Michael Porter's

Five Forces Model

Michael Porter…

"An industry's profit potential is largely determined by the intensity of the competitive rivalry within that industry"

Porter's Five Forces …

* Threat of Entry

* Bargaining Power of Suppliers

* Bargaining Power of Buyers

* Substitute Products/Services

* Rivalry among Competitors

Portfolio Analysis…

Strategy was focused on:

Industry Attractiveness

& Competitive Position

Structural reasons why…

… some industries were profitable:

* Firm concentration
  * Established cost advantages
    * Product differentiation
      * Economies of scale

Structural reasons...

All represented barriers to entry in certain industries, thus allowing those industries to be more profitable than others.

Michael Porter . . .

By using a framework, Porter identified the relevant variables and the questions that the user must answer in order to develop conclusions tailored to a particular industry and company.

Porter's Five Forces …

* Threat of Entry
* Bargaining Power of Suppliers
* Bargaining Power of Buyers
* Substitute Products/Services
* Rivalry among Competitors

Barriers to Entry …

Large capital reqirements or the need to gain economies of scale quickly.

Strong customer loyalty or strong brand preferences.

Lack of adequate distribution channels or access to raw materials.

Powerful Suppliers…

… high when:

* A small number of dominant, highly concentrated suppliers exists.
* Few good substitutes/raw materials or suppliers are available.
* The cost of switching raw materials or suppliers is high.

Powerful Buyers…

… high when

* Customers are concentrated or large, buy in volume.
* The products being purchased are standard or undifferentiated making it easy to switch to other suppliers.
    * Customers' purchases represent a major portion of the sellers' total revenue.

Substitute products …

… competitive strength high when

* The relative price of substitute products declines .
* Consumers’ switching costs decline.
* Competitors plan to increase market penetration or production capacity.

Rivalry among competitors …

… intensity increases as:

* The number of competitors increases or they become equal in size.
* Demand for the industry's products declines or industry growth slows.
* Fixed costs or barriers to leaving the industry are high.

Summary …

As rivalry among competing firms intensifies, industry profits decline, in some cases to the point where an industry becomes inherently unattractive.