PORTER'S FIVE FORCES

How to use

Template

Example

Porter's Five Forces

Porter's Five Forces helps you to understand the strength of your competitive position. Here you describe what the existing competition is, where the threats of new entrants or substitute products are, and what the bargaining power of suppliers or buyers is. With a clear understanding of the five forces you can take advantage of your strengths and improve weaknesses.

Tips for use

You can do Porter's Five Forces by yourself, but it is more effective if done by a group of people, for example with colleagues.

Use Porter's Five Forces to make a large printout and use this in a brainstorm. Use sticky notes to write things on the template, in this way it is easy to add or change things and keep the conversation going.

Have a look at the example as well, learn about the practical application of this tool through Porter's Five Forces of Nike.

How to use

Porter's Five Forces show that there are five important forces that determine the competitive power of your business. Write down high, moderate or low on Porter's Five Forces template for each of the following forces.

Intensity of competition from existing competitors

Identify the existing competitors of your business. Write down their names and the size of their businesses. Estimate how heavy the competition is.

- The intensity is high if you have many competitors with a similar product or service. Your business will likely have little power in the market. Suppliers and buyers can easily go somewhere else.

- The intensity is low if there is no one else that offers what you offer. You have great power in the market. Buyers and suppliers have nowhere else to go.

Threat of substitutes

Substitute products or services offer an alternative for your offering. Write down those products or services that can be an alternative for your customers.

- The threat is high if there are many substitutes. It is easy for buyers to find a different solution than your offering.

- The threat is low if there is no alternative for your product. Your business has tremendous power since customers cannot find an alternative.

Threat of new entrants

New entrants are businesses that want to enter your market. Your power is affected by the ability of others to enter the

market. New competitors can easily enter your market when there are low entry costs, few economies of scale, no knowledge-intensity and little protection of key technologies. Write down the potential new entrants and the entry barriers of your market.

- The threat is high if there are no or a few entrance barriers. It will be easy for new businesses to start competing in your market.
- The threat is low if there are many and durable entrance barriers. You can maintain your position on the market and take advantage of it.

Bargaining power of suppliers

High bargaining power of suppliers will result in a higher price for resources for your product. The bargaining power of suppliers is determined by the number of suppliers in the market. Write down on which suppliers you depend for your resources and how many other suppliers could offer the same resources. Also describe if it is easy to switch suppliers.

- The bargaining power is high if there are few or just one supplier. That supplier has large bargaining power and the power to determine its price.
- The bargaining power is low if there are many suppliers on the market. An individual supplier has little bargaining power, and no influence on the price.
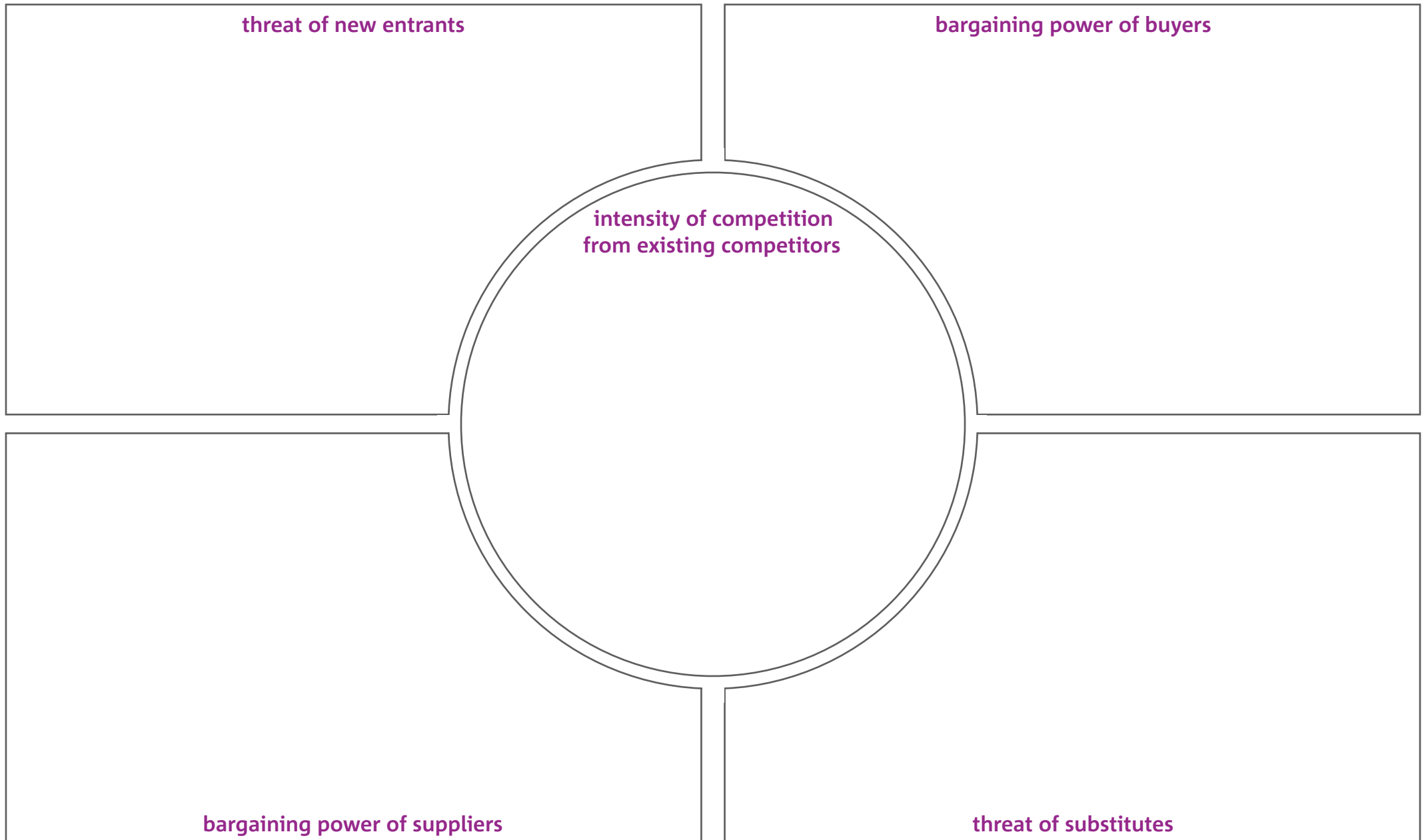
Bargaining power of buyers

