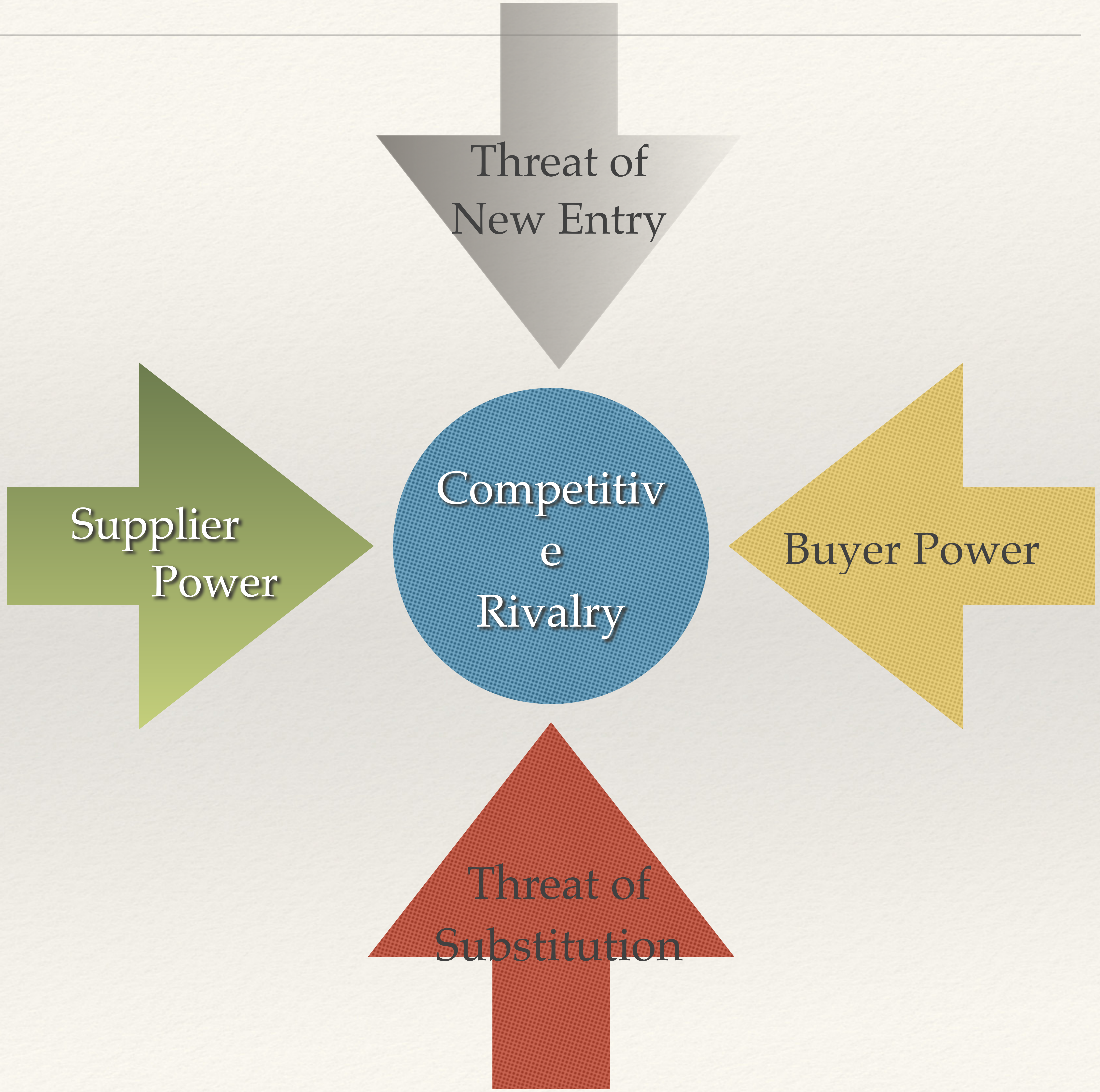
Competitive Forces Model : Porter’s Five Forces

