

MANAGEMENT OUTLOOK



Jagan Institute of Management Studies

Volume 4, Issue 12

Management Magazine

Michael E Porter's five forces of competitive position model

Michael Porter's famous Five Forces of Competitive Position model provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization.

American Michael Porter was born in 1947. After initially graduating in aeronautical engineering, Porter achieved an economics doctorate at Harvard, where he was subsequently awarded university professorship, a position he continues to fulfil at Harvard Business School. His research group is based at the Harvard Business School, and separately he co-founded with Mark Kramer the Foundation Strategy Group, 'a mission-driven social enterprise, dedicated to advancing the practice of philanthropy and corporate social investment, through consulting to foundations and corporations'. A prime example of someone operating at a self-actualization level if ever there was one.

After his earlier work on corporate strategy Porter extended the application of his ideas and theo-

ries to international economies and the competitive positioning of nations, as featured in his later books. In fact in 1985 Porter was appointed to President Ronald Reagan's Commission on Industrial Competitiveness, which marked the widening of his perspective to national economies. By the 1990's Porter had established a reputation as a strategy guru on the international speaking circuit second only to Tom Peters, and was among the world's highest earning academics.

Porter's first book *Competitive Strategy* (1980), which he wrote in his thirties, became an international best seller, and is considered by many to be a seminal and definitive work on corporate strategy. The book, which has been published in nineteen languages and re-printed approaching sixty times, changed the way business leaders thought and remains a guide of choice for strategic managers the world over.

Aside from his innovative thinking, Porter has a special ability to represent complex concepts in relatively easily accessible formats, notably his Five Forces model, in which market factors can be ana-

lysed so as to make a strategic assessment of the competitive position of a given supplier in a given market. The five forces that Porter suggests drive competition are:

Porter's five forces

- Existing competitive rivalry between suppliers
- Threat of new market entrants
- Bargaining power of buyers
- Power of suppliers
- Threat of substitute products (including technology change)

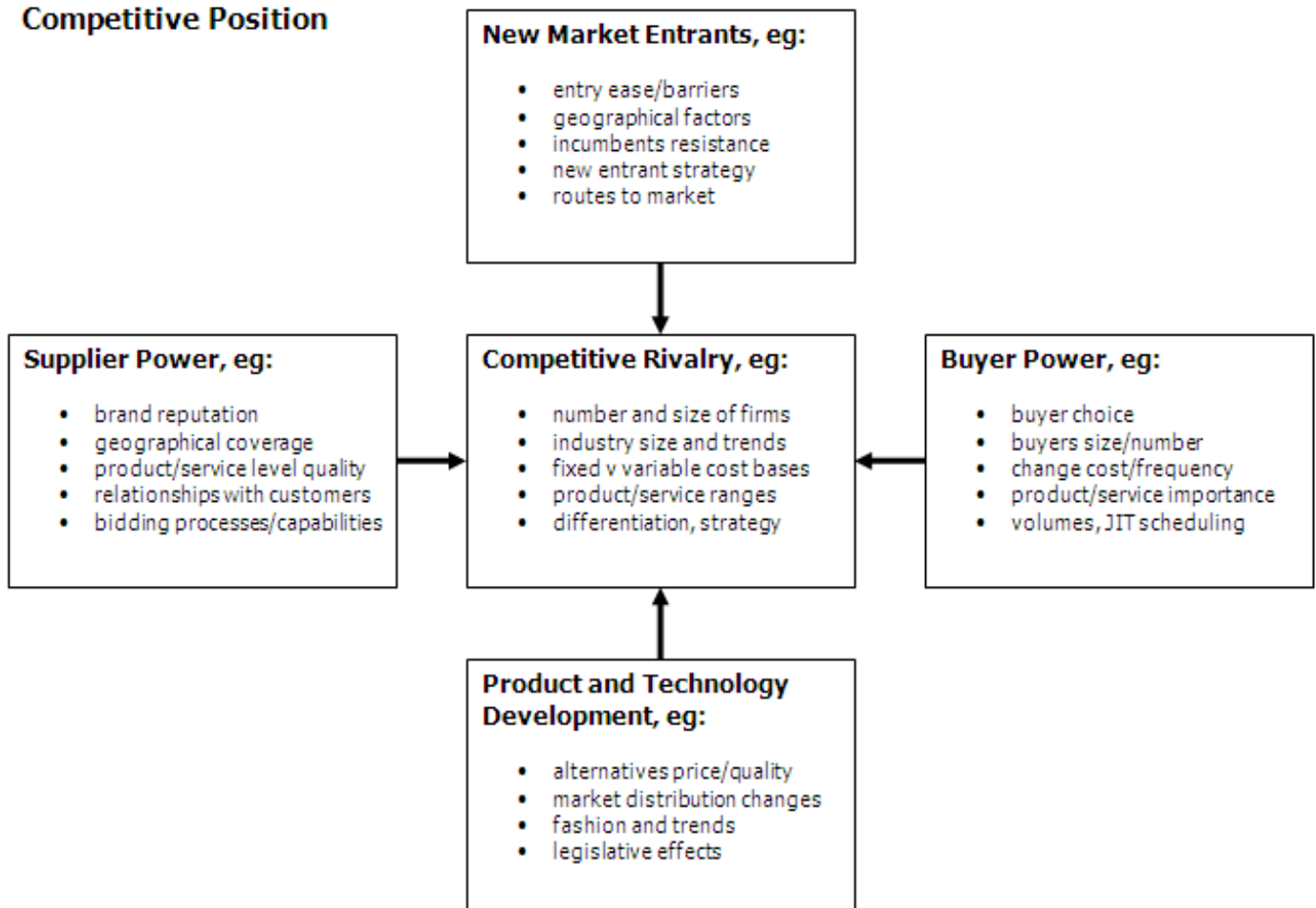
Typically this five forces model is shown as a series of five boxes in a cross formation, item 1 being central.

Porter's Five Forces model can be used to good analytical effect alongside other models such as the SWOT and PEST analysis tools.

Porter's Five Forces model provides suggested points under each main heading, by which you can develop a broad and sophisticated analysis of competitive position, as might be used when creating strategy, plans, or making investment decisions

SEND ACROSS YOUR VIEWS & FEEDBACK AT sheena.manchanda@jimsindia.org

Porter's Five Forces of Competitive Position



about a business or organization.

Porter is also known for his simple identification of five generic descriptions of industries:

Fragmented (eg, shoe repairs, gift shops)

Emerging (eg, space travel)

Mature (eg, automotive)

Declining (eg, solid fuels)

Global (eg, micro-processors)

And Porter is also particularly recognised for his competitive 'diamond' model, used for assessing relative competitive strength of nations, and by implication their industries:

Factor Conditions: production factors required for a given industry, eg., skilled labour, logistics and

infrastructure.

Demand Conditions: extent and nature of demand within the nation concerned for the product or service.

Related Industries: the existence, extent and international competitive strength of other industries in the nation concerned that support or assist the industry in question.

Corporate Strategy, Structure and Rivalry: the conditions in the home market that affect how corporations are created, managed and grown; the idea being that firms that have to fight hard in their home market are more likely to be able to succeed in international markets.