**Porter’s Five Force Analysis**

In 1979, the Harvard Business Review published the article “How Competitive Forces Shape Strategy” by the Harvard Professor Michael Porter. It started a revolution in the strategy field. In subsequent decades,“Porter’s five forces” have shaped a generation of academic research and business practice. This unit explores how competitive analysis can be done using Porter’s five forces model.

**The Five Forces**

In essence, the job of the strategist is to understand and cope with

competition. However, managers define competition too narrowly, as if it occurs only among today’s direct competitors.Yet competition for profits goes beyond established industry rivals. It includes four other competitive forces as well: customers, suppliers, potential entrants and substitutes.

The Five Forces model developed by Michnal E. Porter has been the most commonly used analytical tool for examining competitive environment. According to this model, the intensity of competition in an industry depends on five basic forces. These five forces are:

1. Threat of new entrants

2. Intensity of rivalry among industry competitors

3. Bargaining power of buyers

4. Bargaining power of suppliers

5. Threat of substitute products and services.

Each of these forces affects a firm’s ability to compete in a given market.Together, they determine the profit potential for a particular industry.

ETOP : Environmental Threats and Opportunities Profile (ETOP)

gives a summarized picture of environmental factors and their likely

impact on the organisation. ETOP is generally prepared as follows.

**1. List environmental factors** : The different aspects of the general as well as relevant environmental factors are listed.

For example, economic environment can be divided into rate of economic growth, rate of inflation, fiscal policy etc.

**2. Assess impact of each factor** : At this stage, the impact of each factor is assessed closely and expressed in qualitative (high, medium or low) or quantitative factors (1, 2, 3). It is

to be noted that not all identified environmental factors will have the same degree of impact. The impact is assessed as positive or negative.

**3. Get a big picture** : In the final stage, the impact of each factor and its importance is combined to produce a summary of the overall picture.

**SWOT Analysis**

SWOT stands for strengths, weaknesses, opportunities and threats.

SWOT analysis is a widely used framework to summaries a company’s

situation or current position. Any company undertaking strategic planning will have to carry out SWOT analysis: establishing its current position in the light of its strengths, weaknesses, opportunities and threats. Environmental and industry analyses provide information needed to identify opportunities and threats, while internal analysis provides information needed to identify strengths and weaknesses. These are the fundamental areas of focus in SWOT analysis. SWOT analysis stands at the core of strategic management. It is

important to note that strengths and weaknesses are intrinsic (potential) value

creating skills or assets or the lack thereof, relative to competitive forces.

Opportunities and threats, however, are external factors that are not created

by the company, but emerge as a result of the competitive dynamics caused

by ‘gaps’ or ‘crunches’ in the market. We had briefly mentioned about the

meaning of the terms opportunities, threats, strengths and weaknesses. We

revisit the same for purposes of SWOT analysis.