MANAGEMENT INFORMATION SYSTEM (BSCS 613)

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Porter’s Competitive Forces Model:

Porter’s Competitive Forces Model also known as Porter's Five Forces of Competitive Position Analysis were developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organization.

This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter’s five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organization’s current competitive position, and the strength of a position that an organization may look to move into.

Strategic analysts often use Porter’s five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

Porter’s five forces of competitive position analysis:

1. Supplier power: An assessment of how easy it is for suppliers to drive up prices. This is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.

2. Buyer power: An assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the organization; and cost to the buyer of switching from one supplier to another. If a business has just a few powerful buyers, they are often able to dictate terms.

3. Competitive rivalry: The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.

4. Threat of substitution: Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of the market.

5. <u>Threat of new entry</u>: Profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate.

<u>HOW HAS INTERNET EFFECTED THE PORTERS' COMPETITIVE FORCES MODEL?</u>

Internet has played its very important role in making this model popular and effective throughout business sector. On one click you can identify your rivals, their annual growth, their performance, and many statistical data required to identify key features of their business success. To find suppliers and buyers power you can do product hunting which can be done by many online free provided tools. For Example: you want to sell something on Daraz and you don't know what you should sell to get maximum profit. Before this internet it was costly, time taking and required many resources and efforts to do this survey and then statisticians do their calculations to find the results either in favor or against. But now you can by using those tools can do this in hours or few days. Because it's all automated and available through internet.