

Guide: Porters 5 Forces



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Porters 5 Forces

Introduction

Key strategy thinker Michael Porter has developed a tool to examine the key tensions within the competitive landscape, the tool will help users critically examine the landscape and address strategic alignment questions.

Competitive Landscape

Porter's Forces, five and later six, is a key tool for analysing the competitive landscape. It is often characterised as a key tool for examining "industry attractiveness", as it allows you to map out the different variables that affect value creation in a sector. Porter's Forces is useful when considering the Strategic Alignment Questions in Stage 3, particularly when critically examining the viability and the desirability of addressing the need. You will note that some of the factors identified by Porter also touch on the feasibility of competing in the space. Doing this in a group setting is useful, particularly facilitated by the EBNWorks team; follow the link to access more detailed guidance on how to use the tool; you should attach the outcome of the exercise as evidence.

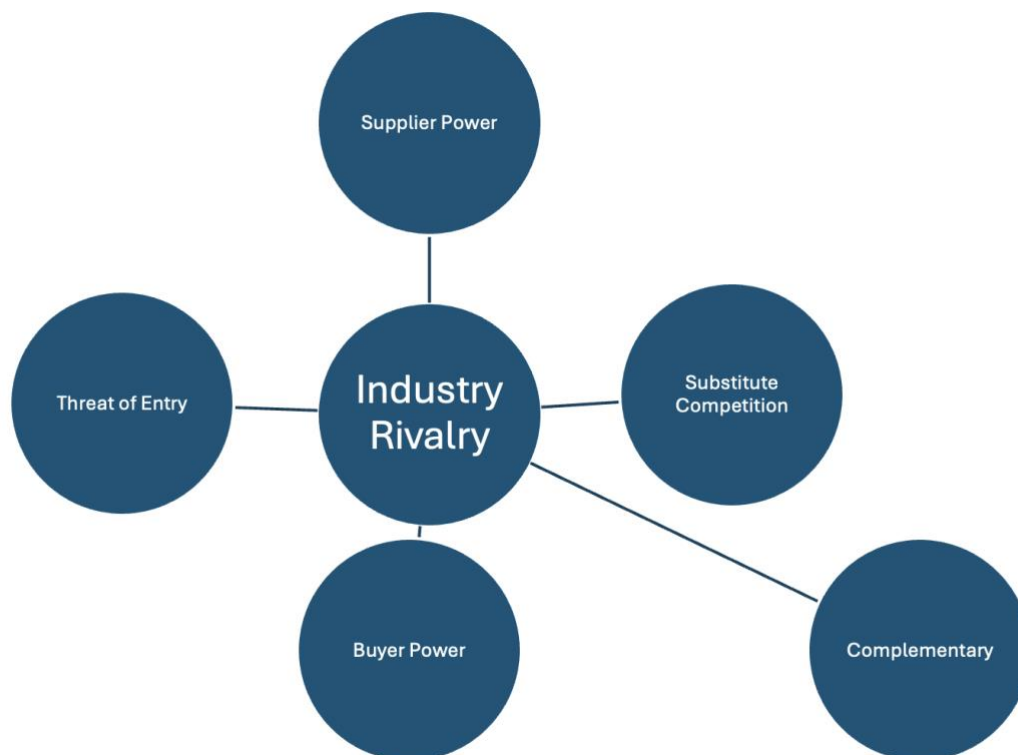


Figure 1: Porters 6 Forces

What is the Porters Forces Tool?

Porter suggests that rivalry between firms within the market is at the centre of the competitive landscape. These firms compete for inputs from their suppliers and outputs to their clients or customers. They also need to consider the threat of new entrants (as the incumbent or challenger) and the degree to which the offer might be substituted. Later, Porter suggested considering complementary goods and services as part of the competitive landscape. Typically, the forces model is set out as a diagram (see Figure 1).

It is important to examine each criterion carefully when examining the tensions between these different aspects. Porter suggested a series of prompts to help people get the most from the tool (see Table 1).

Table 1: Detailed Considerations in Porter’s Five Forces

Industry Rivalry	The concentration of firms in the market	The diversity of competition
	The degree of product diversification Cost Considerations	Whether there is excess capacity and exit barriers
Supplier Power,	Price sensitivity	Relative Bargaining power
Buyer Power	Price sensitivity, including cost within the total cost	Product differentiation and the competition between buyers
	The size of buyers relative to suppliers	Buyers switching costs, information asymmetries, and the degree of integration
Threat of Entry	The capital requirements for entry	The importance of economies of scale
	Whether there are absolute cost advantages	Product Differentiation
	Access to distribution	Legislative or legal barriers
	Threat of retaliation	
Substitute Competition	The propensity of buyers to substitute	The relative price and performance of substitutes

The later addition of complementary products and services includes

- The control over complimentary items
- The ability to bundle or sell together
- Cross subsidy and selling one to sell another.

How to Use it

A tool is simply a structure for framing useful questions and presenting the outcome of the inquiries you conduct as part of addressing those questions. Porter's Forces is useful when considering the Strategic Alignment Questions in Stage 3, particularly when critically examining the viability and the desirability of addressing the need. You will note that some of the factors identified by Porter also touch on the feasibility of competing in the space. Doing this in a group setting is useful, particularly facilitated by the EBNWorks team, you should attach the outcome of the exercise as evidence.