Porter's Five Forces Model

Porter's fives forces model is an excellent model to use to analyse a particular industry environment. If you were entering any industry, you would use the model to help find out about the following key factors that influence industry performance:

1) Competitive Rivalry
2) Power of suppliers
3) Power of buyers
4) Threats of substitutes
5) Threat of new entrants.

Competitive Rivalry

A starting point to analysing the industry is to look at competitive rivalry. If entry to an industry is easy then competitive rivalry will likely to be high. If it is easy for customers to move to substitute products for example from one toothpaste to another, then again rivalry will be high. Generally competitive rivalry will be high if:

- There is little differentiation between the products sold between customers.
- Competitors are approximately the same size of each other.
- If the competitors all have similar strategies.
- It is costly to leave the industry hence they fight to just stay in (exit barriers)

Power of suppliers

Suppliers are also essential for the success of an organisation. Raw materials are needed to complete the finish product of the organisation. Suppliers' power comes from:

- Being the only supplier or one of few suppliers who supply that particular raw material.
- If it costly to move from one supplier to another (known also as switching cost)
- If there is no other substitute for their product.

Power of buyers

Customers can exert influence and control over an industry when:

- There is little differentiation over the product and substitutes can be found easily.
- They are sensitive to price.
- Switching to another product is not costly.

Threat of substitutes

Alternative products that customers can purchase over your product that offer the same benefit for the same or less price are "substitutes". The threat of substitute is high when:

- Its price falls.
- It's easy for consumers to switch from your product to theirs.
- Customers are willing (or forced – e.g. takeaways vs restaurant dinners in lockdown) to substitute.

Threat of new entrant

The threat of a new competitor entering the industry is high when entry barriers are low (e.g. no costly capital equipment – e.g. app design).

A potential entrant will look at how loyal customers are to existing products, how quickly they can achieve economy of scales, would they have access to suppliers, would government legislation prevent them or encourage them to enter the industry.

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