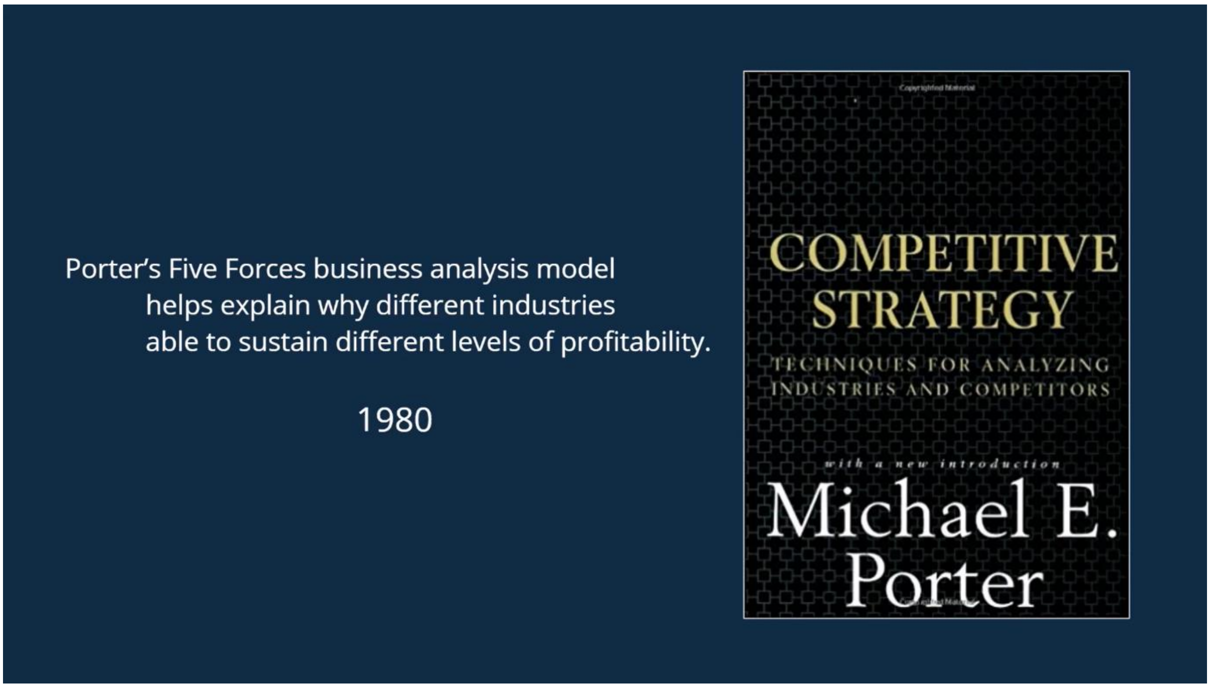
M5L2. Porter's Five Forces Introduction

Slide #1

In this topic, we will discuss Porter's Five Forces business analysis model.

