Porter's Five Forces Model of Industry Structure and Competition

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Managing Competitive Strategy
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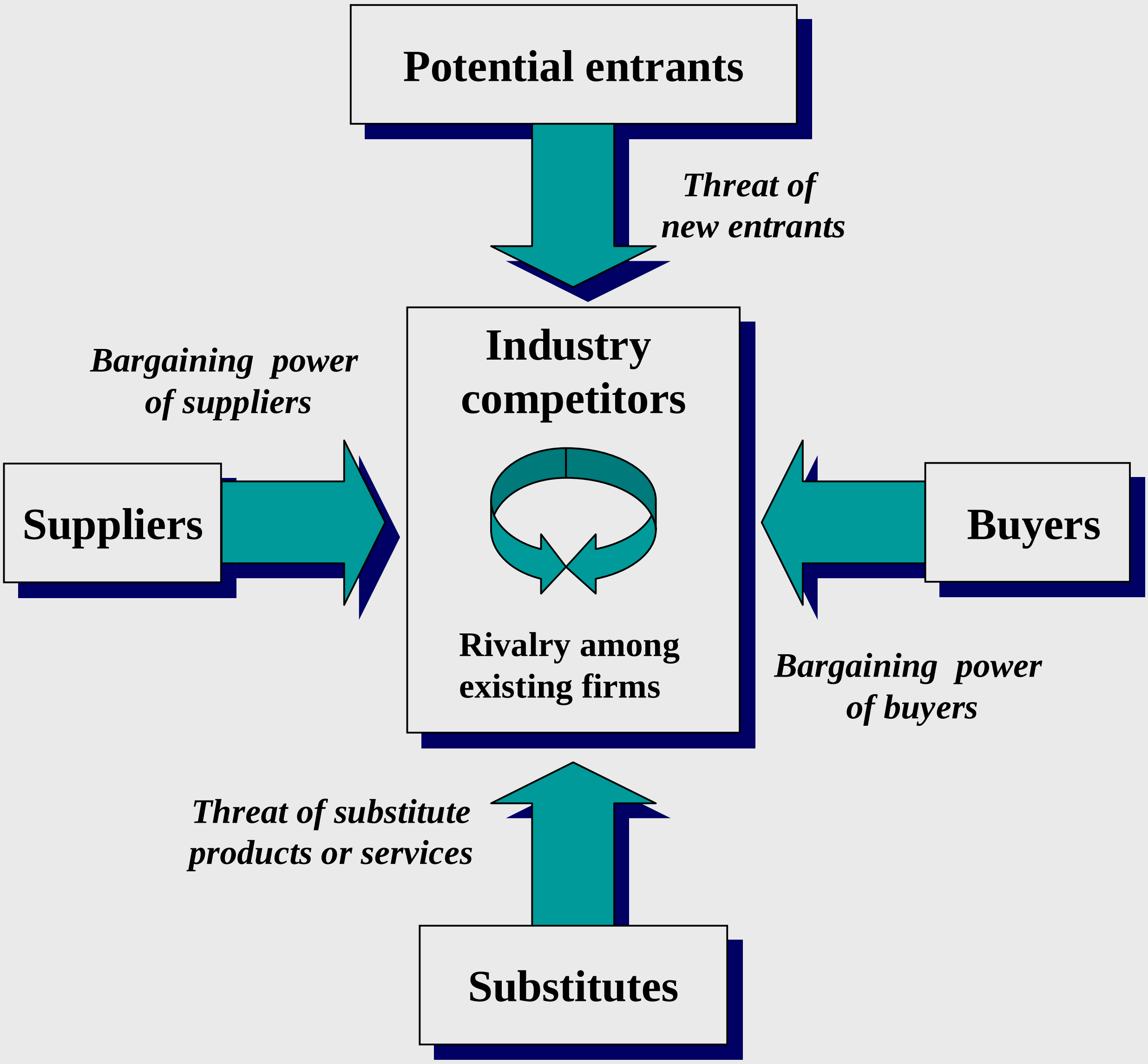
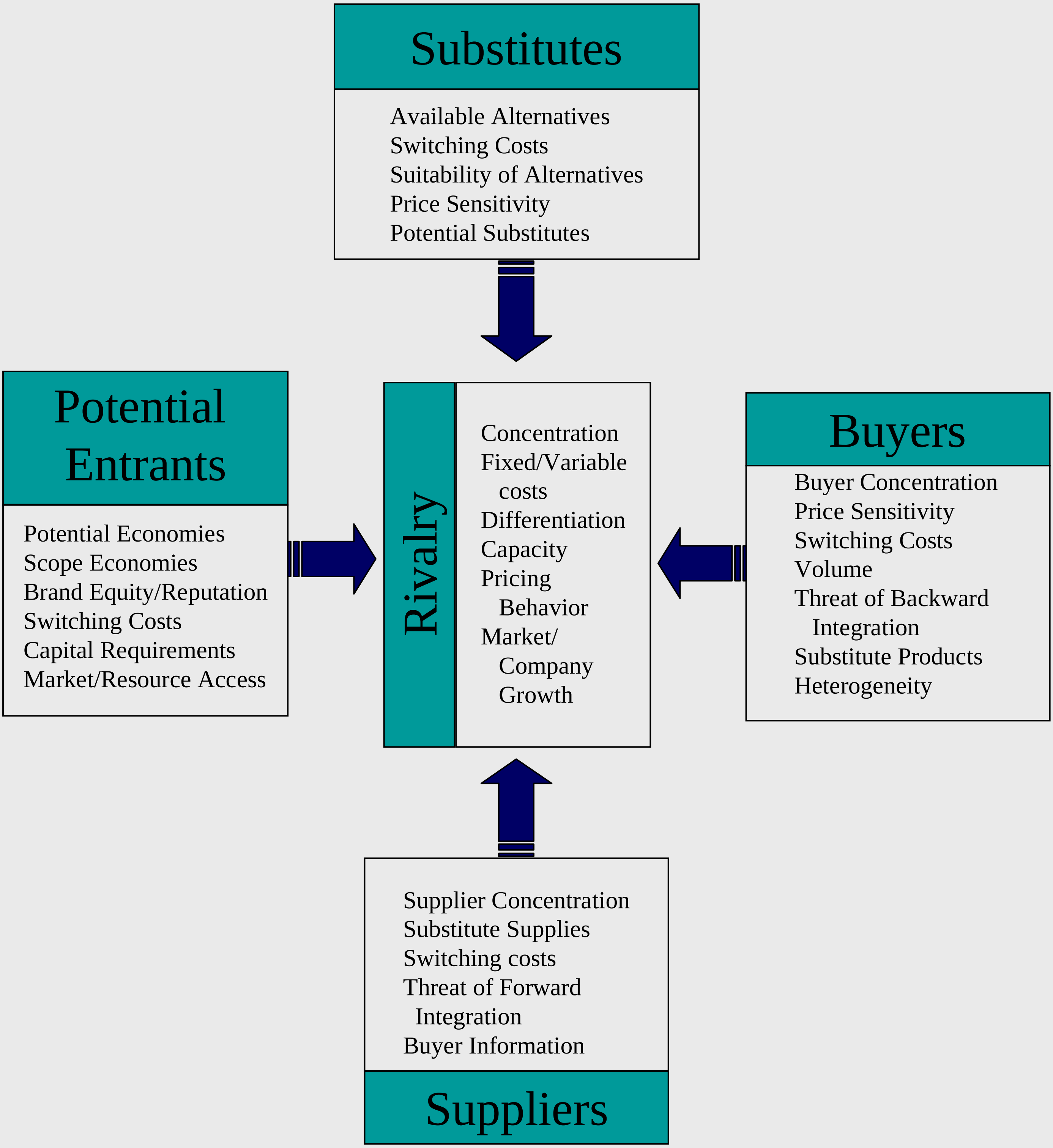
Porter's Five Forces Model



