PORTER'S FIVE FORCES

Introduction to Porter's Model

- Porter's Five Forces is a simple but powerful tool that you can use to identify the main sources of competition in your industry or sector.
- When you understand the forces affecting your industry, you can adjust your strategy, boost your profitability, and stay ahead of the competition.
- You can take fair advantage of a strong position or improve a weak one, and avoid taking wrong steps in the future.

Purpose of Porter's Five Forces

- Porter's Five Forces model can help to analyze the attractiveness of a particular industry, evaluate investment options, and assess the competitive environment in your market.

Why Use Porter's Five Forces?

- Helps **business owners** understand risks before entering a market.
- Helps **investors** decide if an industry is profitable.
- Helps **existing businesses** improve their strategy.

PORTER'S FIVE FORCES

1. Competitive Rivalry

- The first of Porter's Five Forces looks at the number and strength of your competitors.
- Consider how many rivals you have, who they are, and how the quality of their product compares with yours.
- In an industry where rivalry is intense, companies attract customers by cutting prices aggressively and launching high-impact marketing campaigns.
- On the other hand, where competitive rivalry is minimal, and no one else is doing what you do, then you'll likely have tremendous competitor power, as well as healthy profits.

Opening a Coffee Shop

Before starting, analyze the market using **Porter's Five Forces** to understand competition and challenges.

1. Competitive Rivalry (Existing Competitors) – HIGH

- Many coffee shops already exist (Starbucks, local cafés).
- They compete on **price, taste, ambience, and customer experience**.
- **Challenge:** You need a unique selling point (better coffee, comfortable atmosphere, or special discounts).

2. Threat of New Entry

- The position can be affected by potential rivals' ability to enter your market.

- If it takes little money and effort to enter your market and compete effectively, or if you have little protection for your key technologies, then rivals can quickly enter your market and weaken your position.

- However, if you have strong and durable barriers to entry, then you can preserve a favourable position and take fair advantage of it. These barriers can include complex distribution networks, high starting capital costs, and difficulties in finding suppliers who are not already committed to competitors.

- Existing large organizations may be able to use economies of scale to drive their costs down, and maintain competitive advantage over newcomers.

- Extensive government regulation of an industry.

2. Threat of New Entrants – MODERATE

- Opening a coffee shop **is not very expensive**, so new competitors can enter.
- However, established brands (Starbucks) already have loyal customers.
- **Challenge:** Need a strong brand and good marketing to attract customers.

3. Bargaining Power of Suppliers

- This force analyzes how much power and control a company's supplier has over the potential to raise its prices or to reduce the quality of purchased goods or services, which in turn would lower an industry's profitability potential.
- If the suppliers are the only ones who can supply a particular service, then they have considerable supplier power.
- The more suppliers you have to choose from, the easier it will be to switch to a cheaper alternative.
- But if there are fewer suppliers, and you rely heavily on them, the stronger their position – and their ability to charge you more.
- This can impact your profitability.

3. Bargaining Power of Suppliers – LOW to MODERATE

- You buy coffee beans, milk, sugar, and cups from suppliers.
- Many suppliers exist, so if one raises prices, you can switch to another.
- You have control over where to buy your supplies, reducing costs.

4. Bargaining Power of Buyers

- If the number of buyers is low compared to the number of suppliers in an industry, then they have what's known as "buyer power.“
- Easy to switch to new, cheaper competitors, which can ultimately drive down prices.
- When you deal with only a few savvy customers, they have more power. But if you have many customers and little competition, buyer power decreases.
- Example – Food Retail business

4. Bargaining Power of Buyers (Customers) – HIGH

- Customers have **many choices** (other cafés, making coffee at home).
- If your coffee is too expensive or not good, they'll go elsewhere.
- Offer great coffee, friendly service, or loyalty discounts to keep customers.

5. Threat of Substitution

- This refers to the likelihood of customers finding a different way of doing what you do.
- It could be cheaper, or better, or both.
- The threat of substitution rises when customers find it easy to switch to another product, or when a new and desirable product enters the market unexpectedly.

5. Threat of Substitutes – HIGH

- People can **make coffee at home** with a coffee machine.
- Other drinks like tea, energy drinks, or soft drinks can replace coffee.
- Create a **unique experience** (e.g., live music, or a special coffee blend) to keep people coming back.