THE FIVE COMPETITIVE FORCES THAT SHAPE STRATEGY

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Harvard Business Review

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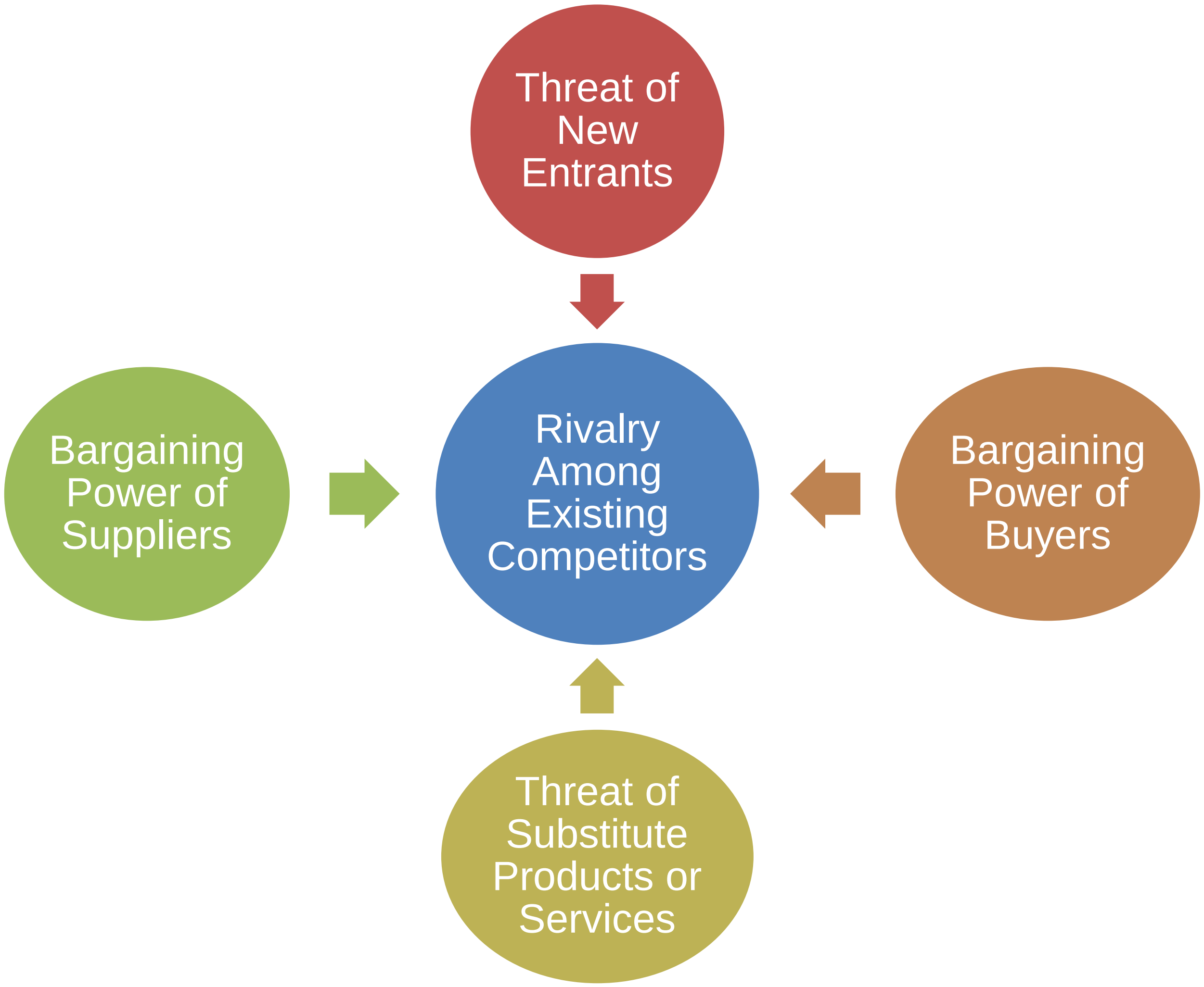
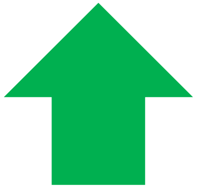
5 Forces That Shape Industry Competition



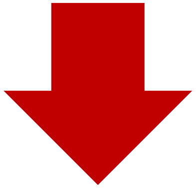
Threat of New Entrants

- New competitors to the industry
  - Influenced by barriers to entry (e.g., economies of scale, customer switching costs, capital investment, etc.)
    - High barriers = low threat
    - Low barriers = high threat

- Caps the profit potential of an industry
  - When threat of new entrants is high, incumbents must keep prices low (or increase investment)



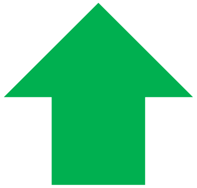
THREAT OF NEW ENTRANTS



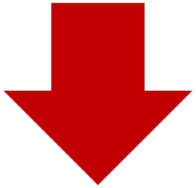
PROFITABILITY

Bargaining Power of Suppliers

- Suppliers of raw materials, services, labor, etc. required by incumbents to deliver products or services
- Powerful suppliers capture more value for themselves, squeezing profitability out of an industry
  - Charging higher prices
  - Limiting quality or services
  - Shifting costs to incumbents



POWER OF SUPPLIERS



PROFITABILITY

Bargaining Power of Buyers

- Buyers = customers

- Customers can capture more value by forcing prices down or driving up costs (by demanding better quality or more service)

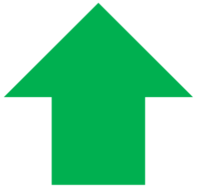
- Powerful buyers – negotiating leverage; price sensitive

↑ POWER OF BUYERS ↓ PROFITABILITY

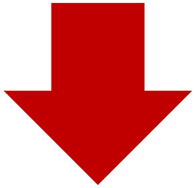
Threat of Substitutes

- Performs the same or similar function as an industry's product by a different means
  - E.g., Video-conferencing is a substitute for air travel

- Substitute products or services limit an industry's profit by putting a ceiling on prices
  - Particularly if not differentiated on product performance, marketing, etc.



THREAT OF SUBSTITUTES



PROFITABILITY

Rivalry Among Existing Competitors

- Price discounting, new product introductions, advertising campaigns, service improvements, etc.
- Rivalry is determined by intensity and basis
  - Intensity – number/size of competitors, industry growth, etc.
  - Basis – dimension incumbents compete on (e.g., price, product features, brand, etc.)
- High rivalry limits profitability (price competition)
  - Rivalry can improve profitability when different customer segments are targeted with different prices, products, brands, etc.

PRICE RIVALRY

PROFITABILITY