

Porter's Five Forces Background: Professor Cossa's Students Only

For a background on Porter's Five Forces, read the following:

- Class 1 Handout: *"How Competitive Forces Shape Strategy"*
- Avenue > Readings > Porter's Five Forces Framework in Dr. Bontis' Avenue
- eText pp. 49-54 and (Tool) E10 - Figure 4.2
- Stick to the assigned document (e.g., case) as no outside research is permitted.

Brief Description: This business model and industry tool analyzes industries and their competitors through a review of how five competitive forces shape every industry. In understanding the dynamics of each force, you will appreciate the **drivers of profitability** that impact the industry from the point of view (POV) of existing firms in the industry. Avoid naming companies (e.g., for suppliers of the airline industry, consider the category of aircraft manufacturers instead of naming companies like Bombardier, Airbus, Boeing, etc.).

Video Suggestion (1m57s): [The Explainer: The 5 Forces That Make Companies Successful](#)

Industry Name: If the industry is not stated in the document, assume, state it, and then base your work on this industry (e.g., Romance Novel Industry versus Publishing Industry for the Harlequin case).

From Model to Strategy: Outside this course and in business, understand how the industry is changing based on the forces and then look internally to assess the implications of each force on your company's strategy. (Here, you can name specific companies but not in our course as it remains an academic exercise.) Questions businesspeople answer include the following:

- How do I reshape my business?
- How can I position the company to find that spot where I can command a good profit?
 - Position the firm in a way to avoid or mitigate forces – often where forces are weakest
 - Profit is often eroded not by immediate competitors but by suppliers, buyers, and substitutes
 - Consider the macro-environment (PEEST) impact on the five forces

eText Overview: Porter's Five Forces

Potential Entrants – The easier it is for new companies to enter the industry, the more competitive will be the industry. The higher the barriers, the more attractive will be the industry to existing competitors; therefore, the threat is LOW. Or put another way, the threat of potential entrants is high when barriers to entry are LOW. Examples of barriers to entry include high fixed costs, scarcity of resources, and government restrictions or legislation.

Buyers (incl. who/what are the buyers, and you may need to sub-segment) – This is how much pressure customers (consumers and/or businesses) can place on a business. If one customer has a large enough impact to affect a company's margins and volumes, then the customer holds substantial power. Other reasons include the number and size of buyers, the different segments of buyers (e.g., for airlines, we see business, economy, family, charter/tourism), switching to another (competitive) product is simple, customers are price sensitive, and the type of product (if a commodity and not differentiated).

Substitutes (incl. the industry's substitutes) – If the cost of switching is low, it is a serious threat that someone will switch to a competitor's products. Other factors include the similarity of substitutes (e.g., if the price of coffee rises substantially, a coffee drinker may switch to tea), a similar substitute can be viewed as a new entrant (e.g., for eyeglasses, a substitute is laser eye surgery) and consider what may impact demand for each segment (e.g.,

time and distance are factors for business travelers while time and cost are factors for leisure travelers). Remember, you are looking at products (goods, services, and/or ideas) from other industries so understand competitors in your own industry!

Suppliers (incl. who/what are the suppliers for the industry) – This is how much pressure suppliers can place on a business. Focus on those that provide leverage (i.e., are the most important ones). Reasons why suppliers might have power include there are very few suppliers of a particular product, there are no substitutes, switching to another (competitive) product is very costly. Remember, the power of suppliers is LOW if there are a large # of suppliers.

Intensity of Competitive Rivalry (consider existing industry firms with no names) – Highly competitive industries generally earn low returns because the cost of competition is high. A highly competitive market might result from many players of about the same size as there is no dominant firm, little differentiation between competitors' products, a mature industry with very little growth and companies can only grow by stealing customers away from competitors. Consider if there are exit barriers (e.g., contracts).



Approach: Porter's Five Forces Format

Use the provided Framework to analyze the forces in a systemic way. Apply a Point + Proof + Explanation format for each point = **Point** (look to the Framework and the case for a relevant point to the specific force) + **Proof** ("cite"/quote the support from the case and it can be statistics from the body and/or figures and/or tables, comments, quotes, etc. + **Explanation/"So what?"** (this is your analysis and demonstrates that you understand the implication of what is going on in the force to the industry).

