

FIVE FORCES



BUSINESS
MAKEOVER

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Five Forces

Porter's Five Forces helps you to understand where the power is in your business's environment. It helps you to understand the strength of your competitive position. Here you describe what the existing competition is, where the threats of new entrants or substitute products are, and what the bargaining power of suppliers or buyers is. With a clear understanding of the five forces you can take advantage of your strengths and improve weaknesses.

Template & example

Use the Five Forces Canvas template (page 4) to make a large printout and use this to do a Five Forces analysis, for example in a brainstorm with colleagues. Have a look at the example for Nike (page 5), to learn about the practical application of this tool.

How to use

You can do Porter's Five Forces analysis by yourself, but it is more effective if done by a group of people, for example with colleagues.

Porter's Five Forces show that there are five important forces that determine the competitive power of your business. Use this tool to understand your competitive situation. Write down high, moderate or low on the Five Forces canvas for each of the following forces:

Step 1: intensity of competition from existing competitors

Identify the existing competitors of your business. Write down their names and the size of their businesses. Estimate how heavy the competition is and whether there are differences in the product/service they offer. If you have many competitors with a similar product/service, then your business will likely have little power in the market. Suppliers and buyers can easily go somewhere else. If there is no one else that offers what you offer you have great power in the market; buyers and suppliers have nowhere else to go.

Step 2: threat of substitutes

Substitute products or services offer an alternative for your offering. Write down those products or services that can be an alternative for your customers. If there are many substitutes it is easy for buyers to find a different solution and the power of

your business is low. If there is no alternative for your product, then your business has tremendous power since customers cannot find an alternative.

Step 3: threat of new entrants

New entrants are businesses that want to enter your market. Your power is affected by the ability of others to enter the market. New competitors can easily enter your market when there are low entry costs, few economies of scale, no knowledge-intensity and little protection of key technologies. Write down the potential new entrants and the entry barriers of your market. If there are no or a few entrance barriers it will be easy for new businesses to start competing in your market. If there are many and durable entrance barriers you can maintain your position on the market and take advantage of it.

Step 4: bargaining power of suppliers

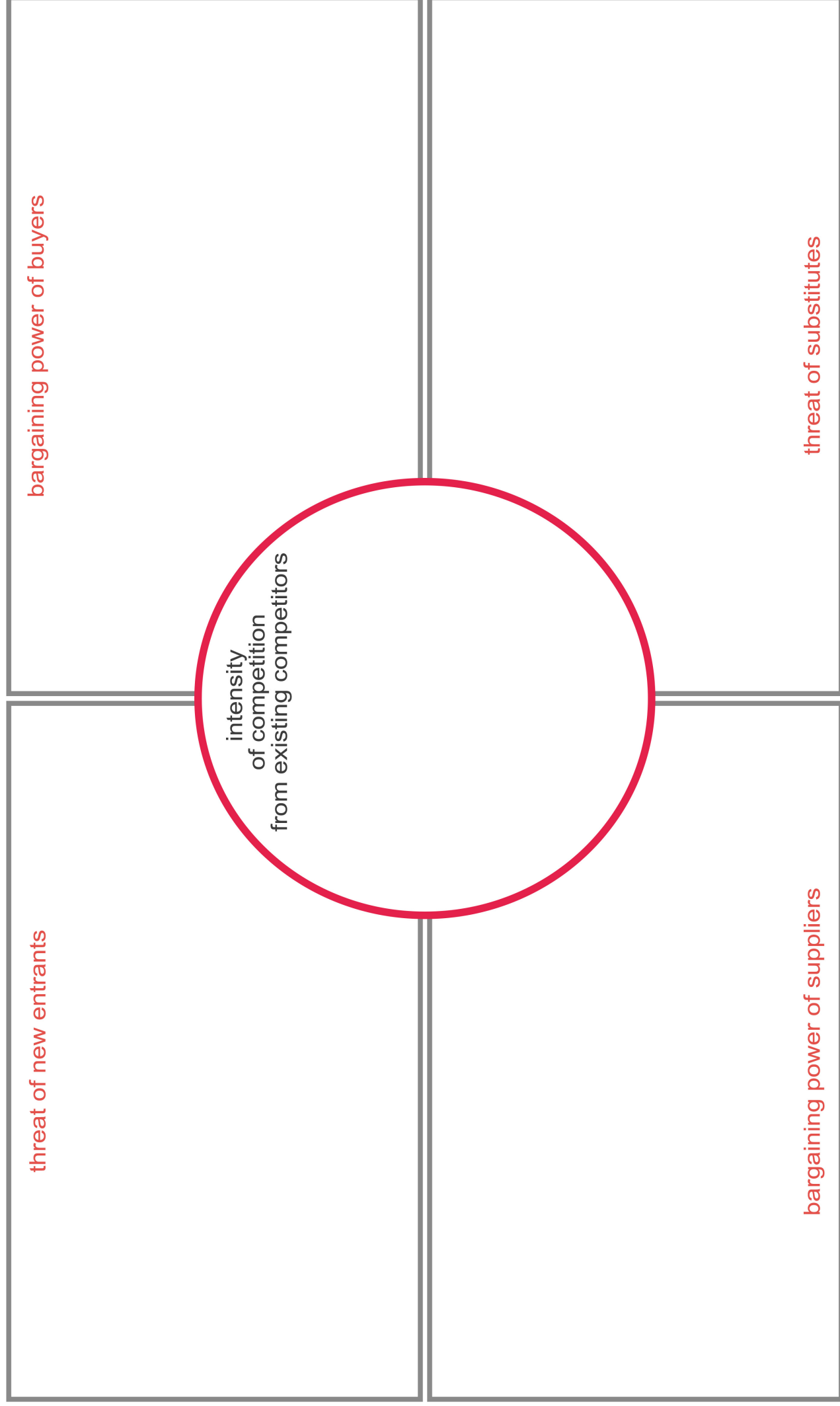
High bargaining power of suppliers will result in a higher price for resources. The bargaining power of suppliers is determined by the amount of suppliers in the market. If there are many suppliers on the market an individual supplier has little bargaining power, and no influence on the price. If there are few or just one supplier, then that supplier has large bargaining power and the power to determine its price. Write down on which suppliers you depend for your resources and how many other suppliers could offer the same resources. Also describe if it is easy to switch suppliers.

Step 5: bargaining power of buyers

High bargaining power of buyers means that it is easy for buyers to drive down the price of your product. The bargaining power of buyers is determined by the amount of buyers in your market. If there are many buyers an individual buyer has little bargaining power and cannot drive down the price. If there are a few buyers, then those buyers have large bargaining power and can easily drive down the price. Your business depends on these buyers. Write down how many buyers there are in your market. Also describe if you depend on your buyers or if they depend on you.

porter's five forces

name _____



date _____

The Five Forces That Shape Industry Competition
by Michael E. Porter (2008) from Harvard Business Review.

porter's five forces

NIKE

name _____



date _____