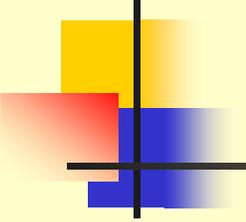


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*Michael Porter's  
Five Forces  
Model*

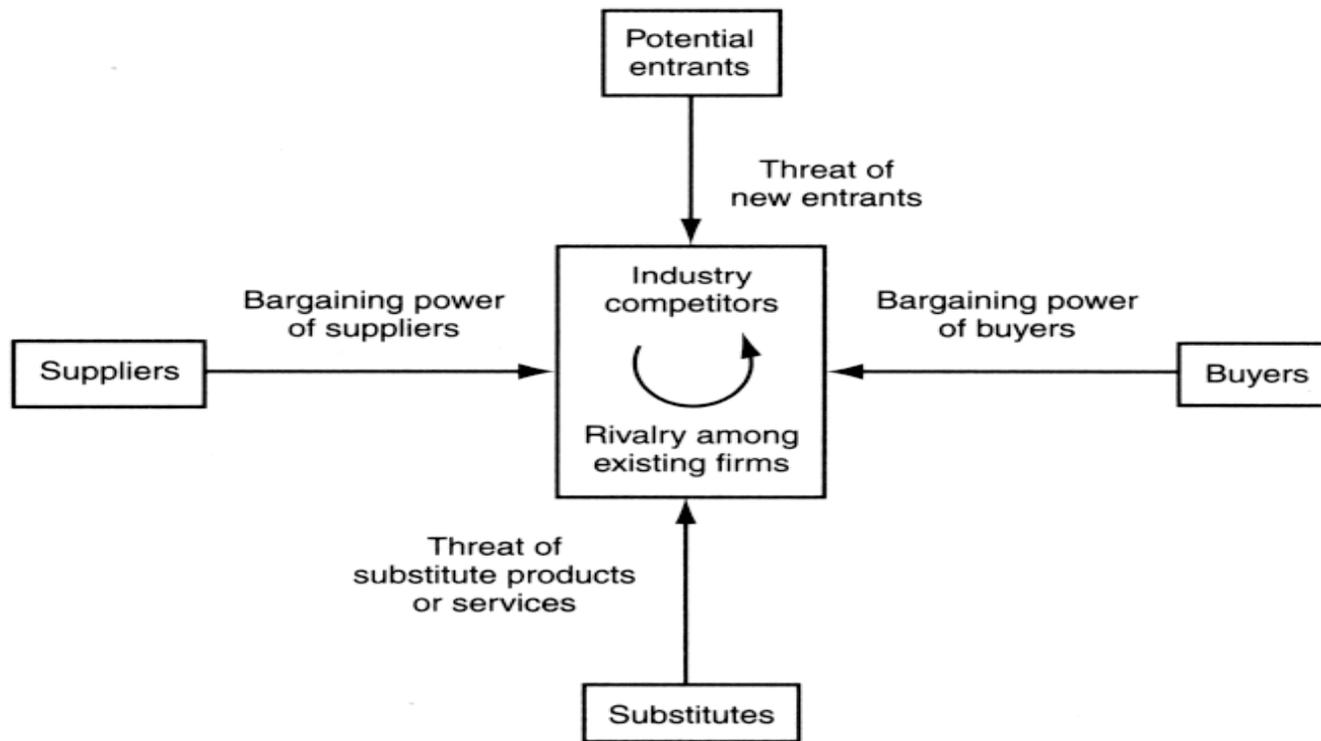


## *Michael Porter ...*

---

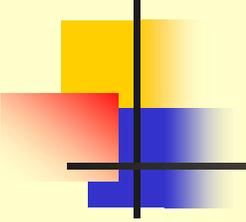
*"An industry's profit potential is largely determined by the intensity of competitive rivalry within that industry."*

# Porter's Five Forces



**FIGURE 2-2 Porter's Five Forces Model**

Source: Reprinted with the permission of The Free Press, a Division of Simon & Schuster, Inc. from *Competitive Strategy: Techniques for Analyzing Industries and Competitors* by Michael E. Porter. Copyright © 1980 by The Free Press.



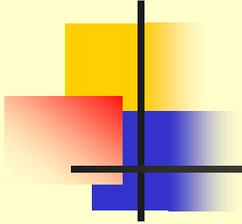
## *Portfolio Analysis ...*

---

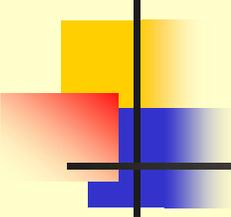
... Strategy at the time (1970s)  
was focused on **two dimensions**  
of the portfolio grids ...

