Michael Porter's

Five Forces of Competitive Analysis

ICTSS

Strategic Management

The Institute of Chartered Accountants of India

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Jabalpur Branch of CIRC of ICAI

BONAFIDE CERTIFICATE

This is to certify that the Power Point Project on **Michael Porter's Five Forces of Competitive Analysis** has been made by **Akshay Pandey** with registration no. **CRO0679668** at Jabalpur Branch of Institute of Chartered Accountants of India to fulfill the requirement of 100 hrs Information Technology Training in order to get the Certificate.

CA. Sukesh Choradia
(Chairman)

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CA. Sukesh Choradia
(Chairman)

Michael E. Porter

Michael Porter is the founder of the modern strategy field and one of the world's most influential thinkers on management and competitiveness. The author of 19 books and over 130 articles, he is the Bishop William Lawrence University Professor at Harvard Business School and the director of the school's Institute for Strategy and Competitiveness, which was founded in 2001 to further his work and research.

What is Five Forces of Competitive Analysis

Five forces model is a widely used tool for two important things :-

- Systematically diagnosing the significant Competitive pressures in a market
- Assessing the strengths and important of each of those of Competitive Pressures

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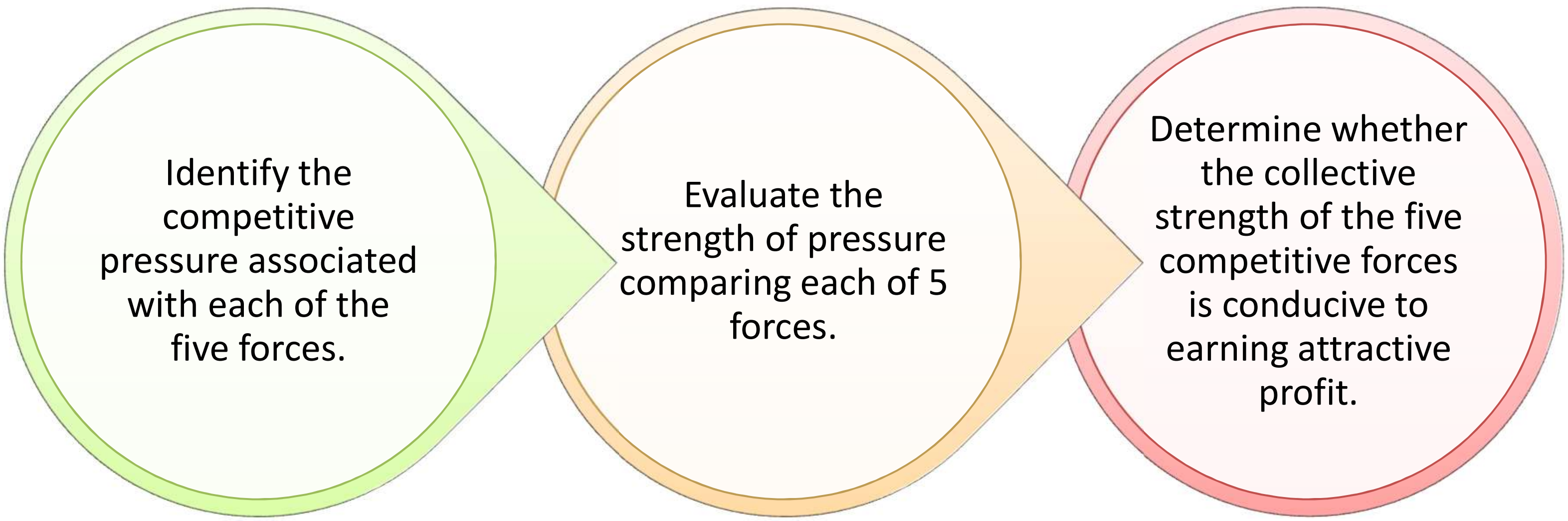
Five Forces

According to Porter – The Competitive environment is a composition of these five competitive pressure or forces operating in a market.

Rivalry Firm	• Competitive Pressure associated with market manoeuring and jockeying for buyer patronage that goes on among rivalry firm.
New Entrants	• Competitive pressure associated with the threat of new entrant in the market.
Substitute Available	• Competitive pressure coming from the attempt of companies of other industry to win the buyer by offering substitute product.
Supplier Bargaining Power	• Competitive pressure stemming from suppliers bargaining power and supplier seller collaboration.
Buyer Bargaining Power	• Competitive Pressure stemming from buyer's bargaining power and buyer seller collaboration.

Steps To Use The Five Forces Model



How New Entrant Can Be A Threat.

According to Porter - New entrants can be powerful sources of competition.

Reduce Profitability.

New Entrant can reduce the profitability of industry because they add up new production capacity, leading to increase in new supply of products, sometime even at lower price.

