**Porter’s Five Forces Model:**

Michael Porter described a concept that has become known as the “five forces model”. This concept involves a relationship between competitors within an industry, potential competitors, suppliers, buyers & alternative solutions to the problem being addressed.

· **Threat of Potential Entrants:** The threat of new entrants relates to the ease with which a new company or a company in a different product area can enter a given trade sector. Barrier to entry into a particular market include the need for capital, knowledge and skills. The barriers to entry for e.g. to the vehicle assembly sector are massive; to start building cars there is the need to develop a new model range, build a car assembly plant, contract a large number of component suppliers and sign up a dealer network. Getting into business in building personal computers is, in contrast, much easier; the components are readily available and there is not the same need for investment in product development or large scale production facilities before the company makes a start.

**· Threat of Substitution:** Substitution is a threat to existing players where a new product becomes available that supplies the same function as the existing product or service. The classic examples are the (partial) substitution of natural fibres such as cotton and wool by synthetic fibres or the replacement of glass bottles by a plastic alternative in some sectors of the packaging industry. Existing players can protect themselves by keeping their product up-to-date.

**· Bargaining power of Buyers:** For a business to be profitable the cost of producing and distributing its product has to be less than the price it can fetch in the market place. Where there are a number of competitors in the market or a surplus of supply the buyer is in a strong position to bargain for a low price and for other favorable conditions of trade.

**· Bargaining power of Suppliers**: The organization, while trying to get an adequate price from its buyers, will be looking to get favorable terms from its own suppliers at the next stage along the value chain. The organisations ability to get a good deal is the mirror image of its position with its buyers. If the supply is plentiful and/or there are several suppliers it should get a good price. If the product is scarce or the number of suppliers that are able to meet its need is limited then the supplier is in a more favorable position.

· **Competition between existing players:** The final force is the completion between existing players in the market. The competition is to get the buyers and to trade at a price that produces an acceptable profit. That competition is won on the basis of the generic competitive advantage of cost or differentiation. The competitive position of each organization is determined by the deal it is able to make with the suppliers.

1. The Organization need to establish which of its inter organizational relationships add to its competitive advantage & which fail to achieve appropriate levels of quality & price.

2. The Linkages in the value system have to be managed.

3. The Physical Linkage involves good handling, transport & warehousing

4. Value chain must be clear & understandable.

5. The essential stages of a value chain are: Pre-sale, Execution, settlement & after-sales.