... **Industry Attractiveness**

... **Competitive Position**



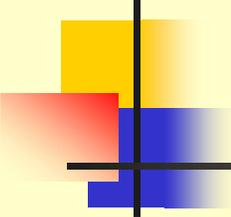
*Where was  
Michael Porter  
coming from?*



School of Economics ...

---

*... at Harvard ...*

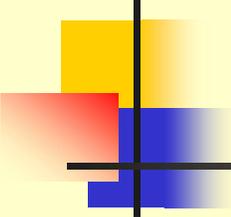


# Structural reasons why ...

---

... some industries were profitable

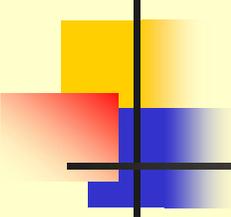
- \* Firm concentration
- \* Established cost advantages
  - \* Product differentiation
  - \* Economies of scale



## Structural reasons ...

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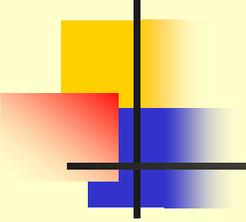
... all represented **barriers to entry** in certain industries, thus allowing those industries to be **more profitable** than others.



# Porters Five Forces ...

---

- \* Threat of **Entry**
- \* Bargaining Power of **Suppliers**
- \* Bargaining Power of **Buyers**
- \* Development of **Substitute Products or Services**
- \* **Rivalry** among Competitors



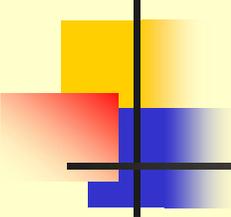
## *Barriers to Entry ...*

---

*... large **capital requirements** or the need to gain **economies of scale** quickly.*

*... strong **customer loyalty** or strong **brand preferences**.*

*... lack of adequate **distribution channels** or access to **raw materials**.*

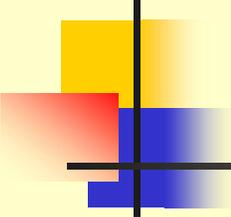


## *Power of Suppliers ...*

---

... high when

- \* *A small number of dominant, highly concentrated suppliers exists.*
- \* *Few good substitute raw materials or suppliers are available.*
- \* *The cost of switching raw materials or suppliers is high.*

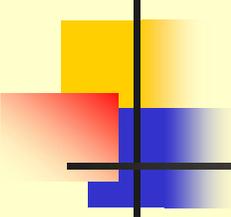


## *Power of Buyers ...*

---

... high when

- \* *Customers are concentrated, large or buy in volume .*
- \* *The products being purchased are standard or undifferentiated making it easy to switch to other suppliers.*
- \* *Customers' purchases represent a major portion of the sellers' total revenue.*

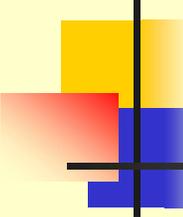


## *Substitute products ...*

---

... competitive strength high when

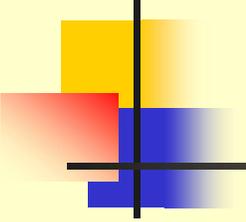
- \* *The relative price of substitute products declines .*
- \* *Consumers' switching costs decline.*
- \* *Competitors plan to increase market penetration or production capacity.*



## *Rivalry among competitors*

... intensity increases as

- \* *The number of competitors increases or they become equal in size.*
- \* *Demand for the industry's products declines or industry growth slows.*
- \* *Fixed costs or barriers to leaving the industry are high.*

