

Strategic Planning Tools

Porter's 5 Forces

Benefits of a Porter's 5 Forces Competitive Analysis

1. You gain awareness of some of the most significant forces that shape your strategy to survive & thrive.
2. Awareness of the 5 Forces allows some stress relief because of reduced uncertainty & implementation of formal risk management.
3. Identifying Supplier Power will provide you the urgency to seek new suppliers or change your relationship with your supplier to minimize risk.
4. If Buyer Power is high, this can determine potential weaknesses in your customer relationship management, product & service offerings, or your current customer base.

How to Develop a 5 Forces Analysis

Developing a 5 Forces Competitive Analysis allows you to determine the difficulty level of continued profitability in a competitive environment. Because of the complexity of the model compared to a SWOT analysis, it takes a bit more work and research.

Some people have started using a sixth force for Porter's model, called Complements, that identifies products or services that complement the products or services you sell. While complements do not directly compete with what you sell, they can be an opportunity or threat depending on your response.

Complements are essentially the "buy with" products and services customers like. When a person buys a smart phone, they often go to another store to buy power cords, phone covers, and even software. There are online stores devoted to complementary products and they sometime direct the customer to another company to buy the primary product.

Complements can be a valuable part of strategy because they define a potential loss of sales or an opportunity to grow and increase revenue.

Note that some research may need to be done after your main discussion to complete your 5 Forces competition model. In some cases, splitting into 2 small teams of 2-4 people can produce more accurate results when data is combined.



Porter's 5 Forces Worksheet

Instructions: Use the form below to score the elements listed. NOTE: The score is relative and is not an evaluation of actual performance. **A higher score indicates MORE competitive pressures.** Circle your answer and add the results in each table. WATCH for (+) and (-).

Threat Of New Entrants	Yes	No
Is government regulation high?	-1	+1
Do you have proprietary techniques or patents?	-1	+1
Does your business have high asset requirements for startup?	-1	+1
Do you have high profit margins that are widely known?	+1	-1
Is your industry growing rapidly?	+1	-1
TOTAL for Threat of New Entrants		
Supplier Power	Yes	No
Would switching suppliers be extremely difficult?	+1	-1
Are you a small buyer compared to other buyers?	+1	-1
Is your supplier the exclusive seller of a critical component you buy?	+1	-1
Do you have an active & beneficial relationship with suppliers?	-1	+1
Is your supplier flexible on delivery and payment?	-1	+1
TOTAL for Supplier Power		
Buyer Power	Yes	No
Do you have 5 or fewer customers?	+1	-1
Do your buyers have considerable influence in the price you charge?	+1	-1
Do you sell to a distributor instead of the end user?	+1	-1
Are you the only supplier for your buyer	-1	+1
Do you have a good relationship with your buyers or their representatives?	-1	+1
TOTAL for Buyer Power		
Threat of Substitute Products or Services	Yes	No
Do you consider your product or service a commodity?	+1	-1
Are there a large number of competitors for your specific product?	+1	-1
Are your competitors selling in the same location as you?	+1	-1
Does your product have dramatic differences compared to competitors?	-1	+1
Does your company have a Unique Selling Proposition that is well known?	-1	+1
TOTAL for Threat of Substitutes		
Rivalry Among Existing Competitors	Yes	No
Do competitors offer price guarantees?	+1	-1
Do competitors insult you or other competitors in ads?	+1	-1
Is advertising very expensive for trade journals & trade shows?	+1	-1
Do your competitors recruit your employees or follow your moves?	+1	-1
Do your competitors quickly copy products or services you offer?	+1	-1
TOTAL for Rivalry of Competitors		
Complements	Yes	No
Do you know what customers buy for use with your service or product?	-5	+5
TOTAL for Rivalry of Competitors		
TOTAL COMPETITION FACTOR		

The competition factor can range from little competitive force (-30) to high competitive force (+30).