Porter's Five Forces in Detail



The Competitive Force of Potential Entry

☞ **Barriers to entry** are related to:

- ✔ Economies of scale.
- ✔ The existence of learning and experience curve effects.
- ✔ Brand preferences and customer loyalty.
- ✔ Capital requirements.
- ✔ Cost disadvantages independent of size.
- ✔ Access to distribution channels.
- ✔ Government actions and policies.

The Competitive Force of Substitute Products

- The price and availability of acceptable substitutes for product X places a ceiling on the prices which the producers of product X can charge.

- Unless the sellers of product X can upgrade quality, reduce prices via cost reduction, or otherwise differentiate their product from its substitutes, they risk a low growth rate in sales and profits because of the inroads substitutes may make.

- The competition form substitutes is affected by the ease with which buyers can change over to a substitute. A key consideration is usually the buyers switching costs--the one-time costs facing the buyer in switching from use of X over to a substitute for X.

The Economic Power of Suppliers

- A group of supplier firms has more bargaining power:
  - ✔ When the input is, in one way or another, important to the buyer.
  - ✔ When the supplier industry is dominated by a few large producers who enjoy reasonably secure market positions and who are not beleaguered by intensely competitive conditions.
  - ✔ When suppliers' respective products are differentiated to such an extent that it is difficult or costly for buyers to switch from one supplier to another.
  - ✔ When the buying firms are not important customers of the suppliers.
  - ✔ When one or more suppliers pose a credible threat of forward integration.