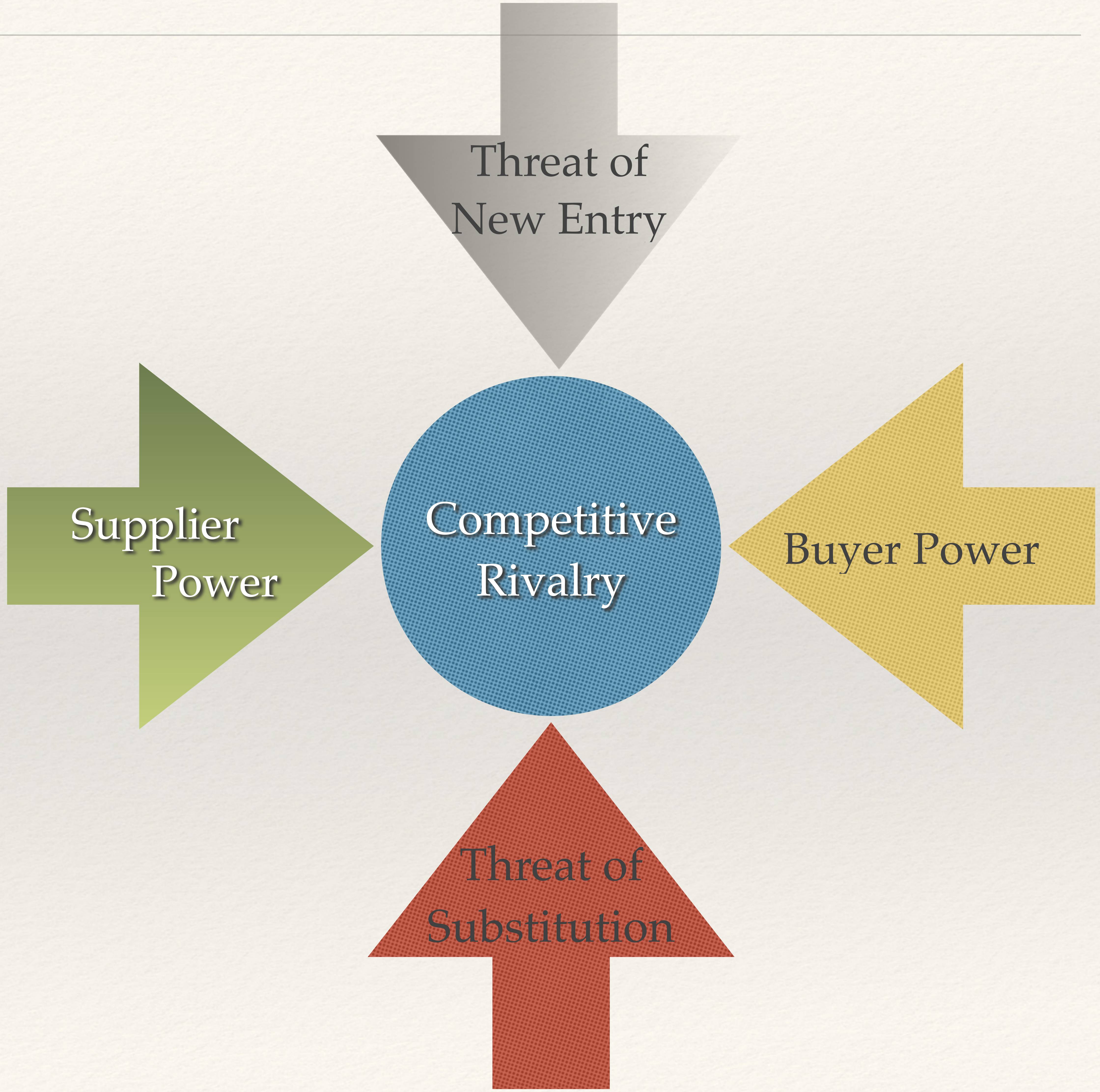
Competitive Forces Model - Porter's Five Forces

- Competitive Forces Model or Five Forces Model
- Examine the competitive forces in an industry



Competitive Forces Model - Porter's Five Forces

- Intensity of Industry Rivalry
- The number of firms competing in an industry is a measure of the level of competitive intensity



Competitive Forces Model - Porter's Five Forces

- Industry Rivalry
- There are a number of significant factors which can impact competitive intensity

- Concentration of competitors
- Low switching costs - easier to switch to a competitor
- Excess/over production capacity - rivals need to utilise their capacity and so enter the market with more products
- Brand Loyalty - high rivalry when brand loyalty is low
- Network Effects - positive effect on the value of a product when more users use it e.g. Fax machines

Competitive Forces Model - Porter's Five Forces

- Industry Rivalry
- There are a number of significant factors which can impact competitive intensity

- Exit Barriers - low barriers make it easier for firms to enter and exit the market
- Fixed Costs/Value Added
- Industry Growth - rapid growth leads to less rivalry
- Product Differentiation - low differentiation = higher rivalry
- Diversity of Rivals - higher diversity leads to lower rivalry - more difficult for other firms to compete
- Corporate Stakes

Competitive Forces Model - Porter's Five Forces

- Threat of Potential New Entrants
- The ability for new entrants to enter the market are affected by these factors

- Brand loyalty
- Cost advantages from economies of scale - easier to enter when these can be achieved
- Switching costs are low
- Network effects
- Government regulation -strict regulation, more difficult to enter
- Barriers to exit - high exit costs make it less attractive
- High Capex in specialist equipment
- High Fixed costs - property and equipment
- Specialised skills - Tech Sector

Competitive Forces Model - Porter's Five Forces

- Bargaining Power of Buyers is high when these industry market conditions exist:

- Buyers are large or concentrated
- Buyers purchase a high % of volume
- Buyers have good market information about product, pricing and demand
- When there are many industry competitors - more scope to negotiate lower prices
- Many substitute available
- Switching costs are low - buyers are indifferent which firm they buy from
- Low product differentiation - High product homogeneity

Competitive Forces Model - Porter’s Five Forces

- Bargaining Power of Suppliers is high when these industry market conditions exist:

- Suppliers are concentrated
- Suppliers can credibly threaten forward integration in the industry
- Rivals purchase small percentage of the suppliers volume
- Few alternative suppliers
- Few substitute raw materials available
- Switching costs are high for purchasers

Competitive Forces Model - Porter's Five Forces

- Threat of Substitute Products
- A high threat of substitute products limit profit potential

- Switching costs are low
- Substitutes have superior pricing to existing products
- Substitutes have better characteristics or performance than existing products

Competitive Forces Model - Porter's Five Forces

- As you can see from this analysis, some industry characteristics impact more than one of the five forces, e.g. low product differentiation
- When a firm can identify which forces are at work within an industry, they can start to formulate strategies to counter these competitive pressures.

Competitive Forces Model - Porter's Five Forces

- We are next going to take a look at the most basic of these strategies using Porter's Generic Strategies model and see how it ties into the Five Forces model

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