

*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

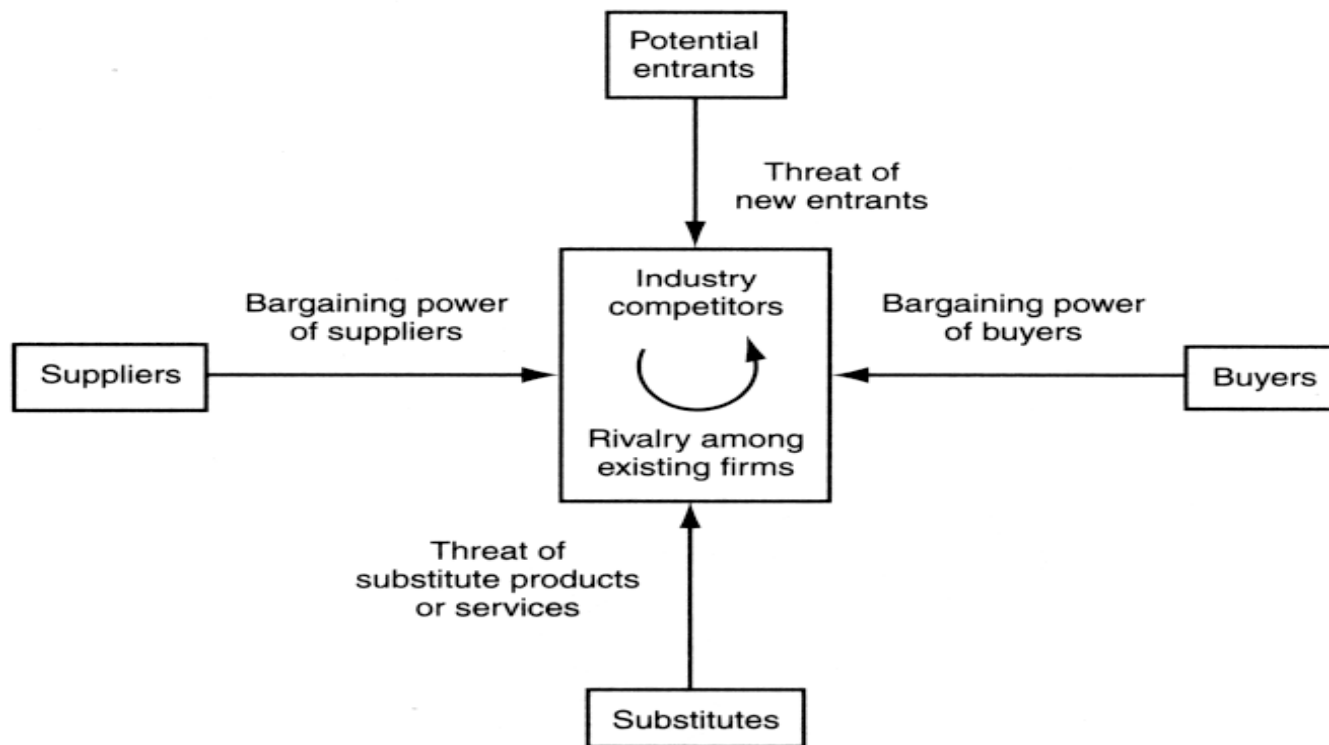


FIGURE 2-2 Porter's Five Forces Model

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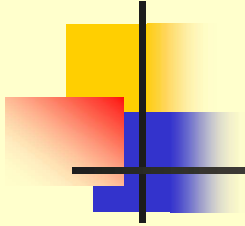


Portfolio Analysis ...

... 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 ...

... 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

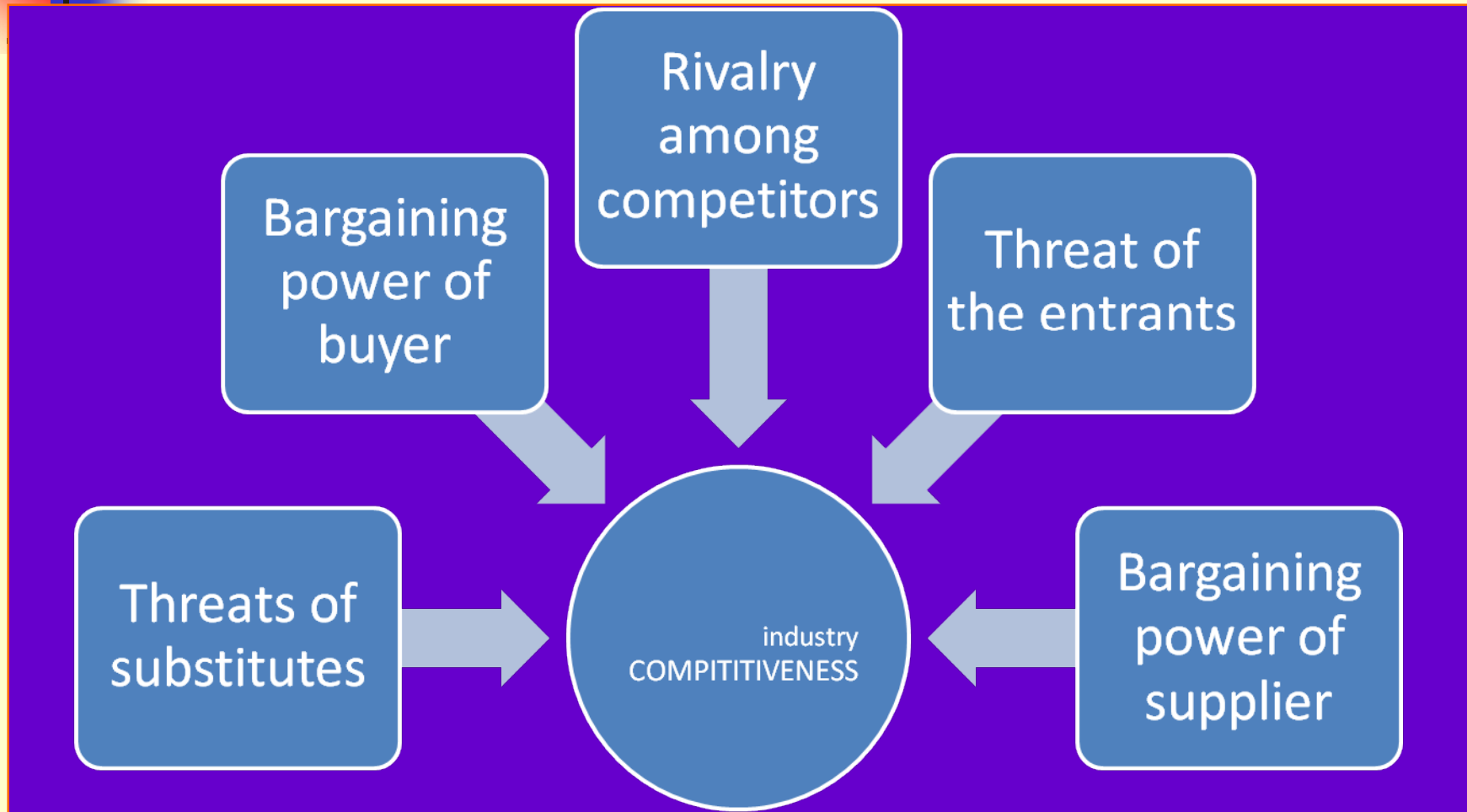
- * *The number of competitors increases or they become equal in size.*
- * *Demand for the industry's products declines or industry growth slows.*
- * *Fixed costs or barriers to leaving the industry are high.*



Summary ...

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