High bargaining power of buyers means that it is easy for buyers to drive down the price of your product. The bargaining power of buyers is determined by the number of buyers in your market.

Write down how many buyers there are in your market. Also describe if you depend on your buyers or if they depend on you.

- The bargaining power is high if there are a few buyers. Those buyers have large bargaining power and can easily drive down the price. Your business depends on these buyers.
- The bargaining power is low if there are many buyers. An individual buyer has little bargaining power and cannot drive down the price.
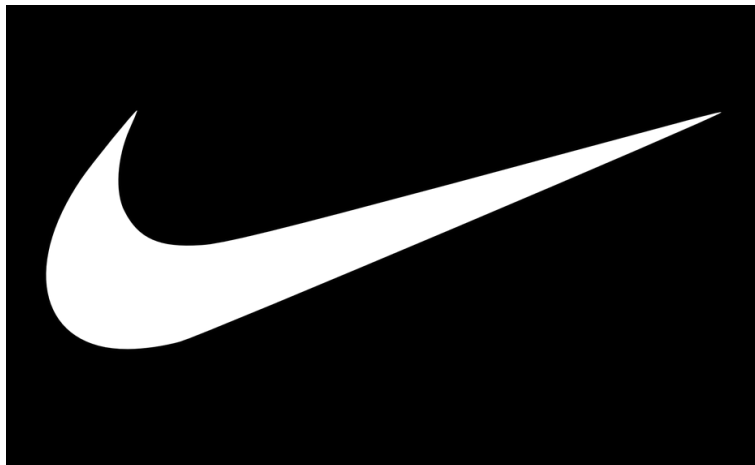
porter's five forces