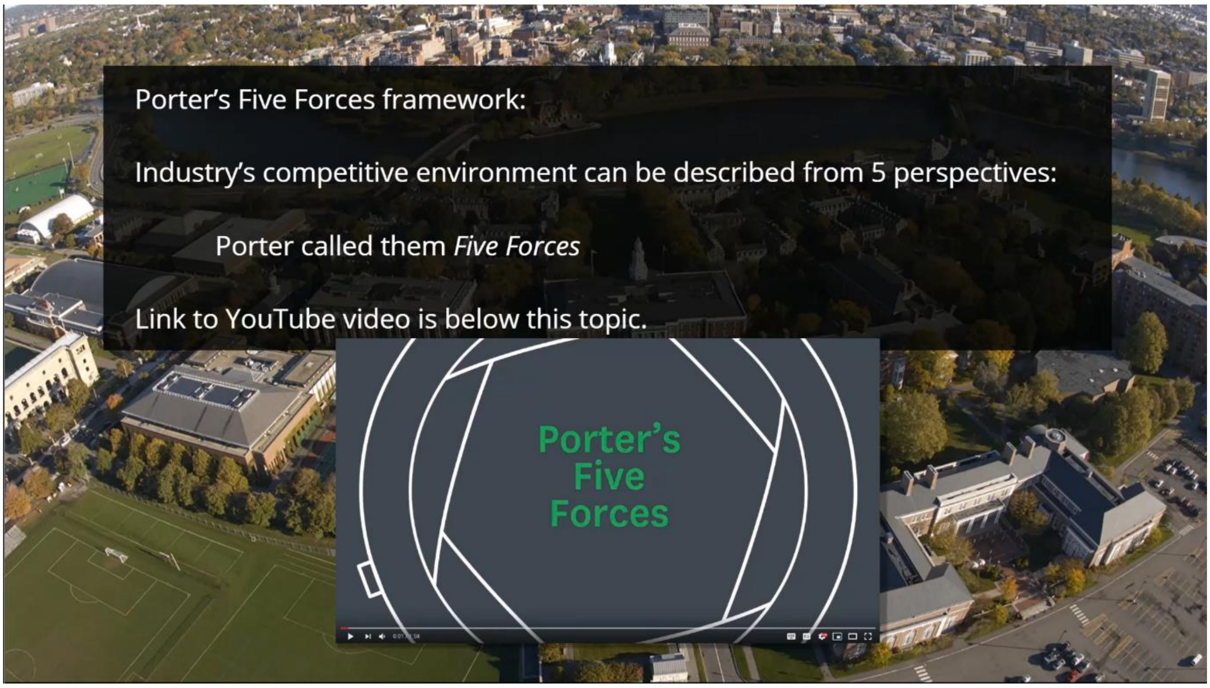
Slide #2



Porter's Five Forces is a business analysis model that helped explain why different industries are able to sustain different levels of profitability.

The model was originally published in Michael E. Porter's book Competitive Strategy Techniques for Analyzing Industries and Competitors in 1980.

Slide #3

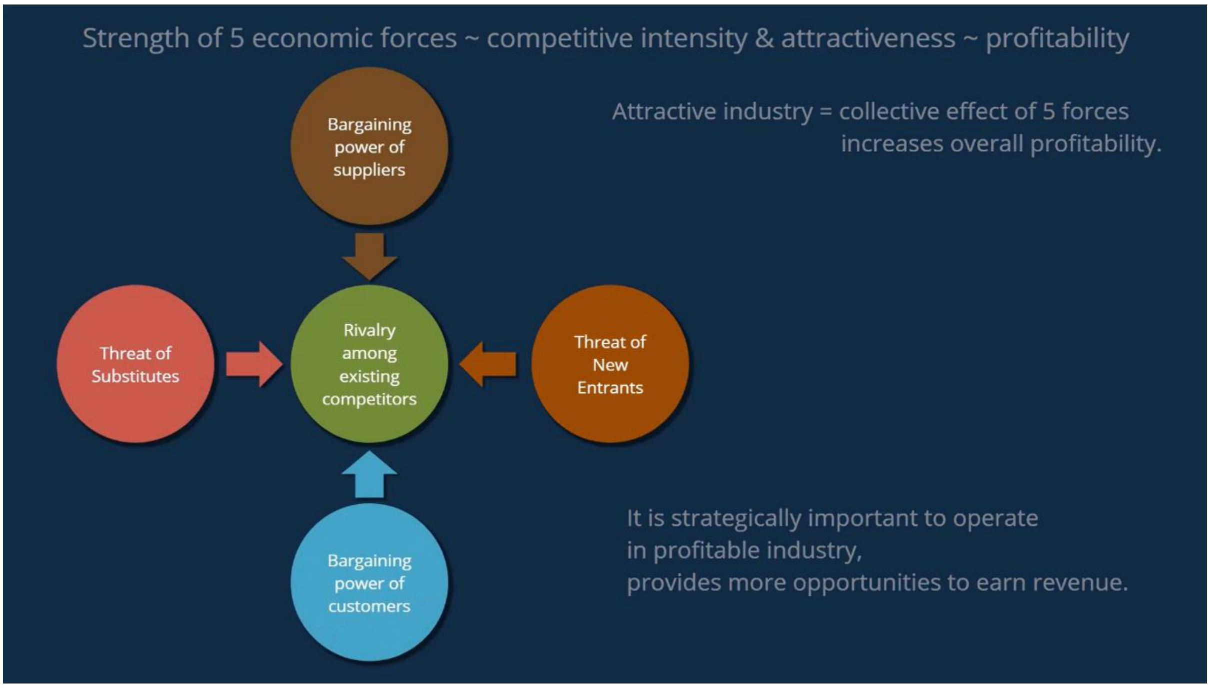


According to Porter's Five Forces Framework, an industry's competitive environment can be described from five perspectives.

