What is Porter's Five Forces?

Worksheet

Porter's Five Forces identifies five forces - competitive rivalry, threat of new entrants, bargaining power of suppliers, bargaining power of buyers, and threat of substitutes - that together determine how attractive and profitable an industry is.

Questions

1. Who developed the Five Forces framework?

A) Peter Drucker
B) Michael Porter
C) Philip Kotler
D) Adam Smith

2. Which force is NOT one of Porter's Five Forces?

A) Threat of new entrants
B) Bargaining power of buyers
C) Government regulation
D) Threat of substitutes

3. High supplier power typically means

A) suppliers can raise prices or lower quality
B) customers have more choices
C) competitors are weak
D) entry barriers are low

4. An industry with low entry barriers and many substitutes is generally

A) highly profitable and stable
B) less attractive due to intense competition
C) immune to competition
D) monopolistic

5. Analyze the threat of new entrants in the airline industry.

6. Assess buyer power in the fast-food industry.

7. Evaluate the threat of substitutes for the coffee shop industry.

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

9. Define: Who created the Five Forces model?

10. Define: What does high buyer power mean?

Answer Key

1. B) Michael Porter - Michael Porter introduced it in 1979 to analyze industry competition.

2. C) Government regulation - The five forces are rivalry, new entrants, supplier power, buyer power, and substitutes - regulation is not one of them (though it can influence entry barriers).

3. A) suppliers can raise prices or lower quality - Powerful suppliers can squeeze industry profits by raising input costs.

4. B) less attractive due to intense competition - Low barriers and many substitutes increase competitive pressure and reduce profitability.

5. High capital costs (aircraft, gates, licenses) create a strong entry barrier Regulatory approval and safety certification add further barriers Conclusion: threat of new entrants is LOW, which supports higher industry profitability

6. Many competing chains offer similar products (low switching cost) Customers are highly price-sensitive and can easily switch brands Conclusion: buyer power is HIGH, which pressures prices and margins

7. Alternatives include home-brewed coffee, tea, energy drinks, and other cafs Switching cost for the customer is very low Conclusion: threat of substitutes is HIGH, forcing coffee shops to differentiate on experience and quality

8. A framework analyzing competitive rivalry, threat of new entrants, supplier power, buyer power, and threat of substitutes to assess industry attractiveness.

9. Michael Porter, in a 1979 Harvard Business Review article.

10. Customers can demand lower prices or better quality, squeezing industry profits.