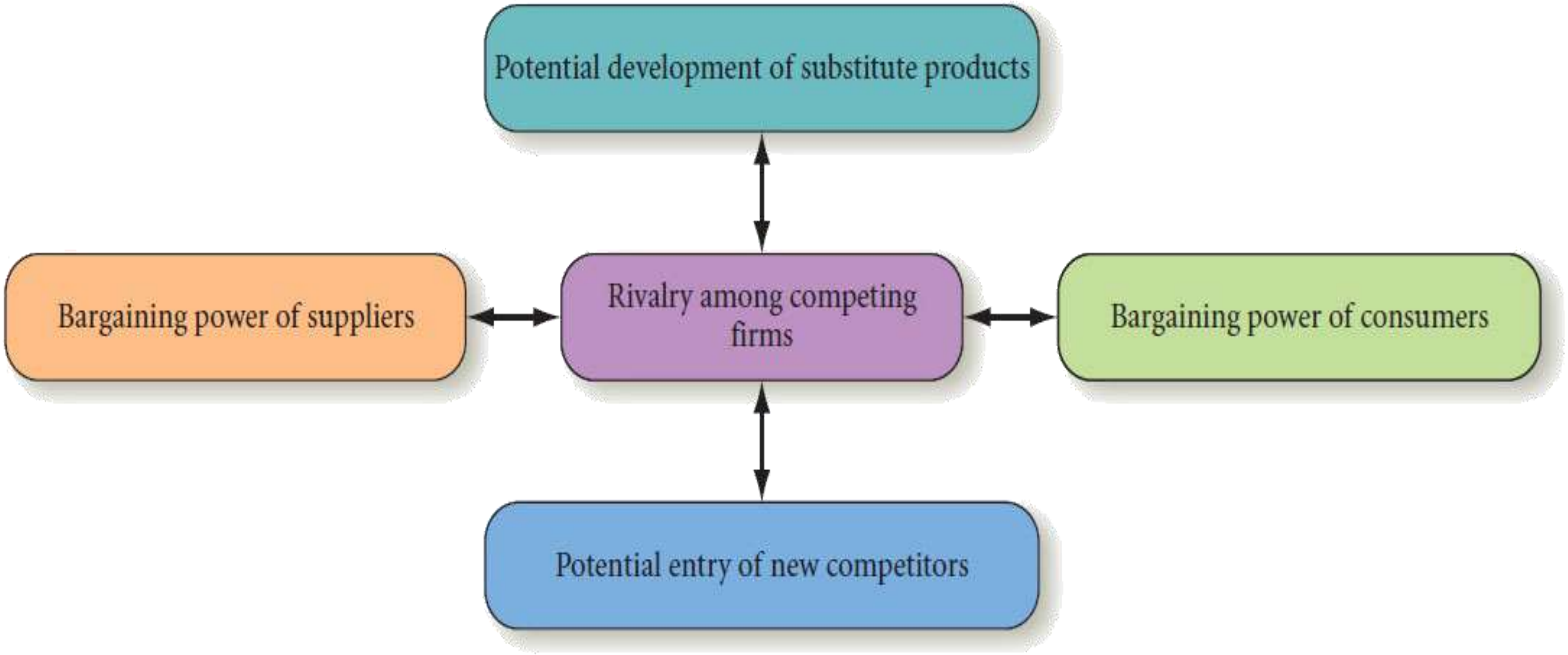
Porter's Five Forces is a simple but powerful tool for understanding the competitiveness of your business environment, and for identifying your strategy's potential profitability.

https://www.mindtools.com/pages/article/newTMC_08.htm

Michael E. Porter (1979)

to analyze an industry's attractiveness and likely profitability

THE FIVE-FORCES MODEL OF COMPETITION



THE FIVE-FORCES MODEL

Rivalry among competing firms

- Most powerful of the five forces
- Focus on competitive advantage of strategies over other firms

