

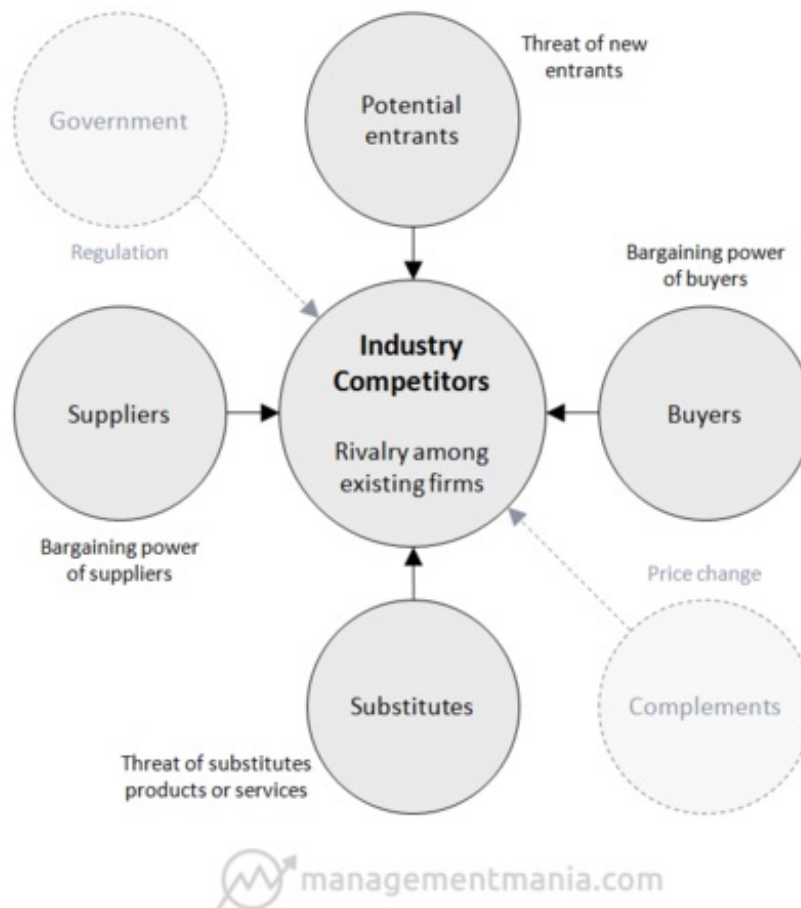


Five Forces Analysis (Five Forces Model)

Five Forces Analysis (or **Five Forces Model**) is the work of Michael E. Porter. It is a way of analyzing the **industry** and its **risks**. The model works with the five elements (Five Forces). The principle of this method is a forecasting of the development of the competitive situation in analyzed industry, based on the estimate of the potential behavior of the subjects and objects involved in a given market and forecasting of the risk of imminent business from their side:

- › **Rivalry among existing firms** - their ability to affect the price and offered quantity of given product/service
- › **Potential entrants** - the possibility that they enter the market and affect the price and offered quantity of given product/service
- › **Suppliers** - their ability to affect the price and offered quantity of necessary inputs
- › **Buyers** - their ability to affect the price and demanded quantity of given product/service
- › **Substitutes** - price and offered quantity of products/services are at least partially able to replace given product/service

In essence, the basics of the model are consistently based on microeconomics - from market analysis, firm behavior and consumer behavior.



On the picture, there is a model of Five Forces according to Michael E. Porter (adjusted).

Note: If we want to get the model even closer to microeconomics, we can add to the original model two more dimensions:

- › Government behavior - industry regulation
- › Complements market - offered price and quantity

In the case of complements, it actually takes into account the situation in the related markets (e.g. oil price affects the demand for cars).

Related terms and methods:

- » [BCG Matrix](#)
- » [Forecasting](#)
- » [Market](#)
- » [Marketing strategy](#)
- » [PESTLE Analysis](#)
- » [Planning](#)
- » [Surroundings](#)
- » [SWOT Analysis](#)

Related management field:

- » [Marketing and Sales](#)