

- Bargaining power of customers
- Threat of substitutions
- Bargaining power of suppliers
- Threat of new entrants
- Rivalry

Figure 3-2

Porter's Five Forces Model of Industry Structure

Source: Based on Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance* (The Free Press, a Division of Simon & Schuster Adult Publishing Group). Copyright © 1985, 1998 by Michael E. Porter.

Q2 What Five Forces Determine Industry Structure?

Organizational strategy begins with an assessment of the fundamental characteristics and structure of an industry. One model used to assess an industry structure is Porter's **five forces model**,¹ summarized in Figure 3-2. According to this model, five competitive forces determine industry profitability: bargaining power of customers, threat of substitutions, bargaining power of suppliers, threat of new entrants, and rivalry among existing firms. The intensity of each of the five forces determines the characteristics of the industry, how profitable it is, and how sustainable that profitability will be.

To understand this model, consider the strong and weak examples for each of the forces in Figure 3-3. A good check on your understanding is to see if you can think of different forces of each category in Figure 3-3. Also, take a particular industry—say, auto repair—and consider how these five forces determine the competitive landscape of that industry.

Figure 3-4 illustrates GearUp's analysis of these five forces. The two strongest forces are from customers and rivalry. GearUp's response to the customer force is to provide the lowest prices for goods to be found, anywhere. Its response to the rivalry threat is to keep its customers' attention focused on GearUp via compelling emails.

Like GearUp, organizations examine these five forces and determine how they intend to respond to them. That examination leads to competitive strategy.

Force	Example of Strong Force	Example of Weak Force
Bargaining power of customers	Toyota's purchase of auto paint	Your power over the procedures and policies of your university
Threat of substitutions	Frequent-traveler's choice of auto rental	Patients using the only drug effective for their type of cancer
Bargaining power of suppliers	Students purchasing gasoline	Grain farmers in a surplus year
Threat of new entrants	Corner latte stand	Professional football team
Rivalry	Used car dealers	Internal Revenue Service

Figure 3-3

Examples of Five Forces