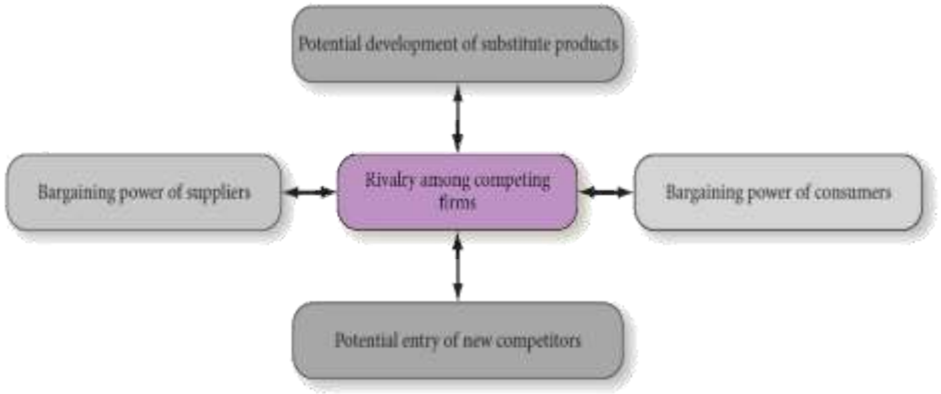


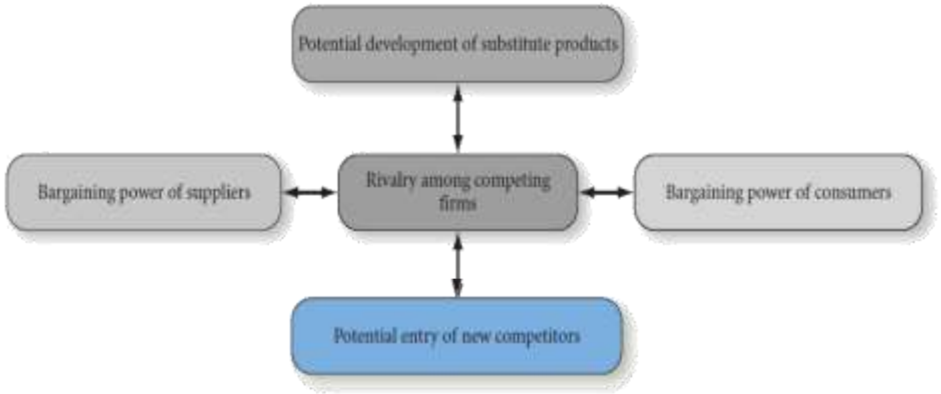
TABLE 3-7 Conditions That Cause High Rivalry Among Competing Firms

1. When the number of competing firms is high
2. When competing firms are of similar size
3. When competing firms have similar capabilities
4. When the demand for an industry’s products is falling
5. When the product or service prices in the industry are falling
6. When consumers can switch brands easily
7. When barriers to leaving the market are high
8. When barriers to entering the market are low
9. When fixed costs are high among competing firms
10. When the product is perishable
11. When rivals have excess capacity
12. When consumer demand is falling
13. When rivals have excess inventory
14. When rivals sell similar products/services
15. When mergers are common in the industry

THE FIVE-FORCES MODEL

Potential Entry of New Competitors

- Barriers to entry are important
- Quality, pricing, and marketing can overcome barriers



BARRIERS TO ENTRY

- Need to gain economies of scale quickly
- Need to gain technology and specialized know-how
- Lack of experience
- Strong customer loyalty
- Strong brand preferences
- Large capital requirements
- Lack of adequate distribution channels

