Introduction

Porter's 5 forces model is one of the most recognized framework for the analysis of business strategy. Porter, the guru of modern day business strategy, used theoretical frameworks derived from Industrial Organization (IO) economics to derive five forces which determine the competitive intensity and therefore attractiveness of a market. This theoretical framework, based on 5 forces, describes the attributes of an attractive industry and thus suggests when opportunities will be greater, and threats less, in these of industries.. Attractiveness in this context refers to the overall industry profitability and also reflects upon the profitability of the firm under analysis. An "unattractive" industry is one where the combination of forces acts to drive down overall profitability. A very unattractive industry would be one approaching "pure competition", from the perspective of pure industrial economics theory. It is important to note that this framework is not for the analysis of individual firms but for the analysis of the industry.. Despite its limitations in the technology enabled business era, Porter's 5 forces model is still the leading framework for the analysis of industry attractiveness. The limitations of the Porter's 5 forces model induced the introduction of the **6th Force, namely the Complementors.**

This model comprises of an analysis dependent on 4 entities external to the firm and the fifth force: the Industry structure. These forces are defined as follows:

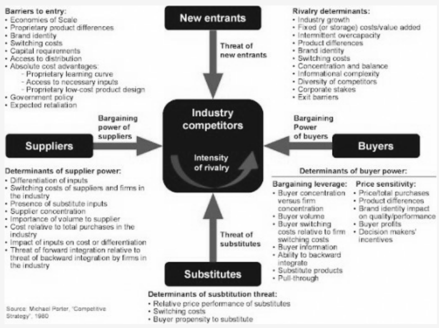
https://en.wikipedia.org/wiki/Porter%27s_five_forces_analysis

1. The threat of the entry of new competitors

The following factors can have an effect on how much of a threat new entrants may pose:

- The existence of barriers to entry (patents, rights, etc.). The most attractive segment is one in which entry barriers are high and exit barriers are low. Few new firms can enter and non-performing firms can exit easily.
- Government policy
- Capital requirements
- Absolute cost
- Cost disadvantages independent of size
- Economies of scale
- Economies of product differences
- Product differentiation
- Brand equity
- Switching costs or sunk costs
- Expected retaliation
- Access to distribution
- Customer loyalty to established brands
- Industry profitability (the more profitable the industry the more attractive it will be to new competitors)

Porter 5 Factors



2.The intensity of competitive rivalry

This is captured by a number of metrics like the growth rate of the industry, the ratio of cost structure to the value added, cost of over-capacity, degree of output differences among competitors, impact of brand and its conversion to sales, switching costs, concentration among the leading players (Herfindal Index), Information flow and complexity, diversity of competing businesses and exit barriers. Higher is the intensity, lower is the industry attractiveness.

3. The threat of substitute products or services

The existence of products outside of the realm of the common product boundaries increases the propensity of customers to switch to alternatives. Potential factors:

- Buyer propensity to substitute
- Relative price performance of substitute
- Buyer switching costs
- Perceived level of product differentiation
- Number of substitute products available in the market
- Ease of substitution
- Substandard product
- Quality depreciation
- Availability of close substitute

4.The bargaining power of customers/buyers

This force tries to estimate the degree of bargaining of post-facto relationships that may be empowered due to the dynamics of the relationship. This could be captured through some metrics like the buyer’s concentration as compared to the Industry’s concentration, customer’s volume vs industry output, customer’s switching cost, price sensitivity, degree of product differences, buyer’s profits and decision maker’s incentives. Higher is the bargaining power of the customer, lower is the industry attractiveness..

5. The bargaining power of suppliers

This force tries to explore the impact of the bargaining power of the industry’s suppliers and how much they can force the industry to share the benefits of value creation through this bargaining power. Factors are covered in terms of differentiation of inputs, switching cost of the suppliers, relationship specific investments required, presence of substitute inputs, supplier’s industry concentration, importance of volume to the suppliers, cost relative to the total purchases in the industry, impact of supplier’s inputs to overall cost structure or differentiation, threats of forward integration, and potential for backward integration. Higher is the bargaining power of the suppliers, lower is the industry attractiveness..