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Entrepreneurship & Startup › Business Models & Strategy › Competitive Strategy

Porter’s five forces

Master Competitive Strategy with Porter’s Five Forces Framework

DEFINITION

> Porter’s Five Forces is a model that helps analyze the competitive environment of an industry. It identifies five key forces that shape competition and influence profitability.

KEY CONCEPTS

Threat of New Entrants

This force examines how easy it is for new competitors to enter the market, affecting existing businesses.

Bargaining Power of Suppliers

This force assesses how much power suppliers have to drive up prices or reduce quality, impacting businesses.

Bargaining Power of Buyers

This force looks at the influence customers have on pricing and quality, which can affect profitability.

Threat of Substitute Products

This force evaluates the likelihood of customers finding a different product that meets the same need, impacting demand.

Industry Rivalry

This force analyzes the intensity of competition among existing firms, which can influence pricing and market share.

EXAMPLES

→ A new coffee shop entering a neighborhood with established cafes.

→ Suppliers of raw materials for a tech company negotiating higher prices.

→ Consumers switching from traditional taxis to ride-sharing apps.

MEMORY TIPS

★ Remember 'NBSRS' for New entrants, Bargaining power of Suppliers, Buyers, Substitutes, Rivalry.

★ Visualize a five-point star, each point representing a force.

★ Think of a boxing match where each force represents a competitor trying to win.

COMMON MISTAKES

✗ Confusing the forces with general market trends.

✗ Overlooking the impact of external factors like regulations.

✗ Failing to analyze the interconnections between the forces.

QUICK RECAP

Porter’s Five Forces helps businesses understand their competitive landscape. By analyzing these forces, companies can develop effective strategies to enhance their market position.