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 you to analyze the attractiveness of a particular industry, evaluate investment options, and assess the competitive environment in your market.

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.
- Example : Haulage Business

2. Supplier Power

- Suppliers gain power if they can increase their prices easily, or reduce the quality of their product.
- 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, for example, if you're forced into expensive contracts.
- Example – Electronic devices

3. Buyer Power

- 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. 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.
- Example: Medical instruments

5. 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.
- If it costs customers too much to switch between one supplier and another, this can also be a significant barrier to entry. So can extensive government regulation of an industry.
- Example – Air Travel business