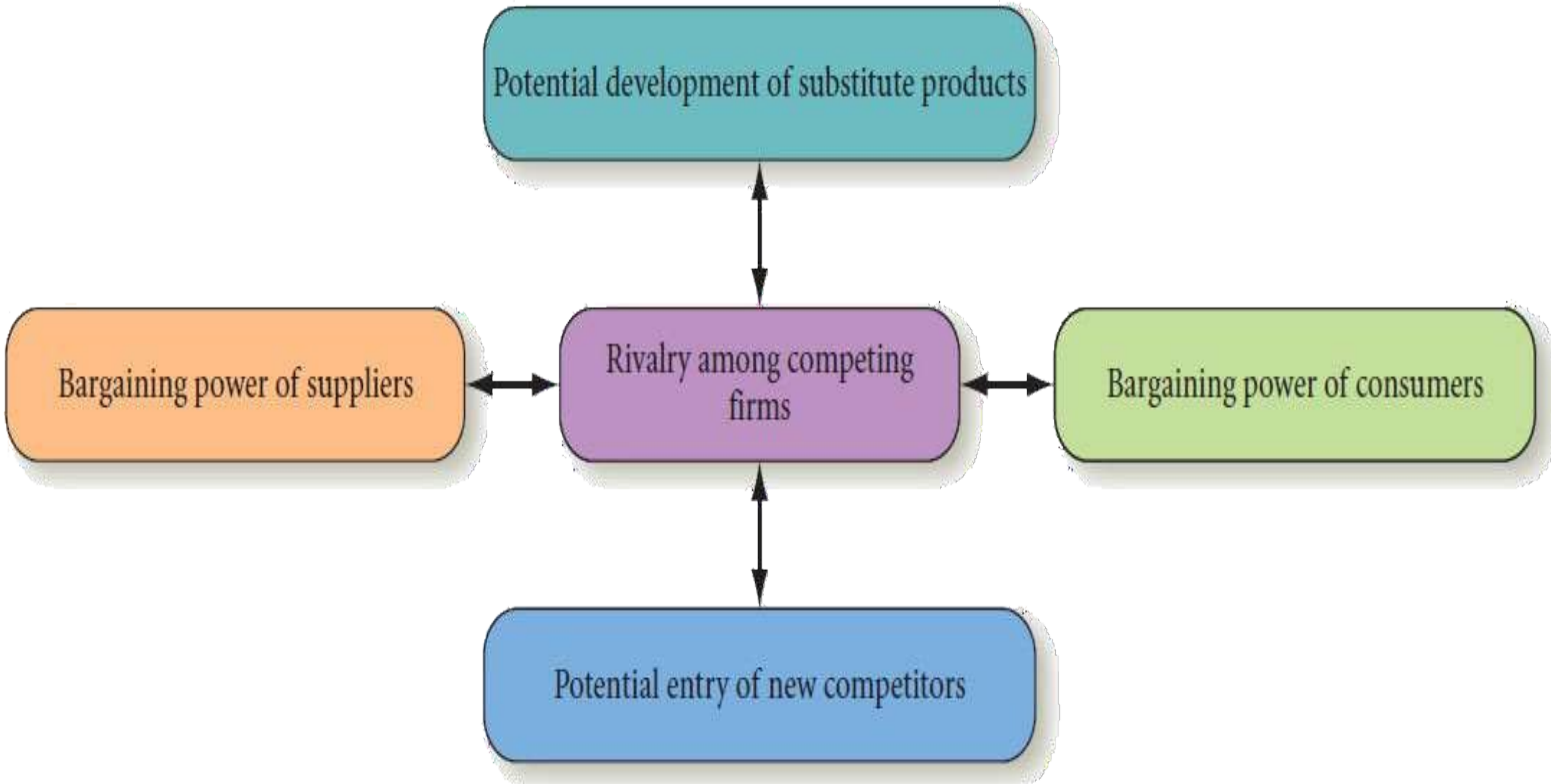
# PORTER'S 5 Forces Model

# Micheal Eugene Porter

Micheal Porter the Professor in industrial organization economics at Harward School of Business Developed the Porter five forces analysis framework for analyzing industries.

# THE FIVE-FORCES MODEL OF COMPETITION



# Threat From Competition And Rivalry

- For most industries the intensity of competitive rivalry  is the major determinant of the competitiveness of the  industry.
-  Huge Advertising Expenses.
-  Competitive Advantage  through  innovation.
-  Powerful competitive  strategy.

Example :- major rivals in soft drink market are Coco-  Cola & Pepsi, Mountain Dew v/s Thums Up , Fanta v/s  Mirinda, Slice v/s Maaza.

# Bargaining Power of Suppliers

Supplier bargaining power is likely to be high  when:

- The market is controlled by a few large suppliers and not a fragmented source of supply.
- There are no substitute for the specific input.
- The switching costs from one supplier to another are high.
- The purchasing industry gains a higher profitability than the supplying industry.

# Bargaining Power of Customers

Customers' bargaining power appears to be high when :

- The supplying industry comprises of a huge number of small operators
- The supplying industry operates with high fixed costs
- The product is undistinguishable and can be replaced by Substitutes
- Customers have low margins and are price-sensitive
- They purchase large volumes making a concentration of Buyers.

# Threat of Substitutes

**The threat of substitutes is determined by the following factors-**

- Brand loyalty of customers,
- Switching costs for customers,
- Close customer relationships,
- The relative price for performance of substitutes,
- Current trends.

EXAMPLE :Soaps have substitutes like hand wash, liquid soap, paper soap.




# Threat of New Entrants

**The threat of new entries depends on the extent to entry barriers. These are typically-**

- Economies of scale (requirements of minimum size for profitable operations),
- High initial investments and fixed costs,
- Brand loyalty of customers
- Protected intellectual property like patents, licenses etc.,
- Access to raw materials is controlled by exis

# Summary

Porter's model is based on the understanding that corporate strategies should meet opportunities and threats within the external environment of organizations. The five competitive forces that Porter has identified shape every industry as well as every market. These forces regulate the intensity of competition, the profitability as well as attractiveness of an industry.

# Thank You