
assessing the competitive environment

Using Porter's Five Forces Model

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In brief

Harvard professor, Michael Porter developed this tool more than 20 years ago as an aid to assessing the likely profitability of a new or existing business. It has since become a classic strategy tool. The structure of the model is displayed on page two. It examines the key factors that generate the level of competitive rivalry in a particular sector or business. Working through this process focuses attention on what issues need to be addressed for success in new endeavours, or for the maintenance or defence of your current position. The five forces are:

The Threat of New Entrants: Are barriers to entry low? Is the learning or experience curve very steep? Are existing brand and customer loyalties well entrenched? How important is product differentiation? Have existing providers tied up distribution channels? Does existing or pending government regulation impede/encourage change and new entries? What are the barriers to someone else doing exactly what you do?

Supplier Power: Measured partly by the ability of suppliers to set their prices. Is there a high cost involved in switching suppliers? Are the customers so many and so fragmented that they are not able to resist supplier power? Are the suppliers a potential entrant to the sector via vertical integration?

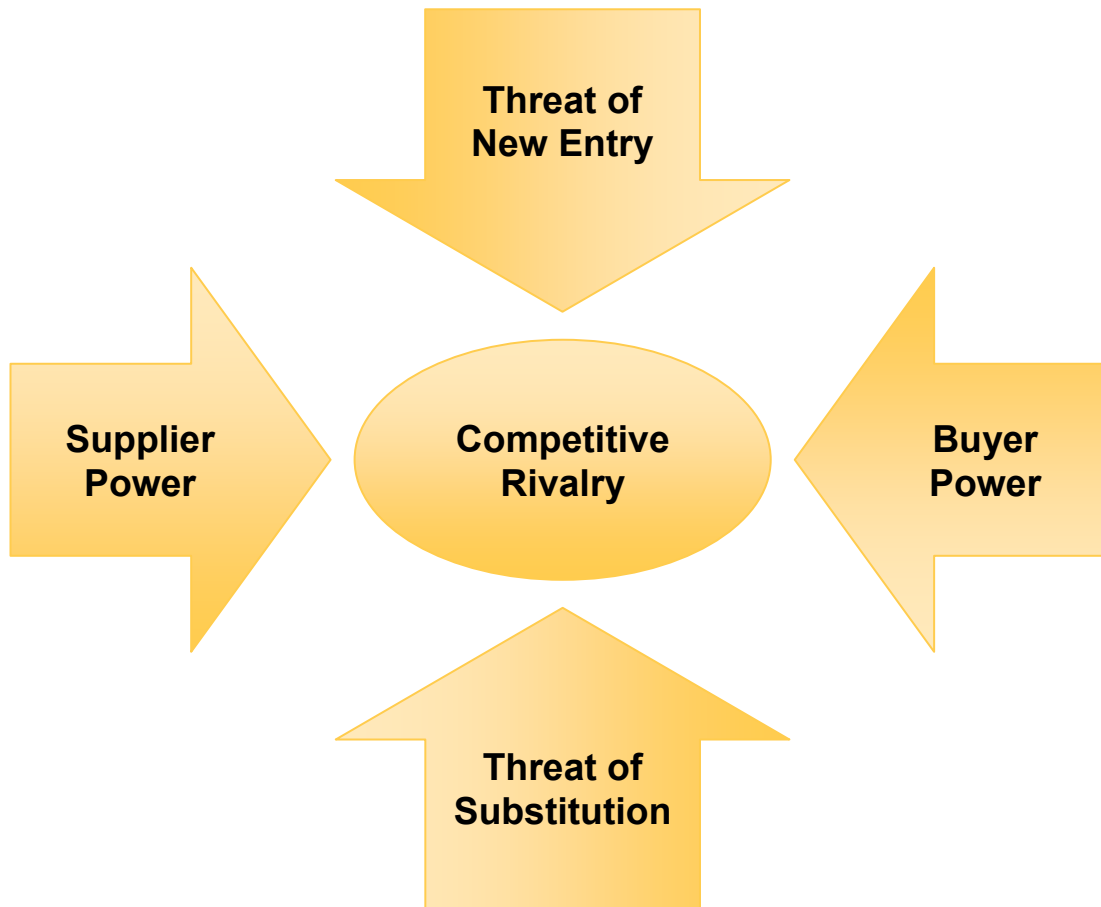
Buyer Power: Is the industry dominated by the power of relatively few buyers? Do you provide a largely commoditised service that is widely available? Is your product particularly price sensitive? What would stop a buyer from moving from your product to that of a competitor?

