Analysing new markets: 5 forces analysis

If you are considering trying something new in your business – be it a new product or a different market – it is critical that you understand the balance of power in your relevant business situation. You might have already sat down and asked yourself a few questions on this subject. How strong is your current position? How strong will your new position be? How strong are the existing players? What are the risks of this new position?

Porter's 5 Forces brings these questions together into a single framework that allows you to assess the level of competition within a particular business situation, and gain an understanding of the existing balance of power. As you can see from the diagram below, the factors influence each other through the competitive landscape, where the balance of power is affected by supply chain factors or potential competition.

Read the examples below, and then perform a 5 Forces analysis for your own situation using the template on the following page.

Threat of New Entry: How likely is it that someone new will enter the market and steal your business? Assess this by looking at:

- Time and cost of entry
- Knowledge required
- Economies of scale
- Technology patents
- Barriers to entry

Bargaining Power of Suppliers



Supplier Power: What influence do suppliers have over prices? This is influenced by:

- Number of suppliers
- Size of suppliers
- Switching costs
- How unique the product/service is

Threat of New Entrants



Competitive Landscape



Threat of Substitutes

Buyer power: Are your prices heavily dependent on what customers will actually pay? This means buyers have the ability to drive your prices down.

- Number of customers
- Competitor variation
- Uniqueness of product/service
- Sensitivity to price
- Ease of switching
- Size of each purchase

Bargaining
Power of
Buyers
(Customers)

Threat of Substitutes: If they don't choose your business, where else can your customers go to get the same thing? Determined by:

- Substitute quality
- Switching costs

Competitive Landscape: Assess the competition in the business area by examining:

- Number of competitors
- Quality differences
- Switching costs
- Customer loyalty



Analysis example

Use the factors listed in the diagram above to assess each force. List the factors (and add your own if necessary), and give each one a level (e.g. HIGH, MEDIUM, LOW). Then, assess the implications of this rating on the force in question: will this help your business? Finally, make some concluding notes about the force, and its overall effect on market attractiveness. It might be that after a 5 Forces analysis you decide not to enter the market after all!

Here is an example for how a pop-up coffee shop might analyse the bargaining power of customers.

Buyer power	
Factor	Implications
Large number of coffee drinkers in Melbourne	HIGH number of customers LOWERS buyer power
People generally make small orders, one coffee at a time	SMALLER orders means less dependency and HIGHER c.p.
There are many coffee shops around, but pop-ups can choose more convenient locations	 MEDIUM differentiation can mean LOWER c.p. only when convenience is a factor HIGH price sensitivity means HIGHER
 Customers will only pay in the range of \$3- 5 for a coffee 	 customer power LOW switching costs means HIGHER customer power
It costs buyers nothing to switch to a competitor	
Conclusion	

Low buyer power is good for a business (we can charge higher prices). As there are slightly more factors suggesting HIGH buyer power in this segment, this will have a negative impact on business, and decreases the attractiveness of this market.

5 Forces analysis

Company name:	
Date:	
Market to be examined:	
Buyer power	
Factor	Implications
Conclusion	
Supplier power	
Factor	Implications
Conclusion	



Competitive landscape		
Factor	Implications	
Conclusion		
Threat of new entrants		
Factor	Implications	
Conclusion		

Threat of substitutes	
Factor	Implications
Conclusion	
Conclusion	

