

PORTER'S FIVE FORCES

Management Models

>> INTRODUCTION

Working in the 1980s, Michael E Porter identified five factors affecting the competitive position of a company. He argued that a company that wishes to improve its performance must take account of these five forces, before it can make a decision as to the best strategy for future success.

The five forces identified by Porter as shown in the diagram on the right are:

- > The entry into the market of new competitors
- > The threat of substitutes – similar competing products
- > The bargaining power of buyers or customers
- > The bargaining power of suppliers
- > The level of competition from existing competitors (competitive rivalry)

>> HOW CAN THIS HELP ME?

Porter's model is designed to help companies choose the most promising strategy for their business. It does this by focusing attention on the competitive forces at work in the wider industry scene, not just the company's internal resources and operational efficiency. In the 1980s, Porter identified three generic strategies: competing on price; differentiating products and services by offering something not offered by competitors, or focusing on a niche market; later he went on to consider the role of diversification as a strategy and the impact of the Internet. But he stresses that it is not enough just to gather information. Companies need to ask themselves how they can use competitive forces to their advantage and rewrite the rules of the industry.

>> ADDITIONAL RESOURCES

Michael Porter: what is strategy? (CMI management thinker 028)

The five competitive forces that shape strategy, Michael E Porter
Harvard Business Review, vol 86 no 1, January 2008, pp79-93

Competitive strategy: techniques for analyzing industries and competitors,
Michael E Porter
New York NY: Free Press, 1980

>> THE MODEL