name _____

threat of new entrants

bargaining power of buyers

**intensity of competition
from existing competitors**

bargaining power of suppliers

threat of substitutes

**inno
valor**

Example Nike

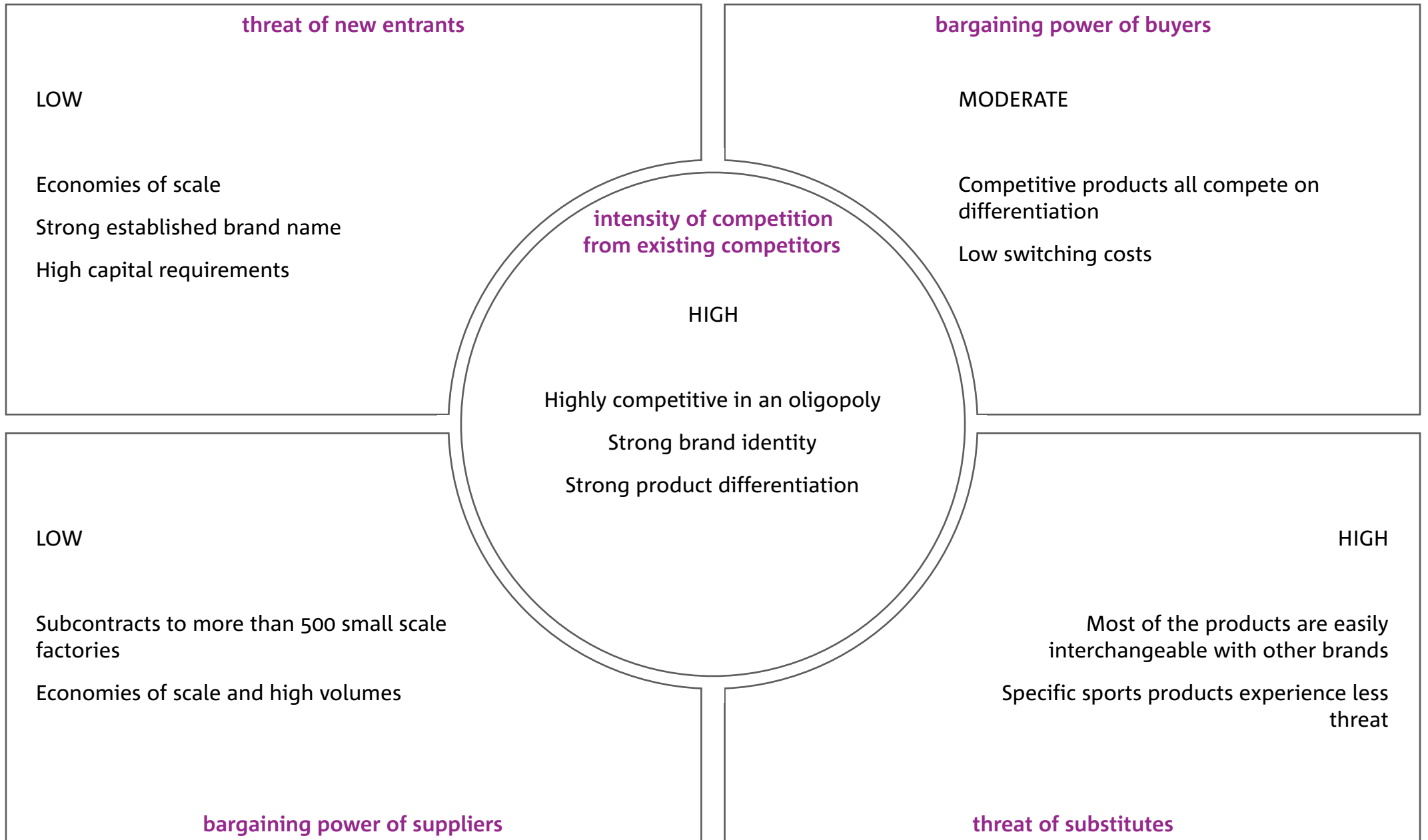|	
industry	Clothing industry
products & services	Sports attire and accessories
size of business	74,400 employees
revenue	$24.35 billion
location	Washington

Nike started as a reseller of shoes from a Japanese brand, but eventually started making their own sports shoes. Through time the range of shoes and other sports attire was expanded further. Nike now sells everything from casual wear to sports socks. However, they are still best known for their (sports) shoes, for example the very popular Nike Air Max and Air Jordans.

Nike's Porter's Five Forces

In the example the competitive position of Nike is investigated. Porter's Five Forces indicates that Nike should take into account a couple of things. The most important ones are rivalry of existing competition and threat from similar products that closely resemble Nike's products. In other parts they experience a better competitive position. Nike doesn't have to pay as much attention to new parties who try to enter into the market. Nike has financial advantages and in this industry the economies of scale have a big influence. A newcomer will struggle to quickly attract many customers and profit from these advantages.

porter's five forces

threat of new entrants

LOW

Economies of scale

Strong established brand name

High capital requirements

bargaining power of buyers

MODERATE

Competitive products all compete on differentiation

Low switching costs

intensity of competition from existing competitors

HIGH

Highly competitive in an oligopoly

Strong brand identity

Strong product differentiation

bargaining power of suppliers

LOW

Subcontracts to more than 500 small scale factories

Economies of scale and high volumes

threat of substitutes

HIGH

Most of the products are easily interchangeable with other brands

Specific sports products experience less threat

inno valor