PORTER’S 5 FORCES ANALYSIS = SUPPLIERS, CUSTOMERS, NEW ENTRANTS, SUBSTITUTE PRODUCTS, COMPETITORS

What is Porter’s 5 Forces Analysis?
Porter’s 5 forces analysis shows the competitive environment of a firm. It is a strategic watch to avoid putting the competitive edge at risk and ensure the long-term profitability of products. For the company, this vision is quite important because it allows the firm to orientate its innovations in terms of choice of strategies and investments. The profitability of businesses within the industry sector depends on the following forces:

- Competitive rivalry within the industry;
- Threats of new entrants;
- Threats of substitutes products;
- Bargaining power of customers;
- Bargaining power of suppliers.

Golden Rules

- **6th force** = The model is often adjusted to include a 6th force, public authorities. They are important because laws and norms can influence each of Porter’s 5 forces.

- **Key factors for success** = The key success factors of the environment have to be identified. To have a competitive advantage, some strategic elements should be controlled.
Structure of Porter’s 5 Forces Analysis

📍 Competitive rivalry within the industry: The competition between firms determines the attractiveness of a sector. Companies are struggling to maintain their power. The competition changes based on sector development, diversity and the existence of barriers to enter. In addition, it is an analysis of the number of competitors, products, brands, strengths and weaknesses, strategies, market shares, etc.

📍 Threat of new entrants: It is in a company’s interest to create barriers to prevent its competitors from entering its market. The competitors are either new companies or companies which intend to diversify. This barriers can be legal (patent regulations, etc.) or industrial (products or single brands, etc.), etc. The arrival of new entrants also depends on the size of the market (economy of scale), the reputation of an already established company, the cost of entry, access to raw materials, technical standards, cultural barriers, etc.

📍 Threat of substitute products: Substitute products can be considered as an alternative compared to the current supply on the market. These products appear due when the current state of technology or innovation evolves. The products of existing companies are thus replaced by different products. These products often have a better price/quality relation and come from sectors with higher profits. These substitute products can be dangerous and companies should anticipate coping with this threat.

📍 Bargaining power of suppliers: The bargaining power of suppliers is very important in a market. Powerful suppliers can impose their conditions in terms of price, quality and quantity. On the other hand, if there are a lot of suppliers their influence is weaker. One has to analyse the number of realised orders, the cost of changing the supplier, the presence of raw materials, etc.

📍 Bargaining power of customers: If the bargaining power of customers is high, they influence the profitability of the market by imposing their requirements in terms of price, service, quality, etc. Choosing clients is crucial because a firm should avoid to be in a situation of dependence. The level of concentration of customers gives them more or less power. Generally, their bargaining power tends to be inversely proportional to that of the suppliers.