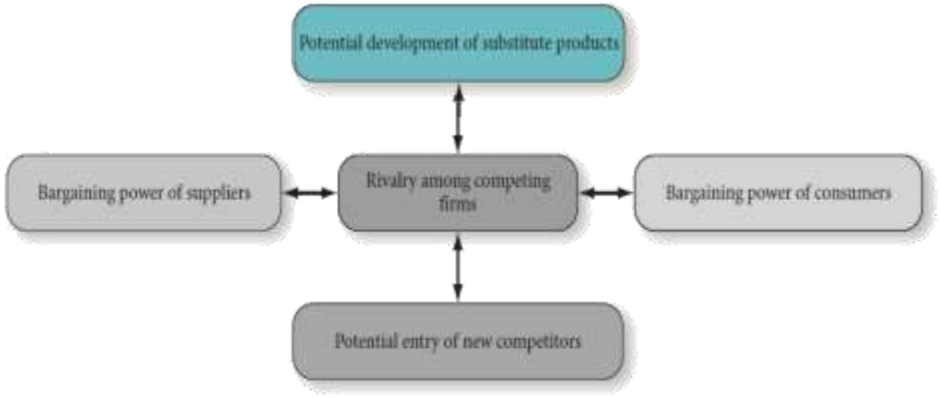
BARRIERS TO ENTRY

- Government regulatory policies
- Tariffs
- Lack of access to raw materials
- Possession of patents
- Undesirable locations
- Counterattack by entrenched firms
- Potential saturation of the market

THE FIVE-FORCES MODEL

Potential development of substitute products

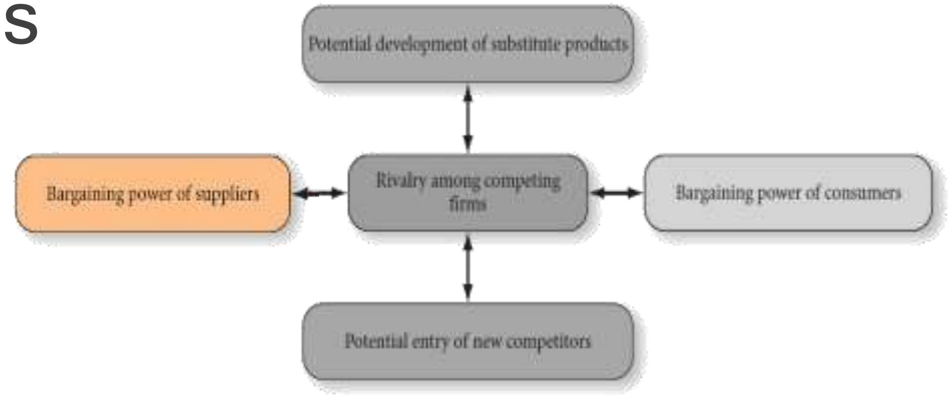
- Pressure increases when:
  - Prices of substitutes decrease
  - Consumers' switching costs decrease



THE FIVE-FORCES MODEL

Bargaining Power of Suppliers

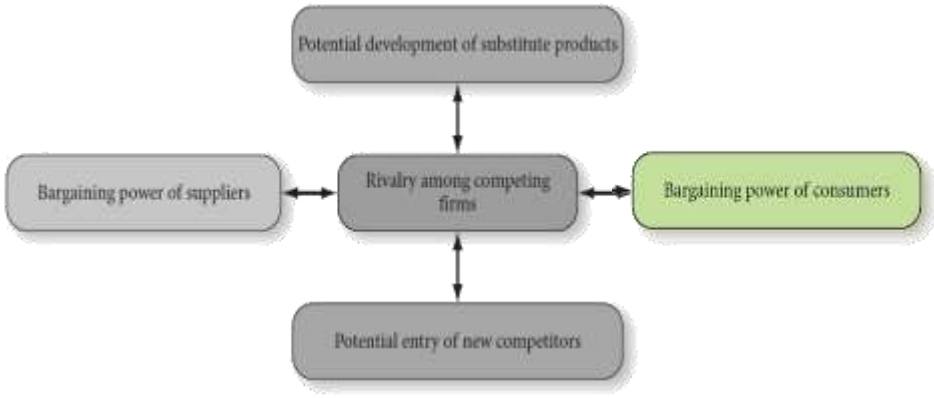
- increased when (there are):
  - Few suppliers
  - Few substitutes
  - Costs of switching raw materials is high



THE FIVE-FORCES MODEL

Bargaining power of consumers

- Customers being concentrated or buying in volume affects intensity of competition
- Consumer power is higher where products are standard or undifferentiated



CONDITIONS WHERE CONSUMERS GAIN BARGAINING POWER

1. If buyers can inexpensively switch
2. If buyers are particularly important
3. If sellers are struggling in the face of falling consumer demand
4. If buyers are informed about sellers' products, prices, and costs
5. If buyers have discretion in whether and when they purchase the product

Sample Five-forces Model Analysis

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Thank you.