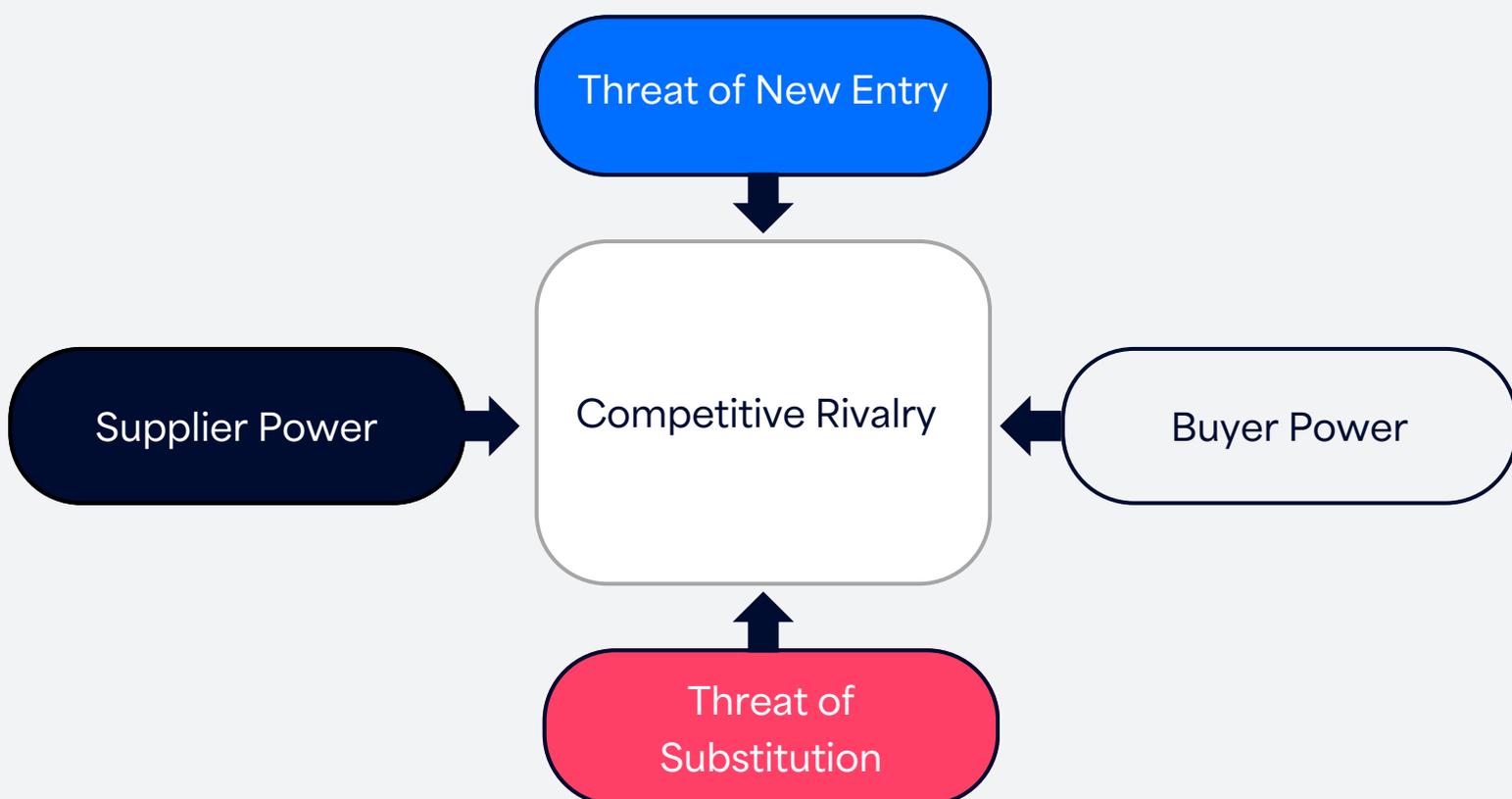


Porter's Five Forces

WHAT IS PORTER'S FIVE FORCES?

Porter's Five Forces is a strategic analysis framework developed by Michael E. Porter to evaluate the competitive forces within an industry and determine its profitability and attractiveness. It assesses five critical forces that shape competition: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products or services, and industry rivalry. Businesses use the tool to identify strengths, weaknesses, and opportunities in their market, providing a clear understanding of the competitive landscape.



See page 3 for a print out of this model.

WHEN SHOULD I USE IT WITH A CLIENT?

Porter's Five Forces is typically used during strategic planning, market analysis, or business mentorship when a company needs to evaluate its position within an industry. It is particularly valuable for new businesses entering a market, businesses expanding into new sectors, or established companies facing changing market dynamics.

Mentors often recommend using the tool to anticipate shifts in the competitive environment, assess new opportunities, or develop strategies to mitigate risks. This analysis is also used during mergers, acquisitions, or partnerships to gauge market dynamics and identify competitive advantages.

The mentor can help the business interpret the findings to identify key challenges and opportunities. For instance, a high threat of substitutes may signal the need for differentiation, while intense rivalry might require cost-cutting strategies or innovation to remain competitive.

HOW IS IT USED?

To apply Porter's Five Forces, a business mentor guides the mentee through a structured analysis of each force:

1. **Threat of New Entrants:** Assess the barriers to entry in the industry, such as capital requirements, regulatory hurdles, or brand loyalty. High barriers deter new competitors, reducing the threat.
2. **Bargaining Power of Suppliers:** Evaluate how much control suppliers have over pricing, quality, or availability of inputs. This power increases when there are few suppliers or when switching costs are high.
3. **Bargaining Power of Buyers:** Determine how much influence customers have on pricing and quality. Buyers gain power when they have many options or when the product is undifferentiated.
4. **Threat of Substitutes:** Identify the likelihood of customers switching to alternative products or services. The threat is high when substitutes are affordable, high-performing, or easily accessible.
5. **Industry Rivalry:** Analyse the intensity of competition among existing players. Factors include the number of competitors, growth rate of the industry, and product differentiation.

WHAT ARE THE BENEFITS?

- **Holistic Industry Insight:** The framework provides a comprehensive view of the competitive environment, helping businesses understand the factors that influence profitability.
- **Informed Decision-Making:** By evaluating each force, companies can make data-driven decisions about pricing, product development, and market entry strategies.
- **Identification of Competitive Advantages:** Businesses can uncover unique strengths, such as cost advantages or exclusive supplier relationships, to differentiate themselves.
- **Risk Mitigation:** Understanding threats like powerful buyers or new entrants helps businesses develop strategies to minimize risks and protect market share.
- **Strategic Focus:** The tool allows businesses to prioritize actions based on industry dynamics, enabling efficient resource allocation.

In summary, Porter's Five Forces is an invaluable tool to guide clients in understanding the complexities of their industry and developing strategies to build sustainable competitive advantages. It bridges the gap between theoretical insights and actionable business strategies.

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