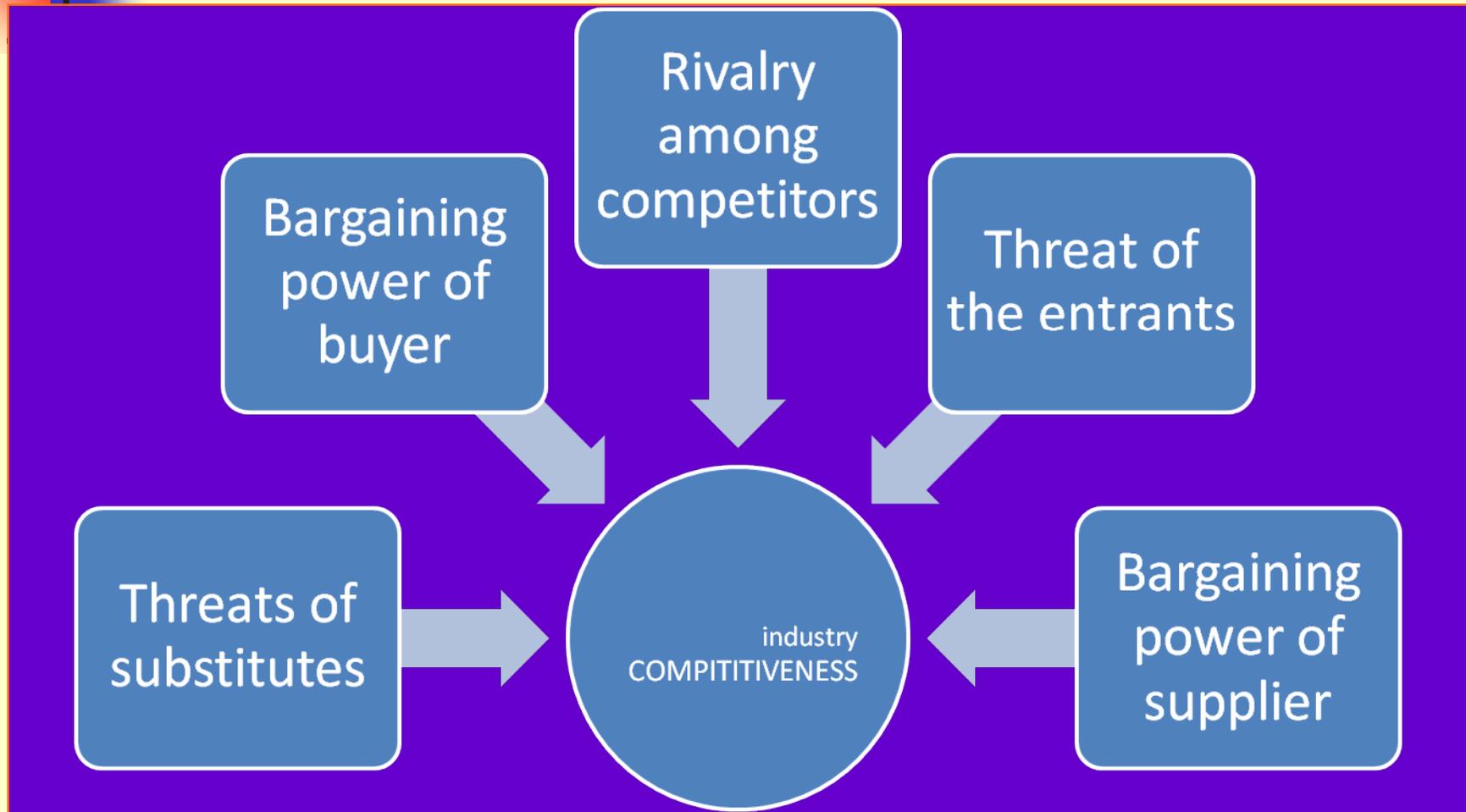


## *Summary ...*

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*As rivalry among competing firms **intensifies**, industry profits **decline**, in some cases to the point where an industry becomes **inherently unattractive**.*

# Porter's five force model



# Analysis



5 Forces	Analysis
Rivalry among the competitor	<ul style="list-style-type: none"><li>•Reliance Retail, Aditya Birla Group , Vishal Retail's, Bharti and Walmart, etc</li></ul>
Threat of entrants	<ul style="list-style-type: none"><li>• FDI policy not favorable for international players.</li><li>• Domestic conglomerates looking to start retail chains.</li><li>•International players looking to foray India.</li></ul>
Bargaining power of supplier	<ul style="list-style-type: none"><li>•The bargaining power of suppliers varies depending upon the target segment.</li><li>•The unorganised sector has a dominant position.</li><li>• There are few players who have a slight edge over others on account of being established players and enjoying brand distinction.</li></ul>
Bargaining power of buyers	<ul style="list-style-type: none"><li>• Consumers are price sensitive..</li><li>•Availability of more choice.</li></ul>
Threat of substitutes	<ul style="list-style-type: none"><li>•Unorganized retail</li></ul>