The five forces' names are a bit different in the text and the Framework. As a result, I ask that my students use the nomenclature below, and in the order stated. Include the threat for each force which is high (H), medium (M), or low (L) after the force name. Do not repeat the threat level in the sentences that follow this work. Bold the name of the force, the associated threat level, and the colon. Then add the associated sentences and end each force with an overall statement. After the last force, include the industry attractiveness sentence(s). See below for specifics including what else you need to include (e.g., key suppliers).

Potential Entrants (H, M, or L): Sentence 1 will include the Point + Proof + Application format ("So what?" as it relates to the force). Sentence 2 will repeat this approach.

Buyers (H, M, or L): In Sentence 1, state who/what the buyers are and you may need to sub-segment. Sentence 2 will include the Point + Proof + Application format ("So what?" as it relates to the force). Sentence 3 will repeat this approach.

Substitutes (H, M, or L): In Sentence 1, state the substitutes and remember they cannot be from same industry. Sentence 2 will include the Point + Proof + Application format ("So what?" as it relates to the force). Sentence 3 will repeat this approach.

Suppliers (H, M, or L): In Sentence 1, state the most critical suppliers for the industry. Sentence 2 will include the Point + Proof + Application format ("So what?" as it relates to the force). Sentence 3 will repeat this approach.

Competitive Rivalry (H, M, or L): Sentence 1 will include the Point + Proof + Application format ("So what?" as it relates to the force). Sentence 2 will repeat this approach.

Once you complete each of the five forces, end with the overall industry attractiveness in one to three sentences. This speaks to your overall assessment of the **attractiveness of the industry**, from the POV of firms currently in the industry, and based on the threat levels of the five forces. The industry's profitability results from the interaction among the five forces; therefore, an **"unattractive"** industry is one where the combination of the **strongest forces** acts to drive down overall profitability. There is no new information in this statement. To arrive at your starting statement of whether the industry is attractive high or attractive medium or unattractive low, consider attaching values of L (0), M (1), or H (2) for each of the five forces and then take the inverse aggregate of the total forces. For example, $4H + 1M = 4 \times 2 + 1 \times 1 = 9/10$ so the inverse aggregate means the industry is **unattractive (L)**.

Some forces will hold more weight than others. It's important to make that judgement and include this in the "therefore" statement. Holding weight may mean that certain forces and stakeholders within the forces hold power to make or break an industry. As an example, pharma suppliers who have patents tend to hold high power. Buyers of insulin tend to have low power as they need to buy insulin to survive no matter the cost."

Professor Cossa's Preferred Template for the Porter's Assignment

There is a sample submission in Dr. Bontis' Avenue course. To optimize your targeted one-page limit, I recommend the template below which includes single-line spacing.

Potential Entrants (pick one: H, M, L): S1, S2, etc.

Buyers (pick one: H, M, L): S1, S2, etc.

Substitutes (pick one: H, M, L): S1, S2, etc.

Suppliers (pick one: H, M, L): S1, S2, etc.

Competitive Rivalry (pick one: H, M, L): S1, S2, etc.

Therefore, the ____ industry is (pick one: attractive (H), attractive (M), unattractive (L) because ...

Final Points

As some final points:

- Follow instructions including formatting requirements (e.g., use grammatical sentences so no point form).
- There is no outside research so stick to the provided document.
- Use your space wisely. For example, if this is a one-page assignment, use the full page. Otherwise, you are missing information such as strong analysis.
- Get to the point and include it in the correct force.
- Do not repeat information. For example, if you start with **Buyers (L)**: do not repeat that the threat is low in the first or subsequent sentences.
- Do not just repeat case facts. Turn case facts into actionable insights that answer, "So what?"
- When stating the overall industry attractiveness, include your rationale without introducing new information or restating Hs, Ms, and/or Ls from the earlier forces.