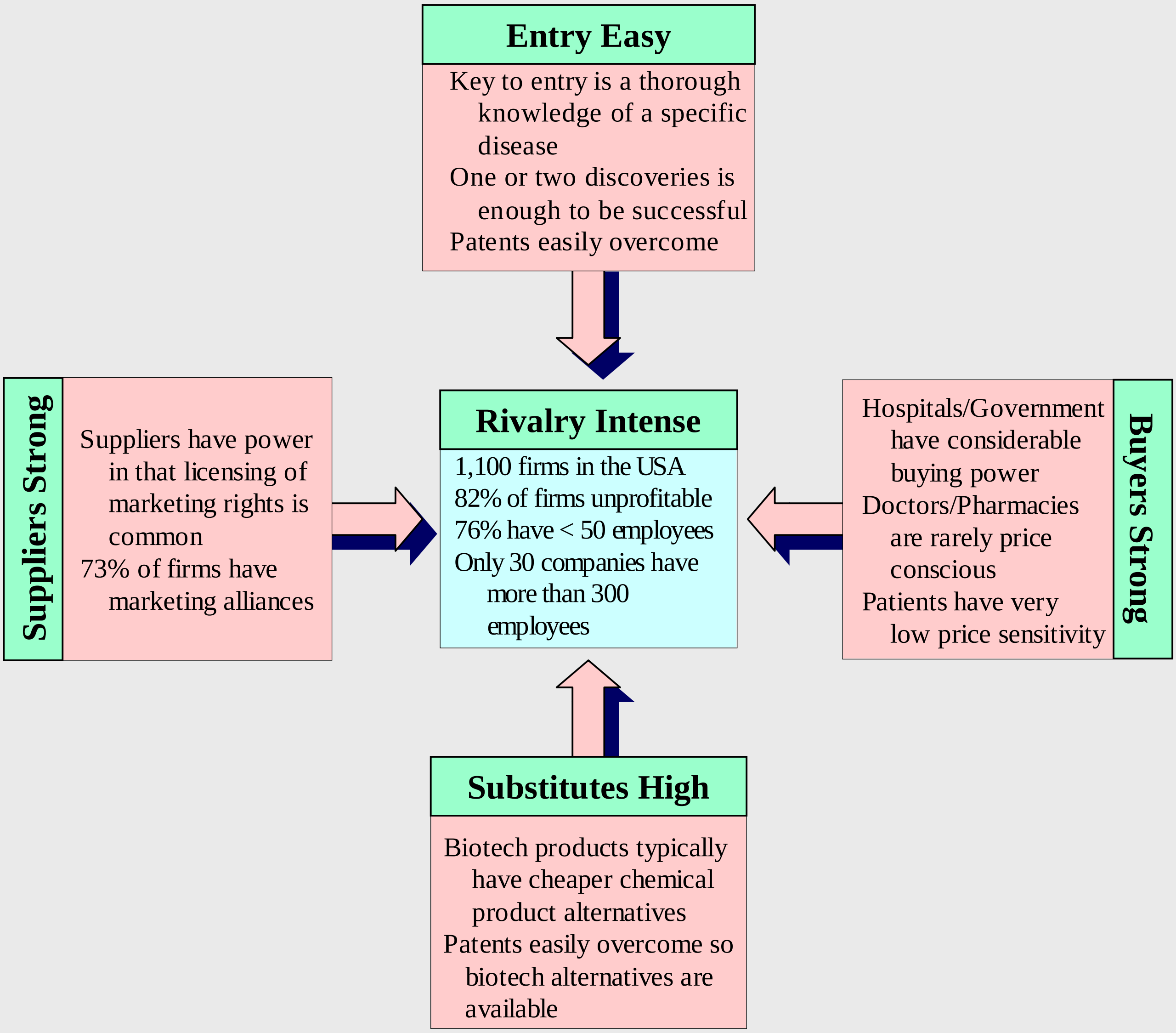
The Economic Power of Customers

- The leverage and bargaining power of customers tend to be relatively greater:
- When customers are few in numbers and when they purchase in large quantities.
- When customers' purchasers represent a sizable percentage of the selling industry's total sales.
- When the supplying industry is comprised of large numbers of relatively small sellers.
- When the item being purchased is sufficiently standardized among sellers that customers can not only find alternative sellers but they can also switch suppliers at virtually zero cost.
- When customers pose a credible threat of backward integration.
- When the item being bought is not an important input.
- When it is economically feasible for customers to purchase the input from several suppliers rather than one.