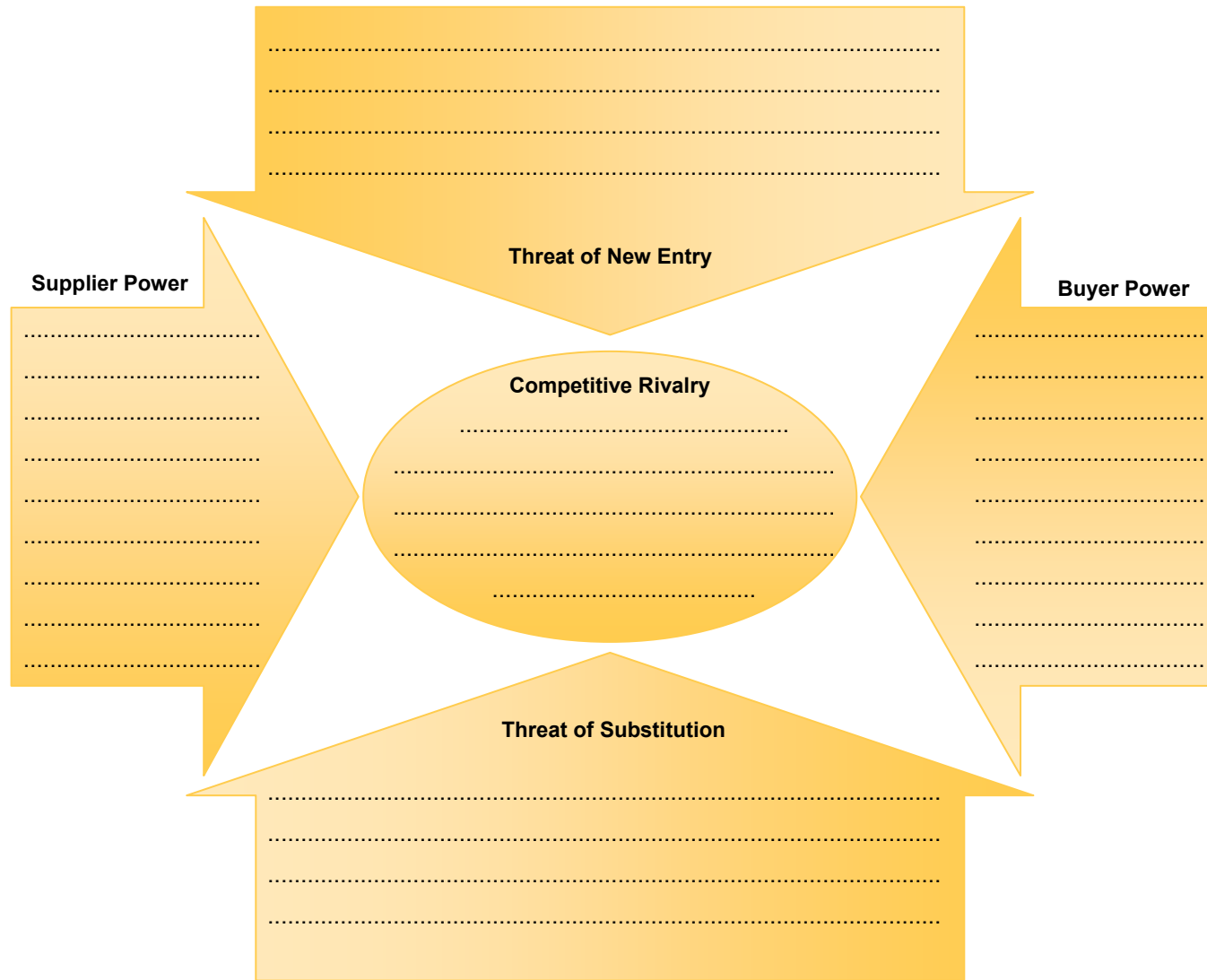
Threat of Substitution: This has become particularly important with the advent of the internet and the rapid increase in the rate of technological change. Can your customers find a different way of doing things? Do new developments in business software overtake services you previously provided? Is it expensive to switch to a different business or service model? Are your competitors upgrading their products more rapidly than you are?

Use the clear template on page 3 to examine your own situation. Be future oriented. You may know the situation now, but what will happen to each of the forces over time? Do they represent an opportunity – to enter or exit a particular sector. What steps can you take to increase your competitive position?



Michael Porter's Five Forces





For more information, visit my website www.alanhargreaves.com

Hi, I'm Alan Hargreaves. I specialise in simplifying complex business problems. In over 35 years as a business executive, I have never found an issue that cannot be addressed through identifying the essential but simple steps required to make any problem manageable. It might be your career, your firm, your team or your strategy. It doesn't matter. All hurdles can be lowered through dispassionate analysis, and all executives can embrace simple processes to take them forward.

Using these techniques, I have helped hundreds of people through the various stages of their business or career development. It may be the challenge of taking on new responsibilities; it could be the task of managing a business you have created yourself; it may be handling a difficult team in the midst of major change. I use a straightforward combination of key principles to get results: collaboration, adaptation, simplification and action. You can contact me anytime at alan@alanhargreaves.com.



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