Name:

Instructor:

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A strategic analysis of Five Forces Model of competition was described by Michael Porter in 1979. Michael Porter, using five structural units inherent in each branch, describes “a method of creating a long-term profitability of the goods and their competitive advantage, as well as the means with the help of which the company may retain its efficiency and remain competitive in the long term” (Swaan Arons and Waalewijn 15). The aim of the strategy development is to adapt to the competitive environment. The five forces model says that there exist main five driving forces which define the possible level of profit in the market. Each force in Michael Porter's model represents a different level of goods competitiveness:

- “bargaining power of customers;
- bargaining power of suppliers;
- threat of new entrants;
- threat of Substitutions;
- rivalry level or intra-branch competition” (Swaan Arons and Waalewijn 12).

The competitive analysis of industry by Porter helps to determine the extent and intensity of the competitive forces in the industry, to find a position where the company will be maximally protected from the competitive forces' impact and will be able to influence them. The golden rule of the theory of the five competitive forces by Michael Porter is as following: the lower the influence of competitive forces is, the larger possibilities to receive high profits in production a company has. On the contrary, the higher the impact of competitive forces is, the higher probability that a company will be not able to provide high profitability of the investment. Thus, the average industry profitability is determined by the most powerful competitive forces.

Customers impact the company's competitiveness in the market too, as they are in fact the main consumers of finished goods and provide the market existence. Consumers can toughen the competition by presenting higher quality requirements to the goods and the level of service, and put pressure on the price level. Higher requirements for the finished product make industry manufacturers improve the quality of the product produced by increasing the costs (higher-quality raw materials, additional conditions of service, etc.), and, therefore, to reduce its level of profit.

Suppliers may influence the company's competitiveness in the market, as they are the owners of the resources for the goods production. The growth of prices for raw materials and bargains under unfavorable for the company conditions result in the growth of cost of finished products and increased production costs. If it is not possible to increase retail prices for finished goods at a comparable level with the growth of the raw material - the industry's profitability from the sale decreases accordingly.

Substitute products limit the market potential in terms of prices. Typically, substitute products impact the formation of upper limit of the market price, which in conditions of production and raw materials costs growth reduces the profitability of companies. As long as market players do not improve the quality of products and differentiate its product from substitute products, the industry will have low profits and limited growth of the market.

The rivalry among existing competitors comes to a desire to strengthen their position in the market and gain market consumers by any means. Intense competition leads to price competition, increased costs for sales promotion, sometimes to the improvement of product quality, and increased investment in new developments. All this reduces the profitability in the entire branch. In conclusion it is necessary to stress that Five Forces Model is used most frequently in strategic management and in marketing, where it is helpful for the SWOT-analysis of the company and creation of a detailed competitive analysis and market analysis.

Works Cited

Swaan Arons, Henk de and Ph Waalewijn. *A Knowledge Base Representing Porter's Five Forces Model*. Rotterdam: RIBES, Rotterdam Institute for Business Economic Studies, 1999. Print.