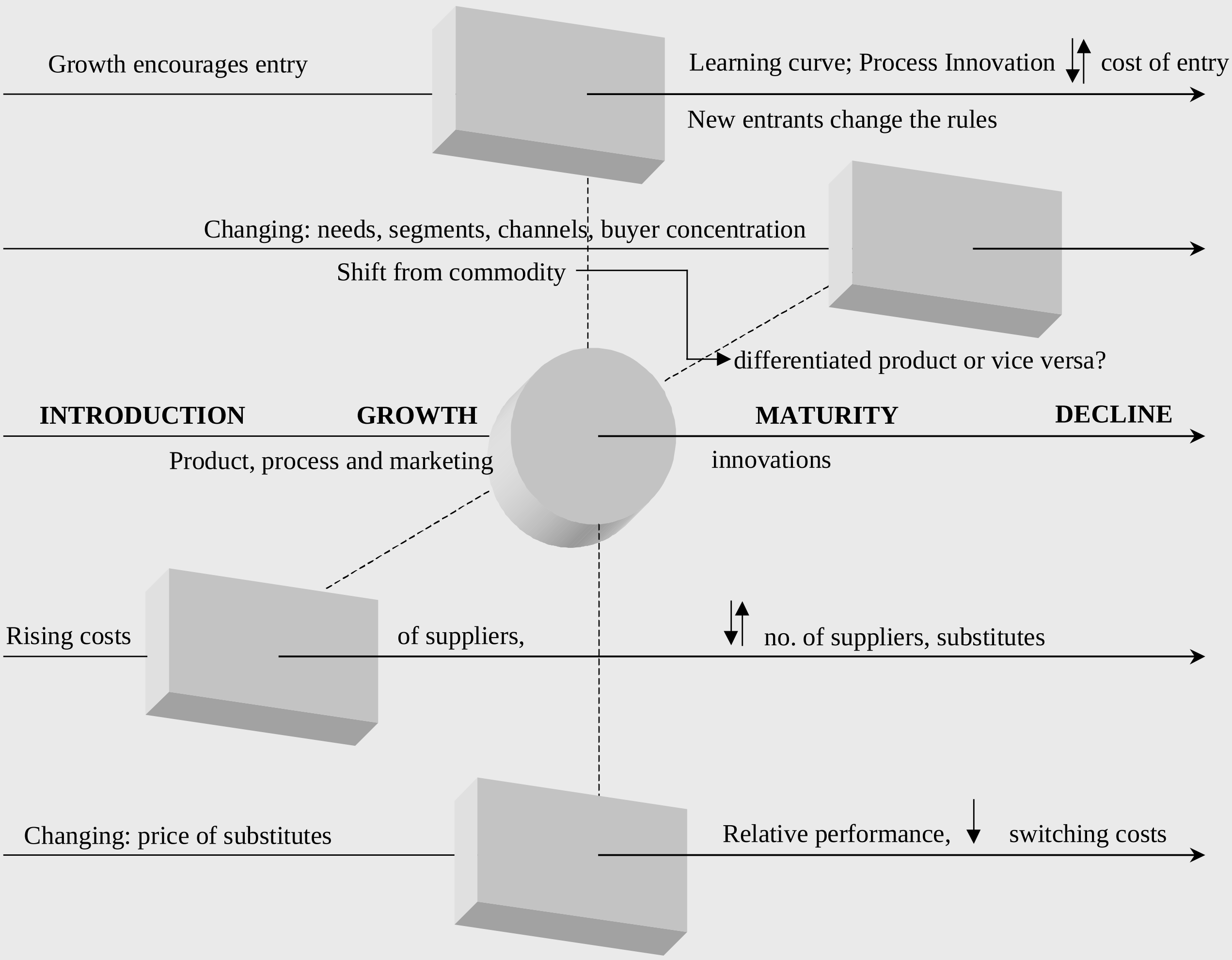
The Competitive Force Of Rivalry

- Rivalry tends to intensify as the number of competitors increases and as they become more equal in size and capacity.
- Rivalry is usually stronger when demand for the product is growing slowly.
- Rivalry is more intense when competitors are tempted by industry conditions to use price cuts or other competitive weapons to boost unit volume.
- Rivalry is stronger when the products and services of competitors are so weakly differentiated that customers incur low costs in switching from one brand to another.
- Rivalry increase in proportion to the size of the payoff from a successful strategic move.
- Rivalry tends to be more vigorous when it costs more to get out of a business than to stay in and compete.
- Rivalry becomes more volatile and unpredictable the more diverse the competitors are in terms of their strategies, personalities, corporate priorities, resources, and countries of origin.
- Rivalry increases when strong companies outside the industry acquire weak firms in the industry and launch aggressive well-funded moves to transform the newly acquired competitor into a major market contender.

