

FIVE FORCE ANALYSIS



Five Force Analysis provides a comprehensive view of the environment within which a business operates: the structure of the industry, its competition and the underlying drivers of profitability. This view brings into focus important competitive forces otherwise camouflaged from plain sight.

Five Force Analysis is based on the understanding that industry structure is driven by five competitive forces: customers, competitors, suppliers, potential entrants and substitute products – and that these forces determine industry competition, the underlying drivers of profitability and the strategies available to the firm.

A firm should be aware of the five forces in its industry and take advantage of this knowledge in formulating strategy. This can improve competitive positioning and reduce the threat of attack in the long run.

Purpose: The objective of Five Force Analysis is to identify the forces that determine competition and profitability in the industry as the starting point for formulating strategy.

Five Force Analysis provides three elements of intelligence:

- A complete picture of what is influencing profitability in the industry
- The identification of the major axes of industry competition and industry-changing trends early, so the firm can exploit them quickly and effectively
- Insight into how to overcome constraints in profitability – or even shape the industry in the firm's favor

Use:

- Assess long-term viability and success in an industry
- Identify key determinants and key constraints of success in an industry
- Guide decision to enter or exit an industry

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