Porter called them Five Forces.

The YouTube video clip from Harvard Business School introduces the Porter's framework.

Slide #4



The strength of five economic forces determines the competitive intensity and attractiveness for an industry in terms of profitability.

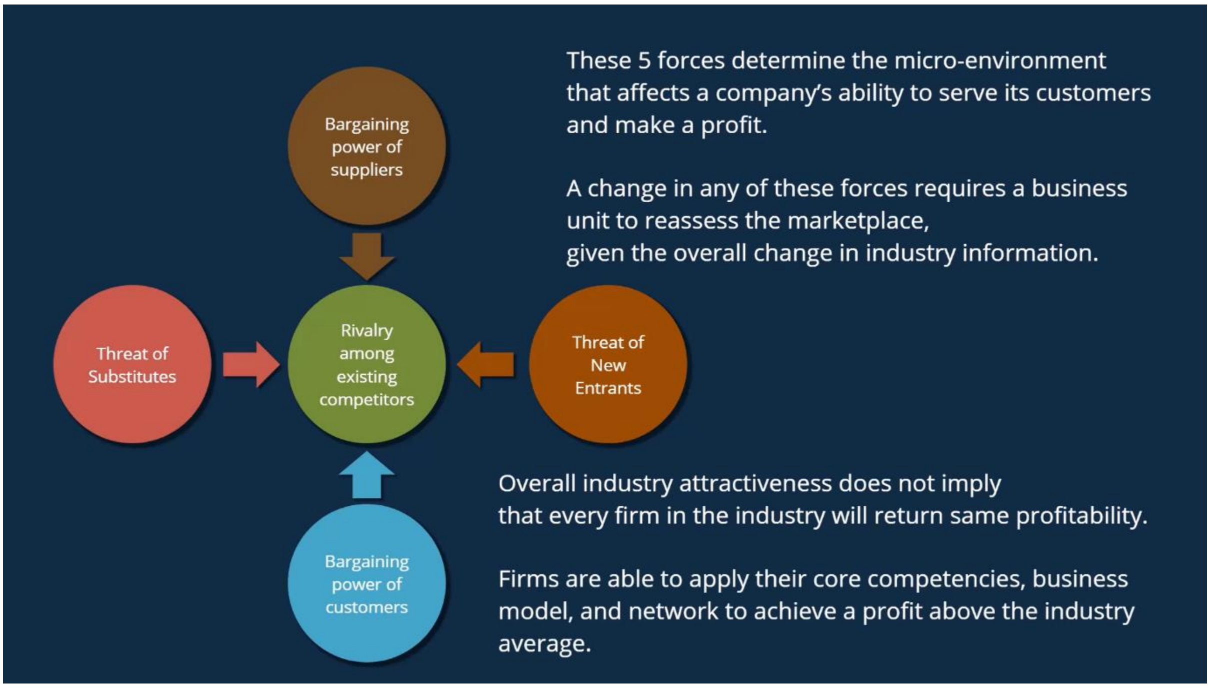
An attractive industry is one in which the collective effect of these five forces increases overall profitability.

It is strategically important for a company to operate in a profitable industry because it provides more opportunities for a company to earn revenue.

Porter's five forces include three forces from horizontal competition, the threat of substitute product, the threat of established rivals, and the threat of new entrants.

It also included two others from vertical competition, bargaining power of suppliers and bargaining power of customers.

Slide #5



These forces determine the micro-environment that affect the company's ability to serve its customers and make a profit.

A change in any of these forces normally requires a business unit to reassess the marketplace given the overall change in industry information.

The overall industry attractiveness does not imply that every firm in the industry will return the same profitability.

Firms are able to apply their core competencies, business model, and network to achieve a profit above the industry average.

Slide #6

A clear example is the airline industry.

As an industry, the profitability is low because of the industry's underlying structure of high fixed cost and low variable cost.

Airlines tend to compete on cost, and that drives down the profitability of individual carriers.

A few carriers, such as Richard Branson's Virgin Atlantic, have tried to use sources of differentiation in order to increase profitability.

The five force analysis has been applied to trying to address a diverse range of problems, from helping businesses become more profitable to helping governments stabilize industries.