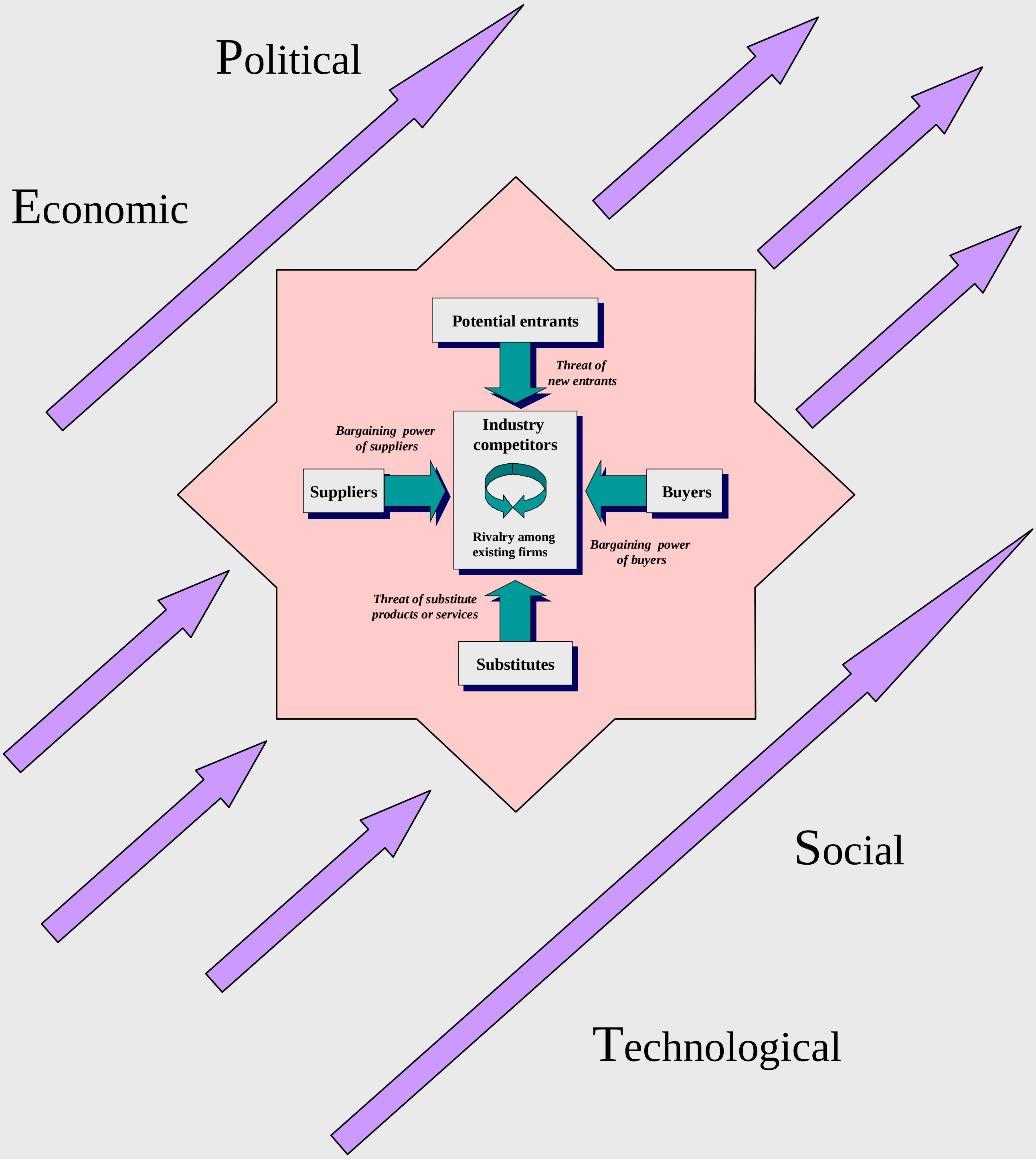
Five Forces in Biotechnology



Driving Forces in the Five Forces Model



Forces for Change



Pressures for Evolution of the Five Forces

	RIVALRY	ENTRY	BUYER & DEMAND	SUPPLIERS	SUBSTITUTES
5 FORCES TODAY					
FUTURE **POLITICAL**					
ECONOMIC					
SOCIAL					
TECHNOLOGICAL					
5 FORCES FUTURE					

KEY ISSUES