Destroy Market Share.

Can substantially erode the market share to existing firm.

How To Discourage New Entrant.

According to Porter – To discourage the new entrants, existing firms can raise the barriers to entry. Barriers to entry is a economic forces or hurdles that slow down or impede the entry of new firm.


Capital Requirement.


Economies of Scale.


Product Differentiation.


Brand Identity.


Switching Cost.


Possibility of Aggressive Retaliation.


Access to Distribution Channel.

How To Discourage New Entrant.

Capital Requirement.	• Firm lacking fund effectively barred from the industry which require huge capital to enter. For example, Automobile Industry.
Economies of Scale.	• EOS means decline in per unit cost of production due to huge production of goods. New entrant having higher per unit cost bared from entering the industry.
Product Differentiation.	• Product differentiation is the physical or perceptual difference or enhancement that make product unique in the eyes of the customers. Generally, cost of producing differentiated product is high for new entrants.
Possibility of Aggressive Retaliation.	• Sometime mere threat of aggressive retaliation from existing firm can be great barrier to entry and can deter the new entrant.

How To Discourage New Entrant.

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Brand Identity.

- Brand identity is particularly important for frequent purchase that carry a higher per unit cost for the customers. New entrants face significant difficulties in building brand identity because for that they have to commit substantial resources for a longer period of time.

Switching Cost.

- To make a switch buyer has to incur cost, make adjustments and which is known as switching cost. New entrant can succeed in industry by persuading to switch to its product. When switching cost high it make reluctant to the buyer to switch. For example, Microsoft Windows.

Access to distribution Channel

- Existing firms control the physical distribution channels to create barrier to entry. They have significant influence over these channels. The unavailability of these distribution channels for new entrant make it difficult to them.

Bargaining Power of Buyer

According to Porter – Bargaining power of buyer means the ability of the buyer to influence the seller to reduce price, offer quality product etc. The bargaining power of the buyer influence not only the prices that producer can charge but also influences costs and investments of the producers. This is because powerful buyer usually bargain for the better service.

When the possibility of bargaining power increase or it become heavier ?	• The Force become heavier depending on the possibility of buyer form groups or cartels. They came together formally or informally.
Why they form such group ?	• To exert pressure on the producer.
Where the bargaining power of buyer is exercised ?	• In industrial product manufacturing industry.

Bargaining Power of Supplier.

According to Porter – Bargaining Power of Supplier reduces the profitability and attractiveness of industry because they affect the cost of raw material.

What their power determines ?

- The bargaining power of supplier's determines the cost of raw materials and other input of the industry.

When they can command their power over the firm ?

- Product are crucial and no substitute.
- When ensure high switching cost.
- Less suppliers more buyer.

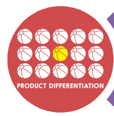
Nature of Rivalry in the Industry.

According to Porter – There is indirect relationship between rivalry and profitability of industry. High Competition low profitability, low competition high profitability.

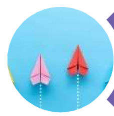
Porter’s insights about Rivalry.

- Rivalry between existing player is quite obvious.
- Competitors influence strategic decisions at different strategic levels.
- The impact is more at functional level, like price being charged, more aggressive etc.
- Intensity of rivalry is significant determinant of industry attractiveness and profitability.

Factor Responsible for Increasing Rivalry.



Product Differentiation



Number Competitors

Fixed Cost

Exit Barriers

Slow Growth

Industry Leader

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Industry Leader.

- Discourage Price War because of its greater financial resources. Industry leader can easily outsmart smaller rivals in price war.

Number of Competitors.

- Leader ability decreases with increase number of rivalry firms as communication between player become difficult.

Fixed Cost.

- When there is high fixed cost firm motivated to utilize their capacity and therefore inclined to drop prices which leads to price war which ultimately reduces the profitability.

Exit Barrier

- If some firm leave the industry it increases the profitability but because of powerful exit barrier firms are not able to leave the industry which ultimately increases the completion.

Product Differentiation.

- Product differentiation insulate firm from price war.
- Industry with no differentiation commodities usually involve high competition &price war.

Slow Growth

- Slow growth industry face more intense rivalry because rivalry firm fight harder to sustain and grow their market share.

Threat of Substitutes.

According to Porter – It influence industry profitability. Also to predict pressure from this source of Competition firm must search for the product that can perform the same or nearly the same functionalities.

Substitute product that can drastically alter the competition character of an industry.

Offer price advantage.

Performance improvement to the consumer.

Conclusion.

At the end we can conclude that with the help of **Michael Porter's Five Forces of Competitive Analysis** we can determine strength of completion of industry and accordingly deciding that which strategy organization should adopt to beat the competition and get competitive advantage.

THANK YOU