

# What is Porter's Five Forces Model?

## Worksheet

The Five Forces are: (1) threat of new entrants, (2) intensity of rivalry, (3) bargaining power of buyers, (4) bargaining power of suppliers, and (5) threat of substitutes. Together, they determine industry profitability and attractiveness.

## Questions

1. Which force is MOST dangerous for profit margins in a competitive industry?

- A) Low barrier to entry
- B) Intense rivalry + low differentiation
- C) Commodity suppliers
- D) Growing market

2. A software company with open-source alternatives faces high

- A) Supplier power
- B) Threat of substitutes
- C) Buyer loyalty
- D) Entry barriers

3. Luxury goods have low threat from

- A) New entrants
- B) Substitutes
- C) Buyer power
- D) Supplier power

4. Porter's Five Forces helps determine

- A) Market size only
- B) Industry profitability and attractiveness
- C) Customer segments
- D) Product features

5. Five Forces analysis for the airline industry.

6. Five Forces for a luxury fashion brand.

7. Five Forces for a software SaaS startup.

8. Define: What is Porter's Five Forces?

9. Define: High barriers to entry = ?

10. Define: Intense rivalry means

## Answer Key

1. B) Intense rivalry + low differentiation - Intense rivalry forces price wars and erodes margins; low differentiation makes it worse.
2. B) Threat of substitutes - Free open-source tools are direct substitutes, giving users alternatives.
3. C) Buyer power - Few true substitutes exist for luxury - status and brand can't be easily replaced.
4. B) Industry profitability and attractiveness - The five forces shape how profitable an industry is and how much value firms can capture.
5. New Entrants: High barriers (large capital, airport slots, regulations). Threat = Low. Rivalry: Intense - price wars common, similar routes, switching easy. Threat = High. Buyers: High power - many options, price-sensitive, can book direct. Threat = High. Suppliers: Moderate power - aircraft makers (few), fuel suppliers (commodity). Threat = Moderate. Substitutes: Trains, cars, video conferencing compete. Threat = Moderate-High. Result: Competitive, low-margin industry.
6. New Entrants: High barriers (brand building, design talent, retail networks). Threat = Low. Rivalry: Moderate - limited direct competitors, differentiation strong. Threat = Moderate. Buyers: Low power - brand loyalty, unique products, willing to pay premium. Threat = Low. Suppliers: Moderate power - material suppliers, craftspeople, many options available. Threat = Moderate. Substitutes: Few true substitutes (status, exclusivity). Threat = Low. Result: Attractive, high-margin industry.
7. New Entrants: Moderate barriers - low capital, but need tech talent and customer acquisition. Threat = Moderate-High. Rivalry: Intense - many startups, feature parity quick, churn is high. Threat = High. Buyers: High power - free trials, low switching costs, many options. Threat = High. Suppliers: Low power - cloud infrastructure commodity, open-source tools. Threat = Low. Substitutes: Multiple alternatives (spreadsheets, competitor tools). Threat = High. Result: Competitive; profitability requires strong product differentiation.
8. A framework analyzing five competitive pressures: new entrants, rivalry, buyer power, supplier power, and substitutes.
9. Low threat from new competitors more attractive and profitable industry.
10. Firms compete aggressively (price wars, marketing) lower profit margins.

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